

# CanadaWatch

PRACTICAL AND AUTHORITATIVE ANALYSIS OF KEY NATIONAL ISSUES

This issue is a joint project of the Robarts Centre for Canadian Studies of York University and the Latin American School of Social Sciences (FLACSO) with the assistance of The North South Institute, Ottawa.

## EDITORIAL

# The remarkable turning point

### THE NEW DYNAMISM

The emergence of Latin America as a bristling, confident regional power is most remarkable. With growth averaging a robust 5.5 percent, this has been the best year since the 1960s. Inflation, once the scourge of the continent, is in single-digit territory. The picture looks bright with economic growth forecast at over 5 percent for the entire region for 2011, compared with 1.8 percent in the United States.

The bigger story behind the numbers is that no Latin American country is in

BY DANIEL DRACHE

Daniel Drache is associate director of the Robarts Centre for Canadian Studies at York University.

hock to the International Monetary Fund (IMF). The era of neoliberal policies that were punitive and harmful to millions is now a closed chapter. The loans are all repaid, and this has given the region, as Pablo Trucco and Diana Tussie underline in this special issue, new breathing space to experiment with innovative social initiatives and political programs.

The shift in power dynamics is still an unfolding story. The old order that kept Latin America solidly in Washington's backyard was unipolar—centred on the United States with the European Union a junior partner, and Latin America with neither voice nor influence globally. All this has changed. The present order is multipolar with Asia and Latin America no longer relegated to secondary positions. At the Cancun meetings of the WTO in 2003, the G20 marked its “coming of age,” in the apt words of Brazil's

The remarkable turning point, page 3

## THE RISKS AND OPPORTUNITIES OF FUNDAMENTAL POLITICAL CHANGE

# Obama, Canada, and civil society South and North

### THE OBAMA CHALLENGE: PROMISE AND CONTRADICTION

Many civil society networks in the southern hemisphere, like many others around the world, positively anticipated the impact of a Barack Obama victory on US policy, including foreign and security dimensions, given some hints in his campaign promise for “A New Partnership for the Americas.” It was apparent to North Americans that Obama should respond to his base in the so-called rust belt with some sort of revision to US international trade policy, possibly even a revision of NAFTA. His

BY JOHN W. FOSTER

John Foster teaches globalization and human rights at Carleton University and the University of Regina and is an ongoing participant in the Common Frontiers coalition.

appearance, however brief, at the Summit of the Americas in Trinidad and Tobago in 2009 offered a key opportunity to initiate something new in terms of listening to leaders in change processes in the hemisphere, including civil society. Venezuelan President Hugo Chavez presented Obama with Eduardo Galeano's *Open Veins of Latin America*.

But Obama quickly swept illusions aside, particularly for those interested in a real change in US trade and investment policies. He announced that he would proceed with the US agenda of bilateral negotiations with several Latin American countries, and he appointed Ron Kirk, a

Obama, Canada, and civil society, page 5

The contents of this issue are listed in the Features box on page 2.

YORK  
UNIVERSITÉ  
UNIVERSITY



redefine THE POSSIBLE.

# A Remarkable Turning Point: Post-neoliberal Latin America and the Shadow of Obama

## FEATURES

### EDITORIAL

The remarkable turning point  
 By Daniel Drache . . . . . 1

### THE RISKS AND OPPORTUNITIES OF FUNDAMENTAL POLITICAL CHANGE

Obama, Canada, and civil society South and North  
 By John W. Foster . . . . . 1

A historic electoral triumph: Why now?  
 By Jorge Heine . . . . . 7

US policy in Latin America and the Caribbean: Where have all the Yankees gone?  
 By Jean Daudelin . . . . . 9

### POST-NEOLIBERAL, MACROECONOMIC FUNDAMENTALS, AND NEW STATE PRACTICES

The much anticipated return of Raúl Prebisch  
 By Ed Dosman . . . . . 11

Brazil's GINI coefficient: Can it be beaten?  
 By Kathryn Hochstetler . . . . . 13

Regionalism in post-neoliberal Latin America  
 By Pía Riggirozzi . . . . . 15

### THE NEW FRAMEWORK: BEYOND PRAGMATISM AND REALISM

The odd couple? Lula and Obama  
 By Sean Burges . . . . . 17

The post-neoliberal mix: New state practices in Latin America's big three  
 By Laura Macdonald, Arne Ruckert . . . 19

Short on vision: Canada's foreign policy for the new Latin America  
 By Pablo Heidrich . . . . . 21

### PUBLIC POLICY PITFALLS AND OTHER DISASTERS

The natural resource curse in 21st-century Latin America  
 By Albert Berry . . . . . 23

Income distribution, export patterns, and poverty alleviation  
 By Eduardo Bianchi . . . . . 25

Natural disasters: A fresh look at corporate accountability  
 By Marcelo Saguier . . . . . 27

### NEW SECURITY THREATS AND THE MILITARY

Defence is a civil matter first and foremost  
 By Rut Diamint . . . . . 29

Impunity and violence in Central America  
 By Francisco Rojas Aravena . . . . . 31

### THE REGIONAL IMPERATIVE FOR POLITICAL COOPERATION

The Bolivarian Chavez effect: Worth a second look  
 By Josette Altmann . . . . . 33

A tepid partnership: Free trade and labour rights in Central America  
 By Doris Osterlof . . . . . 36

New barriers to investor-state relations post-NAFTA  
 By M. Teresa Gutiérrez-Haces . . . . . 38

### BEYOND TRADITIONAL IDEAS ABOUT MACROECONOMIC STABILITY AND POLITICAL CHANGE

A new world map and Brazil's foreign policy  
 By Celso Amorim . . . . . 40

Argentina's turnaround  
 By Federico Merke . . . . . 42

Decentralizing finance: New steps for a new dance  
 By Pablo Trucco and Diana Tussie . . . 43

### EDITORS

Daniel Drache  
*Robarts Centre for Canadian Studies,  
 York University*  
 Diana Tussie  
*Facultad Latinoamericana de Ciencias  
 Sociales (FLACSO), Buenos Aires*

With the assistance of the  
**Latin American Trade Network (LATN)**

### MANAGING EDITOR

Laura Taman

### COLUMNISTS IN THIS ISSUE

Daniel Drache	Eduardo Bianchi
John W. Foster	Marcelo Saguier
Jorge Heine	Rut Diamint
Jean Daudelin	Francisco Rojas Aravena
Ed Dosman	Josette Altmann
Kathryn Hochstetler	Doris Osterlof
Pía Riggirozzi	M. Teresa Gutiérrez Haces
Sean Burges	Celso Amorim
Laura Macdonald	Federico Merke
Arne Ruckert	Pablo Trucco
Pablo Heidrich	Diana Tussie
Albert Berry	

### PRODUCTION

WordsWorth Communications

### CONTACT FOR INFORMATION

Canada Watch  
 7th Floor, York Research Tower,  
 4700 Keele St., Toronto, Ontario M3J 1P3  
 Phone 416-736-5499 Fax 416-650-8069  
 www.robarts.yorku.ca

For information regarding future issues, contact Laura Taman, Coordinator, Robarts Centre. Please address comments to Seth Feldman, Director, Robarts Centre.

Canada Watch is produced by the Robarts Centre for Canadian Studies of York University.

Copyright © 2010

The Robarts Centre for Canadian Studies

Printed in Canada ISSN 1191-7733



redefine THE POSSIBLE.

# The remarkable turning point continued from page 1

foreign minister Celso Amorim (see his contribution).

## **SOUTH–SOUTH COOPERATION: THE CRITICAL DIFFERENCE**

The new global geography has catapulted Brazil smack into the centre of this social, economic, and political transformation. Peter Hakim, writing in *Foreign Affairs*, offers a partial explanation for how Washington managed to lose its traditional backyard after 9/11 through a combination of studied neglect and imperial hubris. However, the story is much less about “Sam” and more about what governments and people have accomplished domestically and locally.

What happened over the decade, to Washington’s amazement, is that the old order was overtaken by a fairer and more affluent Latin America despite the poverty, crime, and corruption. Not everything is a success story, but the efforts, through trade, the activism of new social movements, new political alliances, and developing the continent’s infrastructure, have resulted in remarkable progress in building a focused regional identity, as many of the contributors to this special issue underscore.

Much of this momentum can be traced, inevitably, to Brazil’s centre-stage role in the new economic order. On its own, Brazil accounts for 40 percent of the continent’s GDP. It has become a global agricultural producer of sugar, oranges, soybean, maize, chicken, beef, and pork. It is also a major exporter of oil, iron ore, and many other minerals that China relies on to power its industries. Brazil has more available, arable land than any other country in the world, including major agrarian producers such as India, the United States, and China. Its ability to innovate new varieties of quick-growing soybean and maize in the drier regions on marginal lands is part of its extraordinary green agricultural revolution.

So how has Brazil been able to grow more food, renegotiate oil contracts with foreign multinational corporations

**Brazil, more than any other country in Latin America, has used the leverage of public–private partnerships to establish new institutions for a society on the move.**

(MNCs) on favourable terms, and develop its industries such that it is slated to become the fifth-largest economy in the world by 2025?

## **REGULATORY REFORM AND INSTITUTION-BUILDING**

The major explanation behind these momentous changes is the pivotal transformation of the Brazilian state and its reform of the regulatory culture over the better part of the decade by different administrations. The strengthening of state institutions has made Brazil into an effective partner with private actors—building infrastructure and exploiting its vast undersea oil reserves. Brazil, more than any other country in Latin America, has used the leverage of public–private partnerships to establish new institutions for a society on the move.

Of course, the picture is more nuanced as different contributors to the issue explain. Forty million have moved out of poverty under Lula da Silva’s reforms, but a third of Brazilians remain poor, and gun violence in the largest cities is off the charts. Inequality is far too high and programs are required to keep children in school longer as well as other health-care reform initiatives to increase primary health services for pre- and post-natal care. One bright spot is that reforms in public spending have contributed to a rise in living standards, and this picture is duplicated, albeit unevenly, across

Latin America.

It has taken more than half a century for the continent to emerge economically from the long shadow of the United States. China’s appetite for iron ore, gas, soybeans, and maize is a large part of the story. Latin American exports to China have grown tenfold since 2005, and Beijing has become the leading trading partner for all major countries across the continent. Latin America’s dominant economies embraced globalization and capitalism as skeptics still bearing the scars of the IMF-Washington Consensus years. Brazil, Chile, and Argentina are now expanding their policy space by launching industrial strategies and reforming domestic institutions. It is an uphill battle, but it has reduced Latin America’s traditional dependence on US interests in the region. China is the new growth metropole, the counterweight to “Yankee interests,” and it is fortunate that it is thousands of kilometres away and not next door.

## **PETRO-POPULISM AND RECLAIMING “OUR AMERICA”**

“Latin America’s decade” is big, complex, and highly politicized. In this issue of *Canada Watch* Jorge Heine describes the extraordinary return of the left in Brazil, Uruguay, Chile, Bolivia, Argentina, Ecuador, and Venezuela. All are populist, some wear deep-red socialist colours, although there are also centrists in the mix. Petro-nationalism has brought new wealth to an emerging middle and lower middle class, and the emphasis on inclusion reflects political attention to anti-poverty policies that were largely absent in the past on such a scale.

Rafael Correa in Ecuador and Evo Morales in Bolivia have brought stability to countries where the level of development differs from the Southern Cone, where the state has been traditionally weak. The neo-populist movements that brought both leaders to power displaced traditional parties and challenged the entrenched political class. Morales and

**The remarkable turning point, page 4**

# The remarkable turning point continued from page 3

Correa have developed inclusive policies toward aboriginal populations who never had a voice before and faced systemic racism at the hands of the traditional elites.

Canadian foreign policy appears to be on the wrong side of the tracks concerning these progressive changes, and is looking more and more, in John Foster's words, like "mining in a banker's suit." Foreign policy has failed to address the environmental destruction caused by Canadian multinationals. The Harper government has zealously pursued more bilateral free-trade deals while remaining fundamentally hostile to Hugo Chavez. It has lost an opportunity to rethink its foreign policy interests and build new relations in the hemisphere.

## THE BOLIVARIAN ALTERNATIVE: NOT TO BE DISMISSED

Perhaps the development that bears very close watching is the Bolivarian Alliance for the Peoples of Our America, or ALBA (see Josette Altmann's insightful contribution), an innovative and provocative initiative of Chavez. Altmann examines ALBA's growing influence, particularly its role as a counterweight to the neoliberal model of regional economic integration. It began in 2001 at the Third Summit of the Association of Caribbean States, with Cuba, Venezuela, Bolivia, and Nicaragua as founding members. ALBA is a bottom-up alternative for cooperative strategies bankrolled by Venezuela's petro-dollars. Its numbers have grown from the original core, and currently ALBA offers 18 countries, including Caribbean members, subsidized oil prices, long-term credit, and low interest rates.

The Alliance is based on the principle of "differentiated and special treatment" for countries with different needs and diverse stages of development through social solidarity. It is miles ahead of the WTO in putting these first principles into practice for an ambitious, regional development agenda. ALBA operates as a political and ideological alliance, both pragmatic and results-driven, providing

## ALBA is a bottom-up alternative for cooperative strategies.

its member states with public health services for the very poor, enhanced access to education for marginal groups, and a regional bank that provides funding for start up projects and other kinds of assistance.

It is wrong-headed to suggest that these initiatives for cooperation are utopian, the kind of "for tomorrow" schemes advocated by the old left. There are signs that Latin America's political culture of redistribution and transformative pragmatism has substance and staying power. These new politics should not come as a total surprise. After decades of ideological wars, Lula's "can do" charisma has fired Latin America's imagination in a way not seen since the iconic Che dominated public thinking. A new model of cooperation has taken root in South America from the Andes to the Southern Cone with Chavez, Correa, Morales, and the recently deceased Néstor and Cristina Kirchner in Argentina.

## VIOLENCE AND THE DRUG WARS

The troubling part of this picture is that even as Latin America tries to turn into a more equal society, controlling crime in the weaker Andean states and Mexico has defeated authorities' best efforts. Drug-related crime remains out of control, and the police and judiciary are part of the problem, although they must certainly be part of the solution as well. According to all experts, youth gangs and the drug wars, driven by the huge American consumer appetite for drugs, accounts for the rising violence. Illegal activities involve large parts of the population, and many of these threats are of a new kind with the violence linked to exclusion and weakening of social cohesion. Economic growth is critical to reducing crime rates but it is not enough.

Better policing and police management are required, and there is some evidence that governments are modernizing their policing methods and reforming the judiciary. In São Paulo, better police practices helped cut the murder rate by 70 percent and, between 2001 and 2005, more than doubled the success rate for catching murderers.

## BROADENING AND DEEPENING DEMOCRACY

Stability is always relative. Latin America's politics have become more inclusive with a new generation of leaders like Brazil's Lula and Bolivia's Morales who grew up poor. But the big question is whether strong democratic institutions can evolve even further despite all the obstacles and disadvantages to consensus on economic stability. The wave of electoral victories that brought the left to power will end, and the pendulum will eventually swing back. What differs this time is that the political landscape has dramatically changed. But how deeply and for how long? Is it likely that Latin America will fall backwards into dependence and rule by autocracy?

The iconic idea that Latin Americans now inhabit their own front-yard with new models of regional cooperation for advancing the rights of its citizens is a powerful one. Latin American democracies have long followed a unique path and are currently working together in unprecedented ways. The severe international crisis of 2008 has made the US position in the region highly contestable. Hemispheric politics are making the crucial difference. So far, so good. 🍁

Learn more about  
*Canada Watch* and  
the Robarts Centre for  
Canadian Studies at  
[www.yorku.ca/robarts](http://www.yorku.ca/robarts)

strong and articulate ally of the pro-agreement forces, as the US Trade Representative. His appointment of his erstwhile rival Hillary Clinton to the position of Secretary of State signalled what would emerge as close ties to Clinton administration personnel and policy, and more continuity than change in approach to the hemisphere. Nor have the positions taken by the Obama administration differed markedly from those outlined in Bush's 2008 "Pathways to Prosperity" initiative.

## THE CHALLENGES WITHIN CHANGE

Latin America's "pink tide" governments face diverse challenges. Some governments, like those of Bolivia and Ecuador, face tensions between their desire to improve social policy—seeking poverty reduction and greater equity—and their dependence on resource export revenues. While Bolivian President Evo Morales has stepped carefully, Ecuador's Rafael Correa has come into conflict, seeking prior informed consent on projects that would fulfill the promise of Ecuador's new constitution, with indigenous peoples threatened by resource exploitation.

Venezuela, threatened with US-funded "de-stabilization" from within, has to deal with the effect of external economic crises on petroleum prices and revenues, ongoing tensions with neighbour Colombia, and US military bases in the latter.

Central American governments seeking change in Nicaragua, El Salvador, and Guatemala find themselves dealing with a Honduras in which progressive leadership was decapitated, the social movement frustrated—all abetted by forces in the US administration if not by President Obama himself. The Honduran experience has led many to speculate that the reform government in Paraguay may be next in a counter-pink strategy on the part of the United States and rightist allies. An attempted coup in Ecuador in September 2010 demon-

## Latin America's "pink tide" governments face diverse challenges.

strates that these fears are not unfounded.

Brazil's Lula has represented an important counterforce, but the upcoming Brazilian federal elections could alter the balance. The recent election of a progressive coalition in Trinidad and Tobago, while of limited strategic weight, demonstrates the positive potential of a committed multisectoral civil society organizing for change.

Progressive governments are faced with the challenge of US militarization, above and beyond the continuation of the "war" on drugs via Plan Colombia and Plan Merida. The US decision, made prior to Obama's accession but not rescinded by his administration, to reactivate the Fourth Fleet to patrol Caribbean and Latin American waters provides a further vivid demonstration of current US ambition as well as a reminder of past history.

There is the ongoing extension of US military presence on land, the recently confirmed 7 bases in Colombia, as well as 11 more agreed to by Panama. Further, the North American Congress on Latin America (NACLA) reports that US defence department documents testify to the preparedness of the United States for "full-spectrum operations" throughout South America. Most recently, the agreement of the Costa Rican government to accept the arrival of up to 46 US warships and 7,000 troops in the neighbourhood, with the excuse of the "war on drugs," has led to increased apprehension about US plans.

## CIVIL SOCIETY: NEW FACES, NEW CONCERNS

Given the continuing challenges of poverty, resource exploitation, threats to human rights, regional coherence, and national sovereignty, hemispheric civil society networks have continued their critical response to trade and investment

negotiations, but new players and new emphases have joined the scene. Perhaps the most significant is the strengthened organizational presence and clout of indigenous groups nationally and hemispherically.

Two factors—one positive, one destructive—characterize this development. Indigenous groups have benefited from the Morales victory in Bolivia and the continued moral and political leadership his government has offered. This is particularly salient as environmental issues come to preoccupy progressive forces worldwide. A recent conference in Cochabamba, Bolivia focusing on climate change and the environment—"from the ground up"—provided a new model of governmental/non-governmental collaboration with the participation of more than 35,000 individuals (many of them from indigenous communities).

However, environmental destruction and community displacement in favour of resource extraction has also provoked militant indigenous responses in Mexico, Guatemala, Ecuador, and Peru with challenges to mining companies (many of them Canadian-based) up and down the hemisphere.

These sorts of confrontations are one factor at work in altering the purview of pre-existing civil society networks and in creating new ones. A continental campaign against the US military bases brings together forces within the United States and far beyond. As demonstrated in Cochabamba, environmental concerns, different philosophies, and critiques regarding the treatment of "mother earth" and the growth for growth's sake agenda have been strongly voiced. Trade- and investment-oriented networks, like those united in the Hemispheric Social Alliance, have enlarged their agendas to include extractive indus-

tries, militarization, investment treaties, agriculture and GMOs (genetically modified organisms), and human rights issues, among others. Given the importance of employment, the labour movement can only go so far in challenging resource exploitation and growth strategies. Indigenous communities may take the challenge much further.

Those networks that attempt to maintain overall unity and coherence among its civil society groups are faced with an ongoing challenge given the diversity of national-level politics and economic situations. Regional political initiatives that focus on South American or Latin American governments leave sympathetic social forces in Canada, Quebec, or the United States to concentrate on their own contexts. Nevertheless, Latin American initiatives like the World Social Forum have been taken up in Toronto, Quebec, the United States, Guatemala, and many other locales, providing “greenhouses” where new formations and alliances may sprout and prosper.

## **CANADA'S ROLE: MINING IN A BANKER'S SUIT**

In Canada, the Stephen Harper government, having been an acolyte of the Bush administration, has continued policies that are coherent with US strategy, while supporting the expansion of Canadian-based companies in resource extraction up and down the hemisphere. These policies include the bilateral trade agreement with Colombia, contributing to the failure to restore Manuel Zelaya to the presidency of Honduras, virtual hostility to the Chavez government in Venezuela, and emphasizing military responses to the challenge of the drug trade in the hemisphere.

What does this approach have to offer those Canadians who seek full rights for indigenous peoples, environmental sustainability, and human rights for all, including the eradication of poverty and gross inequality? Canadian foreign policy in the region often appears to be little more than mining in a banker's suit. The

The possibility that Canada might have something to offer and that there might be something to learn from progressive Latin American governments seeking social policies to reduce inequality and increase social participation and dignity is lost.

possibility that Canada might have something to offer and that there might be something to learn from progressive Latin American governments seeking social policies to reduce inequality and increase social participation and dignity is lost. The potential offered to Canadian First Nations by the continuing innovations of the indigenous-led government in Bolivia remain largely unexplored.

The fact that Canadians, like many of their Latin American neighbours, are challenged by environmental destruction, whether in petroleum and mining or, more broadly, by climate change, and that they urgently require policies to reduce or reverse negative impacts seems not to interest the Canadian political leadership, at least not the two parties that currently dominate Parliament. Canadian civil society has its own challenges; not the least are those originating from a government that seems hostile to their concerns. Civil society's ability to monitor is essential. Groups taking up the mining challenge, like Mining Watch Canada and Common Frontiers as well as various local coalitions, are playing a vital role, and often work in close alliance with environmental, labour, and indigenous people in affected areas further south. The ability to resist is equally important.

A coalition of labour, ecumenical, environmental, and other civil society networks, motivated by a primary concern for human and labour rights, opposed the Canada-Colombia Free Trade Agreement. Gaining strong parliamentary leadership from the NDP's Peter

Julian and sympathetic support from the Bloc, the coalition held up the Harper government's project for 18 months. The Liberal amendment to garner an annual governmental review of human rights in each country responded to sustained public pressure over the agreement. It is, however, likely little more than a paper tiger. Liberal John MacKay has launched a Bill (C-300) to establish some measure of accountability on Canada's overseas corporate actors, gaining widespread civil society support, but support from his own leader and the caucus foreign policy critic may not be forthcoming.

Canada's profile in the hemisphere is increasingly negative, as local communities are shoved aside and environmental advocates murdered to make way for Canadian resource companies. A key NAFTA partner, Mexico, suffers the imposition of visas as apprehension grows about its descent into drug-fuelled violence. Canada falls into step with US strategic priorities instead of offering a creative northern alternative. An observer might wonder if there is any Canadian role in the region apart from extracting its resources. 

Learn more about  
*Canada Watch* and  
the Robarts Centre for  
Canadian Studies at  
[www.yorku.ca/robarts](http://www.yorku.ca/robarts)

# A historic electoral triumph: Why now?

## POPULIST POLITICS IN A NEW GUISE

On December 6, 2009, Evo Morales was re-elected for a second term as Bolivia's president, with an unprecedented 62 percent of the vote. Despite a difficult initial term, which even saw the rise of a secessionist movement, Morales once again received the support of a majority of the Bolivian electorate, in a country where minority governments had been the rule. At least one of the reasons for his victory was Bolivia's remarkable 2009 economic performance. Its 3.5 percent economic growth in the midst of the global financial crisis was the highest in the region.

What explains this remarkable feat, after four years of applying allegedly populist policies, including a controversial partial nationalization of its gas and oil fields?

The response to this question goes beyond Bolivia. For the first time in Latin America's two centuries of independent history, as Arturo Porzecanski has put it, "a contraction and financial calamity in the industrialized world has not caused a wave of currency crises, sovereign debt, or the banks in the region to collapse." In fact, the region in 2009 had a better economic performance than either the United States or Europe. Being the traditional market for Latin American exports had given rise to the well-known adage, "when the United States catches a cold, Latin America gets pneumonia." Yet, all projections indicate that the region will have an accelerated recovery in 2010, with higher growth than the average for OECD members.

What accounts for this, precisely at a time when a majority of Latin American governments are on the left, some facing accusations of populism?

## THE SMART LATIN AMERICAN LEFT: WHY NOW?

The answer is that, with a few exceptions, the vast majority of the left or centre-left governments that have come

BY JORGE HEINE

Jorge Heine is the chair in global governance at the Balsillie School of International Affairs, a professor of political science at Wilfrid Laurier University, Ontario, and a distinguished fellow at the Centre for International Governance Innovation (CIGI). His book (with Andrew F. Cooper) *Which Way Latin America? Hemispheric Politics Meets Globalization* is published by UN University Press.

[I]t is one thing for a movement and its leader to have certain populist features, and quite another for the government it directs to apply populist programs and/or policies.

to power in the region in the course of the last decade *have not applied populist policies*. If we leave out Venezuela, whose oil riches put it in a separate category, these governments have applied responsible economic policies, often in conjunction with social policies that have cut down poverty.

The numerous governments on the left that have emerged in this period have been described as falling into two categories. The social-democratic governments formed by Luiz Inácio Lula in Brazil, Ricardo Lagos and Michelle Bachelet in Chile, and Tabaré Vázquez and José Mujica in Uruguay. The populist governments formed by Hugo Chávez in Venezuela, Morales in Bolivia, and Rafael Correa in Ecuador, with Néstor Kirchner and Cristina Fernández de Kirchner in Argentina falling somewhere in between. This rise of the left has also

reached Central America, with the election of the FMLN (Farabundo Martí National Liberation Front) candidate Mauricio Funes, to the presidency of El Salvador, and before that, the election of social-democrat Alvaro Colom in Guatemala and Sandinista Daniel Ortega in Nicaragua.

The case of Venezuela and its "petro-populism" is unique. The experiences of Bolivia and Ecuador, on the other hand, underscore the need to unpack the true meaning of the term "populism." Recent political developments in those countries do reflect certain populist elements—including the role of the charismatic leader, his direct relation with the people, and the strong nationalist appeal, something undergirded by the nationalization of natural resources. However, it is one thing for a movement and its leader to have certain populist features, and quite another for the government it directs to apply populist programs and/or policies.

## MACROECONOMIC FUNDAMENTALS AND NEO-POPULISM

In fact, one of the characteristics of the so-called Latin American neo-populism is the application of responsible macroeconomic policies. This has allowed these nations to not only benefit from the commodity boom of 2003–2008 (in which the region grew at an annual average rate of 5.5 percent), but also to confront the Great Recession of 2008–2009 in much better shape than preceding governments did on previous occasions with similar crises.

Starting with the classic distinction made by Jorge Castañeda in 2006 between the "two lefts" in Latin America, it has become commonplace to turn this into a somewhat Manichean categorization, which distorts and lessens its analytical usefulness. The governments of Brazil, Chile (Lagos and Bachelet), and Uruguay, according to this reading,

A historic electoral triumph, page 8

# A historic electoral triumph continued from page 7

would be the “good ones”—committed to democratic rule and institutions, based on coalitions and strong political parties, and noted for effective public policies and programs. On the other hand, the governments of Bolivia, Ecuador, and Venezuela would be the “bad ones.” Their efforts to come up with new constitutions that open the door to presidential re-elections, their personalization of politics, the weakness of political parties, and the application of non-sustainable redistributionist policies would be the hallmarks of this group.

Yet, this distinction, based on some real factors, mixes apples and oranges. The societies and political systems of the Southern Cone—in this case, Brazil, Chile, and Uruguay—have levels of development that are very different from those of Andean nations like Bolivia, Ecuador, and Venezuela. Their degree of institutionalization and political maturity is also more advanced. Brazil’s accomplishments under Lula’s presidency (2003–2011) have lifted Brazil to the high table of nations. Those of Uruguay under Vázquez (2006–2010) are a role model of how a small country can sort out and overcome enormous challenges, despite being subject to the unpredictable swings of two giant neighbours. In addition, the accomplishments of Chile under the Concertación, a coalition of centre-left parties, which since 1990 has had the highest annual average growth rate of any country outside Asia, and which in 2010 became the first South American nation to join the OECD, speak for themselves.

## REBALANCING THE STATE–MARKET RELATIONSHIP

In all of the previous cases, the state played a key role in these accomplishments, and sophisticated public policies that found the right balance between state and market lie behind these successes. In the Andean countries, however, the state has traditionally been weak. In Peru, until the 1950s, a private firm collected taxes. In Colombia, vast swathes of

[T]he state played a key role in these accomplishments, and sophisticated public policies that found the right balance between state and market lie behind these successes.


national territory are beyond the reach of the state. These countries have had great difficulty inserting themselves into the global economy (if we set aside its “star export product,” narcotics). Bolivia and Ecuador are the poorest nations in the subregion and the most affected by these difficulties. This despite the radical implementation of the “Washington Consensus” reforms in the 1990s, which Ecuador took so far as to take up the US dollar as its national currency, with the attendant inflationary consequences.

All of this triggered chronic political instability in the decade leading up to 2006, the year in which Correa and Morales came to power. In those ten years, Ecuador had seven presidents and Bolivia eight. The emergent “neo-populist” movements that displaced traditional parties and leaders did so in response to that crisis. The success that both Correa and Morales have had since then reflects the degree to which their governments have developed inclusive policies toward the aboriginal populations, traditionally excluded from the political system and discriminated against by the white and *mestizo* population. These leaders have brought stability and policy continuity to countries desperately in need of them. Accusations of excessive presidential power and of centralization of decision policy-making are misplaced in highly fragmented and

unstable polities clamouring for some form of centralized authority.

## THE ANDEAN MODEL: IS THERE ONE?

In an ideal world, all Latin American countries would be “little Switzerlands” (which is how Uruguay has been described) in terms of economic development and political institutionalization. The region is still far from reaching that stage. However, the first decade of this century has shown much progress, especially in South America. This has been evident in countries like Brazil, Chile, and Uruguay, where social-democratic governments have successfully applied effective public policies that have brought not only economic growth but also a greater measure of social justice.

However, this should not lead us to minimize (and even less so to demonize) the experience of alternative progressive approaches to governing, like those followed by “neo-populist” movements in Bolivia and Ecuador. In response to economic, social, and political conditions that are very different from those prevailing in the Southern Cone, in the brief lapse of four years, these Andean nations have managed to bring to an end the game of musical chairs afflicting the presidency. They have given themselves new constitutions that strengthen the executive and give an explicit recognition to aboriginal peoples and their rights, and re-established national control over their valuable natural resources, while turning in (especially in the case of Bolivia) a good economic performance. This is not a bad record, yet one that is largely ignored by those that continue to look at Latin America through the lenses of the past, ignoring the enormous changes that have taken place in this last decade. 

Learn more about **Canada Watch**  
and the **Robarts Centre for**  
**Canadian Studies** at  
[www.yorku.ca/robarts](http://www.yorku.ca/robarts)



# US policy in Latin America and the Caribbean: Where have all the Yankees gone?

## IN THE SHADOW OF UNCLE SAM

American specialists of hemispheric affairs have been complaining about the Obama administration. After encouraging signs, during his campaign and in the first few months after the election, his administration appears to have done little of substance. The western hemisphere looks no more important to it than it has been for every other administration since Ronald Reagan's Cold War adventures in Central America. This should come as no surprise. Beyond Mexico, Colombia (for now), and to a lesser extent the Caribbean, the region does not matter much to the United States. An indifferent policy reflects the absence of strong interests in the region and the resulting lack of the strong domestic constituencies that would force the government to become serious toward it.

The Americas have long been seen as the US backyard. In fact, they have been claimed as such by the United States since James Monroe famously barred European powers from interfering on the continent at the beginning of the 19th century. For a long time, there was not much substance to that claim, and Britain, in particular, did as it wished, dominating the continent economically until the Second World War. For sure, a US-dominated Pan-American Union, which became the OAS (Organization of American States) in 1948, was created at the turn of the 20th century. US marines and "advisers" have been roaming in the hemisphere since then, American multinationals have invested massively in the resource sectors of much of the continent and, from the 1950s until the 1990s, they had little "foreign" competition. From these standpoints, there was something like an American domination of the continent.

A closer look, however, reveals a much different picture. Throughout the

BY JEAN DAUDELIN

Jean Daudelin is professor at  
The Norman Paterson School of  
International Affairs, Carleton University.

The Americas have  
long been seen as  
the US backyard.

20th century, true imperial dominance was largely confined to the Caribbean and Central America, with the South (with the brief exception of Venezuela at the very beginning on the 20th century) largely free of outright intervention. Cuba, Nicaragua, Haiti, Guatemala, Grenada, and Panama bore the brunt of the Empire's dominance. The subcontinent, however, had a very different history.

## A MUCH-NEEDED HISTORY LESSON

Much fuss was made about US support for the military regimes of the Southern Cone and the coups that launched them in the 1960s and 1970s, but it was just that: support for regimes whose claims to power were largely self-sustaining. A convergence of interest between Cold-War America and anti-communist and reactionary military and economic elites has long been painted as the manipulation by Washington of political establishments utterly dependent on that support to stay in power. It is easy to forget how nationalist and profoundly anti-liberal those regimes were, and how free they all felt not to play into the United States' anti-Cuban policy.

To take some specific examples, recall how nationalized Codelco (the National Copper Corporation of Chile) became the cash cow of the Chilean military and how the Peruvian military came to launch the land reform in their

country. How Brazil's generals were not at all keen on US multinationals, how their economic policy is best understood as state capitalism, and how quick they were to establish relations with communist Angola and to cut military cooperation with Jimmy Carter's America. Similarly, when the time came for the generals to leave, US influence proved marginal. The elites turned their back on them, civil society mobilized, and in some cases—Argentina and Chile, for instance—sheer hubris brought them down. In sum, in contrast to Central America and the Caribbean, domestic factors overwhelmingly determined both the rise and the fall of South America's military dictatorships, not US schemes and manipulations.

## A DIMINISHED ROLE FOR "SAM"

Something has broken down since the end of the 1980s, but that something is partly an illusion, for the Empire's backyard had always been smaller than it looked. Still, what hard ground there was for that illusion is shrinking as American strategic and economic interests in the region as a whole diminish.

Strategically, the most important challenges to America have disappeared, like the communist threat in Central America; are wildly exaggerated, like the Chavez threat;<sup>1</sup> or are self-created, like the prohibition-induced illegal drug market and the "War on Drugs"-induced drug violence in Colombia and especially Mexico. Between 2001 and 2008, US military financing to the region represented less than 2 percent of the military's total worldwide spending, and of that, 80 percent went to Colombia. Moreover, when the United States does not realize on its own that a strong presence is not a good idea, it is told so. As the Colombian government progressively wins its civil war, the legitimacy of a sig-

US policy, page 10

nificant American presence in, and military cooperation with, the country will shrivel. Recently expelled from Ecuador, the American military looks doomed to abandon the region soon. However, this may not matter that much, primarily because the stronger trend is taking the region toward increasingly developed and democratic societies, whose interests are unlikely to conflict fundamentally with those of America.

**LOOSENING ITS ECONOMIC GRIP**

Economically, the United States is also losing interest in South America, as its proportion of the US stock of investments has declined radically over the last ten years, from 6 percent of its global portfolio in 2000, to 3 percent in 2008. Much of the United States' investments in the Americas—beyond Canada—are concentrated in Caribbean fiscal havens. Bermuda and the British Caribbean, with 9 percent of the global stock of investments, have more weight than South America and Mexico combined (6 percent). Trade numbers look slightly better, but much of that trade is made up of commodities that, by definition, are globally traded and priced. In 2008, Brazil, with 50 percent of South America's GDP, represented 1.45 percent of total US exports, and 2.48 percent of its imports. In other words, from the standpoint of US companies, consumers, and economic policy-makers, South America,

**The flip side of this declining interest has been the growing presence of new players in the region.**

with or without free trade agreements, is a minor part of the world.


**CANADIAN MULTINATIONAL CORPORATIONS AND OTHER AGGRESSIVE INVESTORS**

The flip side of this declining interest has been the growing presence of new players in the region. Canadian companies dominate the mining sector of most Andean countries, and of the continent as a whole for exploration. European banks, particularly Spain's, along with Canada's Scotiabank, have aggressively invested in the region. China, while still tentative and not particularly welcome, should soon make significant forays in the resource sector. Moreover, Russia and France are both strong players in the regional arms market. Even Iran is now expressing interests, albeit essentially for diplomatic reasons. The overall effect is that as the Americas decline in the US global portfolio, the United States also declines as an investor in, and trade partner for, the region.

The breakdown of imperial America's continental hold makes hemispheric arrangements superfluous. The project of a Free Trade Area of the Americas collapsed—less a result of Brazil's resistance than of Washington's, and especially Wall Street's, indifference. The OAS has long been a diplomatic backwater, notwithstanding its recent ventures—some successful—into local crises. Its recent reinvention as a bulwark of democracy on the continent, already tested in the recent Honduran crisis, could break on the reefs of Chavez's autocratic consolidation, in the face of which it will likely be impotent and divided.

**TWO CONSTANTS: AMBIGUITY AND INDIFFERENCE**

The Summit of the Americas' process is quickly sinking into irrelevance. There simply is no more need for such arrangements. Their survival is becoming at best a matter of inertia—meetings follow meetings, treaties beget commitments, diplomats sustain posting locations, and bureaucrats hold on to their jobs.

The region is left without a frame, but the idea of one survives, and ideas still matter. This idea still structures much of the diplomatic activity in the region. It explains why, in the face of low and declining interdependence, weak institutional arrangements survive. It also explains why new ones keep popping up that are just as weak and institutionally deficient. Finally, it explains why the United States remains a constant reference in the region's nationalist discourse while, paradoxically, American analysts keep deploring their country's indifference toward the region. 

**NOTE**

1 At the Trinidad and Tobago Summit of the Americas, in April 2009, Barack Obama reminded journalists that Venezuela's military budget was still 600 times smaller than the United States'. <http://www.aparchive.com/Search.aspx?remem=x&st=k&kw=obama+oil+Venezuela> (story no. 603363).



2010	<i>A Remarkable Turning Point: Post-neoliberal Latin America and the Shadow of Obama</i>
2009	<i>Canadian multiculturalism and its discontents: Where do we go from here?</i>
2008	<i>Deep integration post-Bush</i>
2007	<i>Canadian Studies: A future</i>

**For earlier issues, visit [www.yorku.ca/robarts](http://www.yorku.ca/robarts).**

# The much anticipated return of Raúl Prebisch

## THE END OF EXILE

Raúl Prebisch has returned. A towering figure 50 years ago in international development thought and diplomacy, Prebisch was eclipsed by the Reagan Revolution and became a mere footnote in the neoliberal period that followed. That his life and work should now be revived as inspiration for a new development paradigm in Latin America speaks volumes about the profound changes in the Americas in the new Obama era.

In the narrow sense, of course, Prebisch's return is justified by his immediate rejection of the Reagan Revolution after his election in 1980: the quixotic beliefs in self-regulating markets or the state as problem rather than solution were ideological, simplistic, and unsustainable and would lead, he claimed, to "the second great crisis of capitalism." The global recession of 2008, coincidental with the arrival of Barack Obama in Washington, vindicated his prediction. However, the more profound reason for re-examining Raúl Prebisch lies in the surprisingly contemporary quality of his work and its current relevance.

## LATIN AMERICA'S KEYNES: A MAN FOR HIS TIMES

Prebisch was a leading theoretician and powerful leader who left an indelible imprint on Argentina, his home country, as well as on North-South relations. He was that rare thinker who was also an outstanding institution-builder and administrator. Born in 1901, he chose economics as a profession and rose quickly in the public service to top positions, creating the Argentine Central Bank in 1935, which he directed until his dismissal by the military government in 1943. Internationally, Prebisch is recognized for his work in the United Nations, particularly as leader of the Economic Commission for Latin America (ECLA) between 1950 and 1963 and as founding

BY ED DOSMAN

Ed Dosman is a faculty associate at the York Centre for International Studies and taught political science for more than three decades in York University's Department of Political Science. He is the author of *The Life and Times of Raúl Prebisch* (McGill-Queen's University Press, 2008).

[T]he more profound reason for re-examining Raúl Prebisch lies in the surprisingly contemporary quality of his work.

Secretary General of the UN Conference on Trade and Development (UNCTAD). Prebisch is best understood as Latin America's Keynes, the man who changed the discourse on international trade and development and the struggle for global equity. But, even more than Keynes, Prebisch was virtually forgotten during the 1980s when fashions changed and neoliberalism appeared invincible.

Prebisch was enormously controversial, the "enfant terrible" of *Pax Americana* after the Second World War. During the 1950s and 60s, in particular, he challenged Washington (and other western capitals) at three levels: (1) in ideas, his structuralism advanced an alternative paradigm of the international political economy, which challenged mainstream assumptions; (2) his struggle for a US-Latin American relationship based on development objectives rather than geopolitics confronted entrenched opposition in Washington; and (3) his insistence in UNCTAD on a basic reform of global governance in pursuit of equity and justice in North-South relations was generally opposed by the North.

Prebisch's "manifesto," a landmark paper titled *The Economic Development of Latin America and Its Principal Problems* presented in Havana in May 1949, set out the key concepts of Latin American structuralism, subsequently refined by his research team in ECLA during the early 1950s. It posited the concept of a basic rupture in the international economy between the advanced economies as the *centre* and the *periphery* of commodity-producing countries, created by an unequal diffusion of technical progress to the latter, and maintained by an international division of labour and terms of trade, which favoured the centre. "The currency of international trade," he argued, "is power." Prebisch's framework challenged the doctrines of equilibrium and comparative advantage, advocating instead that countries in the periphery change the systems of production through planning and industrialization. *Integration*—at several levels—between theory and institution building, between state and society, and between countries and peoples in Latin America—formed an essential component of his approach. Another was a new approach to inter-American relations with specific proposals for accelerating development—creating a regional development bank, US development assistance and trade concessions, and so forth.

## THE STRUCTURALIST REVOLUTION OF THE "GREAT HERETIC"

Structuralism transformed ECLA in Santiago into a unique region-building centre united behind a distinctive Latin American paradigm and approach to North-South relations. Brazilian Celso Furtado called Raúl, affectionately, the "Great Heretic." The Washington of John Foster Dulles considered Prebisch a trouble-making and misguided leftist radical; President Kennedy's Alliance for Progress (briefly) adopted his approach

The return of Raúl Prebisch, page 12

# The return of Raúl Prebisch continued from page 11

whole hog and celebrated Prebisch as a visionary leader.

UNCTAD was established in 1964 as the principal voice of developing countries for a new multilateralism, which essentially adapted Prebisch's ECLA vision to the global level. He called for a new "global compact" with policies and mechanisms beyond the General Agreement on Tariffs and Trade (GATT) linking trade and development. Both the rich and developing nations had reciprocal responsibilities, and they had a mutual, long-term interest in a stable and more equitable world order. In a pattern familiar to Raúl's ECLA experience, the United States and other rich nations resisted concessions. To balance their weight, Prebisch convinced the developing countries of Latin America, Asia, and Africa together to form the G77 as a new force in global relations. However, in late 1968 he resigned, dissatisfied with UNCTAD's accomplishments and the waning solidarity of the G77.

What then is Raúl Prebisch's relevance today? His work covered virtually the entire 20th century beginning in the 1920s; much of that work was influenced by the times. A great deal has happened in the global system since his death in 1986. Moreover, many of his ideas, which were controversial a half-century ago, are now accepted as conventional wisdom. Who questions today the importance of value-added production, technological innovation, regional integration, or the reform of global multilateralism?

## PREBISCH'S GRAND VISION

There are, however, aspects of Prebisch's life and work—the more basic orientations—that remain important points of departure for new development thinking in this new era of global transformation.

### External Disequilibrium, Vulnerability, and Diversification

Prebisch believed that market capitalism was inherently unstable and prone to unexpected and severe shocks that

Prebisch was enormously controversial, the "enfant terrible" of Pax Americana after the Second World War.

inevitably affected the entire global economy, including the periphery. Since this vulnerability was inherent in the system, it was essential for Latin American and other developing countries to develop strong defensive and countercyclical tools to limit the impact of such periodic crises on their economies; the performance of Latin American countries in the post-2008 recession demonstrated their importance. Regional integration, both socially within countries and within the region as a whole, remains fundamental as a strategic defence against globalization and achieving critical mass in the global economy. The current recession has also validated Prebisch's concern for lowering Latin America's vulnerability through diversification, particularly the expansion of South-South trade. The issue is not to weaken relations with the United States—it will remain the centre of western hemisphere politics for the foreseeable future—but rather to evolve a more mature balance between global and regional relationships.

### Policy Balance

Prebisch amassed an enormous professional experience during his life; few economists were so grounded: witnessing war, recovery, depression, and war again, he believed in balance—in avoiding extremes even if this made him an easy target for critics. He opposed both Marxism and liberalism in favour of "progressive capitalism" guided by an "intelligent state." While insisting on an

activist state to lead development, Raúl was the first to warn against the abuse of import substitution industrialization by excessive protectionism. Although he railed against Reaganism in the 1980s, he also criticized Latin governments during the 1970s for clientelism and "elephantiasis" in bloated states. He supported conditionality if applied reasonably and equitably as proposed by President Kennedy's Alliance for Progress and later UNCTAD's "global compact." Globalization was neither good nor bad but a process to be managed by both developed and developing countries with shared responsibilities for global development. He spoke of "the discipline of development," of converging interests. Prebisch's unflinching support for rational debate and deliberate policy over ideological thinking of left and right makes him a valuable reference for the future.

### Broadening Economics

Prebisch's thinking over his entire life continued to evolve until his death in 1986. Beginning with liberal orthodoxy in the 1920s, his approach to the discipline of economics expanded stage by stage to internal priorities such as social transformation, institutions, human rights and environmental issues, and above all ethics. Realizing his vision of equitable and sustainable economic and social development in Latin America will require innovative thinking across disciplinary boundaries.

### CONSTRUCTING THE NEW PARADIGM

Faced by today's complexities, Prebisch would certainly counsel opening a fundamental debate in search of a new paradigm appropriate to Latin America's future—a no-holds-barred debate without sacred cows (including rethinking his own work from earlier decades), but with Prebisch's unflinching determination and conviction. "I am objective," Prebisch would declare, "but not neutral."

The return of Raúl Prebisch, page 14

# Brazil's GINI coefficient: Can it be beaten?

## DOING WELL OR JUST BETTER?

The sayings countries tell about themselves are often quite revealing. A phrase many Brazilians cite is “Brazil is the country of the future—and always will be.” While the origin of that phrase is lost, another is known to come from one of Brazil’s last military presidents: “Brazil is doing well; Brazilians are not.” In 2010, it appears that the first saying might finally be wrong. A recent cover of *The Economist* showed Rio de Janeiro’s famous statue of Christ lifting off into the stratosphere, with a special section inside to tell “Latin America’s Big Success Story.” The question is whether Brazil’s new status as an emerging power means the other saying may be untrue as well. Does a rising power lift all boats? Can Brazil beat its long-standing, deep inequality as measured by the GINI coefficient?

The answer looks a lot like those sayings, encompassing two contradictory but true things at once. Yes—since income inequality peaked in 1989, the GINI coefficient has tracked a remarkable drop in inequality in Brazil (0.64 to 0.56 on a 0–1 scale). Much of this improvement can be traced to concrete government policies that have pulled many out of poverty. But no: the contradictory true point is that while many Brazilians are doing much better than they were, this is not the same as doing well, as individuals or as a country.

## STILL HIGHLY UNEQUAL

Despite Brazil’s real improvements in its GINI coefficient, it remains one of the most unequal countries in the world. In addition, while many of Brazil’s poor have risen in status, a disproportionate number of those who remain poor have characteristics that may not be as readily fixed by the income policies that helped their counterparts.

Brazil’s problems with inequality have been around for a long time, but they became much worse in the 1980s, rising and then accelerating with the inflation

BY KATHRYN HOCHSTETLER

Kathryn Hochstetler is the CIGI Chair of Governance in the Americas at the Balsillie School of International Affairs and a professor of political science at the University of Waterloo, Ontario.

Despite Brazil’s real improvements in its GINI coefficient, it remains one of the most unequal countries in the world.

rate. Inflation means special pain for the poor in the informal sector, since they live in a cash economy that has none of the indexing that protects middle- and upper-class wages and bank accounts. In addition, Brazil’s multiple efforts to use different kinds of shock therapy to stop inflation hurt the poor. In 1994, when then Finance Minister Fernando Henrique Cardoso’s neoliberal *Real* plan finally stanching rising prices, the GINI index also quit on its bouncing path upward and stabilized, albeit at a level above the very high historical average. Brazil needed policies aimed explicitly at the poor and working class to bring the GINI index down.

## “I WANT ALL BRAZILIANS TO HAVE THE OPPORTUNITY TO EAT THREE MEALS A DAY”

The first steady declines began near the end of Cardoso’s second term as president. His administration nationalized an innovative program that had begun in the Federal District—the *Bolsa Escola* (School Budget). The *Bolsa Escola* provided families with small cash payments conditional on the school attendance of the children. Cardoso’s succes-

or, Luiz Inácio Lula da Silva, made the campaign promise, “I want all Brazilians to have the opportunity to eat three meals a day,” and took that small program and expanded it into the often-copied *Bolsa Familia* program.

In exchange for meeting the basic schooling and health requirements of their children, the program provides a small monthly cash payment to parents with remarkably few of the clientistic trappings that often go along with assistance to the poor. The *Bolsa Familia* program directly reaches about 44 million Brazilians, nearly a quarter of the Brazilian population, making it the largest such program in the world. The rhetoric behind the program is a simple one of rights: Brazilians have a right to a minimum income, and the conditions of the program—health and education—are themselves rights that citizens have an obligation to claim.

The *Bolsa Familia* program, which focuses on children, is matched at the other end of life by a steady widening of eligibility for minimum wage pensions, available even to people who have never worked in the formal sector and paid into the social security system. Regular retirement pensions have risen modestly as well. Increases in the minimum wage have helped too, but these have more effect on the higher-income poor. Although none of the resulting payments are large—the *Bolsa Familia* pays \$10 a month—they have had a remarkable effect on levels of extreme poverty, which dropped by 1.1 percent annually between 2001 and 2005. It is largely through such payments that the incomes of the poorest 10 percent of Brazilians have risen by Chinese growth rates of almost 10 percent annually through the first decade of the 21st century, while the incomes of wealthier Brazilians have grown more slowly. This represents part of the reason for the decrease in the GINI coefficient.

Brazil’s GINI coefficient, page 14

## Brazil's GINI coefficient continued from page 13

### INCLUSION BEYOND INCOME

Emerging evidence suggests that programs like the *Bolsa Familia* may have unintended, positive spillover effects. Potential participants are motivated to seek official documents like birth certificates and labour cards, which they then have for other kinds of entry into the formal political economy. Since the cash payments are distributed via bank-cards, participants become familiar with banks. Educational participation among children is at its highest level ever—97.3 percent of children between the ages 7 and 14 are in school, up from 81.4 percent in 1992. In focus groups of *Bolsa Familia* recipients, Wendy Hunter and Natasha Borges Sugiyama found that participants were able to articulate their claims to basic citizenship rights and were well versed in how to protect those claims—from calling the program's toll-free number in Brasilia to using their votes to make sure politicians continued the program. They are not just less poor, but more engaged citizens.

Emerging evidence suggests that programs like the *Bolsa Familia* may have unintended, positive spillover effects.

### JOB GROWTH RETURNS AT LAST

A final piece of the inequality puzzle is that Brazil's economy finally began to grow in the 2000s after several lost decades, a confluence of high commodity prices, and government policies designed for that result. After dropping throughout the 1990s, formal employment grew from 44.5 to 49.6 percent of the employed population between 2002 and 2008. The global economic crisis

stopped the rise, but Brazil still had among the lowest unemployment rates of the G20. The largest set of these new jobs were in the private sector, and all of them generally mean rising incomes for the poor who move out of the informal sector.

### BRAZIL IS DOING WELL; RURAL, DARK-SKINNED, NORTH/NORTHEASTERN BRAZILIANS ARE NOT

Against this rosy picture of improvement, it is discouraging to note that Brazil is still less equal than 90 percent of the countries of the world. In addition, the same patterns of exclusion remain. Whether the indicator is inequality, income level and depth of poverty, education, life expectancy, or practically any other known measure of development and well-being, the same Brazilians are still clustered in the lowest categories: those who are rural, dark-skinned, and/or in the north and northeastern regions of the country. Some of the gaps have narrowed but others have not. What the Brazilian experience suggests, however, is that creative government policies and the political will to put them in place can further lower inequality. 🍁

### NOTE

All data are from the Brazilian governmental statistical agency, the Instituto Brasileiro de Geografia e Estatística (IBGE)

## Portal for North America

Portal for North America is a unique web-based tool for knowledge exchange within Canada, Mexico, and the United States. Built by the Centre for International Governance Innovation ([www.cigionline.org](http://www.cigionline.org)), it provides freely accessible avenues for research, education, and network-building on critical continental issues.

Main objectives include:

- providing open access to the most comprehensive resources for research and analysis on interaction between Canada, Mexico, and the United States;
- developing and promoting educational resources for increased continental studies; and
- establishing and fostering a network of scholars, policymakers, practitioners, and students who are interested in North American governance issues.

VISIT THE PORTAL FOR NORTH AMERICA AT  
[www.portalfornorthamerica.org](http://www.portalfornorthamerica.org)

## The return of Raúl Prebisch

continued from page 12

Prebisch's last words urged a new generation toward this great task. "A new rationality must be sought," he said, "but not one based on hegemonic interests; rather one based not merely on economic and social objectives but on eminently ethical ones." 🍁

# Regionalism in post-neoliberal Latin America

## A TIPPING POINT

The current crisis of neoliberalism and its most recent international, financial downturn represents a test of resilience for Latin America, and at the same time an opportunity for reforms to reposition the region in the global political economy. While in the past Latin America was naturally seen as “rule-taker,” the plurality of actors, levels of authority, and diffusion of power resources that are redefining the dynamics of the global political economy opened a new space for the region to participate in the search for alternatives to neoliberal globalization. The many crises of neoliberalism—political, institutional, economic, and social—that were manifested in the region in the early 2000s opened a new space where the state has become the central site for post-neoliberal political economy with the region as a fundamental platform for contestation. This context begs new questions, addressed in this article: How are we to understand current trends of regional cooperation and projects of integration, given that the political and economic circumstances of the 1980s and 1990s no longer hold so firmly (both at domestic and global levels)? How transformative are current projects of (post-neoliberal) regionalism? Are we witnessing the articulation of a “third wave” of regionalism?

## RISE AND FALL OF AMERICAN-LED GOVERNANCE

Latin American political economy has been profoundly shaped not only by local political and economic conflicts but also by the need to offer responses to the steady assertion of US global and regional hegemony. As a project, this was marked by an irreconcilable option between “free trade” and “protectionism,” mirroring politically a debate between “market” and “state.” These structural tensions defined two main waves of regionalism. The first, from the 1950s to the 1970s, when regional inte-

BY PÍA RIGGIROZZI

Pía Riggiozzi is a lecturer in governance and policy in the School of Social Sciences, Politics and International Relations (PAIR) at the University of Southampton.

The crisis of neoliberalism across the region coincided with an increasing diffusion of financial and ideological power fostering new spaces for policy contestation.

gration was conceived as “closed regionalism,” was grounded as much in the political economic philosophy of the ECLAC/CEPAL (Economic Commission for Latin America and the Caribbean) as it was in the Cold War. This gave birth to the Latin American Free Trade Association, the Central American Common Market, the Andean Community, and the Caribbean Free Trade Agreement.

The failure of import substitution projects, together with the severity of many years of military dictatorships, affected the spirit and progress of closed regionalism. Furthermore, many severely indebted economies were left with little choice but to align more closely with the United States, a gatekeeper to external finance. This set the agenda of the so-called new regionalism, dominated by trade and financial liberalization and underpinned, politically and ideationally, by an acceptance of the perception of the “unavoidable reality” of market-led globalization, which fitted well with the new geopolitics of the post-Cold War. Open regionalism was manifested in a

series of US-led free-trade agreements aimed at creating a hemispheric free-trade association, the Free Trade Area of the Americas with a deadline for 2005, and multiple trading arrangements, such as MERCOSUR (Southern Common Market) and NAFTA. Progressively, however, successive financial crises and the adverse effects on domestic political economies contributed to deep disenchantment with neoliberal policies as they failed to deliver on their promises of responsive and inclusive democracies.

Crises are always an opportunity for ideological contestation and accommodation of political and economic projects. In contrast to the proverbial “There Is No Alternative (TINA),” many countries across the region focused on a more nationalistic course for development and governance, challenging the framework of “open regionalism.”

## SHIFTING AUTHORITY, RESOURCES, AND NEW “GLOBALIZERS”

The crisis of neoliberalism across the region coincided with an increasing diffusion of financial and ideological power fostering new spaces for policy contestation. The presence of Hugo Chávez has transformed Latin American foreign policies, removing what was already a divided consensus around a model of integration based on the US economy. Venezuela has engaged in a region-wide set of initiatives by spreading its oil wealth throughout the continent, fostering infrastructure programs, and offering strategic injections of capital to neighbours in need of financial and social relief.

The search for a more autonomous developmental space has also been engineered by the consolidation of China and India in trade and financial flows, which has helped to reshape the position of the so-called Global South in general, and in the region, that of Brazil crafting and institutionalizing its role as a new global leader. Overall, what this scenario tells us is that regional building

Regionalism, page 16

has become a complex, multilayered arena where contending political enterprises overlap and where regionalism is thus a much more fluid concept than it used to be.

## REGIONALISM AS RESILIENT PAST AND COUNTER-HEGEMONIC PRESENT

Are we witnessing the configuration of a third wave of regionalism? How are we to understand post-neoliberal regionalism? The route to tackle this discussion is to make a distinction between three overlapping trends of regionalism:

1. Regionalism with a strong emphasis on commercial integration as a transit to broader multilateralism, with low socio-political content (e.g., the so-called Pacific Rim with Mexico under NAFTA, and Chile, Colombia, and Peru in the Andean Community);
2. Regionalism with an emphasis on trade, accepting globalization but contesting neoliberalism as a political economic program of governance, seeking then to balance the risk-adverse mindset of business elites with new social demands within domestic polities, and deepening linkages with neighbouring countries (e.g., CACM [Central American Common Market], CARICOM [Caribbean Community], MERCOSUR-plus, Ecuador and Bolivia in the CAN [Andean Community], and UNASUR [Union of South American Nations]);
3. Regionalism with a political and social emphasis, with new economic and welfare commitments, reclaiming the principles of socialism (e.g., ALBA [Bolivarian Alliance for the Americas]).

ALBA emerges here as a truly counter-hegemonic project, particularly confrontational with the United States concerning almost all issues on the inter-American agenda. In addition, Venezuela and Argentina became strategic partners in

## ALBA emerges here as a truly counter-hegemonic project.

the startup of the *Banco del Sur* in early 2008, which, if it succeeds, could play a significant role as an alternative to the Inter-American Development Bank and the World Bank.

Likewise, Brazil and Venezuela, although emerging as silent competitors for regional leadership and political style, are ushering in consensus mechanisms with new players capable of making that balance viable. Such policy direction is evident in the efforts of the newly created UNASUR, signed in Brazil in March 2008. UNASUR is fundamentally a political project, conciliatory in its discourse and comprehensive in its objectives, which range from free trade areas to social and security alliances. Its moderate ideological position means that it also aims to strengthen the representation and leverage of the South in international forums of negotiation, as well as balance the authority of the existing Organization

of American States as a US-led defence mechanism.

## STORM CLOUDS ON THE HORIZON

Despite the spirit of change in the region, there are elements with the potential to derail current developments. Key actors such as Chile, Peru, Colombia, and Mexico remain firmly focused on the US market, creating friction within the old scheme of the Andean Community. Brazil has a political and diplomatic style of its own, mounting new regional projects as a platform for enhancing its negotiation capacity and leverage in other international forums. MERCOSUR, meanwhile, struggles to come to terms with Venezuela's more radical proposals, while maintaining the dynamism of oil-funded trade and infrastructure projects. The advent of militarism in Central America poses challenges for UNASUR, while ideological differences among the leftist governments persist. In sum, how transformative and political resilient these projects turn out to be will depend on the extent to which they can transit from a hybrid model to coherent and resilient, post-neoliberal programs. 🍁

The screenshot shows a web browser window with the address bar displaying 'http://www.yorku.ca/drache/wto.php'. The page title is 'Daniel Drache - WTO'. Below the title, there is a header for 'Daniel Drache', identifying him as a Professor of Political Science and Associate Director of the Robarts Centre. A navigation menu on the left lists: HOME, BIOGRAPHY, TEACHING, BOOKS WRITTEN/EDITED, WTO, N.A. INTEGRATION, ICONOGRAPHY OF DISSENT, T.O. PUBLIC CULTURE, CANADA WATCH, CONFERENCES, and CONTACT. The main content area is titled 'WTO Papers and Reports' and lists several articles with their titles and authors, including 'Deadlock in the Doha Round: The Long Slow Decline of Trade Multilateralism (338K)' by Daniel Drache and Marc D. Froese, and 'The Global Cultural Commons after Cancun: Identity, Diversity and Citizenship (344K)' by Daniel Drache and Marc D. Froese. A callout box on the right side of the screenshot says 'SEE MORE WRITING BY DANIEL DRACHE AT www.yorku.ca/drache/wto.php'.



# The odd couple? Lula and Obama

## TOO MANY MIXED MESSAGES

Public reaction in Brazil to the May 17, 2010 Iranian nuclear deal was euphoric. The media claimed that Lula da Silva had pulled off the diplomatic success evading Barack Obama and his friends in Western Europe. Truly, many Brazilians thought their country had arrived on the global scene as a mediator of note and a model of good international citizenship. The almost immediate public condemnation of the deal by Secretary of State Hillary Clinton and the subsequent rapid push of sanctions through the United Nations Security Council thus came as something of a shock to Lula and his foreign policy inner coterie.

As the Planalto presidential palace made clear by leaking an April 20, 2010 personal letter from Obama to Lula, Brazil had done exactly what the United States had suggested was appropriate at the White House nuclear security summit. Retreat in the face of US pressure was thus not just a question of wounded national pride, but also of political credibility for Lula and his Southern-centric nationalist foreign policy. All of this prompted commentators on the left in Brazil to opine that the United States should make up its mind about what it wants. The chattering class on the right wondered how the traditionally steady hands at Itamaraty, the popular name for Brazil's foreign ministry, had allowed Lula to involve Brazil in an issue that could only carry a downside, including possible retribution from its critical international partner.

Charges that the United States was giving out mixed messages by unfairly pillorying Brazil for simply doing as asked are matched by the poor fit between the rhetoric and the reality of Lula's management of its bilateral relations with the Washington. Lula's foreign policy was initially handed to his leftist Worker's Party to deflect attention away from his decision to maintain Fernando

BY SEAN BURGES

Sean Burges is the author of *Brazilian Foreign Policy After the Cold War* (University Press of Florida, 2009) and lecturer at The Australian National University and the Australian National Centre on Latin American Studies.

There is a temptation  
... to conclude that  
Brazil is close to being  
an enemy of the  
United States.

H. Cardoso's package of liberal economic policies. The initial result was a decidedly anti-American undertone to many of the pronouncements and initiatives emanating from the Planalto and Itamaraty palaces, including the advancement of South American and regional coordination mechanisms that explicitly excluded the United States and Canada.

## LULA'S FOREIGN POLICY BRAIN TRUST

Two of the three key architects directing Lula's foreign policy-making apparatus have further confused matters for outside observers. Marco Aurelio Garcia, the special presidential adviser on foreign policy, is a Cuban-trained, wily Worker's Party backroom political operative who has consistently advanced a foreign policy strategy that seeks to put Brazil to the fore in the Americas. The current minister for strategic affairs, a small blue-sky-thinking ministry physically housed within a Defence Ministry building on the Esplanada dos Ministerios, is Samuel Pinheiro Guimarães. Previously, Guimarães was Lula's secretary general at Itamaraty (deputy minister of foreign affairs). Significantly, Guimarães was effectively suspended with pay during the

Cardoso government for being excessively critical in public of the Free Trade Agreement of the Americas (FTAA) negotiating process, an agreement that Brazil had quietly worked to undermine from its inception. More tellingly, he is the author of nationalist foreign policy books such as *Quinhentos Anos da Periferia* (Five Hundred Years of the Periphery), which was mandatory reading for diplomats for several years after the start of the Lula presidency, and *Desafios brasileiros na era dos gigantes* (Brazilian Challenges in the Era of the Giants).

## FRENEMIES? A NEW ROLE FOR BRAZIL?

There is a temptation to draw on the biographies of Lula, Garcia, and Guimarães to conclude that Brazil is close to being an enemy of the United States. Indeed, a host of analysts have drawn on similar logic and examples from areas as widely dispersed as the WTO and democratization in Honduras. After a coup removed the president from office, many wondered whether with friends like Brazil, Washington needed to worry about having enemies. The Honduran debacle aside, the reality of Brazilian foreign policy is somewhat different. While the rhetoric of the mercurial Hugo Chávez in Caracas remains vibrant, regular personal intercession from Lula has taken the edge off the Venezuelan president's regional adventurism.

Charges of a US-backed coup to oust Jean-Bertrand Aristide in Haiti were significantly undercut by Brazil's rapid assumption of responsibility for the Minustah (United Nations Stabilization Mission in Haiti) force. In all likelihood, the WTO Doha round would have collapsed shortly after the 2003 Cancun ministerial meeting without the North-South brokering role led by Celso Amorim, the Brazilian foreign minister. Potential destabilizing irritants in South

The odd couple? page 18

# The odd couple? continued from page 17

America ranging from cross-border raids, through the granting of US access to Colombian bases, to the rise of leftist indigenous presidents have been contained through a busy mix of formal and informal Brazilian engagement.

## THE STRANGE CASE OF CONVERGENCE WITH WASHINGTON

Underpinning all of this is the reality that the United States and Brazil share a common set of regional and global interests—namely, the spread of open markets and the prevention of state-threatening conflict and insecurity. While not a particularly new proposition, Lula's foreign policy team has taken concrete steps to advance regional cooperation and coordination with Washington despite the leftist credentials of key presidential advisers.

Although not widely publicized, the United States and Brazil signed a defence cooperation agreement in April 2010 to facilitate expanded regional security cooperation. A similar agreement is pointing toward Brazilian integration into the trans-Atlantic anti-narcotic arrangements through a Rio de Janeiro base that would coordinate actions with counterparts in Key West and Lisbon. Such increasing cooperation can be found in one of the key areas of Brazil's South-South engagement strategy in the form of a bilateral memorandum of under-

Nearly a decade of regional neglect has resulted in the Washington policy community having a very thin knowledge and understanding of Brazil.

standing with the United States on the provision of trilateral technical assistance to Haiti and some African countries. High-ranking government officials have greased the bureaucratic wheels behind these examples of bilateral cooperation with dizzyingly frequent visits.

## WILL BRAZIL BE ANOTHER REGIONAL POWER LIKE CANADA? THINK AGAIN

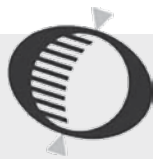
Nearly a decade of regional neglect has resulted in the Washington policy community having a very thin knowledge and understanding of Brazil, which has prompted the creation of a cross-government Brazil study group. Thus, while there is an awareness that Brazil matters as an "emerging power," the implicit assumption at times appears to be that

Brazil might be some kind of a "new" Canada. There will be the odd symbolic policy difference, but not on issues that matter, and those differences that do exist will serve to keep an underground route of engagement open. The difference is that Brazil does not have anything approaching Canada's dependence on the US market or Washington's political goodwill. In practical terms, this means that the Lula government's pursuit of a foreign policy independent of US acquiescence can sometimes appear as a departure from the almost neighbourly cooperation that appeared the norm during the Cardoso years.

## A HEIGHTENED GLOBAL INVOLVEMENT AND ITS PROACTIVE POLICY

These instances of angst and misunderstanding matter for Brazil, as demonstrated by the Brazilian decision not to implement WTO-allowed trade penalties against the United States in the wake of the June United Nations Security Council Iranian sanctions vote. Despite consistent efforts to advance a new economic geography and a sense of Southern political solidarity, Lula's foreign policy team remains highly cognizant that while US power and influence may have declined, it remains a considerable force, and Washington retains the ability to retard or even derail Brazil's regional and global policies.

The Brazilian response to this situation is to go on the offensive with a policy approach that is centred on Brazil's interests in cooperation with Southern partners. This highly flexible tack is in keeping with Lula's hallmark pragmatism, neither for nor against the United States, a nuanced approach that few Beltway insiders predicted. This highly nuanced strategic policy stance spells continued public confusion in a bilateral relationship, which is kept from going off the rails by the practical work of officials in both countries, and Brazil's heightened awareness of the changes in world economy geography. 



## The North-South Institute

The North-South Institute is an independent Canadian policy research institution that specializes in international development with a particular focus on reducing poverty and global inequities. It conducts applied development research in partnerships with leading Southern and Canadian research institutions and independent scholars. Related information to this project of the Robarts Centre for Canadian Studies of York University and LATN/FLACSO on Post-neoliberal Latin America and the Shadow of Obama can be found at:

**Dialogue on Canadian-Latin American Economic Relations**

<http://www.nsi-ins.ca/english/research/progress/79.asp>

# The post-neoliberal mix: New state practices in Latin America's big three

## IS THERE A POST-NEOLIBERAL MIX?

Clearly, rumours of the death of the state were greatly exaggerated. After the neoliberal Washington Consensus prescribed dramatic reductions in the role of the state in the 1980s, the developmentalist state is now back with a vengeance. Examples from throughout much of Latin America display the renewed vigour and significance of state action in pursuit of development and equity. But what kind of state? What is the appropriate role of state action in the context of the continued existence of globalization?

We have seen, over the past several years, the emergence of the “post-neoliberal” state in Latin America. Since the beginning of the 21st century, the majority of Latin American countries have elected left-leaning parties to office, and leaders on the left of the political spectrum govern close to 60 percent of Latin Americans. The explanation for this historic shift lies largely in the widespread rejection by Latin Americans (both elites and the populace) of the neoliberal policy program: privatization, deregulation, state cutbacks, etc.

Neoliberalism's failure to deliver on its multiple promises has given rise to post-neoliberalism: a search for progressive policy alternatives arising out of the various contradictions of neoliberalism. Even governments (like Mexico) that maintain a commitment to many of the basic principles of neoliberalism are experimenting with state-led solutions to the poverty, inequality, and sluggish growth engendered by market-led reforms.

In contrast, however, to the cookie-cutter approach of the neoliberal era, post-neoliberal policies are diverse. In this article, we briefly review the experiences of Brazil, Argentina, and Mexico, in their search for the best balance among state, market, and society.

BY LAURA MACDONALD  
AND ARNE RUCKERT

Laura Macdonald and Arne Ruckert are the editors of *Post-Neoliberalism in the Americas* (Palgrave Macmillan, 2010). Laura Macdonald is a professor at the Institute of Political Economy and director of the Centre on North American Politics and Society, Carleton University. Arne Ruckert is a post-doctoral fellow in the Department of Political Studies and the Centre for International Policy Studies, University of Ottawa.

Neoliberalism's failure to deliver on its multiple promises has given rise to post-neoliberalism: a search for progressive policy alternatives.

## ARGENTINA AND BRAZIL: THE SURPRISE RETURN OF THE STATE

Argentina's recent experience represents a prime example for how the post-neoliberal state has re-asserted its presence in the economic realm. After the retreat of the state from the economy, linked to liberalization and privatization processes promoted throughout much of the neoliberal era, the Argentine financial crisis of 2001 was the catalyst for the state's return to the economic scene. Faced with a significant economic challenge as GDP dropped precipitously and unemployment skyrocketed, the government started to implement developmentalist policies based on re-industrialization, import substitution, and increased exports, and began seeing consistent fiscal and trade surpluses.

In May 2003, these tendencies were intensified when Governor Néstor Kirchner, a social democratic Peronist, was

elected president. Immediately after ascending to power, Kirchner aggressively renegotiated contracts with utility providers and re-nationalized some previously privatized enterprises, as he took a much more confrontational stance criticizing the sway of “organized business interests” over the political process.

## STEERING AND ROWING THE ECONOMY

Kirchner instituted price controls on energy and water rates, and, in 2006, citing the alleged failure of *Agua Argentina* to meet its contractual obligation to improve the quality of water, he terminated the company's contract with Argentina to provide drinking water to Buenos Aires. A number of high-profile service companies were also re-nationalized, including the postal service, the radio and electronics sector, water, transportation and, most recently, *Aerolíneas Argentinas* (the national airline). Most of these firms were in the hands of foreign multinationals.

Argentina's growing preference for a more active role of the state in the economy was also underscored with the founding, in 2004, of ENARSA, a new state-owned energy company. Finally, Kirchner promoted a vigorous income policy and public works investment, a clear sign that the state has come to play a more decisive role in steering the economy and that a new balance between state and market is being struck in post-neoliberal Argentina. Since flirting with post-neoliberal policy alternatives, Argentina has enjoyed robust economic growth, coupled, though, with relatively high inflation rates.

## BRAZIL'S SOCIAL WELFARE POLICY REVOLUTION—*BOLSA FAMILIA*

Brazil is another example of the emergence of post-neoliberal policies in Latin America, especially in the social policy

The post-neoliberal mix, page 20

# The post-neoliberal mix continued from page 19

realm. In Brazil, the state has reappeared predominantly through experimenting with new forms of social welfare policies. Brazil's conditional cash transfer (CCT) program *Bolsa Familia* (BFP) has remained a centrepiece of President Lula da Silva's social policy platform, and is considered to have played a crucial role in his re-election in 2006.

CCTs advance cash payments to qualifying recipients are based on a number of conditions, including school attendance and regular health check-ups. In doing so, they attempt to both reduce short-term poverty through direct cash transfers and fight long-term poverty by increasing the human capital of the poor. The programs are thus ultimately market-friendly, designed to promote "human capital development" so that the poor are integrated into the labour market with improved skill sets. Nevertheless, they represent an important innovation in social policy, as they attempt to alleviate poverty while giving incentives to improve human capital, redirecting the focus from social assistance to social development. Through the activation of the capacities of its citizens, the Brazilian state has reappeared to play a much more prominent role in the social sphere.

In fact, the BFP has been identified as a key factor contributing to the recent steep reduction of poverty in Brazil, which fell 27.7 percent during Lula's first term in government. Other factors include an improvement in the job market and real gains in the minimum wage, which demonstrate further resolve on the part of the state to tilt the economic playing field in favour of the poor.

## **MEXICO: STUCK IN THE NEOLIBERAL RUT**

Unlike the other large Latin American states, Mexico has remained in the neoliberal fold despite weak economic performance. Mexico's growth rates have been dismal at a little better than 2 percent in recent years, compared with its high-performing Southern Cone rivals. As well, it faces escalating security crises

[P]ost-neoliberalism neither represents a homogenous policy regime that completely rejects all aspects of neoliberalism, nor does it imply a return to the developmentalist strategies of the populist regimes of the post-war period.

linked to the drug trade. Overall, Mexico's record hardly represents a convincing argument for market-led policies.

There are several reasons for Mexico's continued attachment to neoliberalism. Mexico was late to democratize, with truly competitive elections not occurring until 2000, compared with democratization in 1983 in Argentina and 1985 in Brazil. The left may thus be later to benefit from democratization than its counterparts in other Latin American states. In addition, Mexico's historic decision to join the North American Free Trade Agreement (NAFTA) in 1994 (before democratization), locked the country into neoliberal reforms and severed it symbolically from the rest of Latin America. Also in contrast to other Latin American states, which have seen a political polarization between two strong political parties, one on the centre-right and one on the centre-left, Mexico has three strong political parties, the PAN (centre-right), the PRI (centre), and the PRD (centre-left). In the last federal election, in 2006, the PAN candidate, Felipe Calderón was declared the victor by a razor-thin margin; the official results were hotly contested by PRD candidate Andrés Manuel López Obrador.

## **SOME NEW INITIATIVES**

Despite its governments' ideological commitment to neoliberalism, Mexican policies have strayed, in some respects, from neoliberal dogma. Social spending was cut back dramatically in the aftermath of the debt crisis of the early 1980s. Since the late 1980s, however, successive Mexican administrations have attempted to address their legitimacy problems through anti-poverty policies. The current program, *Oportunidades*, is a CCT program like *Bolsa Familia* in Brazil. Spending on the program has increased rapidly since the outbreak of the economic crisis, with the current government spending almost \$5 billion US dollars, representing a 23.3 percent increase from the 2009 budget. Despite this significant spending, however, Mexico has been much less successful than Brazil in combating poverty. In Mexico, given the absence of other redistributive mechanisms and the failure of the market to create jobs, poverty levels declined by a disappointing 6.3 percent between 2000 and 2008, according to the Economic Commission on Latin America.

## **WHAT IS NEXT FOR THE POST-NEOLIBERAL STATE?**

These diverse country experiences demonstrate that post-neoliberalism neither represents a homogenous policy regime that completely rejects all aspects of neoliberalism, nor does it imply a return to the developmentalist strategies of the populist regimes of the post-war period. Particularly in the area of macroeconomic policy, left-wing regimes maintain a commitment to such principles as moderate inflation rates, balanced budgets, and trade liberalization. However, post-neoliberal governments are united by several traits that diverge from the neoliberal consensus: a willingness to use state power to stimulate economic growth; redistributive measures to reduce social inequalities; new forms of social investment to include and activate the poor; re-nationalization of

**The post-neoliberal mix, page 22**

# Short on vision: Canada's foreign policy for the new Latin America

## NO LONGER THE MIDDLE POWER: COMPETING STRATEGIES

Canada's foreign policy toward Latin America for the past couple of decades has had a variety of purposes. On the domestic political front, it was for the Liberal governments of the 1990s a symbol and an experiment to export their dual sympathies for neoliberal economics and progressive politics. On the economic front, it was at the vanguard promoting the most profitable internationalization of Canadian companies in banking, services, and mining, as well as a (ultimately failing) search for export platforms into the US market. On the international political front, it represented the gradual acceptance by Canada's governing elites that this country was no longer a middle power with global reach. It was rather an intermediate industrialized country seeking to cope with the ascendance of East Asian emerging powers and a changing global economy, moving away from Western (US) hegemony. That acceptance translated into gradually embracing bilateralism to employ North-South asymmetries for economic gain.

Latin America has also moved on in these past two decades from a consensus on electoral democracy and neoliberal economic reforms, to a plurality of models arching from the tropical socialism of Hugo Chávez, to the business-as-government progression in Chile. Foreign relations have therefore evolved from a search for pylons on which to anchor neoliberal reforms via free trade agreements and foreign investment treaties, to a pursuit of informal, ad hoc treaties and country-to-country deals that seek to firm up export markets for natural resources and other commodities.

Very high commodity prices and the heightened competition from China plus other East Asian countries in manufacturing have forced Latin America to return to their past role as commodity

BY PABLO HEIDRICH

Pablo Heidrich is a senior researcher at the North-South Institute, Ottawa.

Canada's foreign policy toward Latin America for the last couple of decades has had a variety of purposes.

exporters. The fickleness of these commodity booms is what triggers the search for flexibility and multiplicity in export agreements and the move away from more rigid free trade or investment agreements.

## THE HARPER FOREIGN POLICY RE-EVALUATION

Prime Minister Stephen Harper, ably combining populist and conservative tones, stated his government's desire to break down the disconnect between Canadian "elitist and pretentious" foreign policy and the national interest. He chose Latin America as a priority, rather than Africa, as was preferred by the previous Liberal administration, to be the central area of foreign policy toward the developing world. His three tenets: "shared prosperity, democratic governance, and security for all" also sought to satisfy a set of broad policy goals.

Despite his criticism of past Liberal policies, he implicitly confirmed many of the same objectives followed by the previous Liberal administrations—namely, the pursuit of economic interests where Canadian reach could be only regional and no longer global, while sprinkling it with a rhetoric that would appeal to his Conservative core supporters. His many critics have pointed out that Canada is leaving out a historical

commitment to Africa and Eastern Europe, and bypassing East Asia with its large economic opportunities.

## LOW-COST BILATERAL TRADE AGREEMENTS: THE NEW PRIORITY

In fact, the Harper administration's "Strategy for the Americas" is rather low-cost and unambitious in its approach. Most of its attention has been on actually continuing the Liberals' promotion of free trade agreements, signing new treaties with Peru in 2009, and Colombia and Panama in 2010, while negotiating another one with four Central American countries (Guatemala, Honduras, El Salvador, and Nicaragua). That is pretty much the only real column supporting the "shared prosperity" tenet, with side agreements on labour and environment, again replicating the last of the Liberals treaties in the region. An emphasis on corporate social responsibility, softly cushioned by non-compulsory standards and a toothless framework, completes the structure.

The low-cost qualification arises from the limited choice of partners with whom to deal within the region. Bolivia, Peru, Colombia, and Honduras are the only ones being considered for bilateral aid flows, and political dialogue is limited to some of these plus Chile, Mexico, and Costa Rica. While the case for aid to Bolivia and Honduras could easily be made, because they are among the poorest countries in the hemisphere, the other two are middle-income countries, making them much less in relative need for it. Besides, the new themes selected for Canadian aid are fairly narrow—food security, child and youth health, and technical job training—almost precluding, by design, any chance of making aid significant there, it is currently at \$100 million per year for all four countries together, or 3 percent of total Canadian aid.

Short on vision, page 22

### SHORT ON VISION AND NOT VERY PRAGMATIC

The political dialogue, arguably, could have been influential, but so far, there is not much to show for it. Canada was clearly isolated in the last Summit of the Americas in 2009 while advocating for more free trade and less business regulation. Not even one of those dialogue and aid partners supported it. That isolation has grown with the quick Canadian recognition of the government arising from the 2009 coup in Honduras, something strongly opposed by all these countries. That last issue has driven Prime Minister Harper's democratic governance tenet into the ground as far as most Latin American country governments are concerned.

Thus, making a policy strategy that has such restricted instruments, aid for just a few countries and on narrow areas, plus dialogue only with supposedly like-minded governments (obviously less like-minded than Ottawa expected), has not taken Canada very far at all in the region. The inability to make an attractive policy offer or even promote a common vision is however, what has hindered it most.

The apparent lack of courage to be more pragmatic and engage in dialogue with seemingly less like-minded governments demonstrates a rather outdated understanding of Latin American foreign relations today, where pragmatism and a truly global capacity to engage with others is the strongest common characteristic. In contrast to Canada's stern self-dictated limitations, Colombia's right-wing government is negotiating a free trade agreement with Communist China,

**In fact, the Harper administration's "Strategy for the Americas" is rather low-cost and unambitious in its approach.**

Argentina's seemingly populist Néstor Kirchner maintained very good personal relations with the Bush administration in the United States, and Brazil engaged the entire Middle East for a conference to promote closer economic and political cooperation.

### FOREIGN POLICY AS BUSINESS RISK INSURANCE

What explains such political thriftiness is that Canadian foreign policy toward Latin America remains, at its core, an exercise in business risk insurance. Just as in previous Canadian government ventures in the region, a lack of depth in understanding Latin American current affairs leads to perilous dependency on fairly narrow Canadian business interests with investment or trade opportunities in the region defining policy.

The largest achievement of this Latin American foreign policy is, after all, the 14 bilateral free trade and foreign investment protection agreements signed there. This number is more than with any other region of the world and in evident

disproportion to Canadian investments and trade there. The nature of the investments, 70 percent concentrated in just two industries, mining and banking, and in only a dozen Canadian firms is what provides the obvious answer. These two industries have in common that much, if not all, of their profitability depends on national regulatory frameworks, unlike the cases of manufacturing or agriculture. Besides, expropriation risks are fairly high as mines and banks can easily be nationalized.


### DOING MORE AND BETTER

The choices then are clear for Canada if it wants to develop a comprehensive policy toward Latin America. It can continue its current path, unambitious and commercially oriented. Alternatively, it can strive to influence that region with a positive agenda that includes some of the main developmental aspirations of Latin America. After all, the challenges there are very similar to Canada's: how to succeed in a global economy that wants its natural resources and how to use those proceeds to create just, equitable societies.

Negotiation of trade and investment agreements are much less relevant today when many regional initiatives are under way. In contrast, domestic debates on the roles of state and businesses continue to hold centre stage, and indeed have become the real driving force behind policy changes in Latin America. An effective Canadian contribution to those discussions would certainly demonstrate that Canada has finally understood what the new Latin America is all about. 

## The post-neoliberal mix continued from page 20

some parts of the economy, particularly in the resources sector, and greater citizen engagement and inclusion of the poor in decision making. In contrast to the market fundamentalism of the Washington Consensus years, these experi-

ences reflect the importance of democratic governments seeking a balance between the excesses of the state and the market, and policies that respond to each country's diverse circumstances and requirements. 

Learn more about  
*Canada Watch* and  
the Robarts Centre for  
Canadian Studies at  
[www.yorku.ca/robarts](http://www.yorku.ca/robarts)

# The natural resource curse in 21st-century Latin America

## THE NATURAL RESOURCE CURSE: TOO MUCH OF A GOOD THING

The term “natural resource curse” (NRC) was coined a couple of decades ago to summarize the finding that, on average, developing countries that were highly endowed with natural resources were growing less rapidly than those that were less endowed. The finding was seen as counterintuitive—what could be more helpful to growth than an abundance of such resources?

Since the first study that presented the evidence, we have advanced considerably in our understanding of this “malady.” First, we know that it does not afflict all natural resource-rich countries to the same degree. There is a wide range of growth experiences in such countries—wider than among the “unendowed” countries. Thus, the gap between the worst performers (Nigeria is often held up as a candidate for this dubious prize; Venezuela, since the 1970s, is another) and the best performers (Norway at the world level; Indonesia among developing countries) is very large. Second, we know a good deal about why it happens to those countries that fall victim. Third, we know that some natural resources pose a greater risk than do others, and we have some useful generalizations as to why this is so. Oil, gas, and most other mineral exports are dangerous, whereas exports of coffee produced on small farms are not.

## THE BIG PICTURE

We know that countries with large endowments of the “dangerous” natural resources are prone to unusually high levels of income inequality. Natural resource exploitation also frequently leads to environmental damage, long known to characterize much mining exploitation but also severe in the case of crops like soybeans. It also harms

BY ALBERT BERRY

Albert Berry is professor emeritus of economics at the Centre for International Studies, University of Toronto.

[D]eveloping countries highly endowed with natural resources had been growing less rapidly than those not so well endowed.

indigenous and other marginalized groups. This list of dangers underscores just how much damage the curse can do; at its worst, it deters growth, promotes inequality, is bad for the environment, and harms vulnerable groups in the society.

All of these threats should be of concern to Latin America. The region suffers from a chronically high level of inequality. It is now hopefully emerging from the worst quarter-century of growth in its statistically recorded history (from the late 1970s until the early years of the current decade), but the acceleration of the past decade has been substantially fuelled by natural resources, including oil, gas, coal, copper, and soybeans. Environmental damage and social injustice around the industries in question abound.

## LATIN AMERICA'S RESOURCE FREE-FOR-ALL

The main mechanisms underlying the growth-reducing impacts of natural resource richness include:

- an excessive channelling of resources (political, human, physical, and other) to the fight for

access to a share of the rents (easy incomes) that typically come with natural resource abundance (economists refer to this as a “zero sum” game, in which people compete for benefits in ways that do not increase the total income of the group, and may even reduce it);

- a lack of longer-term strategic planning, typical in economies that live off such resources; this is sometimes accompanied by lack of attention to education and the development of human capital; and
- a weaker-than-otherwise manufacturing sector, pernicious because this sector appears to generate more positive spillover effects on the rest of the economy than do the natural-resource sectors.

## “THE DUTCH DISEASE”

Some of these effects are essentially political, including the pattern of conflict that arises around the control of these easy-income resources. Another, less obvious, aspect involves the “Dutch disease.” In the absence of preventive policy, natural-resource export booms lead to an appreciation of the exchange rate relative to what it would otherwise have been, discouraging other exports and encouraging imports that compete with domestic production. Those other exports and/or import-competing goods involve manufactured goods, whose production is both more labour-using (thereby more conducive to equality) than the dangerous natural resources, and more growth-generating in other parts of the economy.

## DEFEATING THE NATURAL RESOURCE CURSE

Wise governments can deploy a number of tools against the curse and wind up

The natural resource curse, page 24

benefiting from nature's largess. One good policy is to exploit them gradually rather than quickly; since the impulse of the private sector, and all too often the public sector, is to get the profits as soon as possible, this policy requires self-restraint. Where exploitation is fast, it can be wise to hold some of the foreign exchange abroad (a strategy employed by Norway and, more recently, very successfully by Chile).

Another strategy is to make sure that the windfall profits or rents generated find their way into the development of other industries that will be competitive in the future. This involves an adequate rate of taxation of the private sector earnings and care that public sector revenues not be squandered on current political priorities as opposed to investment for the future.

One of the complexities of decision making in NRC countries is that, with exports of oil, copper, or soy dominating the comparative advantage hierarchy, it requires greater insight than in other settings to identify where future competitiveness will lie. One interesting strategy is to undervalue the exchange rate deliberately—as China has done so notoriously in recent decades, and as Chile did with great success from the mid-1980s, allowing many new potentially competitive tradeable goods to get a start, many of which later are able to withstand the eventual appreciation of the exchange rate. An ideal strategy is to use export revenues to foster competitiveness in labour-intensive activities, a policy most successfully pursued in Indo-

**Governments . . . have to acquire knowledge and perseverance in pursuing other promising sectors to free a country from the "curse" and its distorting effects.**

nesia, which channelled oil revenues into the development of small-scale—mainly rice—agriculture.


### **WILL LATIN AMERICA TAME THIS BEAST?**

How optimistic can we be about the next chapter of the NRC saga in Latin America? On the plus side, an increasing number of countries have technocrats who understand the issue and are conversant with the historical record. Chile is the outstanding example at this time. Colombia's Planning Commission as far back as the mid-1990s worried about the effects of a major new oil field, and brought in people knowledgeable about Indonesia to share their experience. Of course, such awareness is easily lost between administrations.

Another encouraging pattern in Latin America is a decline in income inequality in several countries, including Brazil, Mexico, and Peru. It remains to be confirmed that this is a real and lasting trend and, if so, to identify the mechanisms behind it, but it is nonetheless good news. It may mean that NRC effects will not push inequality as high in the future as in the past. On the negative side, the market-friendly revolution of economic

policy beginning in the 1980s has restricted the government's role in most countries of the region, and yet a country in danger of the resource epidemic does need certain well-chosen forms of intervention to constrain market forces. Chile's use of the exchange rate to protect nascent industries and its practice of saving abroad exemplify how a modest amount of the right sort of intervention can bring very positive results.

### **WHAT OF THE FUTURE?**

What of the winds of political change blowing through much of Latin America in the form of left-leaning governments? Such governments should be expected to attach more weight to employment creation and the distribution of the fruits of natural resource exploitation than have their predecessors, and to be less worried about intervening in markets. Much will depend on whether they have the technical expertise and political space to intervene the right way. Governments that understand the recipes for healthy job creation and the nature of the NRC challenge to such creation are likely to do much better than those that do not. NRC countries always face a challenge in creating enough decent jobs because the problematic natural resource exports are not only weak themselves in this regard, but also crowd out other tradeable sectors that are more employment-generating. Governments must be aware of this danger, and be able to ascertain its quantitative dimensions. They have to acquire knowledge and perseverance in pursuing other promising sectors to free a country from the "curse" and its distorting effects. This can be a very tall order. 



Real world challenges demand different angles, different approaches, and different attitudes.

[www.research.yorku.ca/home/index.html](http://www.research.yorku.ca/home/index.html)



# Income distribution, export patterns, and poverty alleviation

## TRADE AND INCLUSIVE GROWTH

The distribution of gains and losses that result from trade negotiations is an object of much controversy. The opening of domestic markets in Latin America has been mostly associated with greater wage inequality. With this in mind, it is important to identify elements of trade policy that are able to improve developing countries' participation in the global economy and promote inclusive growth. This phenomenon has created new relationships between trade policy and other policies focused on stimulating growth and improving welfare. Non-traditional methodologies are needed to assess the new instruments of trade policy to grasp their real impact on unemployment, income distribution, and poverty.

It is impossible to establish a direct relationship between trade and poverty. For the Latin American region, it is very difficult to analyze trade changes, growth, and poverty alleviation. On one hand, dynamic export growth and the surge of foreign direct investment are the clearest signs of how Latin American countries became more integrated into the world economy. On the other hand, economic growth did not return to pre-1980 levels, so poverty alleviation programs were largely ineffective.

BY EDUARDO BIANCHI

Eduardo Bianchi is a researcher at the Latin American Trade Network (LATN) and coordinator of the unit on Trade, Inclusive Growth, and Development, Buenos Aires, Argentina.

Certainly, it is impossible to establish a direct relationship between trade and poverty.

## THE GROWTH AND POVERTY PUZZLE

Table 1 presents a variety of measures of annual growth, which include both simple averages across countries and weighted averages. The pattern is clear: Latin American economic growth in the 1990s has been frustratingly low. Even the acceleration of GDP growth to 3.6 percent from 1990 to 1997 does not look especially strong compared with that from 1950 to 1980. Contrasting GDP growth, rather than per capita GDP growth, makes some sense for this region because shifting age distributions can make comparisons of per capita

GDP misleading. Indeed, Latin America's labour force grew in the 1990s at rates similar to those between 1950 and 1980.

As Table 1 indicates, GDP per active worker grew at a slower rate between 1990 and 1997 than GDP per capita, reflecting a much poorer performance relative to the historical pattern before 1980. Furthermore, this growth recovery was followed by a sharp slow down during the "lost half-decade" of 1998 to 2002, when GDP grew at a rate not unlike that in the 1980s. As a result, for the period 1990 to 2002 as a whole, the rate of growth of GDP and GDP per capita was less than half of those that characterized the three decades prior to the debt crisis; making the relationship between trade and poverty or trade policy, poverty, and inequality really difficult to demonstrate. However, the pattern of economic growth and development, rather than growth per se, may have significant effects on income distribution and poverty profile.

## THE ELUSIVE QUEST FOR TRANSFORMATIVE DEVELOPMENT

While many countries have set their sights on diversification of production and export structures, how this relates to poverty reduction is not always factored in soundly. Furthermore, there is

Income distribution, page 26

TABLE 1 Latin America's Growth, 1950–2002

	1950–1980		1980–1990		1990–1997		1997–2002		1990–2002	
	WEIGHTED AVERAGE	SIMPLE AVERAGE	WEIGHTED AVERAGE	SIMPLE AVERAGE	WEIGHTED AVERAGE	SIMPLE AVERAGE	WEIGHTED AVERAGE	SIMPLE AVERAGE	WEIGHTED AVERAGE	SIMPLE AVERAGE
<b>GDP growth</b>	5.5	4.8	1.1	1.0	3.6	3.9	1.3	1.7	2.6	2.9
<b>GDP per capita</b>	2.9	2.1	–0.9	–1.2	2.0	1.9	–0.3	–0.3	1.0	1.0
<b>GDP per worker</b>	2.7	2.4	–1.7	–1.9	1.0	0.9	–1.3	–1.2	0.1	0.0
<b>Total factor productivity</b>	2.1	2.0	–1.4	–1.4	1.1	1.9	–1.1	–1.1	0.2	0.6

Source: José Antonio Ocampo published by ECLAC (2008) and previously in (2004), vol. 18, no. 2 *Journal of Economic Perspectives* 70

little understanding of the mechanisms that transmit trade effects to the level of the family unit.

The studies on trade, inequality, and poverty in Latin America are neither numerous nor conclusive in general. In comparative terms, in Latin America these questions are less intensively analyzed than in Asian countries. Most studies carried out in Latin America suffer from an empirical bias, dedicated to identification and characterization of income data, and less to causes and consequences.

In that context, LATN's research unit on Trade, Inclusive Growth, and Development explores and considers the macroeconomic challenges of the links between trade and inclusive growth and the context of the proliferation of both trade agreements and trade negotiations. In addition, this research focuses on the main challenges to social and economic inclusion and emphasizes the distributive impacts of public policies associated with trade.

## THE IMPORTANCE OF COMPENSATORY POLICIES TO REDUCE POVERTY AND INEQUALITY

Empirical evidence suggests that the relationship between trade liberalization and poverty and inequality can be either positive or negative, depending on various factors. In any case, it is important to acknowledge that there will always be certain sectors of the population that will be the worst off (temporarily or permanently) after trade liberalization. For these populations, compensatory policies acquire a very relevant role, although knowledge about the effectiveness of these policies is close to none.

Both developed countries and some Latin American countries have implemented compensatory policies in various forms (unemployment benefits, focalized programs, emergency employment programs, social funds, food security programs, housing programs, training programs, etc.). LATN is analyzing the

## The studies on trade, inequality, and poverty in Latin America are neither numerous nor conclusive in general.

concrete effects of trade liberalization and the consequent compensatory policies at two levels: rural and industrial.

It is important to answer the question of how, faced with a situation of trade liberalization, compensatory policies can mitigate the adverse effects at the level of families and individuals members. In general, the analysis at both levels (rural families and industrial employment) in Latin America reflected that the most important disadvantage of compensatory policies is the lack of capacity to fully and effectively mitigate the associated costs of changes in trade policy.

## NEW EXPORT PATTERNS PROMOTING INCLUSIVE GROWTH AND TRADE

Despite the weakened links between the internationally oriented activities and the domestic economy, export success has been a major determinant of overall national economic success. However, GDP growth has not been associated with the extent to which a country shifted away from reliance on natural resource-intensive export patterns. The poor performance of aggregate production and productivity growth in Latin America reflects a diverse experience of some successful and some lagging sectors.

In Latin America, analysis of the labour markets indicated that the "northern" pattern of specialization in manufactures (and some services) proved much more effective in generating employment, particularly wage-labour employment in tradable sectors, than did the "southern" pattern of specialization

in natural resource-intensive goods. Employment did not follow specialization patterns in non-tradeable sectors (particularly in relation to wage employment); however, employment did follow specialization patterns in tradeable sectors where the growth of employment was more dynamic in the northern part of the region.

## INCLUSIVE GROWTH, TRADE, AND INEQUALITY: CAN THEY WORK TOGETHER?

On one hand, when talking about links between trade policies, poverty, and inequality in Latin America, there is an emerging consensus that trade has the potential to contribute to economic growth and poverty reduction, although the exact outcome depends on the country-specific circumstances.

The effect of trade policies on poverty can be highly sensitive to other policies that are in place or are being adopted. Empirical findings show that the distributional effects of a trade opening, without the accompanying measures, can be detrimental to the welfare of the poor; however, the optimal content and sequencing of these measures for Latin America and the Caribbean are yet to be determined. It is necessary to analyze trade and poverty in the context of a specific country in order to make better predictions about the potential outcomes of trade policies, and to establish how these results can be translated into concrete actions, in both trade and compensatory policies.

On the other hand, when talking about links between inclusive growth and inclusive trade, it is important to understand that the emergence of dynamic export activities was not a direct outcome of trade liberalization. In light of recent trends, it is important to accept that production and technological links between dynamic firms and sectors and the rest of the economy do not occur automatically, and that active policies must be implemented to counteract dualism in

Income distribution, page 28

# Natural disasters: A fresh look at corporate accountability

## NATURAL AND FINANCIAL DISASTERS

The recent oil spill in the Gulf of Mexico has become the largest environmental disaster to hit the United States. Despite efforts to contain the impacts of the spill, it continues to cause great damage in the environment and in the livelihood of local fishing communities. A parallel can be drawn between this disaster and the global financial crisis unleashed by the subprime meltdown in the United States. Both incidents started in the United States under Barack Obama's administration and exposed the fragility and harmful consequences of a global economy driven by unregulated and powerful transnational corporations (TNCs). It is a likely expectation that the BP case will open space for the redefinition of policy options and debates concerning the regulation of transnational business and corporate accountability. This has implications for hemispheric relations.

Latin American economies continue to be based largely on the exports of natural resources. Oil, minerals, forestry, fishing, biodiversity, land for agricultural production, and biofuels are all seen as strategic for development prospects at a time when there are high prices for these commodities due to the growing demand of China and India. This has reinforced historical foreign direct investment patterns in these sectors. Canada and the United States have become key investors in these sectors in Latin America, in addition to European countries and increasingly China.

In addition to the old development challenges associated with deepening an economic model for the region based on extractive industries, the production of natural resources is also often linked with socio-ecological conflicts. The BP disaster is hardly an isolated incident. In recent years, there have been a number of cases throughout Latin America link-

BY MARCELO SAGUIER

Dr. Marcelo Saguier is a researcher at Argentina's National Science and Technology Research Council. He teaches courses in international relations at the FLACSO, Buenos Aires, Argentina, and at the National Foreign Service Institute.

Over the last 20 years, there has been an intensification of social responses to the consequences of extractive industries throughout Latin America.

ing TNCs in resource industries with socio-environmental conflicts.

## STIFF SOCIAL RESPONSES TO CORPORATE POWER

Over the last 20 years, social responses to the consequences of extractive industries throughout Latin America have intensified. During the 1990s and early 2000s, civil society initiatives that confronted the impacts of TNCs in extractive industries were mobilizing against free trade projects such as the Free Trade Agreement of the Americas (FTAA), Central American Free Trade Agreement (CAFTA), and bilateral free trade agreements (FTAs). Likewise, the movement against the privatization of water provision services that began in Cochabamba, Bolivia inspired many grassroots initiatives throughout Latin America. An example of this is the campaign in Uruguay that in 2004 resulted in a constitutional reform to make access to water a human right.

With increases in mining activity, violence against community leaders has increased. During 2009 alone, an anti-mining activist was assassinated in Mexico, allegedly in connection with his advocacy for the closure of the mining operations of Blackfire, a Canadian company. Likewise, the Pacific Rim Mining Company is suspected of being responsible for the murder of an activist in El Salvador. In Argentina, there are questions about the environmental impacts of Barrick Gold investments, particularly the binational Pascua Lama mining project on the Andean border between Argentina and Chile. Self-organized citizen assemblies have been created in several provinces of Argentina to oppose large mining projects. This has led to the introduction of provincial legislations to ban this kind of contested mining activity.

There are similar social initiatives by peasant movements in response to agribusiness, particularly on disputes over land ownership, environmental degradation, and the use of genetically modified seeds. The clashes of the Landless Movement with Monsanto and Syngenta in Brazil have been a recurring feature of this conflict over the consequences of competing agricultural models. Throughout the region, communities affected by corporate-related rights violations have organized sessions of the Permanent Peoples' Tribunals. These tribunals denounce the complicity of TNCs in the violation of economic, social, and cultural rights.

## BOTTOM-UP LEGAL ACTIVISM

Some of the cases presented at these forums have subsequently been filed in legal courts abroad. In 2009, Colombian farmers filed an unprecedented case at the High Court in London against BP for allegedly causing serious damage to their land, crops, and animals following

Natural disasters, page 28

the construction of pipelines in Peru. The same court also accepted a claim against the mining company Monterrico Metals in relation to a case of the torture and murder of indigenous and community leaders in Peru who were members of the National Coordination for Communities Affected by Mining. Two lawsuits were also filed in the US federal court against the mining firm Drummond for complicity in the killings of trade unionists in Colombia with links with paramilitary forces. Evidence of links between Chiquita Brands and paramilitary groups, which was produced at the Peoples' Tribunal process in Latin America, had probative value in a trial against Chiquita in a US court.

This is all part of a growing corporate accountability movement in the region, which increasingly highlights the negative development implications and social entitlements related to natural resource extractions. The thousands of lawsuits that BP currently faces in US courts is only the latest chapter of a long-standing situation in Latin America.

## DIVERSE STATE RESPONSES TO TOUGH POLICY CHALLENGES

The BP oil spill in the United States is giving momentum to an ongoing debate about the nature of corporate responsibility for human and environmental rights violations. A policy response by governments—and international organizations such as the United Nations Development Programme, Inter-American Development Bank, and Organization of American States—has been to embrace the agenda of corporate social responsibility (CSR). Canada's Department of Foreign Affairs and International Trade created a \$170,000 CSR fund to assist Canadian offices, domestic and abroad, to engage in CSR-related activities.

The promise of the CSR agenda is that business will play a role in overcoming the main social and ecological challenges associated with neoliberal globalization. As a model of corporate voluntary, self-regulation, CSR accommodates

A different language is emerging in South America with potential implications for regional politics surrounding sustainable development and citizenship.


and offsets growing pressure for greater corporate accountability in the form of binding and enforceable obligations with human rights. CSR provisions are also entering a new generation of FTAs. Corporations are expected to take responsibility voluntarily for the impact of their actions in several social and environmental domains. This will have profound regulatory implications insofar as it redefines state–market relations; however, as a form of privatization of public state responsibilities, CSR instruments often have inadequate means of enforcement.

Another policy response has been labour and environmental side agreements in bilateral FTAs. This was the case with NAFTA in the mid-1990s and, more recently, with the FTAs of the United States with Chile, Peru, and Central America under CAFTA. Canada's ratification of an FTA with Colombia incorporates a controversial system of assessment of human rights compliance.

Relations between South American neighbours have not been without tension on the subject of natural resources either. The pulp mill diplomatic dispute between Uruguay and Argentina over the shared use of a river is enough evidence of the potentially pernicious political consequences of a lack of common standards and policies when dealing with the treatment of investments in natural resources.

## A COMING BREAKTHROUGH IN HEMISPHERIC RELATIONS?

A different language is emerging in South America with potential implications for regional politics surrounding sustainable development and citizenship. The recent "World Peoples' Summit on Climate Change and the Rights of Mother Earth," hosted in April 2010 by the Bolivian government, saw the participation of hundreds of social and indigenous movements and organizations from 140 countries. Climate debt and the rights of the earth and indigenous peoples were among the core concepts of a consensus that reinterpreted "nature" as organically linked with human activity. The summit's conclusions were supported by regional groupings such as the Bolivarian Alliance for Our America and the Union of South American Nations.


Although it may be too soon to have a clear view of the implications of social and state transformations in the Americas, they will nevertheless have an impact on the role that natural resources play in relation to development policies, state–market relations, and investments. 

## Income distribution

continued from page 26

productive structures. These strong policies must support small-sector firms and their links with larger enterprises.

## KNOWLEDGE NETWORKS A FINAL CRITICAL ELEMENT

So then, it is important that knowledge-generation networks like the Latin American Trade Network reinforce their efforts to stimulate dialogues between diverse points of view on whether and how trade can reduce poverty. Dialogue is also needed around what complementary policies can be adopted to support a more equitable distribution of the gains from trade, in order to generate new ideas for redistributive policies that are compatible with export-led growth strategies for the region. 

# Defence is a civil matter first and foremost

## PRESIDENT BUSH'S OBSESSION: THE SECURITY-FIRST DOCTRINE

The obsession with security that marked the Bush administration led to at least two counterproductive side effects in Latin America. First, it alienated several Latin American leaders from the US-led agenda, and gave them the fuel to build their own agenda distinct from Washington's single-minded focus. Second, it led to an increase in defence expenditures throughout the region.

Discontent has been simmering ever since the invasion of Iraq. Many have argued that the United States "lost" Latin America during the Bush administration. As an indicator of the state of the relationship, a group convened in 2008 by the Council on Foreign Relations to provide options for the incoming president, Barack Obama, stated in its report, "US-Latin America Relations: A New Direction for a New Reality," that "the era of the United States as the dominant influence in Latin America is over." From the Latin American standpoint, China emerged as both a formidable competitor and an attractive partner; Brazil is competing to be the main rule maker in the region; and the European Union is strengthening its relationship with Latin America and the Caribbean.

The stance taken in the report reflected the feeling throughout much of the continent. Most South American leaders and important sections of civil society did not see the "war on terror" as their own cause or as a cause that needed support. Therefore, opposition to the dictation of hemispheric relations by Washington gained momentum, especially after the invasion of Iraq and the failure to find weapons of mass destruction. The widening disparity of interests gave rise to new instances of cooperation regarding security in Latin America. Under Brazil's initiative, the Union of South American Nations (UNASUR) was

BY RUT DIAMINT

Rut Diamint is a researcher at the National Council of Scientific and Technological Research of Argentina (CONICET) and professor at the Universidad Torcuato Di Tella, Buenos Aires.

Discontent has been simmering ever since the invasion of Iraq. Many have argued that the United States "lost" Latin America during the Bush administration.

formed and the South American Defence Council was launched.

As a second consequence, the increase in defence expenditures in order to secure foreign policy served as justification for both the government and the armed forces to convince society of the urgency and benefits of rearmament. According to *Military Balance 2009*, published by the International Institute for Strategic Studies (IISS) in London, defence spending in Latin America and the Caribbean grew 91 percent between 2003 and 2008. However, the region abandoned the proposed Confidence and Security-Building Measures compromise to assume a realistic view based on the notion that power depends on the use of coercion. According to the *SIPRI Yearbook of 2010* (Stockholm International Peace Research Institute), between 2008 and 2009 Uruguay spent 23.3 percent more on defence; Ecuador increased its expenditure by 17 percent, Brazil 16.4 percent, Colombia 10.7 percent, Peru 8.29 percent, and Bolivia 7.2 percent.

However, the picture is complex. Venezuela cut its defence budget by 24.8 percent, Chile by 4.49 percent, and Argentina by 6.52 percent. Several South American countries established strategic agreements with other countries, bypassing the United States, their traditional arms supplier. Brazil pursued an alliance with France to construct a nuclear submarine for the navy. Venezuela obtained 50 Sukhoi combat helicopters and 100,000 Kalashnikov rifles from Russia; it subsequently purchased 18 fighter planes from China. Chile, which spends above the rest on arms alone—comfortably exceeding Venezuela's defence expenditures—turned to Germany, Spain, and the Netherlands, as reported by SIPRI in 2010. Not only were US profits from the sale of military equipment reduced; the United States also lost extended training and logistics contracts with South American countries.

## IN THE HANDS OF CIVILIANS

The question in the region is: Do these new dynamics in the field of defence lead to greater accountability of the armed forces? With varying degrees of success over the last two decades, the armed forces have been returned to their barracks. It was Argentina, with one of the worst records in human rights abuses, that led the region toward greater institutionalization of civilian control over defence. The process, which began with the return of democracy in 1983, has suffered setbacks. While it culminated in clear civilian supremacy with the establishment of new laws and institutions, it has not achieved full reconciliation between the government and the military, in the absence of consensus about the defence model that Argentina would wish to develop for the future.

In the case of Brazil, the creation of the Ministry of Defence under President Fernando Henrique Cardoso repre-

Defence is a civil matter, page 30

sented a major reform of the military's full autonomy. Unlike Argentina, however, Brazilian society has not confronted military repression and human rights violations. The democratic governments have not been impelled to take civilian control of the armed forces. The increasing danger from organized crime and public insecurity has even led other countries to involve the military in domestic affairs. That is, for example, what has taken place in Mexico, where the government has left the fight against organized crime in the hands of the army.

In this de-militarized context, the armed forces lost their veto power over the political agenda and much of their clout. With the achievement of a relative degree of civilian control over the armed forces, the focus of the debate shifted to governments' ability to oversee the military effectively through the ministries of defence. However, when security re-emerged as a priority, hand in hand with the global war on terror and organized crime, there was little analysis regarding the role and responsibilities of civilian leadership in military initiatives. Although today's government officials are knowledgeable, the technical issues remain under military control. Hence, the government is forced to continue relying on the military.

## SHORTCOMINGS OF CIVILIAN CONTROL

How do we account for the lack of civilian control over defence? There are at least three reasons. First, governments have tried to avoid the high political costs of radical changes to the structure of the armed forces by maintaining arm's-length relationships with the existing military. To illustrate, the first three democratic governments in Chile introduced very gradual reforms in order to avoid political tensions.

Second, several governments facing crises of political representation found that the support of the military was expedient. In the case of political leaders

[T]he securitization of foreign policy served as justification for both the government and the armed forces to convince society of the urgency and the benefits of rearmament.

rising to power without the support of political parties, an alliance with the military provided some guarantee of order. Alberto Fujimori in Peru dissolved Congress and used the military as "party support" to accumulate political power. In Venezuela, Hugo Chavez relied on similar tactics, using the military as a political party as well as a provider of social welfare.

Third, Latin American countries did not encourage the strategic thinking necessary to guide the development of military policy—a precondition for strengthening civilian leadership. One might argue that Brazil is an exception. However, despite the fact that Brazil developed defence priorities, the Ministry of Defence remains weak with a small civilian staff and a large contingent of army officers. In other Latin American countries, the armed forces designed and implemented defence policies. Argentina still lacks sufficient knowledge in the history of state–military relations.

## A NEW START: IN THE HANDS OF REGIONAL SECURITY

After many years of democratic rule, Latin America has not significantly expanded its knowledge base around defence, and defence remains largely beyond the scope of civilian authority.

Few governments have held an encompassing debate on defence matters. Measures leading to greater accountability are rare—for example, congressional control over defence expenditures or the definition of military roles.

This is not to suggest a return to past practices—the military does not supervise regional security. For example, civilians led the 2009 coup in Honduras, with the invaluable help of the armed forces. It was not a repeat of the military coups of the 1970s. The approach of the South American Defence Council and the various defence forums of the subregion—the Democratic Security Framework Treaty on Central America (1995), the Regional Plan Against Organized Crime and Related Offences (2007) prepared by the Central American Integration System, the National Security and Law Enforcement Agency of CARICOM (2006), or the Amazon Treaty—represent a new pattern for Latin American relations with the world.

These regional rules and agreements represent a constraint on national governments, forcing the civil administration, particularly the ministries of foreign affairs and defence, to factor in these new foreign commitments and balance them with their more traditional ones. This constraint has indirectly created external pressure to advance civilian control of armed forces. It is in this area where progress has been most notable, banishing the historic neighbourhood rivalries that served in the past to increase the military's role and defence expenditures.

However, in late September 2010 a confusing situation arose in Ecuador. A police uprising faced direct intervention by President Correa, who was detained in the police hospital. A slow rescue by the armed forces was followed by the government's accusation—disputed by the opposition—of a coup attempt. There was an active and efficient response to this "attempt" from the South American presidents of UNASUR. Meeting a few

Defence is a civil matter, page 32

# Impunity and violence in Central America

## THE NEW CRIME WAVE

The rise in the number of drug-related killings, kidnappings, and homicides in Central America is part of a crime wave throughout the region. Organized gangs of criminals challenge the exercise of the state's monopoly on legitimate force. In all major cities in the region, there are "no go" areas that the police fear to enter. In these areas with the state absent, other actors establish the rules. These conditions affect the rule of law, governance, and the democratic coexistence of citizens. They reduce business opportunities and discourage foreign investment and legitimate businesses in general.

Central America's current main threats are of a new kind. They no longer are, strictly speaking, interstate disputes over border demarcation and illegal immigration, or paramilitary threats from revolutionary movements that require a coordinated response by one or more governments, although such traditional security issues continue to pose a threat to the region. The new security threat is a result of drug trafficking on an unprecedented scale. The isthmus is now a producer, storage facility, distributor, and consumer of drugs. It also acts as an intermediary in the distribution of illicit weapons and human trafficking. These activities increasingly involve local populations in various stages of the process. Drugs in Central America increasingly find new markets among youth and in rural sectors. These activities are eroding the social order of Central American society, resulting in more violence, more homicides and major crimes, and more displaced populations.

## TRAFFICKING OF PEOPLE AND WEAPONS

Another problem on the rise is the illicit traffic in weapons and human trafficking. Because of its strategic location, Central America functions as a bridge for the flow of illegal migrants from Latin America and other continents to the

BY FRANCISCO ROJAS ARAVENA

Francisco Rojas Aravena is Secretary General of the Latin American Faculty of Social Sciences (FLACSO).

The new security threat is a result of drug trafficking on an unprecedented scale.

United States. Weapons trafficking is also a problem. Three Central American countries—El Salvador, Guatemala, and Honduras—are among the 13 countries with the greatest number of deaths by firearms worldwide.

## THE MARAS

A further security problem in Central America is the *maras*—gangs, the perfect example to illustrate the link between violence and exclusion, unemployment, and weak social and family cohesion. Current political, economic, and familial systems are not providing education and job opportunities. Exclusion from the education system and lack of access to employment, decent employment in particular, constitute an incentive for young people to join organizations that offer them an identity and protection.

The gang problem has become more complex in recent years. The original characteristics that differentiated gangs from other organizations—control of territory, group honour, and power—have been transformed with the arrival of drug trafficking and other forms of organized crime. With the incursion of organized crime, these groups have developed into a transnational criminal force.

The initial response in Central America was militarization, which exacerbated the problem. The responses from Northern Triangle countries serve as examples: Honduras instituted the Zero

Tolerance, Operation Liberty, and Blue Freedom plans; El Salvador implemented the Firm Hand and Super Firm Hand plans; Guatemala applied the Broom plan and also reinstated the death penalty.

## CORRUPTION

Drug trafficking has caused rising levels of corruption among individuals from government, the police, and the judicial system. Corruption has become one of the major obstacles to addressing the violence in Central American countries with already weak institutional structures. It results in greater impunity and lawlessness, less state legitimacy, and a strengthening of the networks of organized crime.

Corruption, impunity, and human rights violations have led citizens to distrust their own institutions. Trust in the rule of law, security, and judicial systems is very low (the regional average in 2009 was 29 percent, according to data from the *Ibero-American Barometer of Governance*). In every country, more than 20 percent of inmates have not yet been sentenced and convicted. The resulting low levels of legitimacy, coupled with poverty and insecurity, feed the problem, allowing organized crime to intrude further.

The creation of the International Commission against Impunity in Guatemala (CICIG, the Spanish acronym) was an important development. In mid-April 2010, Carlos Castresana, then chief of CICIG, claimed that judges, prosecutors, politicians, members of congress, businesspeople, and police are all part of powerful mafias operating in Guatemala. The current situation in Central America shows that two dimensions of human security—freedom from fear and freedom from want—are affected by the crime wave. People do not meet their needs, and they live in fear of increasing violence.

# Impunity and violence continued from page 31

## EFFECTIVE PROPOSALS TO FIGHT CRIMINALITY

Proposals to fight the violence, crime, and impunity in Central America include the promotion of international cooperation, the exchange of information, and the application of models of best practices and successful experiences. In addition, the judicial, intelligence, and police sectors all require more training and modernization. Promoting civilian leadership in public defence and security and inter-agency cooperation are also necessary. Without the recognition that this is a shared problem, without the rebuilding of trust, and without joint responsibility to confront criminality, no strategy will be effective, and the result will be major frustration.

The complexity and multiple dimensions of this battle demand comprehensive policies. Social and economic policy designs that result in greater social integration are needed. Fractures in social integra-

Fractures in social integration weaken democracy and create opportunities for the activities of illegal networks.

tion weaken democracy and create opportunities for the activities of illegal networks. A military response alone does not solve the problem. Public safety policies should be state policies. The multidimensional nature of insecurity underlines the need for long-term solutions. Policies and programs must last longer than a single-term government. Policies must be continuous, sustainable, and constantly re-evaluated in order to progress and gradually become more proficient with lasting and efficient results. ❁

## Defence is a civil matter continued from page 30

[A]fter many years of democratic rule, Latin America has not significantly expanded the knowledge base around defence. . . . [F]ew governments have held an encompassing debate on defence matters.

hours later in Buenos Aires, they released a message of unconditional and deep support for democracy in the region. Nonetheless, the events in Ecuador demonstrate the altered stability of the region because political power is not exercised in an open and accountable way. Further, the process of checks and balances, fundamental to securing a democ-

racy, is not appropriately conducted.

Although the United States has lost influence over the armed forces of the hemisphere, Latin American governments are no longer challenged by their militaries. However, this does not mean that they have fulfilled the process of democratizing defence and institutionalizing civilian control. ❁



**FLACSO**  
ARGENTINA

The Latin American School of Social Sciences (FLACSO) was founded in 1957 by UNESCO. FLACSO is an international, inter-governmental, regional, autonomous body that is comprised of Latin American and Caribbean countries: Argentina, Bolivia, Brazil, Costa Rica, Cuba, Chile, Ecuador, Honduras, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Dominican Republic, Surinam, and Uruguay.

FLACSO's core objective is to establish post-graduate programs to train Latin Americans in different fields within the Social Sciences. This function has been widened to its current main objectives:

- To promote critical research of problems related to Latin American social reality, aimed at analyzing concrete social processes.
- To assure the training of experts in Social Sciences in Latin America through specialization courses at the post-graduate level and the most updated theoretical, methodological, and technical tools.
- To spread Social Sciences knowledge and, above all, the results of its own research, through all means possible and with the support of the governments and/or institutions.
- To provide scientific consultation to governments, research institutions, and regional educational centers.
- To collaborate with national university institutions and analogous teaching and research bodies, and to promote collaboration and exchange among the international, regional, and national bodies, governmental and non-governmental.
- In general, to carry out every academic activity related to the Social Sciences leading to the development and integration of the countries comprising Latin America. ■

[www.flacso.org.ar/english](http://www.flacso.org.ar/english)



# The Bolivarian Chavez effect: Worth a second look

## THE BOLIVARIAN VISION: HISTORY AND MAIN PRINCIPLES

The Bolivarian Alliance for the Peoples of Our America (ALBA, the Spanish acronym) was announced in December 2001 at the Third Presidential Summit of the Association of Caribbean States (ACS). Cuba and Venezuela signed the constitutional agreement in December 2004, and since then Bolivia, Nicaragua, Dominica, Saint Vincent and the Grenadines, Ecuador, and Antigua and Barbuda have joined. Honduras was a member briefly from 2008 until January 2010, when the government elected after the 2009 coup withdrew from ALBA.

ALBA built on the widespread resistance within civil society to the Free Trade Area of the Americas that swept the continent through the 1990s. As leader of ALBA, President Hugo Chavez holds that Latin America should “stop serving imperialism and national oligarchies.” In contrast, ALBA supports self-determination and opposes the economic policies promoted by the United States and international organizations such as the World Bank and the International Monetary Fund. It stands as the antithesis of the Washington Consensus. ALBA draws its main steam from the high social costs of economic reforms. Research from the Economic Commission for Latin America and the Caribbean (ECLAC) shows that over 180 million people are poor and 71 million of those live under extreme poverty. In addition, the poorest segment of the population possesses less than 5 percent of total wealth, while the richest segment possesses over 50 percent. This context generated an anti-corporate mood in a string of countries, which then elected left-leaning governments. ALBA uses regional cooperation to rebalance the relationship between the state and the market, upholding the motto “more state

BY JOSETTE ALTMANN

Joseette Altmann is the regional coordinator for international cooperation at the Latin American Faculty of Social Sciences (FLACSO) and director of the Latin American Regional Integration Observatory (OIRLA).

ALBA built on the widespread civil society resistance to the Free Trade Area of the Americas that swept the continent through the 1990s.

and less market” in order to strengthen the state’s role as a producer of goods and services.

ALBA offers an alternative to the US-inspired free trade agreements based on three principles:

- Opposition to free market economic reforms
- Strengthening the regulatory role of the state
- Changing the balance in the state–market relationship

Despite its antagonism to the United States, membership in ALBA does not exclude participating in other initiatives. All ALBA countries are part of various integration processes. Moreover, no country has broken ties with the United States. For example, Nicaragua is still a part of the Dominican Republic–Central America Free Trade Agreement.

The overall impact of ALBA has been both positive and negative. One positive aspect is ALBA’s support of regional integration. It is always open to the

United Nations’ call to summits and has expressed great interest in the recently announced Community of Latin American and Caribbean States (CELAC, the Spanish acronym). The negative aspect is the proposal’s strong ideological stance. By promoting an ideological position, or “camp elections,” the initiative goes beyond dealing with approaches to cooperation, focusing on issues within the political agenda. Thus, it has had a polarizing effect on the region, contributing to its fragmentation.

## INSTITUTION-BUILDING STRATEGIES: TELESUR AND PETROCARIBE

Given its roots in the Hemispheric Social Alliance (HSA), ALBA created the Social Movements Council at its Ninth Summit, which took place on April 19, 2010 in Venezuela. At the Tenth Summit on June 25, 2010 in Ecuador, an initiative to hold dialogues with indigenous and Afro–Latin American authorities was launched.

ALBA has led to the creation of new institutions and mechanisms for regional cooperation. Two relevant creations are Telesur and Petrocaribe. Telesur is a television network that promotes the integration of Latin America and seeks to create ties based in the tenets of the Bolivarian Revolution. The news agenda is directed by a board of directors with the aid of an advisory council composed of leading Latin American intellectuals and activists, such as Nobel Prize-winning human rights activist Adolfo Perez Esquivel. The network carries no commercial advertising. Currently, Argentina, Bolivia, Cuba, Ecuador, Nicaragua, Uruguay, and Venezuela participate in the project.

Petrocaribe was founded in 2005 with the objective of contributing to energy security. It has become a model for energy cooperation based on principles

The Bolivarian Chavez effect, page 34

of solidarity as well as special and differential treatment for smaller and weaker countries. Through Petrocaribe, Venezuela shares its oil riches with its allies by granting subsidized oil as well as long-term credit and low interest rates for oil purchases. Eighteen countries benefit from this initiative. By far, this is the most important mechanism used by ALBA.

## **BIG-VISION GRANNACIONAL PROJECTS: BANKING AND HEALTH DELIVERY SERVICES**

The *Grannacional* projects are intergovernmental initiatives to improve education, tourism, and the provision of medical services, much along the lines of the *Misiones* projects in Venezuela. In these areas, Cuban know-how has been put to good use and the projects have been very successful, teaching basic educational skills and providing primary health services to low-income populations. *Grannacional* companies aim to promote socialist multinationals controlled by ALBA states and geared to the production, sale, and distribution of goods. Major projects cover the areas of finance, education, infrastructure, science and technology, food, energy, environment, health, mining, fair trade, tourism, industry, culture, and communications.

The ALBA Bank was created in 2008 to encourage economic and social integration. It urges Latin Americans to deposit their reserves there in order to use Latin American funds to finance regional projects. Finally, the Single Regional Compensation System (SUCRE, the Spanish acronym) seeks to replace the use of the US dollar in trade among ALBA members.

## **THE BOLIVARIAN REVOLUTION: IDEALS IN PRACTICE**

ALBA has developed humanitarian projects as well. After the Haitian earthquake in early 2010, a strategic plan was put forward with medium- and long-term goals, such as the reactivation of agriculture and the construction of hospitals and drinking-water facilities.

**ALBA has become a political and ideological alliance. . . . Its power lies in *influencing* decisions, but not necessarily *making* them.**

At the same time, ALBA has become a political and ideological alliance. It plays an important role in regional decision making, specifically through its veto power. Its power lies in *influencing* decisions, but not necessarily *making* them. The non-ratification of the final declaration of the Fifth Summit of the Americas in April 2009 illustrates this. ALBA members at the time (Venezuela, Cuba, Dominica, Honduras, Bolivia, Nicaragua, and Saint Vincent–Grenadines) refused to sign the final statement. Ecuador (not a member at the time) and Paraguay also opposed the declaration. These countries felt that the document was insufficient because it did not present adequate responses to the international financial crisis and because of the “unjustified exclusion” of Cuba. They demanded more discussion on certain issues, such as the limitations of capitalism, climate change, the energy and food crises, and the Cuban situation. For the first time in the history of these summits, the final statement was not ratified.

Venezuela’s financial arm has been hefty. The country allocated over US\$36.5 billion to the region over the ten-year period from 1999 to 2009. Cuba, Bolivia, Ecuador, and Nicaragua were among its greatest beneficiaries. (This information comes from the Venezuelan government, and has yet to be verified by an impartial entity.) Petrocaribe’s finances are also considerable. For example, between June 2005 and December 2007, the support granted to member countries reached US\$1.2 billion. According to the International Monetary Fund, in such countries as Guyana, Jamaica, and Nicaragua, financing from Petrocaribe represents 5 or 6 percent of the GDP. To put these figures in context, the Inter-American Development Bank

donated US\$100 million to Petrocaribe countries from 2005 to 2008.

## **A COMPLEX FUTURE: ALBA’S IMPACT IN THE REGION**

The Bolivarian geopolitical dynamic has changed in Latin America and the Caribbean. There is a new political map in the region with a variety of new leaderships that include indigenous movements, left-wing political parties, and populist movements. Latin America is not a priority on the US agenda. Vice-president Joe Biden’s visit to Costa Rica and Chile in March 2009 confirmed this view. He stated that the region should be patient in its demands because the United States was still confronting the effects of the international financial crisis. The “war on terror” has also consumed US efforts over the past decade.

However, President Barack Obama’s discourse at the Fifth Summit of the Americas caused great optimism in the region. Obama affirmed his wish to improve the atmosphere of inter-American relations, to restructure relations with Cuba, and to move quickly on US immigration reform. He distanced himself from traditional unilateral relations between the United States and Latin America, and supported strengthening multilateral coordination. Yet, a little over a year after the summit, few positive changes have actually been made.

Modest improvements have occurred in relation to Cuba, such as the elimination of some restrictions on family travel and remittances. The recent controversial immigration law in Arizona, the non-ratification of trade agreements with Colombia and Panama (two important allies in the region), the US response to the Honduran crisis, and the recent establishment of military bases in

Colombia have all created doubts about whether US policy has really changed with the Obama administration.

Most Latin American countries are looking to expand their relations with other countries, including China, Iran, India, and Russia. The Organization of American States (OAS) has lost some of its influence, especially now, owing to the recently announced Community of Latin American and Caribbean Nations in Mexico, which excludes the United States and Canada.

### **A SMALLER ROLE FOR UNCLE SAM**


The relative absence of the United States in the region, in addition to the few positive changes in its foreign policy, strengthens ALBA, especially Petrocaribe. Its deep pockets have become alternative sources of funding for many Central American and Caribbean countries. Venezuelan- and Cuban-promoted projects have provided alternatives for financing social issues such as education and health. Furthermore, the sharing of oil riches has alleviated balance-of-payment pressures in a time of high oil

prices. However, cooperation is highly dependent on Venezuela's fortunes.

In this scenario, the United States has sought to balance Hugo Chavez's position in the region by strengthening its association with Brazil. Still, this task has not been an easy one. Brazil has criticized the US-Colombian military agreement and the US position regarding Honduras. In addition, even though Brazilian President Lula da Silva has helped in moderating Hugo Chavez's belligerence toward the United States, it has not stopped Venezuela's influence and interventionism throughout South and Central America. Another sensitive issue for the United States is Iran's relationship to the region, mainly with Venezuela and Brazil. The latter's cooperative posture toward Tehran's nuclear program has raised great concern in the US government.

US reaction against Chavez's leadership is complex. While the right wing views Venezuela and Cuba as the nation's number one leading enemies, the truth of the matter is that the United States depends on Latin America and Venezuela. The United States exports as

much to Latin America as it does to the European Union, and it is the biggest customer for Venezuela's oil exports. If Venezuela were to create an alternative market for its oil—in Asia, for example—it would be able to free itself from dependence on US oil consumption.

The future scenario is also complex. Both the United States and Venezuela face many challenges. On the one hand, the United States has to deal with the Venezuelan situation without disturbing its relationship with other Latin American countries. Additionally, it has to take into account that an open confrontation would mean losing access to important oil resources. On the other hand, ALBA could benefit from the relative absence of the United States in the region and from the belief that Obama has not effected the expected changes. However, ALBA's strong ideological stance weakens this initiative. Despite its attraction, some countries fear that if they join ALBA, they are supporting its confrontational approach. ALBA's greatest challenge will therefore be its ability to build broader integration and cooperation to overcome knee-jerk anti-Americanism. 

## **The Robarts Centre for Canadian Studies**

The Robarts Centre for Canadian Studies supports interdisciplinary and discipline-specific research pertinent to the study of Canada and "Canada in the World." In practice, this has meant an orientation toward broader Canadian and international scholarly and policy-making communities, inquiries into comparative perspectives on the Canadian mosaic, and assistance to York scholars in working with their counterparts in other countries.

Faculty at the Robarts Centre, including the Director, the Associate Director, and other Robarts researchers, regularly teach courses and contribute to curriculum development in areas pertaining to Canadian, North American, and comparative studies. The Robarts Centre also provides supervised research and writing opportunities for graduate students from a wide range of York graduate programs.

The Robarts Centre offers a strong program of high-level seminars, workshops, and conferences on major issues, focusing on Canadian perspectives on Communications, Culture, the Fine Arts, History, Political Economy, Public Policy, and International Relations. Participants include York faculty and students, Canadian and international scholars, and the larger community of Metropolitan Toronto.

Current, ongoing work at the Centre includes research initiatives on the public domains and international standards, Canadian cinema, and issues pertaining to media perspectives on Canada. The Centre acts as a research arm for the Joint Program in Communication and Culture and its work on the Canadian Internet Project. The Centre also housed the Toronto offices of the Great Unsolved Mysteries in Canadian History Tom Thomson project. ■

[www.yorku.ca/robarts](http://www.yorku.ca/robarts)

# A tepid partnership: Free trade and labour rights in Central America

## SIGNING UP CENTRAL AMERICA FOR FREE TRADE

The enactment by Costa Rica in January 2009 of the Dominican Republic–Central America–United States Free Trade Agreement (CAFTA-DR) concluded the process of ratification by its members and coincided with President Barack Obama's assuming office. The agreement was first signed in 2004. It came into force in El Salvador in March 2006, then in Nicaragua, Honduras, and Guatemala in the same year, and in the Dominican Republic in 2007.

As a senator, President Obama voted against CAFTA-DR because of his concern about the protection of labour rights and the enforcement of basic environmental standards in Central America and the Dominican Republic. However, a review of some of his statements reveals that President Obama generally supports free trade policies despite these concerns. His administration is cautiously trying to revive its trade agenda, fuelled by the objective to double US exports by 2015; at the same time, it does not want to lose the support of the labour unions. In that sense, the announcement on July 30, 2010 that the United States requested consultations with Guatemala under article 16.6.1 of CAFTA-DR, for apparent violations of obligations on labour rights, could be interpreted as a victory for the labour unions. It is the first time that the United States has pursued such a case against a free trade partner.

## THE GUATEMALAN LABOUR CASE

Since 2008, the US government has been conducting an extensive examination of Guatemala's compliance with its obligations under Chapter 16 (Labour) of CAFTA-DR, based on a petition filed by the AFL–CIO together with six other Guatemalan labour groups. The Office of the United States Trade Representative (USTR) reports that the examination has included a careful review of Guatemala's

BY DORIS OSTERLOF

Doris Osterlof is former Vice-Minister of Trade, Costa Rica, professor at the University of Costa Rica, program director of the International Center for Human Development (IChD), and a member of the Latin American Trade Network (LATN).

The recovery of the US economy . . . is crucial for Central American countries.

labour laws, an extensive collection of factual evidence, and an analysis of Guatemala's obligations under CAFTA-DR. The US government determined that Guatemala is failing to meet its obligations with respect to effective enforcement of labour laws related to the right of association, the right to organize and bargain collectively, and acceptable working conditions. In addition, it expressed concerns about the problem of labour-related violence in Guatemala.

Under CAFTA-DR, a party may request consultations with another party regarding any matter arising under Chapter 16. If the matter involves the effective enforcement of domestic labour law and the consultations do not resolve the matter within 60 days, the complaining party may then request a meeting of the Free Trade Commission. If no agreement is reached, the United States may request the establishment of a panel. If the panel finds that Guatemala has failed to enforce its labour law effectively, it may impose an annual monetary assessment of up to US\$15 million.

On the other hand, average growth of Guatemala's exports to the United States has been around 3.4 percent, which is less than expected and is strongly related to the impact of the global economic

crisis. Despite this, Guatemalan exporters are focusing on increasing trade with the United States, its largest trading partner. Agriculture exporters, in particular, are seeking to take advantage of CAFTA-DR, and agriculture exports grew 28.3 percent in 2009, compared with 2008.

The labour claim referred to, above, puts Guatemala's government in a complex position vis-à-vis the business community, which supported CAFTA-DR against the opposition of the unions, based on an expectation of increasing sales in the US market. Although the government of Guatemala accepted the consultation process, it officially recognizes the legal and institutional difficulties that still exist to provide labour full protection. A Republican administration probably would not have taken this step.

The recognized labour laws in CAFTA-DR are those directly related to the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of force or compulsory labour, a minimum age for the employment of children, the prohibition and elimination of the worst forms of child labour, and acceptable working conditions with respect to minimum wage, hours of work, and occupational safety and health. Part of the criticism in relation to Chapter 16 is that it does not encourage the parties to establish more advanced labour standards.

## THE CAFTA-DR ENVIRONMENT AND OBAMA'S ADMINISTRATION

The impact of the global economic crisis on Central American exports to the United States, its main market, affected the evolution of CAFTA-DR. Exports grew during the first three years of the agreement but decreased during 2009. The recovery of the US economy, based on the measures taken by the Obama administration, is crucial for Central American countries and their exports, investments, tourism, and remittances.

## IMMIGRATION AND SECURITY BIGGER CHALLENGES THAN TRADE

The regional economy is vulnerable to changing conditions in consumption and immigration in the United States, which is the largest recipient of immigrants, also called “economic exiles.” For countries like Honduras, El Salvador, and Guatemala, a decrease in remittances represents a major economic collapse because they receive a sum of more than US\$10 trillion annually. Several reports indicate that 10 percent of the Central American population, about four million, are immigrants, and their dollar remittances represented 10 percent of regional GDP.

Immigration and security are central issues in relations between the United States and Central America. For example, during his meeting with President Mauricio Funes of El Salvador in May 2010, President Obama pointed out that the relationship between the two countries has to consider the two million Salvadorians who live in the United States and who send remittances back to El Salvador. This consideration provides an outstanding foundation for continuing

## Immigration and security are central issues in the relations between the United States and Central America.

cooperation between the two countries. In that sense, the July 2010 decision by the Obama administration to extend the temporary protected status (TPS) for immigrants an additional 18 months was a positive signal for the Central American region.

On security issues, the Obama administration announced in May 2010 the donation of US\$130 million, to be received in 2011 in support of programs in Central America to combat gangs, organized crime, and drug trafficking. The administration also modified the Merida Initiative for security cooperation, approved during the Bush administration, by increasing the contribution for

Central America and changing the focus to a major emphasis on preventing youth violence and strengthening the judicial and prison systems.

### WASHINGTON: A TEPID PARTNER AT BEST

Although CAFTA-DR covers only trade in goods and services, the reality is that without an adequate environment it will not be feasible to achieve the development goals of the free trade agreement. Therefore, the agenda between the Obama administration and the Central American governments must go beyond trade issues.

The US government continues to implement day-to-day issues under the CAFTA-DR. For example, in June 2010 it signed an amendment to allow sugar imports from Costa Rica once that country complied with the intellectual property rights reforms on its legislation. The biggest challenge for the United States and Central America is how to translate into reality Obama’s idea that the United States should become a strategic partner for development in Central America in a relationship based on mutual interest and mutual respect. 

## Latin American Trade Network

The Latin American Trade Network (LATN) is an independent, interdisciplinary research network founded in 1998 with the support of Canada’s International Development Research Center. The Department of International Relations of the Latin American Faculty of Social Sciences is responsible for LATN administration.

LATN, which currently has more than 180 members and 70 linked institutions, helps countries explore the cost and benefits of trade policy alternatives. LATN is a leading knowledge network with a political economy perspective, analyzing themes such as trade, development, and inclusive growth. LATN aims:

- to bridge the gap between research, decision making, and inclusive policy processes;
- to facilitate debate among senior practitioners, academics, and civil society in order to generate viable policy options;
- to undertake and disseminate high-quality, policy-relevant research in order to support development and inclusive growth;
- to stimulate links with key international policy-relevant institutions in order to support capacity-building activities, improving networking practices; and
- to be a source of LATN-related information for the local policy environment.

 **LATN** | Red latinoamericana | Rede latino-americana | Latin American  
de política comercial | de política comercial | Trade Network

[www.latn.org.ar](http://www.latn.org.ar)

# New barriers to investor–state relations post-NAFTA

## DISCIPLINING GOVERNMENTS

The legal regulation framework imposed by the North American Free Trade Agreement (NAFTA) has undoubtedly influenced investment strategy in North America. The inclusion of Chapter 11 (Investment) was a turning point in company–state relations not only within North America, but also outside the region. The chapter’s framework became a model that was reproduced almost identically in new negotiations with other countries. However, this legislation would have lacked power if Chapter 11 had not been accompanied by a dispute settlement mechanism intended to settle claims filed before two extraterritorial courts: the International Centre for Settlement of Investment Disputes (ICSID) at the World Bank, and the United Nations Commission on International Trade Law (UNCITRAL). Thanks to this process, companies gained the right to put governments on trial outside their national courts and to demand compensation from national authorities.

This was an important victory not only for companies, but also for those international agencies that, since the 1960s, had tried to impose an international foreign investment protection regime. This purpose was partially achieved when the United States and Canada, two powerful countries, endorsed NAFTA. Its adoption produced the proliferation of new chapters on investment in other free trade agreements (FTAs).

When companies first filed demands against the three North American governments, both the business community and governments responded with mixed reactions because this process raised the possibility that any of them might be sued. Thus, one of the implicit purposes contained in Chapter 11, originally designed to counteract Mexican nationalism, was successful. Chapter 11 became an instrument for Canadian and US com-

BY M. TERESA GUTIÉRREZ-HACES

M. Teresa Gutiérrez-Haces is a senior research professor at the Instituto de Investigaciones Económicas, Universidad Nacional Autónoma de México (UNAM).

The FTAs negotiated by Canada with Chile, Peru, and Colombia have reproduced the core NAFTA principles faithfully, although in each negotiation, Ottawa has managed to establish rules to better suit its interests.

panies who decided to implement a sort of “settling of scores,” breaking up the informal partnership they had established while lobbying for the agreement. As well, the payment of a substantial compensation awarded by the companies, but adjusted by the courts, gave investors a new level of certainty.

## CANADIAN MINING: THE BIG WINNER

The protection provided by NAFTA to corporate North America explains the progress Canadian mining companies have made under the new state–investor regime. The same opportunities have encouraged the establishment of Canadian financial activities in consumer banking, the relocation of some operations of the Canadian aviation industry, and growing Mexican investment in key sectors of the US economy.

The FTAs negotiated by Canada with Chile, Peru, and Colombia have repro-

duced the core NAFTA principles faithfully, although in each negotiation, Ottawa has managed to establish rules to better suit its interests. In addition, it has incorporated new provisions reflecting its political concerns regarding the environment, labour, the protection of human rights, and corporate social responsibility. Canadian post-NAFTA agreements have been politicized due to certain clauses, whereas those negotiated by Mexico and the United States have avoided the inclusion of new provisions that might threaten their companies’ freedom.

Although the Canada–Chile Free Trade Agreement (CCFTA) was pejoratively called a “copy of NAFTA,” it contains important differences. Perhaps the most evident difference is the growing Canadian presence in speculative investment. While the Canadian presence in the mining sector is considerable, it has been gaining importance in the financial sector and in pension funds, thanks to these new free trade agreements.

## GREATER FLEXIBILITY AND NEW BARRIERS

Although the CCFTA is considered successful, the case of Costa Rica represents the weakest link in the agreements negotiated by Canada. Canadian negotiators intended to use this agreement to position Canada strategically in Central America vis-à-vis the United States. The agreement does not include a specific chapter on investment because both countries had negotiated a Bilateral Investment Treaty (BIT) in 1998. One of the main obstacles of the Canada–Costa Rica Free Trade Agreement (CCRFTA) has been the imposition of visa requirements for all Costa Ricans entering Canada. This has discouraged the promotion of foreign trade in Costa Rica and has particularly benefited the US brokers hired to promote the economic interests of Costa Rica in the United States and Canada.

Concerning the Canada–Peru Free Trade Agreement, Canadian negotiators introduced, for the first time, an explicit definition of “indirect expropriation or equivalent.” The clear definition was intended to guide the extraterritorial courts and stop the indiscriminate and inaccurate use of the term.

Owing to strong opposition toward a free trade agreement with Colombia, where respect for human rights and labour are contentious issues, Canadian negotiators used article 816 to establish that “each party should encourage the parties operating within its territory or jurisdiction to incorporate voluntarily international standards of corporate social responsibility within their domestic policies.” Ottawa expects Canadian companies to observe business ethics as set out in the agreement.

## CHINESE DIRECT INVESTMENT

The growing presence of Chinese investment in North America is a factor that has directly influenced the investment strategies of the three NAFTA countries. While business executives in Mexico and Canada have decided to invest abroad, Chinese investment in North America reached record levels in 2008. However, the arrival of Chinese investment in North America has not been without controversy.

In 2008, Mexico and China concluded a BIT, and in 2005, Canada initiated a process of analysis and consultation on a possible FTA, or at least a BIT, with China. Reactions in Canada have been largely positive. Provincial chambers of commerce regard Chinese investment as a positive step, and the governments of British Columbia, Alberta, and Saskatchewan have signed an economic partnership that creates the largest inter-provincial free market whose major goal is to promote trade with Asia. The first major undertaking of the New West Partnership will be a joint mission to China and Japan in 2010.

Of the three NAFTA countries, the United States is the biggest exporter of capital to China; in contrast, Canadian investment in China (Hong Kong in-

## The growing presence of Chinese investment in North America is a factor that has directly influenced the investment strategies of the three NAFTA countries.

cluded) represented only 1.5 percent of its total foreign investment in 2009. China has established subsidiaries in North America for two main reasons: to transfer its final manufacturing production process to those countries that impose tariff barriers on Chinese products, and to gain access to domestic markets such as NAFTA.

## SECURITY: THE LATEST NON-TARIFF BARRIER

The United States and Canada have introduced new regulatory restrictions on foreign capital investors. In 2005, Canada initiated an amendment to the *Investment Canada Act* (C-10), which protects certain economic sectors on national security grounds. This amendment was similar to legislation passed by other G8 countries. Parliament approved the Act in 2009, adding section IV.1 (Investments Injurious to National Security). The Minister of Industry is in charge of revising all foreign investment that could threaten Canadian security. It is noteworthy that these changes in Canadian law are attributed to the pressure exerted by the US House Defense Services Committee on the Canadian government to restrict Chinese acquisition of major Canadian energy corporations.

While the US policy to attract foreign investment is very liberal, the process to receive capital is complex because a different government office examines each case according to its assessed economic impact. There is legislation, such as the *Defence Production Act* (sec-

tion 721), that brought about the Committee on Foreign Investment in the United States (CFIUS) in 1972. Unlike Canada, screening foreign investment is the responsibility of the US president who, thanks to the Exon–Florio amendment (1988), can initiate an investigation of a company if it is suspected of threatening national security. In 1993, the Byrd amendment established that any attempt to merge, acquire, or purchase a US company could be investigated if it were suspected of undermining national security. In 2005, the CFIUS, along with the US Congress, prevented the China National Offshore Oil Corporation’s acquisition of the Union Oil Company of California (UNOCAL).

Measures aimed at controlling foreign investment in the United States have continued apace. In 2007, an amendment to the *Defence Production Act* was introduced, and it led to the *Foreign Investment and National Security Act*, which also broadens the scope of federal oversight to the economic field.

## MEXICO AT THE MARGIN

Mexico receives much less Chinese investment than the United States and Canada. Mexico is a gateway for Chinese capital not only to the rest of the NAFTA region, but also to Latin America. Despite the fact that Mexico objected to China’s accession to the WTO in 2001, Mexico did not adopt similar restrictive measures as Canada and the United States. Although article 30 of the *Mexican Act on Foreign Investment* (1993) contains provisions on investment and national security, the article has not been applied to veto the inflow of foreign investment.

## LESSONS LEARNED

NAFTA has standardized the way state–investor disputes are handled, leading to both greater security for investors and greater state-to-state tensions. The presence of Chinese investment in North America has changed the dynamics between the NAFTA partners considerably. US and Canadian concerns about

**New barriers, page 41**

# A new world map and Brazil's foreign policy

## NEW COALITIONS: HELPING BRING ABOUT CHANGE

Seven years ago, when talk emerged about the need to make changes in the world economic geography, and it was said that Brazil and other countries were ready to play a more significant role in the World Trade Organization (WTO) or to become permanent members of the UN Security Council, many reacted with skepticism. Both the world and Brazil have changed quite rapidly. What was considered to be “truths” in the past have yielded to factual evidence. Greater economic growth rates in relation to those of the developed world have made the developing countries central actors in the world economy.

Greater south-south coordination—at the WTO, the International Monetary Fund (IMF), and the UN—and new coalitions, such as BRIC (Brazil, Russia, India, and China)—have raised the voices of countries that were once relegated to a secondary position. The more the developing countries discuss and cooperate among themselves, the more their voices will be heard by the rich countries. The recent financial crisis has made it even more clear that the world can no longer be governed by a club made up of just a few.

Brazil has decisively sought to play its role in this new framework. Seven-and-a-half years into President Lula's administration, the perception of Brazil abroad is quite different. It is undeniable that today, Brazil—as well as a new group of countries—has increasingly earned influence in the discussions about some of the main topics on the international agenda, from climate change to trade, from finance to peace and security.

These countries bring new perspectives to world problems and have contributed toward a new international balance.

In the case of Brazil, this change in

BY CELSO AMORIM

Celso Amorim is Minister of  
External Relations of Brazil.

Greater economic  
growth rates in  
relation to those of  
the developed world  
have made the  
developing countries  
central actors in the  
world economy.

perception was due primarily to transformations that took place in our economic, social, and political realities. Progress achieved on many fronts—from macroeconomic stability to redeeming our social debt—has made Brazil more stable and less unfair. President Lula's personal traits, as well as his direct involvement in international issues, have helped take Brazil's contributions to major debates on the international agenda.

It was in this context that Brazil developed its comprehensive and proactive foreign policy. We sought to build coalitions that have gone beyond traditional alliances and relations—which we strove to maintain and enhance, such as in the establishment of a Strategic Partnership with the European Union and a Global Partnership Dialogue with the United States.

Significant growth in our exports to other developing countries and the creation of mechanisms for dialogue and coordination, such as the Union of South American Nations (UNASUL), the G20 within the WTO, the IBSA Dialogue

Forum (India, Brazil, and South Africa), and BRIC, reflect this trend toward a global foreign policy that excludes narrow notions of what the international role of countries with the characteristics of Brazil could and should be.

The basis for this new foreign policy was the increased integration of South America. One of the great assets Brazil has on the international arena is its harmonious relations with its neighbours, starting with our intense relationship with Argentina. From day one, President Lula's administration has undertaken efforts toward integrating the South American continent, through trade, infrastructure, and political dialogue.

In practice, the Mercosul-Andean Community agreement created a free trade zone encompassing all of South America. The physical integration of the continent has seen remarkable progress, linking the Atlantic and the Pacific. Our efforts to create a South American community resulted in the establishment of a new entity, UNASUL.

Building on a more integrated South America, Brazil engaged in creating mechanisms for dialogue and cooperation with countries in other regions, based on the perception that international realities could no longer afford the alienation of the developing world. The creation of the G20 within the WTO, at the Cancun Ministerial Meeting in 2003, marked the coming of age of countries from the South, transforming, once and for all, the decision-making process in trade negotiations.

## THE IBSA DIALOGUE FORUM

The IBSA forum, in its turn, met the aspirations for coordination among three major multiethnic and multicultural democracies, which have much to say to the world about upholding tolerance and reconciling development with dem-



ocracy. In addition to political coordination and cooperation among the three countries, the IBSA forum has become a model for projects benefiting poorer nations, thus demonstrating in practice that solidarity is not an attribute solely of the rich.

We have also held summits between South American and African countries (ASA), as well as with Arab countries (ASPA). Taking into account their specific complementary natures, we have designed policies and built bridges connecting regions that were far apart. This political move resulted in remarkable progress in economic relations. Brazilian trade with Arab countries grew fourfold in seven years. Trade with Africa increased fivefold, to more than US\$26 billion, surpassing trade with traditional partners such as Germany and Japan.

These new coalitions are helping to change the world. In the economic arena, the replacement of the G7 with the G20 as the main international body has reset the course of production and international finance and constitutes evidence that in the absence of emerging countries, decisions regarding the world economy lack legitimacy and effectiveness.

Moreover, in the field of international peace and security, Brazil and Turkey were able to persuade Iran to take on the commitments provided for in the Tehran Declaration. This agreement makes clear that new perspectives and approaches

## New barriers

continued from page 39

national security stand in contrast to the pressure on developing countries to liberalize their capital markets. Despite the fact that Costa Rica, Peru, and Colombia have signed agreements with Canada and the United States, the amount of investment in these countries is low. Brazil has not ratified an agreement with Canada or the United States, yet it receives by far the largest amount of investment from global investors who see little need for legal safeguards. 🍁

## Brazil engaged in creating mechanisms for dialogue and cooperation with countries in other regions, based on the perception that international realities could no longer afford the alienation of the developing world.

are necessary to tackle issues previously dealt with exclusively by the permanent members of the UN Security Council. Despite initial resistance to an initiative nurtured outside the closed circle of nuclear powers, we are certain that the resulting dialogue will serve as the basis for future negotiations and a final solution for that issue.

Good foreign policy requires prudence. But it also requires boldness. It should not be timid or based on an inferiority complex. It is usual to hear that countries should act in accordance with their means, a time-worn phrase that is almost too obvious, but the greatest mistake a nation could make is to underestimate its means.

For almost eight years now, Brazil has acted with boldness and, like other developing countries, has changed its place in the world. Today, such countries are regarded, even by occasional critics, as actors bearing increasing responsibilities, entitled to play a role that is ever more central to the decisions that affect the destiny of the planet. 🍁

### NOTE

A version of this article originally appeared in *The Hindu*, August 27, 2010, <http://www.thehindu.com/2010/08/27/stories/2010082753571300.htm>.

Welcome to Robarts Centre for Canadian Studies

[http://www.yorku.ca/robarts/index\\_2.php](http://www.yorku.ca/robarts/index_2.php)

# ROBARTS CENTRE FOR CANADIAN STUDIES

About Us | Research Team | Archives | Working Partners | Search

### RESEARCH PROJECTS

- Toronto's Public Culture**  
A series of reports on the best practices of Toronto's cultural institutions
- WTO and NAFTA**  
Trade Politics, Counter-Publics and Global Governance
- The Iconography of Dissent**  
Digital Reports from the Counterpublics Working Group
- Mavor Moore Cultural Policy Symposium**  
Toronto Cultural Policy and Plans 1974-2008
- Canadian Films at Expo '67**  
Funded by a major SSHRC Standard Research Grant, the project will document and reconstruct the long lost classics of Canadian cinema.
- Global Cultural Flows**  
Information Technology and the Re-Imagining of National Communities
- Graduate Working Papers**  
A Selection of Papers from Our Graduate Students
- Robarts Lectures**  
A selection of Lectures from the Robarts Centre
- Canada Watch**  
Practical and Authoritative Analysis of Key National and International Issues

### NEW & UPCOMING

Updated October 2010

**Event: Join us to for Dr Gerald O'Grady's take on M...han.**  
"(W)Rapping Around a Man With No Close"

Monday October 18, 2011, 4 pm  
Winters Senior Common Room

**New Edition of Canada Watch**  
Fall 2010: A Remarkable Turning Point: the Shadow of Obama

The web version of our latest edition of Canada V...

For more on  
*Canada Watch* and  
the Robarts Centre  
for Canadian Studies:  
[www.yorku.ca/robarts](http://www.yorku.ca/robarts)

# Argentina's turnaround

## CLEAR SAILING, IN POWER, AND A PICTURE-BOOK RECOVERY

While global economic experts discuss whether the economic crisis that began in 2008 will be V-shaped or W-shaped, Argentina policy experts also wonder whether the Kirchners' rebound is here to stay or will face another decline as we move toward the election in 2011. One is tempted to say that the Argentine political cycle will be closely linked with the global economic cycle. There is something to this, but there is also something more. The disengagement of the Argentine economy in some way facilitated the government of Cristina Fernandez de Kirchner (CFK) to navigate the waters with more ease than other countries. The overall picture is that the South has been more successful than the North at circumventing the crisis. This partly explains why Argentina's economy has been able to recover quickly and is close to a 9 percent growth rate for 2010.

Here is the tailwind. First, the world has begun to recover from the crisis and regain its level of demand. Second, Brazil also could do it, being the last to enter the recession and the first to get out of it. Third, raw materials and commodities prices continue to rise, two sectors where Argentina has comparative advantages. Fourth, China has not stopped growing nor demanding Argentine products.

## DELIVERING NEW SOCIAL PROGRAMS

However, there is more than a tailwind. CFK was able to take advantage of the positive economic climate to promote new laws and social programs. First, in October 2009, CFK's government announced the creation of a Universal Child Benefit, a social program that covers the children of unemployed parents and informal sector workers, rural workers, and domestics with incomes below the minimum wage. Second, in July 2010, Argentina's Senate voted 33 to 27 to make theirs the first country in South America

BY FEDERICO MERKE

Federico Merke is professor of international relations at the Universidad de San Andrés, Buenos Aires, Argentina.

One is tempted to say that the Argentine political cycle will be closely linked with the global economic cycle.

to legalize same-sex marriage. CFK supported the bill to recover lost ground among young and urban citizens, but also to secure the support of the centre-left parties on whom her administration increasingly depends for the passage of legislation. Third, during that month, Argentina celebrated the bicentennial of its independence with a weeklong federal, multicultural, and modern performance few expected to witness. Attendance at the various events was massive, and the "rally round the flag" effect was remarkable. The closing matches of the FIFA World Cup in South Africa, which occurred in the same week, served only to enhance public excitement and national pride.

## REGIONAL FOREIGN POLICY INITIATIVES TOO

The CFK government also tried to revitalize its foreign policy. The coup in Honduras in June 2009 prompted active Argentine engagement along with Brazil, two countries that do not yet recognize the new Honduran government. In February 2010, a devastating earthquake struck Chile, one of the strongest earthquakes ever recorded. Argentina was the first country to bring help and condolences. In May, former President Néstor Kirchner was appointed Secretary-General of the Union of South American Nations (UNASUR). After a timid start in

his new role, Kirchner was put to the test when Venezuela broke off relations with Colombia following Bogota's accusations at the Organization of American States (OAS) that President Hugo Chavez tolerates the presence of active members of the armed guerrilla forces in Venezuelan territory. Both CFK and Néstor Kirchner managed to have separate meetings with Colombian and Venezuelan officials. After intense conversations, Néstor Kirchner managed to get both presidents together and restore diplomatic ties between Venezuela and Colombia.

The Argentine government has also made an effort to clean up its slate in relation to the confrontation with Uruguay over the use of the shared Uruguay River. In July, Argentina and Uruguay agreed to a joint environmental monitoring program along the river, ending a five-year controversy over pollution from a Finnish paper mill on the Uruguayan side. The same month, CFK went to China and held a meeting with President Hu Jintao in order to resolve a ban on Chinese imports of soy oil from Argentina, a hugely profitable export business that totalled US\$1.4 billion in 2009.

## GOOD NEWS IN THE PUBLIC OPINION POLLS AND THE PROVERBIAL "BUT"

All these moves have gone down well in public opinion. A recent poll by *Poliarquía Consultores* shows that views on CFK have significantly improved in the last eight months. From a negative approval rating of 54 percent in December 2009, CFK moved to 38 percent in August 2010. Likewise, she climbed up in positive views from 19 percent to 36 percent in the same period. Elections in Argentina are still more than a year away, and it is not clear yet whether CFK will stand for re-election. In the meantime, Argentina's fragmented opposition has failed to form a united front against the government despite winning control of Congress in last year's mid-term election.

Argentina's turnaround, page 44

# Decentralizing finance: New steps for a new dance

## DISORDER AND GOVERNANCE

Every economic crisis buries some practices and gives rise to new ones. What we see today is a move away from what Robert Wade called the “High Command” of global finance and the rise of less formalized institutions. The G20 may be one of these. So far, the G20 summit agenda has focused heavily on the question of the regulation of international financial markets. In addition, the G20 leaders made a commitment at their first summit in November 2008 to press on with the reform of the Bretton Woods institutions in order to give greater voice and representation to emerging and developing economies.

Two years later, the Toronto summit closed on a dull note. The G20 resolved to have all members halve their deficits by 2013 and stabilize overall debt by 2016. Brazil and Argentina, along with India and China, were strongly against cutting back spending at this early point in the global economic recovery. Brazil’s Finance Minister, Guido Mantega, warned the G20 not to balance budgets on the backs of the world’s poor. Other agendas remain mostly ignored. As these initiatives creep along, it may be that other mechanisms, particularly those at the regional level, gain momentum.

The first steps of the process were taken more than a decade ago. The sequence of economic crises that hit several corners of the world in the 1990s and 2000s provided valuable lessons on the building of regional protective mechanisms to cushion the impact of an external shock. East Asian countries have pioneered expanding financial cooperation regionally after their crisis in 1997 through the Chiang Mai Initiative. Originally a modest safety net of bilateral swaps, this agreement has evolved into the largest international reserve pooling worldwide. The potential to expand this cooperative mechanism is still promising because the country with the largest

BY PABLO TRUCCO AND DIANA TUSSIE

Pablo Trucco and Diana Tussie are members of the Department of International Relations at the Latin American School of Social Sciences. Diana Tussie also heads the Latin American Trade Network (LATN-FLACSO).

Brazil’s Finance  
Minister Guido  
Mantega warned the  
G20 not to balance  
budgets on the backs  
of the world’s poor.

amount of international reserves in the world—China—is a key member of this agreement.

## MORE REGIONAL PLURALISM

On the opposite side of the globe, the Argentine economic meltdown in the wake of the 2000s became the seed of regional monetary agreements in the second half of the decade. Particularly, regional payments clearing houses are making progress toward decoupling trade operations from the US dollar. In October 2008, Argentina and Brazil agreed on a local currency payments system. In Brazil, exporters may now operate in *real*, while Argentines may operate in *pesos*. With the elimination of the need to go through a third currency, exporters can set prices in their home currency, thus being insulated from exchange risk. The system still covers a marginal proportion of trade between these countries, although it is growing rapidly from that low base. The good timing of this initiative has swept it beyond South American borders. In their April 2010 summit in Brasilia, Brazil, the BRIC countries (Brazil, Russia, India, and China) took this experience as a precedent and decided

to look into regional monetary arrangements, including a local currency trade settlement among member countries.

In a similar vein, in October 2009, the SUCRE (Unitary System for the Regional Compensation of Payments, a virtual currency used by central banks to count trade in the books) was set up among Venezuela, Cuba, and Ecuador. The rest of the member countries of ALBA (Bolivarian Alliance of the Americas)—namely, Antigua and Barbuda, Bolivia, Dominica, Nicaragua, and St. Vincent–Grenadines—are also expected to join SUCRE. SUCRE differs from local currency trade initiatives because the former creates a completely new unit of account.

Regional development banks are an additional cooperative mechanism placed between these decentralized initiatives and the “High Command.” An expansion of regional provision of development finance in Latin America has come from the Andean Development Corporation, which will soon supplement the newly inaugurated Bank of the South, with initial capital of US\$20 billion. These regional institutions present a mounting challenge to more traditional sources of funding, such as the recently re-capitalized Inter-American Development Bank and the Bretton Woods institutions. More specifically, most Latin American governments have consistently resisted engaging in International Monetary Fund credit programs in the 2000s owing to the tight conditionality on local policy planning and the expensive political burden derived from the IMF’s bad reputation in local electorates.

## IMF NO LONGER THE EPICENTRE

This confluence of factors translated into a sharp drop of regional reliance on IMF funding. In 2005, Latin America made up 80 percent of the IMF’s lending portfolio,

Decentralizing finance, page 44

## Decentralizing finance continued from page 43

a share that had dropped to 1 percent by 2008. While IMF loans to Latin America stood at US\$48 billion in 2003, they dropped to less than US\$1 billion before the crisis. With the onset of the crisis, three Central American countries, Mexico, and Colombia have applied for loans. However, the crisis has not changed the long-term trend, which has been favoured by booming commodity markets. While most countries paid off their debts, Argentina is also refusing to follow precedent and go back to the IMF in order to renew negotiations with the Paris Club. Reversing the trend from borrowers to lenders, in June 2009 Brazil,

**[M]ost Latin American governments have consistently resisted engaging in IMF credit programs.**

Russia, and China announced that they would buy IMF bonds in order to reduce their dependence on the US dollar and diversify foreign currency reserves.

If meaningful IMF reform continues to prove politically difficult, the relevance

of these decentralized financial and monetary arrangements might grow. Not only would they permit decentralization and greater pluralism in international financial governance, they can also contribute to global stability by reducing the United States' burden to provide liquidity to the world economy. They might also throw some useful sand into the entirely free-flowing regime of finance. Paradoxically, the IMF might be forced to turn away from the former highly indebted developing world to the newly highly indebted European countries if voluntary debt markets turn thumbs down on them. 

## Argentina's turnaround continued from page 42

### ENTER THE HEADWIND

The universal child allowance implemented in October 2009 has been a measure with high positive impact on public opinion. However, it will cost about ARS 8 billion in 2010, equivalent to 6 percent of the monetary base. On the one hand, the universal child benefit may be seen as major policy with distributive effects. On the other hand, it may be seen as a way of catching up with inflation, or even worse, as a policy that simply fuels further inflation. However it is identified, the government is caught in a race between rising prices and social spending. Thus, inflation and the fiscal deficit are the two most serious challenges CFK will have to face in the short term. The question is: How long can the government continue to fund increased public spending without going to the international financial markets?

### INFLATION: THE BIG UNKNOWN

The other question is: How much inflation can be tolerated next year? Inflation is a particular concern for CFK's government because it has a larger impact on the poor, who make up her support base, and this could weaken her politically. Public spending is surging at a rate of about 30 percent, and analysts say the


**Argentina's fragmented opposition has failed to form a united front against the government despite winning control of Congress in last year's mid-term election.**

use of central bank reserves to service debt is also stoking inflation. On the other side, opposition proposals in Congress to hike pensions and cut controversial taxes on grains exports would strain the budget and could trigger a controversial presidential veto.

### HER RUNNING BATTLES WITH BIG BUSINESS AND THE MASS MEDIA

The picture gets more complicated when media and business enter the scene. CFK has been at odds with the Clarín media group for two years. She stepped up her drive against the conglomerate by accusing Clarín and its competitor La Nación of plotting with the military junta to buy leading newsprint supplier Papel Prensa in 1976. The government rescinded the broadcast rights of Clarín's paid-up TV sports channel to air live Argentine first-division football. State-run television has taken over and broadcasts all matches for free. Second, the

government announced that another Clarín company, Fibertel, could no longer operate as the Internet supplier to its more than one million users because it did not have, and had never had, a licence to do so. No doubt the battle against the media groups Clarín and La Nación will only intensify in the run-up to next year's presidential elections.

In short, the road ahead looks rough and rocky, with global and domestic trends pushing in different directions. Add to this a fragmented opposition and the confrontational style of the Kirchners, and what you have is a very uncertain picture. Will she be able to bring together fortune and virtue without him? 

**For more information on  
Canada Watch and the Robarts  
Centre for Canadian Studies, visit  
[www.yorku.ca/robarts](http://www.yorku.ca/robarts)**



For past issues of  
**Canada Watch**  
visit Robarts Centre's website:  
[www.yorku.ca/robarts](http://www.yorku.ca/robarts)



For the Roberts  
**Annual Lectures**  
visit Robarts Centre's website:  
[www.yorku.ca/robarts](http://www.yorku.ca/robarts)