Globalization and Latin America: a critical analysis[1]

Manuel Chiriboga[2]

1. Introduction

This short paper discusses the increasing loss of legitimacy of globalization in our region. The integration of most of Latin America to present day globalization was done primarily through the establishment of a macroeconomic cadre that opened our economies to global markets and investment and limited the economic role of the state. Such policies basically known as Washington Consensus structural adjustment policies, were enacted as part of a policy package pushed by international economic institutions, such as the IMF and the World Bank, and more recently by the World Trade Organizations and the FTA trade negotiations. They were presented as the best option out of the debt crisis, hyperinflation and economic downturn that characterized most of the region by the beginning of the 80´s.

Such policies and other processes, that came as a result of the communication and information revolutions, integrated the region to globalization, a process by which the world economy works increasingly works as a system, where all units move accordingly to decisions taken at its center. This dominating nucleus is composed fundamentally of an integrated financial and an internationalized production system, controlled both, by a small number of multinational firms. In the case of most of southern Latin America only a small number of productive activities are truly integrated to the global system, but the financial sector is completely inserted in it.

Acceptance by regional citizens of the new economic policy agenda and thus integration to globalization was a result of the deep crisis in which most of the region had fallen in the eighties, which came to be known as the lost decade. This was particularly true for countries such as Argentina, Bolivia, Mexico and Peru, where stagnation and inflation, had deep impacts on the income of the poor, the working and middle classes and external debt had isolated them from the international finance system. Later, most of the countries, though with differences in depth, accepted the new policy cadre.

The promise of economic growth, low inflation, stable macro economic policies, employment generation through foreign investment and state independence from special interests and specially rent seeking elites, constituted the base of acceptance by citizens. The recently recovered democratic system in all countries of the region, gave the Washington Consensus policies, the political legitimacy, which its critics could not argue. Citizens elected leaders such as Menem, Fujimori, Sanchez de Lozada and more recently Cardoso, which all backed such policies.

Nonetheless the hegemony of the Washington consensus started to erode as soon as the mid nineties, as policies and deep integration in globalization could not deliver its main

---

[1] By South America we will refer to the Spanish and Portuguese speaking countries south of Panama, while when in the text we refer to Latin America we are referring to countries south of the US, including the Caribbean.

[2] Executive Secretary of the Latin American Association of Promotion Organizations, a region wide NGO network with members in 20 countries

promises to ordinary citizens. As a matter of fact the honeymoon lasted only a short period for most South American countries: from the mid eighties to the mid nineties. Today citizens are voting through out the continent, for leaders that are critical of, or oppose globalization, who want to retake state control over macro economic policies, support more national or regional development perspectives and favor democratic and inclusive development.

This paper discusses some of the deeper causes that explain such evolution and pose some scenarios and trends for the region. After this introduction, we discuss the viability and legitimacy of globalization in the region; in a third section we present some facts regarding some of the main promises of neo liberalism; in a fourth part we analyze the issue of legitimacy of globalization and the increasing voting pattern against it; and, finally in a fifth and last section, we discuss a South American agenda regarding globalization.

2. Viability and Legitimacy of Globalization

Globalization can be understood as the process by which a certain number of critical activities all over the world start to function in real time. In the case of the economy, such activities include in its nucleus the financial markets, which assign capital, investments, credit and money to endeavors world wide, both private and public, considered profitable in international terms. It also includes international trade and investments, the growing globalization of production through Multinationals, the formation of an international labor market for high and medium paid professionals and a much more unregulated labor market for workers going from low productivity parts of the world to the higher ones. It also includes the globalization of communications and press and TV, the expansion of Internet and the increasing connectivity of scientific and technological research. [3]

Globalization in its contemporary form, while having a planetary impact, is highly inclusive of certain activities, natural resources, societies and individuals, while it is also highly exclusionist of other economic activities, natural resources, communities and individuals within countries, sub regional spaces and even cities. As a Latin American Scholar once said it includes about one third of my countries population, but it excludes 2/3 of it.[4] Globalization is thus a very uneven process with increased economic and financial flows between a small number of regions, cities and individuals, while other are left out. Even when countries have a small participation in world markets, say for example only produce one or two products, what happens with them depends of factors completely out of their control and could have a major impact in the rest of their economies. [5] The present day crisis of coffee in countries such as Peru, Colombia, Brazil and most of Central America is the result of production increases in south East Asia and technological changes in processing plants and business strategies of companies operating out of Seattle or New York.

Latin America has been linked to international markets from the beginning, producing foodstuffs, oil and minerals and has participated in its different phases. Around 1950, Latin America contributed in around 9,3% of international trade, as compared with

[3] We follow here M. Castells, La Galaxia Internet, arête, Madrid, 2001
[4] It was Zermeño and he was referring to Mexico
[5] Martin Khor, Rethinking Globalization, SED Books, New York, 2001.

4,7% in 1913. This increased participation in external markets helped finance industrialization. Up to the 1980s you could basically identify two sectors in every economy, one producing for external markets and an other for the domestic one, the first helping finance the second one, through foreign exchange, that helped import technology and machinery. During this period, export growth went along GDP growth as a whole.

From 1980 this started to change as exports and imports grew faster than GDP, signaling a divorce between the export sector and internal markets. Latin America started to be part of a more complex phase of international markets, one that has been called globalization. In it, this inclusion exclusion dynamic of sectors, regions and individuals predominate. Sectors fully integrated to globalized markets fair well and are dynamic, while sectors producing for internal markets stagnate or disappear.

The main problem for most of our countries is the limited size of the integrated sectors of the economy and its limited multiplier effect for the rest of the economy. It does not develop strong and dynamic linkages between the export sector and the rest of the economy, as it tends to import parts and qualified labor, not found internally, reproducing what can be called a new type of enclave economy. Additionally the instability of financial markets disrupts continuously the linkages that have been established.

This exclusionary and unstable character of globalization in Latin America creates the conditions of its illegitimacy and the rise of voices against it. While the economy grows in the more dynamic and globalized sectors of the economy, the multiplier effect is small in scope and only a handful of people have the hope of better jobs and wages and upward social mobility. For the immense majority of the excluded, the hopes are very limited. When economic crisis hits a country and jobs are destroyed and people see their incomes go down, this hope disappears. This sentiment gets stronger when the social safety mechanisms have been weakened by state downsizing or cannot cover the full extent of people's loss.

A particular dimension of globalizations impact is the environment, where global economic activities use critical natural resources, mostly in the south, up to the moment when they deplete them. When that moment is achieved, as Reed has underlined, capital moves to other resources in other countries.[6] Most at risk are soils, forests, minerals, oil and fisheries used for mining or agriculture. The rates of depletion have grown exponentially. People linked to the traditional use of such resources loose control over them, when economic exploitation starts and are left with them when depleted.

[6] David Reed, Can Sustainable Development survive Neoliberalism? ?, lecture presented at the conference on Alternatives to Neoliberalism, in Washington, D.C. May 23, 2002.

Superficie de Bosques y otras tierras boscosas

en miles de hectáreas

País	1990	1995	2000
Belice	2117	1962	1348
Costa Rica	1569	1248	1968
El Salvador	890	105	121
Guatemala	9465	3841	2850
Honduras	6054	4115	5383
México	129057	55387	55205
Nicaragua	7732	5560	3278
Panamá	3266	2800	2876
Caribe	6168	4025	5319
Argentina	50936	33942	34648
Brasilia	671921	551139	543905
Bolivia	57977	48310	53068
Colombia	63231	52988	49601
Chile	16583	7892	15536
Ecuador	15576	11137	10557
Guayana	18755	18577	16879
Paraguay	19256	11527	23372
Perú	84844	67562	65215
Suriname	15093	14721	14113
Uruguay	933	814	1292
Venezuela	69436	43995	49506
Total	1250859	941647	956040

Fuente: a/ Organización de las Naciones Unidas para la Agricultura y la Alimentación (FAO), "Evaluación de los recursos forestales 1990. Países tropicales", *Estudio FAO Montes*, Nº112, Roma, 1995; b/ Organización de las Naciones Unidas para la Agricultura y la Alimentación (FAO), *Situación de los bosques del mundo*, 1999,Roma 1999; c/ Organización de las Naciones Unidas para la Agricultura y la Alimentación

3. The Unfulfilled Promises of the Washington Consensus

In this section we will look at the facts regarding some of the unfulfilled promises of globalization and Neo Liberal policies. To be more accurate we will compare some of the results with the depth of policy reform towards liberalization. Eduardo Lora and Hugo Panizza have studied the degree by which countries of the region have performed regarding five general areas of policy reform that have as their main purpose facilitating the functioning of markets and the free assignment of productive resources. They analyzed trade liberalization, financial sector reform, tax reform, privatization and labor market liberalization. As a result they constructed a reform advance index, which moves from 0 to 1 and where 1 represents full advancement of liberalizing reforms. [7]

This index for the region went from 0,36% to 0,58% between 1985 and 1999, which indicates a substantive trend towards neo liberal economic reform. Looking at individual countries though, they found that Bolivia, Peru and Argentina advanced more

[7] Eduardo Lora y Hugo Pânizza, Un Escrutinio a las Reformas Estructurales en América latina, paper presented at the conference on Reformulación de las Reformas, Asamblea General de Gobernadores, BID, Fortaleza, Brasil, 2002.

in the reform process, while Uruguay, Ecuador and Venezuela advanced little. Most of the liberalizing process was done on areas such as trade liberalization, financial market reform and less on privatization and tax reform. Privatization was nonetheless advancing in most countries by the end of the nineties.

The Washington consensus was thus applied in the region, albeit in a heterogeneous form, with differences in rate and depth from country to country, from reform to reform. The International Finance institutions played a critical role in advancing them through basically four mechanisms: lending resources for reform support, policy advise through technical missions, training public officials to conduct them and through emergency support, when countries got in trouble.[8] At least between 30 and 60% of loans contracted by Latin American Countries from 1985 to 20000 had that purpose.

a. Low and unstable growth[9]

Probably the single most important appeal of the new macro economic policies was sustained growth, as a result of stable economic policies and the attraction of foreign investment. The idea was that economic growth would bring along low inflation rates, employment and an increased well-being. The results are far from following that story line, probably with the sole exception of inflation. Economic growth on the contrary was slower than expected and much more unstable. While from 1950 to 1980 the region was growing at more than 5%, from 1980 on, it fell to 1,2% in the eighties and to 3,2% in the nineties, with a trend to a deep slow down after 1999. The increase in per capita economic growth was even lower, for the period opening in 1980: 1,5% yearly. Growth has been particularly low in most South American countries, as compared to before the reforms, with the possible exception of a few countries, including Chile, Costa Rica and the Dominican Republic.

There is no relation between economic growth and the degree of policy reform. Countries that did in depth reform fared worst than those that did not. Uruguay did better than Bolivia for example, while Argentina did much worst than Brazil. Danni Rodrik states that countries that have performed better are the ones that have used a "combination of unconventional institutional innovations with some of the elements drawn from the orthodox recipe. Adequate human resources, public infrastructure, macroeconomic stability, and social peace are all key enabling elements of a growth strategy. But the strategy has to go beyond that and kindle the animal spirits of domestic Investors. These combinations tend to be country-specific, requiring local knowledge and experimentation for successful implementation."[10]

Growth has not only been slow, it has been unstable. After 1994 the region has going through an economic roller coaster, with deep slow downs in 1994-1995, 1997-1999 and from 2000 on. This year the region as a whole will only grow 1%. The crisis has become also more generalized and now touches most of the region. Most of the cyclical behavior can be explained by the impact of financial markets, unstable short-term

[8] Structural reform loans from the World Bank went from 16% in FY 1996 to 56% in FY 2000 and in the case of IDB went from 37% in 1996 to 39% in 1999.

[9] Data comes mostly from ECLAC.

[10] Danny Rodrik, After Neoliberalism, what?, lecture presented at the conference on Alternatives to Neoliberalism, in Washington, D.C. May 23, 2002.

capital flows and speculative attacks, but also because of the small size of the export sector and its limited pull.

There was no relation between the behavior of the export sectors and the rest of the economy. Export importance grew to about 20,4% of GNP by the beginning of the XXI century, while imports represent today 21,4% of GNP and are increasing steadily. This contrast between export behavior and economic growth is one of the most startling ones for the region. It partly is associated with the fact that most of the export growth is centered in agricultural produce, oil and mining, which suffer from exchange price deterioration. In the case of countries that have centered their development in maquila type exports, the linkages to the rest of the economy has been limited and have been continuously exposed to the cycle of the US economy.

Latin America: Changes in the Profiles of Exports

Region	Raw materials		Industrial goods based in raw materials		Manufactures with intermediate technology		Manufactures with high technology	
Year	1985	2000	1985	2000	1985	2000	1985	2000
MERCOSUR	42,6	36,7	23,9	24,1	15,2	21,8	2,7	6,1
Andean Community	59,8	59,5	32,8	24,5	2,9	6,4	0,3	0,9
Latin America and the Caribbean	50,0	27,3	23,5	17,0	12,1	24,6	4,3	14,0

ECLAC, La Globalización y América Latina, Santiago de Chile, 2002.

If you look at growth by sectors, those linked to goods and services not tradable internationally as transport, energy, communications and financial services have grown steadily, while more traditional industrial and agricultural sectors have faired much worst, especially those intensive in labor. The industrial sector, which was the base of economic growth after the Second World War, was probably the hardest hit by the new economic policies, especially those that were high employers. South America did not know the maquila expansion of Central America, Mexico and the Caribbean. The sub sectors that had a better behavior were the ones linked to transforming agricultural produce, mining raw materials and the automobile industry, partly in this case as a result of special protections, given by the MERCOSUR and Andean Community integration agreements.

Within agriculture and industry only those sub-sectors linked to exports: maquila industry, have behaved better. The trends in productivity have gone the same way; the aggregated distances between Latin America and the developed world have grown and differences inside national economies have increased, between a small group of enterprises, mostly multinationals, while and the rest of the economy where productivity has barely grown. Productivity of all factors of production grew in the 90s at 1,3%, while that rate was 2,1% in the previous decades.[11]

[11] ECLAC, Equidad, desarrollo y ciudadanía, CEPAL, Santiago de Chile, 2000

The investment rate has followed the same path as growth. In the region as a whole only in 1997 and 1998 did the rates compare to those from before 1980. Foreign investment came at significant rates only in the first part of the nineties, but became erratic after the Tequila crisis of 1994. The descent had a direct impact on growth and employment afterwards. As a matter of fact the last four years have seen capitals leaving the region at a higher rate than those coming in. Foreign investment was not evenly distributed, as only a small number of countries received most of it.

Employment has gone along the economic cycle of the region, with massive increases in unemployment rates, following the economic downturns. More over, most of the employment created was in sectors of low productivity, in the informal sector and in sectors with no labor protection, and not in the most dynamic sectors of the export economy. These low productivity sectors are generally the hardest hit when recession comes in. [12] As a consequence unemployment and under employment figures increase dramatically.

b. Deepening unfairness and persistent poverty

The region is an unjust one, having some of the highest rates of inequality in the world. While the sources of such inequality are prior to present day globalization, as they have their roots in the colonial period, based on the concentration of land, debt peonage and slavery and the establishment of a very static social structure that limited upwards mobility of non white people, the recent economic policies linked to globalization, have worsened income and asset concentration and kept a disproportionate part of the population under poverty lines. If we compare the 1980s figure for people under poverty with the one for the end of the 90s, the proportion of the poor has gown in both relative and absolute terms. By 1999 around 224 million people were in poverty and 89 million did not have enough income to get their basic food intake.

The evolution of poverty in the region has not been homogenous amongst countries: Brazil, Uruguay and Chile achieved significant results in reducing poverty, while in Venezuela, Ecuador, Colombia, Paraguay and more recently Argentina, poverty worsened. What seems though a common feature is that people going up from poverty tend to stay quite close to the poverty line.[13] As a result, when economic crisis hit a country, as was the case from 1995 on, huge percentage of people drop to poverty. This was the case of Argentina where the percentage of people under poverty rose from 19% to above 50%.

[12] According to ECLAC 7 of each 10 jobs created in the cities were in the low productivity sectors of the economy.

[13] As was said before most of the jobs created were in the low productivity, informal sectors of the economy.

Latin America and the Caribbean: Trends in Poverty and Extreme Poverty

Year	People under poverty line	People under extreme poverty line
	%	%
1980	40,5	18,6
1990	48,3	22,5
1994	45,7	20,8
1997	43,5	19,0
1999	43,8	18,5

Fuente: CEPAL, Panorama Social de America Latina, 2000 - 2001

The poor in the region tend to be basically urban (76%), be unemployed, live in squatter houses and have low levels of education. Some other features can also be associated with poverty: be Afro Latin American or Indian, be landless if you live in the rural areas or be a woman who heads its household. Thus opportunities tend to be distributed in a skewed way along race and gender lines. The lack of access to some basic human rights as clean water and sewerage, education, electricity and decent housing are also associated with poverty.

Nonetheless, there seems to be no direct relation between economic growth and poverty reduction. While poverty evolves along the economic cycle of a country it is not the only variable associated with it. Other characteristics of a country such as quality of social policies, the distribution of income and assets, the characteristics of the labor markets, the type of sectoral growth and so on have an impact. There seems to be no correlation between level of policy reform and changes in poverty or inequality figures. Thus, the wait and you will get better strategy and the trickle down offer just are not true. It is countries that practiced more economic heterodoxy and had more universal social policies that achieved better results.

The region has a very skewed structure regarding the distribution of income and wealth, exhibiting some of the worst indexes in the world. And in the last years it has become worst. The richest 10% of the population perceive in most countries, more than 35 % of the national income. In some countries the figures are dismal: Brazil: 47,1, Chile: 40,3, Colombia: 40,1, Argentina: 37, Bolivia 37,2 and Ecuador: 36,6%.[14] By the end of the 90s and beginning of this century the region saw in most cases a worsening distributive process. As a whole there is no country in which the inequality levels has achieved better results than what you had before 1980.

Thus opportunities opened by globalizations have not been distributed evenly amongst the population and it is traditional elites that have benefited the most. For many poor and middle class Latin Americans, international migration has remained the only possibility to benefit from globalization. A very rough number seem to indicate that about 20 million Latin-Americans have left their countries of origin, mostly towards the US and Europe. Of them about 1 million persons come from South America and 19 million from Mexico, Central America and the Caribbean. Countries such as Mexico,

[14] A relevant exception was Uruguay.

El Salvador, Nicaragua, and Dominican Republic produce the bulk of migrants, but non-negligible numbers come from Argentina, Colombia and Ecuador.

What is worrisome is that a large proportion of those migrating to the north are middle class professionals. About 300.000 Latin American persons holding a university and technical degree now live in developed countries, most in the US and Europe. This real brain drain hurts the region in a significant way, as it looses some of its best professionals.[15]

Remittances sent by migrants have skyrocketed from about 4.77 billion in 1990 to about 17.33 billion in the year 2000, representing today about 1% of GDP. Such resources have become a critical income for many poor and medium class members of Latin America, who depend from their migrant family members to earn a living and a perverse source of foreign exchange. As a result many of poor Latin-American migrants support the survival of their poor family members staying in the region.

Migrations of Latin Americans in the 1990s*

To The US	7167000
To Europe	1123000
To other OECD countries	991000
Within Latin America	2272000

* Only legal migrations. In the US alone illegal migrants are calculated in about 5 million.
According to ECLAC

c. Inefficient social policies

Countries of Latin America increased their social spending throughout the 90s, both as a result of the economic performance in the first part of the nineties, but also as a result of changes in spending priorities. Even though the rate of increase fell in the second part of the nineties, as a result of worsening economic results, countries protected social spending. It went from 10,4% to 13,1% of GDP from 1990 to 1999; expenditure per family increased in about 50%. In the case of South America, Peru, Paraguay, Colombia, Brazil and Argentina saw the biggest increases, but their departure points were quite different: while Argentina, Brazil, Uruguay and Chile spent more than US 800 per capita, others like Colombia, Venezuela, Ecuador, Peru, Paraguay and Bolivia were spending less than US $350.

What is interesting is that most of the increase was done in primary education and health, the areas recommended by IFIs as those with most impact in poverty eradication and which would have the best redistribute impact. In some countries there was an effort to focalize expenditure in the lowest income sectors, using to that end poverty maps, income surveys and Social Investment Funds, by which resources were expected to go to the poorest among the poor. World Bank and IADB helped conceptualize SIFs

[15] ECLAC, América Latina y la Globalización, Santiago de Chile, 2002.

projects as an efficient mechanism for targeting pro poor programs, have a more demand led process and have management mechanisms close to the ones practiced in the private sector. They hoped to bring NGOs as critical intermediaries in such programs, build in participation processes and ownership by the poor themselves. Results were far from those hoped.

Latin America: Indicators in Social Spending

Country	Social Expenditure per capita end of the 90s US $	Social Expenditure as percentage of GNP, 1998-99	Debt Service as % of GNP, 1998
Argentina	1687	20,5	52
Bolivia	168	16,1	59
Brasil	1011	21,0	29
Colombia	381	15,0	32
Costa Rica	622	16,8	
Chile	827	16,0	50
El Salvador	82	4,3	
Guatemala	107	6,2	
Honduras	57	7,4	
México	402	9,1	
Nicaragua	57	12,7	
Panamá	642	19,4	
Paraguay	132	19,4	25
Perú	192	6,8	55
Uruguay	1539	22,8	36
Venezuela	313	8,6	40

ECLAC, Panorama Social de América Latina y el Caribe, Santiago de Chile, 2001

Why did this increased effort in social expenditure did not have a more significant effect in the poverty numbers? At least three reasons have been offered: a. It was not enough as to counter the more structural impacts of the economy, especially in the labor markets: the economy was not creating enough stable jobs and when crisis struck millions were laid off [16]; b. While focalizing social expenditure could benefit some it has been argued, it is not the best policy when the poor are clearly a majority and when the people are moving continuously back and forth around poverty lines; and, c. the quality of social expenditure is low in most countries and has gotten worst as public employees feel their own social conditions becoming worst.

d. Denationalization of main public goods

A cornerstone of the new economic policy cadre was privatizing state monopolies, many of them producing basic public goods as telephones, electricity, water and sewerage systems, but also social security, health system and part of the education sector. This process was particularly strong in countries such as Argentina, Bolivia, Chile, Peru and Brazil and slower in countries such as Uruguay, Ecuador and Venezuela. In the more privatizing countries most of the basic public goods went to the

[16] An official of an international finance institution called social policy the ambulances of economy.

private sector, mostly foreign multinationals. As a matter of fact about 50% of foreign investment between 1999 and 2000 was associated with privatization.

Privatization in the region has been associated with three phenomena: corruption, the appearance of new special interest groups influencing state policies in those specific markets and the quality of public services. Regarding corruption there is a sense in the region that its has worsened in most countries and that it is closely associated with privatization.[17] The level of corruption is partially captured by the Transparency International Corruption Index, which in its 2001 report states that Bolivia, Ecuador, Paraguay, Venezuela, Colombia and Argentina show the worst results.[18] Latinbarometro shows citizens surveyed questioning privatizations as linked to increased corruption.

Multinationals have become significant special interest groups in most countries of the region, influencing policies that could favor them or resisting the ones that are perceived as detrimental. In some cases they have been associated with highly visible corruption scandals, as were the cases of IBM in Argentina or BBVA in Peru, or have resisted tax reforms as Occidental in Ecuador or favored tax exemptions that could benefit them as the case of Teléfonica in Peru. In some cases these companies have used with success their country of origin embassies to press on their cases.

Privatization has not led to better public services or significant new investments to expand them. Consumer perceptions of public services delivered by privatized enterprises remain low and there is the sense that privatization favored foreign investors and their local associates, over consumer interests. Consumers pay today higher tariffs for services not necessarily better, than what they had. It has also left out low-income consumers, up to then subsidized through by high-income consumers.

As a result of this, privatization and in general market oriented reforms have become highly unpopular in most of the region. According to a well-known survey in the region, Latinbarometro, 63% of those surveyed oppose them, a number continuously in the rise, from when the survey started. An opinion that is becoming even stronger amongst groups of population with higher levels of education. This reflects the fact that most of the adjustment policies have been done at the expense of middle classes, which not only pay today higher taxes, but also receive fewer benefits from the state.

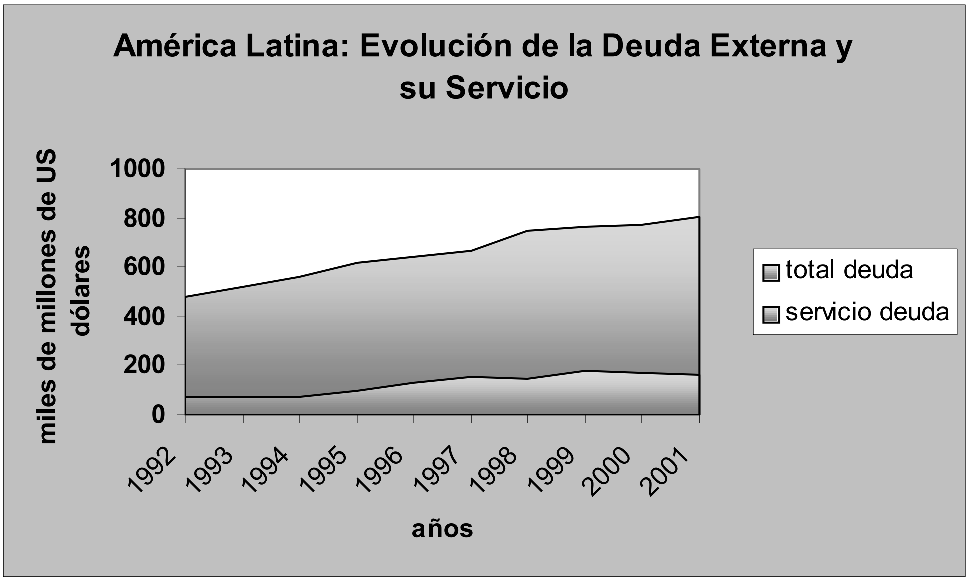
e. Increased Fiscal problems and indebtness

One of the main ideas behind structural adjustment was that highly indebted countries would start paying off their external debt, the detonator behind the 1980s Mexican and more generally Latin American, crisis. A number of mechanisms were designed to help countries re-finance their debt and start receiving additional financing from the international finance system.[19] It included the Brady bond system by which old debt titles were switched for new ones and payments rescheduled, Paris Club re negotiation with new terms and the HIPC initiative. It was hoped that their combination would mean a serious effort out of debt. Success was limited and the debt stock and debt service, continued both to grow for most of the decade, reaching the 800-billon mark by

[17] See Latinbarometro 2001 and E. Lora and H. Tonazzi, Ob. Cit.
[18] Transparency International, Global Corruption Report, 2001.
[19] Some of the best-known mechanisms are the Brady Bonds, HIPC and new negotiations under the Paris Club.

2001. At the same time debt service arrived to more than 100 billion dollars a year. By 2001 most South American countries were deep in depth and with serious debt payment problems: Argentina and Ecuador defaulted the Brady Bonds. Argentina, Brazil, Ecuador and Peru were classified by the World Bank as highly indebted medium income countries, while Bolivia, Colombia, Chile, Uruguay and Venezuela were classified as moderately indebted.

The different negotiations that took place to find sustainable debt agreements, both through the Paris Club and through direct negotiation with creditors, mediated by the IMF or the US Treasury had limited success. Even more the Brady Bond mechanism did not stop Ecuador first and Argentina afterwards to stop servicing the debt, after severe economic crisis. Thus, the debt crisis continues in spite of a huge fiscal effort, keeping fiscal accounts balanced and servicing debt.



Ratio Present Value of debt service to exports and to Gross National Income *

Present value	PV/Exports	PV/GNI
Argentina	425	55
Bolivia	200	32
Brazil	346	36
Colombia	206	39
Chile	163	51
Ecuador	202	82
Paraguay	77	37
Peru	304	54
Uruguay	182	40
Venezuela	139	37

*Average 1998-2000

f. Loss of autonomy in determining policies

One of the cornerstones of the new economic model was a leaner state, capable of regulating the economy, without being influenced by the traditional elites of the region. It also meant, privatizing state enterprises and devolving public authority to provincial and local elected governments. A pro growth macro economic policy scenario and an open economy were the main responsibilities of central governments. Prices were to be fixed freely by markets without interference by the state.

The neoliberal reform of the state in fact weakened its capacity to play a significant role in development, regulate its dynamic and support the needs of economic and social development. It also limited its possibility to play a consensus-building role *Vis a Vis* the different actors of development. In became a de facto relay between international institutions and the local economy. Governments became dependant for policies on institutions such as the IMF, the World Bank and the IDB, which have increasingly become involved in micro managing the countries economy. Today IMF and World Bank have offices in most countries of the region and their officials have a decisive voice in macroeconomic policies of every country of the region.

This trend has worsened with the new policy prescriptions dealing with governance, in what is known as the augmented Washington Consensus. This did not imply leaving behind the initial proposals but increasing them. As Rodrik has stated, “the trouble with the Augmented Washington Consensus is that it is an impossibly broad, undifferentiated agenda of institutional reform. It is too insensitive to local context and needs. It does not correspond to the empirical reality of how development really takes place. It describes what “advanced” economies look like, rather than proscribing a practical, feasible path of getting there. In short, the Augmented Washington Consensus is infeasible, inappropriate, and irrelevant.”[20]

The Augmented Washington Consensus has meant that IFIs get involved in the shape of social policies, in the modernization of political institutions, such as the Judiciary System or Congresses and Parliaments, areas which by definition are political, and for which they seldom have adequate competences. They tend to become co legislators in country politics, working out of a very orthodox set of prescriptions. This further exacerbated the opinion that international institutions were getting more and more in running countries, with out themselves being outright accountable to citizens.

More over private risk analysis firms working out of New York, such as Standard and Poor and Moody have through their analysis become a heavy weight in preemptively determining the general direction of country policies, through their risk analysis data. Recently they sought to influence the voting patterns of countries such as Brazil, influencing the behavior of real exchange rate, as before they did it with Argentina or Mexico. Obviously such private firms all though having a strong public sphere influence are not accountable to the broader societies, whose fate is influences by them.

---

[20] D. Rodrik, After Neoliberalism, what?, lecture presented at the conference on Alternatives to Neoliberalism, in Washington, D.C. May 23, 2002.

The Washington Consensus is dead; long live the new Washington Consensus!

Original Washington Consensus "	Augmented" Washington Consensus
1. Fiscal discipline	11. Corporate governance
2. Reorientation of public expenditures	12. Anti-corruption
3. Tax reform	13. Flexible labor markets
4. Financial liberalization	14. WTO agreements
5. Unified and competitive exchange rates	15. Financial codes and standards
6. Trade liberalization	16. "Prudent" capital account opening
7. Openness to DFI	17. Non-intermediate exchange rate regimes
8. Privatization	18. Independent central banks/inflation targeting
9. Deregulation	19. Social safety nets
10. Secure Property Rights	20. Targeted poverty reduction

Danny Rodrik, After Neoliberalism, what?, lecture presented at the conference on Alternatives to Neoliberalism, in Washington, D.C. May 23, 2002.

The sense of governments getting alienated from their citizens and institutions has grown significantly. The fact that countries can not decide on some key areas of policy, without running the risk of being punished for it has created a sense of frustration among ordinary people. Political participation and decision making is thus limited to those areas which remain within the policies prescribed as market friendly by those intergovernmental institutions,

4. Increased Dissatisfaction with Globalization hits the streets and the Ballots

Up to the 1970s the democratic system and the type of state behind it, obtained its legitimacy from what has been called an alliance between modernizing elites, middle classes and organized sectors of the working class, where the distributive function of the state was key in keeping this coalition together. State expenditure through investments and subsidies helped keep a limited welfare state which basically meant access by those sectors to social services and security, with out having to do serious asset distribution. The idea was that the excluded groups could benefit from the welfare state once they entered the urban industrial work force or became a government official. Asset redistribution, which could have dealt with structural inequality was limited to some countries and mostly to agriculture, through Agrarian Reform. While the trend to more redistribution was slow, it had that direction.

ECLAC structuralism and pro internal market and industrial policies were the basis of economic policy. Basically it protected and subsidized the development of a strong industrial, labor-intensive sector, which was meant to pull the rest of the economy. To achieve industrialization custom tariffs were imposed to imports or these, when competing with internal production, were outright forbidden. Additionally, price controls on food stuffs were established, partially compensated by subsidized credit schemes to promote food production and export tariffs imposed. This development scheme helped the region make the transition from mostly agricultural and mining economies to industrial ones.

From 1980 this model and its social coalition started to disappear, through a triple process: an increased dependency for economic policy on international finance institutions such as the IMF; the downsizing of the state through structural adjustment policies and privatization of public enterprises; and, devolution of responsibilities to provincial and municipal elected governments, through decentralization. Much of the legitimacy of such process came out of the inflationary crisis of the eighties and its impact on poor and middle classes, and the confidence in the very recently re-acquired democratic systems. By the beginning of the 90s all countries of the South America had elected governments and elections were increasingly used to elect local and provincial authorities.

The main effect of this change in the state was the disappearance of the social coalitions that had backed the state in Latin America and the basis of its political system. Middle classes and organized sectors were left aside, while the new policies demonstrated its inability to create a new social coalition with the non-organized sectors of society: the urban and rural poor. What came out of this process were new types of political leaders: media populists, with a great histrionic capability, such as Menem and Bucaram authoritarian populists such as Fujimori or technocrats, such as Sanchez de Lozada or Cardoso. [21]

The social coalition that backed the new governments of the 90s was basically composed of the representatives, partners and employees of the more integrated sectors of the economy and conservative political parties. Much of the new coalition depended upon and went around the personality of the political leaders and their capacity to get the support of citizens through mixes of media discourse and clientele based giving. It was in fact a very weak backing, as it became evident when the system was incapable of delivering economic growth, better jobs and higher incomes.

A recent study by LatinBarometro found the dwindling support: by 2001 68% percent of Latin Americans surveyed did not have confidence in people conducting their governments. More specifically the support to presidents had fallen to 30% as an average. The dissatisfaction with political leadership was having an impact in confidence, and this is much more serious, in the democratic system. Support to democracy fell between 1997 and 2001 from 41% to 25%. The recent Argentinean street demonstrations had as their main mobilizing phrase: "*Que se Vayan Todos",* or all the political elite has to go.

South America: Opinions on Democracy

	Democracy is the preferred political	Satisfaction with Democracy	Democratic Index*

[21] Alain Touraine, the French sociologist described the new political leadership in a provocative article called: Me cago en la política.

	system		
Argentina	58	20	39
Brasil	30	21	26
Bolivia	54	16	35
Chile	45	23	34
Colombia	46	10	22
Ecuador	40	15	28
Paraguay	35	10	23
Perú	62	16	39
Uruguay	79	55	67
Venezuela	57	41	49

LatinBarómetro Opinión Pública Latinoamericana, 2001, www.latinbarometro.org

The legitimacy of pro globalization policies is increasingly contested by key stakeholders in the region and is showing up in streets and in electoral results. Key public opinion groups such as the church, internal market oriented businesspeople, trade unions and many columnists and intellectuals in the region, question such policies and helping mold public opinion.

Civil society organizations have played a critical role in the analysis and critiques of Neo Liberal economic policies, increasingly showing in the streets their dissatisfaction and advocating for a new ser of policy priorities. Their work is based both in the formation of regional and international coalitions, but also the mobilizing of grassroots groups, that link specific identity based groups. They have in many cases formed large national and regional coalitions, as to coordinate their efforts. Today groups such as Alianza Social Continental, ALOP, Plataforma Inter. Americana de Derechos Humanos, Democracia y Desarrollo, Red Latinoamericana Mujeres Transformando la Economía and others advocate actively against globalization. The World Social Forum of Porto Alegre, Brazil, has become a meeting and reference point for them.

Probably the most important work that these groups have undertaken, relates to mobilizing local communities and identity groups. Women, indigenous groups, afro Latin-Americans, peasants, HIV affected people, environmental groups, communities re-localized by Big Infrastructure Works such as Dams, landless groups, urban squatters and homeless persons, youth among many today mobilize actively, and show up to demonstrate at Pro Globalization summits. The resistance to privatization is taking to the streets as the very recent examples of water privatization in Cochabamba, Bolivia and in Arequipa, Peru show. Protests are not only coming from affected trade unions, but also from consumer associations, especially those representing the poorest sectors of society.

The key elements of anti globalization groups in the region include:

a. Trade does not assure justice and development and international agreements and institutions such as WTO or FTAA do not recognize the asymmetries of markets.
b. Globalization is a multinational led process, where a small number of huge enterprises control the direction of the international economy.
c. International Finance markets are a source of instability and speculative behavior, with no relation to the real economy.

d. Debt has already been paid by developing countries and should be erased.
e. International Finance Institutions should be reformed under the one country one vote principle and become fully accountable to citizens.
f. A Rights based approach (civil, political, economic, social and cultural rights as prescribed by the international covenants of human rights) to development should be basis for economic development.
g. The state by itself or under regional agreements should be given a key role in development
h. Democracy with full participation of citizens should be the key organizing principle of societies, to which economic policies should be subordinated.

Thus a new social coalition for alternative policies and much more country and region centered democratic development has started to grow in much of the region. This is showing up in the ballots. In the last couple of years candidates that defend this type of democratic development have received strong electoral backing: Lula in Brazil, Gutierrez in Ecuador, Evo Morales in Bolivia, the Frente Amplio in Uruguay amongst others. Participatory democracy, inclusive and distributive development, environmental sustainability, bigger and better role for government, regional integration and trade agreements, to be the main elements of the rising regional agenda.

5. Final Remarks

South America needs today to look to a different way of relating to globalization; one that does not come from a magic consensus of one size fit all formulas, of blueprints imposed from the outside. Consensus has to be developed but from the inside out. In other terms, the new and ample array of social, economic and political actors from the region have to agree on development priorities, that at least comply with two principles: mobilizing economic, industrial, technological, natural, social and human capabilities that exist in the region; and, assuring that excluded groups become fully integrated in the development process, both economically and socially.

Thus, democracy is a critical element of development, both a means to achieve development and an end in itself. As Amartya Sen has recently stated development can be seen as expansion of freedoms and removal of obstacles that limit the choice of individuals and of societies. Democracy is part of getting there and what has to be achieved.

Once priorities are set, there should be space for experimenting with new policies, both in the design of institutions and economic development. [22] Institutions and policies have to adapt to country conditions and become owned by development actors and not imposed on them from the outside. There is a basic principle to development that should be observed: experimenting is part of the learning process that each society requires. Once society learns how to do it, development accelerates through time.

Some key elements for development that should be considered include:

---

[22] These ideas come from D. Rodrik, Ob. Cit.

a. The need of regional South American trade and integration agreements that would help negotiations with more hemispheric and international trade negotiations. Brazil will have to play a leadership role in such process.
b. The region should search for a broad based development, which includes all types of production units, big and small and all regions and localities in a country.
c. Equality and social justice should become key elements of any development strategy: solidarity should become the glue that links all social and economic actors together in the process of development.
d. International Actors and institutions should give space and possibility for other paths of development and should courageously consider both serious debt relief and the opening of markets for developing countries produce, without limiting them with huge subsidies and non-tariff protections.
e. Environmental sustainability should be a key characteristic of development and strong environmental criteria should be imposed as part of national and regional trade and integration agreements and for more global negotiations.
f. A major effort should be undertaken to strengthen the human, social and informational capabilities of the region.