

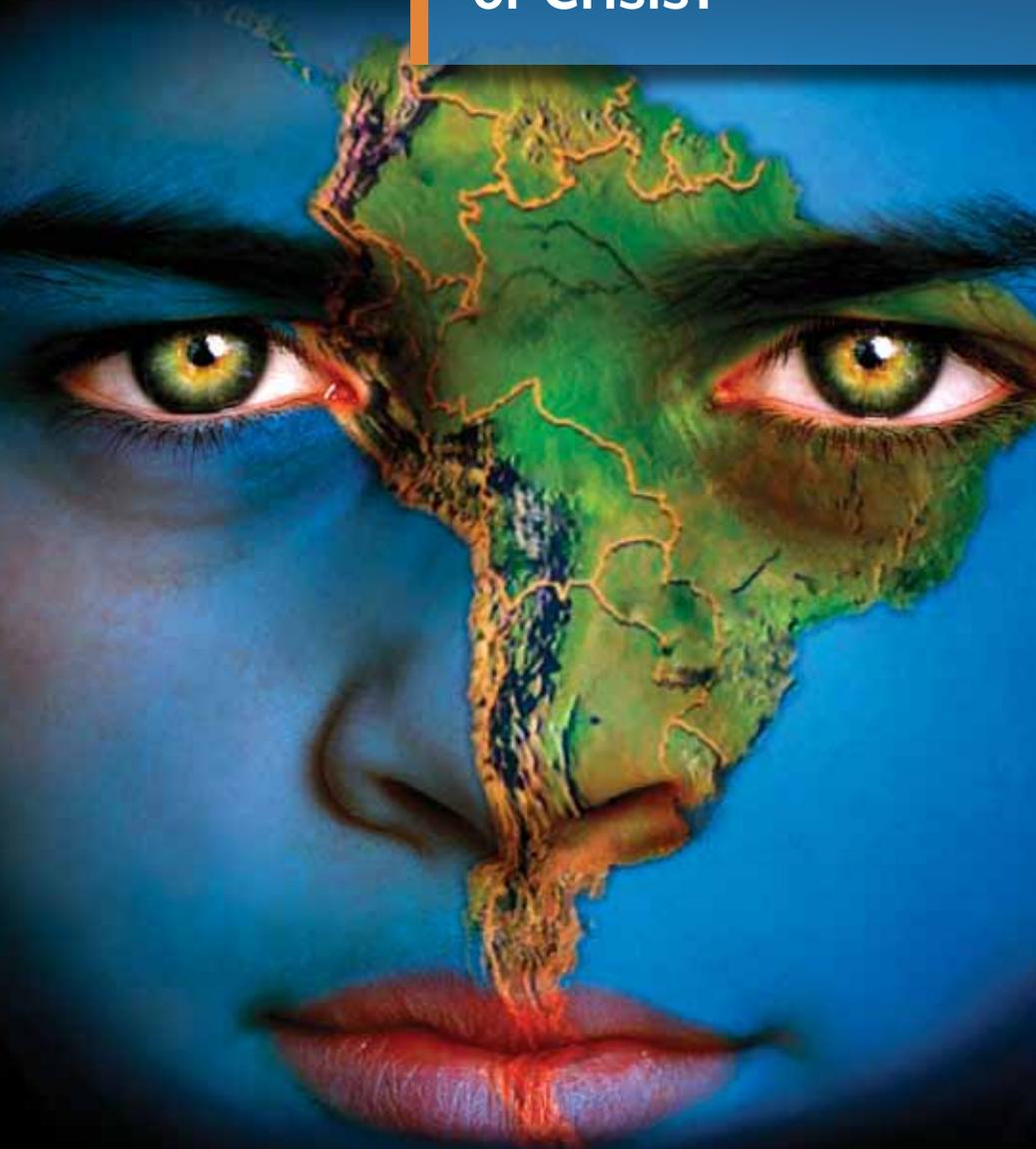
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Latin America 2060:
Consolidation
or Crisis?

PARDEE CENTER TASK FORCE REPORT



Latin America 2060: Consolidation or Crisis?

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Occasionally, the Pardee Center convenes groups of experts on specific policy questions to identify viable policy options for the longer-range future. This series of papers, *Pardee Center Task Force Reports*, presents the findings of these deliberations as a contribution of expert knowledge to discussions about important issues for which decisions made today will influence longer-range human development.

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TABLE OF CONTENTS

iv Acronyms and Abbreviations

v Glossary

Executive Summary1

**Latin America 2060: Assessing the Region’s Present
and Projecting Its Likely Future**

Carlos Blanco and David Scott Palmer

Section I: Economic Growth and Development

**1. Latin America 2060: Securing Economic Development
for the Longer-Range Future.....9**

Ann Helwege

**2. International Integration and Economic Growth
in Latin American Countries.....21**

Ramón Espinasa

Section II: Governance, Democracy, and the State

3. Is Latin American Democracy Finally Here to Stay?29

David Scott Palmer

4. Reform of the State and Democracy in Latin America35

Carlos Blanco

5. Can Judicial Reform Achieve a Rule of Law in Latin America?.....43

Silvia Inclán

6. How Can Effective and Sustainable Governance Be Achieved?.....49

Enrique Saravia

Section III: Environmental Sustainability

**7. Environment, Population, and Natural Resources
of Latin America and the Western Hemisphere57**

Anitra Thorhaug

Section IV: Outside Actors

**8. Taking the China Challenge: China and the Future
of Latin American Economic Development.....65**

Kevin P. Gallagher

9. The Decline of U.S. Influence in Latin America.....75

Riordan Roett

Section V: Socio-Cultural Capacity

10. Projecting Education, Knowledge, and Authority in Latin America81

Dylon Robbins

Section VI: Policy Recommendations.....89

Biographies of Task Force Members.....97

Bibliography 101

ACRONYMS AND ABBREVIATIONS

- ACR:** accusatory criminal proceeding
- ADR:** alternative dispute resolution mechanisms
- ALBA:** Bolivarian Alternative for the Americas
- BRIC:** Brazil, Russia, India, and China
- CALC:** Latin American and Caribbean Summit for Integration and Development
- CARICOM:** Caribbean Community
- CIER:** Commission of Regional Electrical Integration
- CNOOC:** China National Offshore Oil Corporation
- CODELCO:** National Copper Corporation of Chile
- ESSF:** Economic and Social Stabilization Fund
- EU:** European Union
- FDI:** foreign direct investment
- G5:** Former group of the largest West European countries (France, Germany, Italy, the United Kingdom, and Spain), formed in 1975.
- G7:** Former group of the G5 plus the United States and Canada (1976).
- G8:** The G7 countries plus Russia (1997).
- G20:** A group of finance ministers and central bank governors from 19 major economies plus the European Union (EU) formed in 1999. Includes Mexico, Brazil, and Argentina in Latin America.
- IBSA:** India, Brazil, and South Africa
- IDB:** Inter-American Development Bank
- IMF:** International Monetary Fund
- LAC:** Latin America and the Caribbean
- LAFTA:** Latin American Free Trade Association
- LAIA:** Latin American Integration Association
- MERCOSUR:** Southern Common Market
- NAFTA:** North American Free Trade Agreement
- NDU:** National Defense University
- NGO:** nongovernmental organization
- OAS:** Organization of American States
- PA:** public administration
- PRF:** Pension Reserve Fund
- SACN:** South American Community of Nations
- UN:** United Nations
- UNASUR:** Union of South American Nations
- WB:** World Bank
- WTO:** World Trade Organization

Glossary

Amparo: Literally, protection, a legal initiative to assist individuals to gain access to the courts.

Bolivarian Alternative for the Americas (ALBA): A foreign policy development initiative by Venezuela dating from 2004.

Bolsa Familia: A governmental program in Brazil supported by the World Bank that gives money directly to families in exchange for keeping children in school and having regular health checkups.

Cacerolazo: A popular form of protest, especially in Argentina, when protestors march banging pots and pans brought from their homes.

Caudillo: A personalist leader; usually describes a head of an authoritarian government.

Caudillismo: A system or process characterized by personalist authoritarian rule.

Cetes bonds: Peso-dominated Mexican government bonds sold in the early 1990s.

Continuismo: A political pattern in which an elected leader finds a way to serve more than the original constitutionally mandated term of office.

Dutch disease: Refers to overdependence on a single valuable export commodity (drawn from the historical Dutch experience of reliance on tulip exports), which distorts the value of the currency and makes other national products uncompetitive, further reinforcing single export dependency and less costly imports, thus reducing domestic production.

Familias en Acción: A governmental social assistance program in Colombia where monthly stipends are given directly to the mother of the house.

Favela: A Brazilian shantytown.

Fueros: Originally, special privileges granted to specific groups in medieval societies by the Crown.

Maquila: A factory granted tax concessions and other legal advantages to stimulate employment and exports; common throughout Central America and Mexico, especially along the United States/Mexico border.

Oportunidades: A government social assistance program for poverty alleviation in Mexico.

Solidario: A government social assistance program in Chile designed to provide for the poorest of the poor.

Tesobono: A Mexican government security that protects institutional investors from devaluation of the peso.

Tutela: Like amparo, a constitutional writ by the judiciary offering legal protection to individual citizens.

Executive Summary

Latin America 2060: Assessing the Region's Present and Projecting Its Likely Future

Carlos Blanco and David Scott Palmer

This book is the product of a two-day meeting convened by Boston University's Frederick S. Pardee Center for the Study of the Longer-Range Future in November 2010 to discuss the many advances made by Latin America in recent years and to consider both the opportunities and the challenges the region faces over the next five decades. Leading scholars and practitioners from the United States and Latin America gathered to discuss the core concerns that are most likely to set the parameters of the region's future. Specifically, we focused on sets of issues in five key areas:

- 1) Economic growth and development
- 2) Governance, democracy, and the state
- 3) Environmental sustainability
- 4) Role of outside actors
- 5) Socio-cultural capacity

Most of the participants, drawing on their areas of expertise as well as our exchanges in the meeting, finalized their analyses and projections resulting in the original articles appearing in this volume. In the concluding chapter, we also offer policy recommendations drawn from our individual analyses to suggest concrete steps that could be taken to deal with the issues discussed. Our collective goal is to contribute to the debate concerning the future of Latin America among the many communities who have a stake in the outcome of the complex dynamics now unfolding, from political and economic leaders to scholars and civil society.

THE BASELINE: POSITIVE DEVELOPMENTS, REMAINING CHALLENGES

An assessment of Latin America¹ circa 2010, which serves as the baseline for our projections, finds both positive developments and significant challenges.

Politically, democratic procedures and practices have become the norm in the region for the first time, with elections in most countries characterized by robust competition and public acceptance of results. They include—quite remarkably given Latin America’s checkered political history—opposition victories across the political spectrum in all 20 countries except for Cuba over the course of the democratic “wave” that began in the late 1970s. Electoral outcomes also include both “top down” and “bottom up” populist experiments as well as victories by former guerrilla groups able to make the transition from the armed struggle to political party competition in the political arena.

Economically, the region has experienced significant growth, usually under market liberalization, after the extended decline of the “lost decade” of the 1980s and early 1990s. Playing a major role in this growth through trade agreements and both direct and portfolio investments are such outside actors as the United States, several countries of the European Union (EU), and China. The sustained expansion of GDP during most of the first decade of the 21st century contributed to the ability of most Latin American countries to weather the developed world’s latest economic crisis of 2008–09 much better than they would have in the past.

Socially and culturally, growth also contributed to significant improvement in such key indicators as levels of poverty, as well as to the expansion of educational opportunities at all levels. In many cases, the new resources available over the course of the decade contributed to poverty reduction exceeding 50 percent of prior levels, largely through a combination of government programs, including conditional cash transfers, and private sector employment generation. Literacy rates are approaching 100 percent in a number of countries, and university enrollment has more than doubled over the past two decades. Government spending on housing, sanitation, and police has improved the quality of life in many shantytowns throughout the region.

1 The 20 independent republics of the former Spanish, Portuguese, and French empires in the New World: Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Haiti, Dominican Republic, Cuba, Venezuela, Colombia, Ecuador, Peru, Bolivia, Chile, Argentina, Uruguay, Paraguay, and Brazil.

CONCERNS FOR THE FUTURE

Despite the favorable current situation in important respects, however, the future is fraught with risks in several specific areas of concern. Major reforms, though in some cases already under way, will need to be fully carried out to enable the countries of the region to avoid future crises or at least limit their impact.

One major concern is economic: The recent impressive macroeconomic dynamism is based on the export sector, specifically a more than doubling of commodity prices in recent years for such products as iron, copper, gold, oil, and soybeans. While the additional resources generated by this latest boom have strengthened fiscal accounts and have contributed to a variety of poverty reducing social programs, they have also contributed to a deteriorating competitive capacity in other sectors of the economy. One result is a growing current account deficit in almost every country.

Present economic dynamics remind us of too many past examples in which Latin America's historic dependence on primary product exports has generated boom-and-bust cycles. These cycles have created major internal economic disruptions over which individual country policy makers have little control, an outcome that could easily occur again.

Outside actors have played a major role in stimulating economic growth in the region. Emerging markets, including Latin America, have become particularly attractive due to a combination of low interest rates in the United States, a weak dollar, high savings levels in China, and slow growth in Europe. Both U.S. trade and U.S. direct investment in Latin America have increased by more than 300 percent since the early 1990s. However, Mexico and Central America have not experienced the same growth as South America. Mexico has a more diversified economy than many South American countries, but is increasingly dependent on trade with the United States. El Salvador, Guatemala, Honduras, and Nicaragua have suffered from poor governance and an economic dynamic that relies too heavily on the export of labor.

China has become a new export destination for Latin American products, though its impact to date should not be overemphasized. While Latin American exports to China have doubled in the last five years, they still account for only seven percent of total regional trade, of which more than 80 percent is from just five countries—Argentina, Brazil, Chile, Colombia, and Peru. Thus, only a few countries in the region are the most important beneficiaries of such expanded trade.

China's demand for Latin American products will only increase in the future (particularly for oil, iron, copper, and soybeans), but the region must also take measures to counter such challenges as the Dutch disease, currency appreciation, and environmental degradation.

Any future reduction in regional economic growth will more than likely occur in the primary product sector, which is the base of the region's economy. Slower growth in this sector, in turn, would almost certainly result in both lower foreign investment and reduced internal aggregate demand, among other effects.

A second major challenge stems from the relationship between Latin America's natural resources and its population growth. Along with abundant and diverse mineral and agricultural capacities, the region has 26 percent of the world's fresh water and produces 20 percent of its oxygen, but has just 13 percent of its people. However, population growth is anticipated to increase from 533 million to 786 million over the next 50 years, as significant reductions in infant mortality are combined with similar increases in longevity. Thus, the demand for these resources will grow rapidly to meet the need for food, water, energy, and industry.

There are also major environmental impacts associated with population growth as well as with climate change. These impacts include continuing deforestation of what has been called "the lungs of the world," a decline of fish stocks, the progressive loss of biodiversity, growing air pollution, and increasing scarcity of water in the region's more arid areas.

A third important challenge is political, relating to the multiple imperfections in the democracies that have been established in Latin America over the past 30 years. Although there have been no cases of successful military coups (i.e., the takeover of political power by the armed forces) since Haiti in 1991, fully half of the region's 20 countries have experienced removals of elected heads of state before the completion of their terms of office, in many cases by quite dubious extra-constitutional procedures.

True, the armed forces no longer represent the authoritarian political threat dominating the region before the full transition to electoral democracy between 1978 and 1990. In some countries, however, the military institution retains a high level of visibility and at times serves as an arbitrator during political crises.

Another political issue revolves around *continuismo*, or efforts by civilian political leaders to change constitutions to allow immediate presidential re-election, often

successful. This raises once again the possibility of long-term domination by an individual head of state, hearkening back to the past specter of *caudillo* rule.

An additional troubling development is the changing status of political parties. In many countries the traditional party system has lost its institutional capacity and has been supplanted by so-called “flash parties” or personalist political groups quite incapable of aggregating or representing societal interests in any lasting fashion.

Such growing party incapacity has left civil society in numerous countries without an institutionalized channel to government. The result has often been the stimulation of social movements seeking to articulate the popular concerns that used to be the province of parties. In some cases, these supplant the party system in quite unpredictable and sometimes violent ways.

LATIN AMERICA IN THE GLOBAL CONTEXT

At the broader global level, some Latin American countries, such as Brazil, have become important international actors which, along with some other emerging economies, appear to be in the process of replacing the former global economic power of the EU. With regard to the United States, economic relationships continue to be very important, but their northern neighbor’s political influence, so dominant during the 20th century, seems to be diminishing.

After a clear convergence of interests in the aftermath of the transition to democracy and the economic challenges of the 1980s, most Latin American countries are increasingly seeking to diversify their external relationships and to establish their own

sub-regional arrangements to achieve their national development goals. Even though the region shares a common heritage, the national interests of individual countries and a variety of tensions between

individual states—including land and ocean border disputes and “Indian nation” movements—make such collaborative initiatives problematic at best.

Given this panorama of risks and possibilities, Latin America needs to generate some fundamental changes.

After a clear convergence of interests in the aftermath of the transition to democracy and the economic challenges of the 1980s, most Latin American countries are increasingly seeking to diversify their external relationships and to establish their own sub-regional arrangements to achieve their national development goals.

To resolve the region's economic vulnerability due to its current reliance on economic growth based on primary product exports, one necessary step is to open the primary sectors to foreign investment where it is now restricted. A second imperative is to ensure increased national value-added content to production, which would include technological and knowledge transfer to develop more specialized industries.

It is also necessary to respond to the risks within the financial system, currently hidden by the primary product boom along with the higher levels of government income generated by taxes on the companies that are producing these commodities. Levels of worker productivity, although not a high government priority at this time given high commodity prices, also need to be increased. Latin America to date has not had significant increases in productivity as the result of improved labor skills or technological advancement.

The ongoing commitment to development, which will be based on primary products for some time to come, needs to be pursued in tandem with an environmental policy that is sensitive to the fact that the region's advantageous natural resources position is subject to vulnerabilities that could become evident over the middle term.

There are multiple sources of pressure to overexploit these resources, including ongoing population growth, continuing poverty and exclusion, marginalized indigenous populations, and internal migration flows to the cities. An effective state regulatory system and organized oversight by civil society are required to manage these tensions and pressures.

CONTINUED REFORMS ARE NECESSARY

In summary, to deal with these multiple challenges, government institutions need powerful tools at their disposal to manage natural resources, provide stabilization funds, control capital flows, and stimulate national integration. Governments also need to work with civil society organizations to tackle these problems together. In this manner, the multiple risks that Latin America will be facing over coming decades are more likely to be managed without provoking the crises and even system breakdowns that have too often occurred in the past.

In the political arena, electoral democracy has been in the process of deepening its relationship to society through citizen participation by virtue of being in place now for 20 years or more. However, it has often operated in ways that lack well-

institutionalized channels or fully responsible local and regional organizations. Democratic governance will be able to increase to the degree to which state and non-state institutions are connected.

Democracy will also benefit if public spaces are not exclusively or predominantly filled by the state but are arenas in which organizations generated by civil society can operate freely and openly. In such a dynamic, political parties may be able to reform themselves to become more representative and to overcome the legacies of *caudillo* and populist dominance.

As this overview has indicated, Latin America has tremendous opportunities going forward, made even greater if it can overcome its vulnerabilities with appropriate policies and reforms. Nevertheless, the region's greatest limitation is the state itself. Latin American states, with few exceptions, are characterized by their fragility, their inefficiency, and their low level of institutional development.

Even so, since the 1980s a number of state reforms have been attempted, and some, such as in judicial systems, decentralization initiatives, and poverty reduction programs, have achieved important successes. As a result, where reforms have taken place the judicial branch has become more autonomous, decentralized government has increased the democratization of local society, and the delivery of the most highly demanded public services has improved. At the same time, there is still a need to further strengthen states' constitutional and legal capacities, especially in the lower courts.

Unfortunately, too many of these reforms have been only partially carried out, stopped in mid-implementation, or distorted by deviating from their original objectives. The basic problem is that the reform policies themselves are not sufficient because the structure of the state itself does not easily foster or permit the changes that have been proposed. Compounding the problem, Latin American states have had great difficulty in dealing with a number of major challenges affecting their populations. Although severity varies from country to country, the list is depressing: from street crime, drug production and trafficking, illegal immigration, and illegal depletion of natural resources, to money laundering, exploitation of children, and systemic corruption.

Our Task Force concluded that reform requires institutional changes, which have as their objective an improvement in state capacity to engage effectively with societal complexities. States themselves need to become more complex in order to participate efficiently within the increasingly complex national system of

which they are a part. The initiatives required to overcome the multiple challenges Latin America now faces demand a state that is structurally transformed. New or better economic institutions need to be established, along with a more efficient public administration, the reform of branches of central government, and of local and regional decentralized entities. Initiatives also require a solution to poverty rather than simply its reduction or maintenance at lower levels. Political party transformation must also be a high priority. In addition, inserting the region into an increasingly globalized world on more favorable terms also demands a more effective and efficient national state.

Domestically, the basic sense of such a transformation is that the state becomes progressively knitted together more fully with society, so that a permanent and growing interrelationship evolves between state and non-state institutions. Even though this relationship can blur the boundaries between “public” and “private,” it can help to ensure a more efficient and a more democratic state as well as a more engaged society.

A “smart state” that also includes a closely woven relationship between state and non-state actors can make a decisive contribution to democratic governance. Government through a reformed public administration should serve as a stimulus to institutional development as well. Even so, the state role would be more indirect in arenas where more social actors are involved in the formulation of public policy. Improved democratic governance is not equivalent to more government. It refers, rather, to state and non-state institutions with greater capacities to effectively meet national needs.

In order to confront the multiple challenges Latin America faces, new and better policies are required. However, new policies alone are not enough. The region’s generally weak, backward, and inefficient states are largely inheritances of *caudillo* and populist traditions. Such a state in today’s complex world is incapable of formulating innovative policies. Reforms are required that get to the heart of the problem—the very structure of the state itself.

Section I: Economic Growth and Development

1. Latin America 2060: Securing Economic Development for the Longer-Range Future

Ann Helwege¹

Latin America is growing, and growing fast. The question is whether it is developing, in the sense of securing the basis for sustained inclusive growth, or merely experiencing an upswing in its historically cyclical, natural resource dependent model.

Few would assert that growth itself constitutes development, even if, arguably, growth makes good development policies feasible. True development must include opportunities for democratic participation, less vulnerability to natural, military and economic calamities, social inclusion of marginalized groups, sustainable resource use and lifestyles that are healthy, productive, and pleasurable.

While it isn't possible to measure progress precisely on these dimensions, we can assess income, education, maternal and infant mortality, violence, as well as inequality and poverty rates. With the exception of violence rates, Latin America is making progress. Every country in the region has seen infant mortality decline sharply in the past two decades (Table 1). Maternal mortality—arguably a greater

Table 1. Infant Mortality: Rate per 1,000 Live Births

	Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	Ecuador	El Salvador
1990	25	84.3	46	18.3	28.1	15.8	41.3	48.2
2000	18.8	62.4	28.2	9.4	22.0	11.5	28.0	27.8
2009	13	39.7	17.3	7.0	16.2	9.6	20.4	14.6
	Guatemala	Honduras	Mexico	Nicaragua	Paraguay	Peru	Uruguay	Venezuela
1990	57	43.2	36.4	51.5	34	62	20.5	26.5
2000	38.6	32.6	22.1	34.2	25.4	35.1	15.4	19.9
2009	32.6	25	14.7	21.8	19.4	19.4	11.3	15.3

Source: World Bank, World Development Indicators (WDI), 2010.

1 I am grateful to Jonars Spielberg for valuable research assistance.

Table 2. Homicide Rates, Deaths per 100,000 Residents

	2000	2009
El Salvador	39	71
Honduras	51	67
Guatemala	26	46
Venezuela	33	49
Colombia	65	35
Brazil	26	20
Mexico	14	15
Argentina	7	5
Chile	6	4

Source: Organization of American States, Observatorio Interamericano de Seguridad, accessed 06/28/2011

challenge to public health systems—has fallen by similar magnitudes. Only rising violence fueled by drugs and gangs suggests a reversal of progress, and such activity is concentrated in a few northern countries (Table 2).

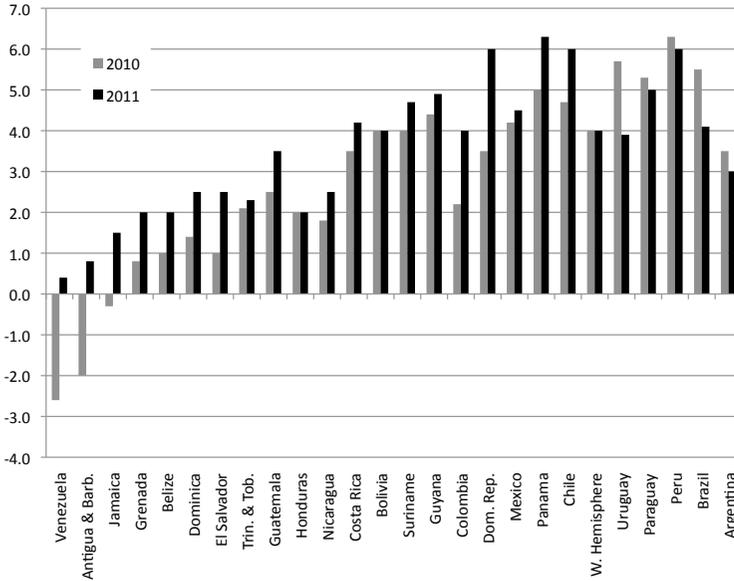
Other contributions to this volume address the extent to which the underpinnings of democracy—beyond elections—have been established. My concern is the extent to which longer-term economic stability has been achieved. Growth itself is helpful; avoiding the economic instability that characterized Latin America’s past is essential to securing its increased development by 2060.

ARE THE COMMODITY-DRIVEN BOOMS IN SOUTH AMERICA SUSTAINABLE?

Latin American growth topped five percent in 2010, with growth in Brazil, Peru, and Argentina exceeding seven percent (See the IMF forecasts in Figure 1). This is not merely a rebound from the recession of 2009. Between 2004 and 2008, regional growth averaged four percent with several countries exceeding six percent. When one considers that regional growth in the 1980s, 1990s, and early 2000s hovered around two percent, this resurgence is remarkable.

A recent World Bank report attributes this success to: 1) Improved macroeconomic policies, including strong currencies, countercyclical fiscal policies, and liquidity and capital provisions in banking regulation; 2) Better integration into global financial markets, involving less reliance on external debt “that exposed it to rollover risks, interest rates hikes, and sentiment changes, that could wreak havoc in its finances” and new flows of foreign investment; and 3) Diversification

**Figure 1. GDP Growth Forecasts for 2010 and 2011
Selected Latin American Countries**



Source: International Monetary Fund (IMF), World Economic Outlook 2010

of its trade structures, which “desensitize it” to the economies of Europe, the United States, and Japan (World Bank 2010, October 6).

The World Bank is not alone in its enthusiasm for Latin America’s economic prospects. Brazil’s stock market has returned an average of 18.5 percent per year since 2005 despite the 2008 crash (Bloomberg, Bovespa Brazil São Paulo Stock Exchange Index). This is compared to a loss of 0.5 percent per year in the S&P 500 over the same period. Such sustained growth can create jobs and reduce overall rates of poverty. Indeed, poverty rates fell throughout the region between 2000 and 2007 (Table 3). If the optimists are right, Latin America is well on its way to becoming “developed” by 2060. However, there are reasons to be concerned about the sustainability of rapid growth in South America, and the prospects for even modest growth in Central America (Mexico is on a distinctly different trajectory, to be discussed later).

Despite refrains that “this time is different,” a commodity boom is evident throughout South America. Much of the macroeconomic dynamism is concentrated in the export sector, and much of that growth is attributable to higher commodity prices rather than output (although production has increased). The

**Table 3. Poverty Headcount Ratio at \$2 a Day
(Purchasing Power Parity—PPP, % of Population)**

Country Name	2002–2003	2006–2007
Argentina	19.7	7.34
Bolivia	34.2	21.9
Brazil	21.5	14.6
Chile	5.34	2.38
Colombia	26.3	27.9
Costa Rica	11.5	4.25
Dominican Republic	16.3	12.9
Ecuador	22.4	12.8
El Salvador	24.5	13.2
Guatemala	29.8	24.3
Honduras	33.4	29.7
Mexico	13.1	4.79
Panama	20	17.9
Paraguay	28.1	14.2
Peru	24.4	18.2
Venezuela, RB	31.7	10.2

Source: World Bank, WDI, 2010

exports that have fueled the region’s boom (Table 4) are volatile primary commodities, including copper, gold, iron, soy, and oil. Table 5 presents trends in prices of minerals: all have more than doubled in the past decade. Soybean prices alone have doubled since 2005 (Figure 2), and oil prices are more than twice what they were a decade ago in real terms.

Additionally, China’s imports into the region have fueled commodity demand and confidence. Between 2000 and 2008, trade between China and Latin America grew at an annual rate of 31 percent, almost all of it in the Southern Cone (Inter-American Development Bank 2010). China’s growth could give rise to

Table 4. Exports of Goods and Services 2004–2007 (% Annual Growth)

Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela
9.5	9.7	9.0	7.5	9.1	8.9	8.8	9.4	9.2	13.9	1.6

Source: World Bank, WDI/Global Development Finance (GDF), 2010

**Table 5. Mineral Export Prices, 2001-2009
Index, 2001=100**

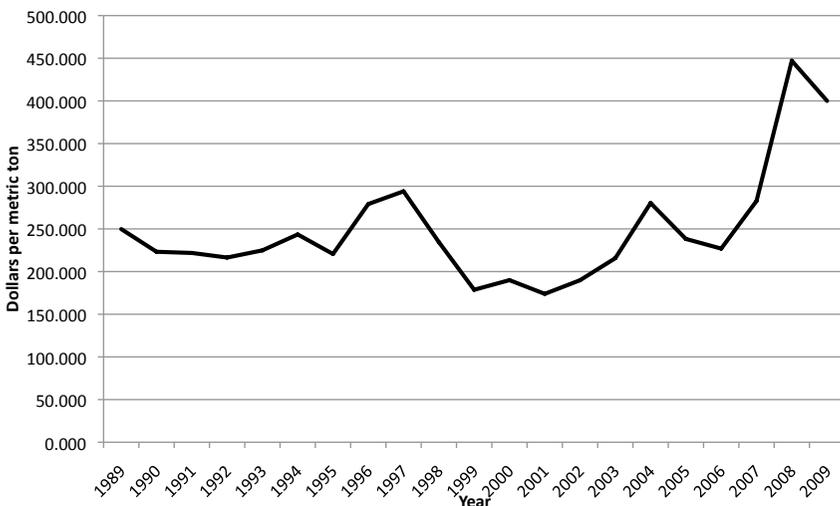
	2001	2005	2007	Dec-09
Copper	100	231	428	424
Tin	100	175	351	380
Gold	100	164	258	417
Silver	100	166	304	405
Iron	100	175	206	218

Source: Baca et al., 2010

a “super-cycle,” a decades-long commodity boom. If so, Latin America will have the luxury of financing better schools, housing, roads, ports, and parks.

But China’s rapid rise has also created supply bottlenecks that are likely to be relieved over time, leading to lower prices. A decline in gold and copper prices to half of the 2009 level—a return to healthy 2005 prices—would reduce Peru’s exports by nearly a third. Global reserves of iron and copper are massive, particularly if recyclable stocks are included. While Brazil is home to Vale, the world’s largest iron ore firm, the country produces just 15 percent of global iron ore, compared to nearly half of global output in China itself. Moreover, China has aggressively invested in Africa, where cheap production may finally take off in the next decade.

Figure 2. Soybean Prices, Brazil (\$/MT)



Source: IMF, International Financial Statistics Database, 2010

Similarly, soybeans are produced in many highly efficient developed countries. The United States, whose folly in diverting land to corn-ethanol is close to an end, may compete fiercely with Brazil and Argentina as the dollar weakens. U.S. soybean output, one-and-a-half times that of Brazil's, grew faster than Southern Cone output from 2006 to 2010. Monsanto and Brazil's Embrapa have also developed seeds and strategies to enhance the productivity of soy farming on marginal lands throughout the tropics. Even if China's demand for grain-fed meat continues to grow, prices may well return to historical trends.

The fluctuating price of oil reflects such factors as efforts to reduce carbon emissions through efficiency, the growth of competing energy sources (e.g., nuclear power, wind, and natural gas), perceived supply gluts from new discoveries, and OPEC policies. Brazil, with its massive Tupi and Libra fields, is poised to become one of the world's largest oil producers. Former president Luiz Inacio Lula da Silva described this new resource as "the opening of a direct bridge between natural wealth and the eradication of poverty," a feat previously anticipated by Mexico in 1976. Yet the difficulty of accessing this oil, 18,000 feet beneath sea level, means large scale production will likely not occur for another decade. Should it succeed, its impact on other energy producers—Venezuela and Ecuador in particular—will not be favorable.

High commodity prices have undermined the competitiveness of other sectors, a classic case of Dutch disease. Foreign capital has been drawn into the region to pursue both commodities and currencies, exacerbating exchange rate appreciation (Table 6). In truth, Latin America has been unable to compete with

**Table 6. Real Exchange Rates, 2000–2009
(per US Dollar, 2005 Base Year)**

	2002	2005	2008	2009
Argentina	3.66	2.90	2.64	2.93
Bolivia	7.29	8.08	6.18	5.78
Brazil	3.52	2.43	1.77	1.84
Chile	679	560	491	517
Colombia	2,749	2,321	1,842	1,939
Peru	3.45	3.27	3.02	2.73
Uruguay	26.71	24.48	18.61	18.66
Venezuela	1.98	2.09	1.33	1.03

Source: United States Department of Agriculture, 2010

Asia in assembly work for years; in addition, corruption—another element in the “natural resource curse”—seems to have worsened. South America’s lack of broad trade competitiveness is evident in its current account deficits. The IMF forecasts substantial deficits in 2010 for every country (except Argentina, Ecuador, and Venezuela) even as it proclaims that Latin America is “advancing with strength” (International Monetary Fund October 2010, 79).

INFLUENTIAL FACTORS IN LATIN AMERICAN DEVELOPMENT

The Real Role of Commodities: Optimists arguably overstate the role of China, as well as the demand for commodities themselves, in the Latin American boom, and underestimate the importance of global liquidity. Low U.S. interest rates, a weakening dollar, excess savings in China, and soft European growth have fueled capital flow to emerging markets. Gold prices, in particular, reflect fears of U.S. inflation and global banking failures, as well as uncertainty about currency re-alignments as global economic power shifts. Gold, which is used almost exclusively for jewelry, is most likely in a speculative bubble as a hedge against continuing economic uncertainty. It is also Peru’s largest export.

A loss of growth can hurt Latin America’s development as a downturn in foreign investment cools aggregate demand. Investment, aimed at increasing production capacity or capturing rising equity values, is the leading edge of a softening business cycle. And the financial unwinding of excessive optimism has hurt the region before.

The relatively low risk premium on Latin American bonds reflects both confidence in the current generation of finance ministers and a lack of good investment alternatives in the North. A similar phenomenon occurred in the 1970s with petrodollar recycling. A very substantial difference is that external debt is far smaller as a share of GDP (Table 7).

National and Private Debt: Despite lower dollar-denominated debt, and a far healthier financial profile than in the past, recovery of the U.S. economy and higher

Table 7. External Debt as a Percent of GDP

	Argentina	Brazil	Colombia	Ecuador	Honduras	Mexico	Peru
2004	74.1%	13.1%	21.9%	36.0%	53.2%	11.0%	35.2%
2006	27.1%	6.9%	15.6%	26.4%	33.9%	7.4%	25.4%
2009	17.6%	4.2%	14.1%	15.1%	16.1%	9.4%	16.3%

Source: Inter-American Development Bank, Latin American and Caribbean Macro Watch, 2010

interest rates could make it harder to finance deficits in local currency (Brazil's public debt in 2009 was 43 percent of GDP, almost entirely in local currency). Domestic debt is not immune to speculative attack. A loss of confidence in Latin American economies can trigger sales of domestically denominated debt, capital flight, and a currency collapse. This scenario was starkly demonstrated during Mexico's peso crisis as Cetes bonds lost favor in the course of a few months.

Eliminating risk in the private financial sector is also challenging. Although banking regulation in Latin America is better than ever, it is difficult for regulators to assess risk and enforce reserve requirements during a boom, as the evidence points to strong balance sheets until the bubble bursts.

Tax Reform: Absent a commodity boom, the capacity to engage in counter-cyclical fiscal policy is hampered by the region's long-standing failure to engage in tax reforms. Government balances remain beholden to non-tax revenue. Peru, for example, depended on minerals for 11 percent of its revenue in 2009, compared to four percent in 2002 (Baca, Ávila, Muñoz 2010). Tax revenues represent only 16 percent of GDP in Latin America, compared to 35 percent in OECD countries, as volatile commodities are relied upon for non-tax revenue (Dayton-Johnson 2008, 1–2). Tax structures ought to be reformed to capture a wider base, but as Baca et al. (2010) argue in the case of Peru, it is difficult to do so:

The rapid rise in taxes of these industries—that originates in the extraordinary rise of prices of minerals and oil—generates an optical illusion: tax pressure has passed from 13 percent to 16 percent of the GDP with no effort by SUNAT, thus the idea of a tax reform has vanished from the public agenda ... [C]orporate groups have begun to suggest a reduction of income tax rates, the elimination of the ITF (tax to financial transactions), among others, which to us seem unacceptable.

And even though Brazil's tax base is far broader than Peru's and twice the share of GDP compared to other countries in the region, its deficits are also larger as a share of GDP.

The Middle Class: Since 1998, Latin America's middle class in six countries—those rich enough to have savings but not financially savvy enough to move money abroad—has lost its savings due to banking failures and appropriation by bankrupt regimes. Argentina's *cacerolazo* in the wake of the 2001 currency board collapse is a classic example. Overall, the region is still in far better shape than it was a decade ago—and worlds apart from the chaotic inflation of the

early 1990s—but perhaps the middle class should not put its pots back in the cupboard just yet.

The points discussed above are not intended to forecast trouble, but to identify vulnerability that warrants attention to secure long-term growth. A confluence of factors has fueled growth in South America: China’s rapid economic expansion, low global interest rates, uncertainty about OECD growth and currencies, and an influx of capital directed at commodities. Notably absent are fundamental improvements in productivity driven by skills and technological advancement, although new wealth has financed improved infrastructure. The main result has been a case of Dutch disease: currency appreciation, biased investment, and fiscal dependence on commodity revenues. Perhaps those who benefit from this boom will not see it collapse in their lifetime, but the factors behind growth seem unlikely to endure for many decades.

EVEN IF FEASIBLE, IS NATURAL RESOURCE DEPENDENCE THE RIGHT DEVELOPMENT STRATEGY?

There are reasons to ask whether the current model is a good development strategy, even if it is durable. Does it improve lives and increase opportunities for most citizens? Much of the export growth has happened in capital-intensive sectors that create few jobs for the region’s unskilled labor force.

For ordinary Latin Americans, most of whom are quite poor, the boom has had mixed effects. The urban poor have benefited from improvements in infrastructure and generous welfare payments. Poverty rates are sharply down in urban areas. There are jobs for unskilled workers in the private and public sector, particularly in construction and services.

Government spending on housing, sanitation, and police has vastly improved the quality of life in urban *favelas* and shantytowns. Generous welfare payments through conditional cash transfers like Brazil’s *Bolsa Familia*, Chile’s *Solidario*, Colombia’s *Familias en Acción*, and Mexico’s *Oportunidades* now serve 93 million Latin Americans providing support that few experienced before 1998 (United Nations 2010). Less hopefully, this figure suggests that a substantial share of Latin Americans have been unable to secure their own means of improving standards of living.

Inclusion of the rural poor has been more elusive. Rural poverty rates remain far higher than urban rates, despite the boom in agriculture and mining (Table 8).

**Table 8. Urban and Rural Poverty Rates (\$2.50 USD)
Percent of Population**

	Urban	Rural
Brazil		
2004	21.4	42.2
2008	12.7	30.8
Ecuador		
2004	20.2	46.0
2008	12.6	33.2
Mexico		
2004	9.4	33.7
2008	8.8	32.2
Peru		
2004	8.8	50.9
2008	5.1	40.2

Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank), November 2010

Some of the poorest geographic regions have been left out of the boom altogether. In Peru, much of the agricultural expansion has occurred among mid to large growers of fruit and vegetables along the coast, while Andean mining communities remain mired in poverty despite generating more than half of the country’s exports. The Northeast of Brazil actually saw a slight decrease in agricultural income that has been compensated for by social transfers (Table 9).

This is partly because modern agriculture and surface mining involve relatively little labor. The number of jobs in Brazilian soy cultivation fell from 741,000 in 1996 to 335,000 in 2004 despite rising output (Pérez, Schlesinger, and Wise 2008). A joint Food and Agricultural Organization/United Nations (FAO/UN) study of 10 Latin American countries concluded that despite rising productivity, rural wages have failed to increase throughout the region (Da Silva, Gomez, and Castañeda 2010). Mining—an even more capital-intensive activity—not only fails to create jobs, but also destroys land and waterways that support subsistence farmers.

The prospects for occupational mobility are not much brighter as we look ahead. Education rates for adults are low for a middle-income region, a problem that

Table 9. Brazil: Composition of Household Income by Region (2006 constant R\$)

Source of income	Northeast		Southeast		South		Central East	
	95–96	05–06	95–96	05–06	95–96	05–06	95–96	05–06
Income per capita	117	135	225	278	247	341	244	306
Agricultural income								
Average	48	46	101	93	122	156	136	155
Share of total income	0.41	0.34	0.45	0.34	0.49	0.46	0.56	0.51
Non-agricultural income								
Average	41	35	93	115	84	101	83	98
Share of total income	0.35	0.26	0.41	0.41	0.34	0.29	0.34	0.32
Social security and pensions								
Average	26	41	26	57	34	71	18	39
Share of total income	0.22	0.30	0.12	0.21	0.14	0.21	0.08	0.13
Other income								
Average	3	13	6	13	7	14	7	14
Share of total income	0.02	0.10	0.03	0.05	0.03	0.04	0.03	0.05

Source: Da Silva et al. 2010

can only be solved in the longer term. Brazilians over age 25 have an average of 6.67 years of schooling—barely a primary school education—and less than 12 percent of the population has completed high school (Guilhoto 2010). Among poor Mexican heads of household in 2004, 89 percent had no more than a primary school education. In rural areas, the disadvantages are even greater. Few poor workers will be able to transcend the gaps in skill needed to compete in a capital-intensive export sector.

Policy-makers are well aware that low education levels hinder growth. Spending on education has long been generous in Latin America, but the quality of schooling is poor, and illiteracy among parents poses challenges to what can be accomplished with the current cohort of students.

A BRIEF COMMENT ON MEXICO AND CENTRAL AMERICA

Mexico and Central America have not experienced the same growth as South America, and there is uneven progress in implementing policies to secure long-term growth. El Salvador, Guatemala, Honduras, and Nicaragua have suffered from poor governance and an economic model that relies too heavily on the export of labor. Remittances account for a share of GDP comparable to that of exports in South America (Table 10), yet the growth of remittances slowed sharply after 2007. The agricultural value-added sector has barely grown: in Nicaragua it grew by a mere 0.7 percent per year between 1990 and 2007. Rising coffee prices—today’s short-term hope—repeatedly proved unsustainable in the 20th century. The belated pursuit of gold is likely to prove environmentally unwise and unprofitable, particularly if it exacerbates social tension. Given the poverty that prevails in these countries, external support for training, education, infrastructure, public security, and trade promotion is essential.

Table 10. Remittances, % of GDP, 2009

El Salvador	15.7%
Guatemala	9.8%
Honduras	19.3%
Nicaragua	10.3%

Source: World Bank, Migration and Remittances Data, 2010

Mexico, the subject of much derision as a failed state, actually has a more diversified economy than many South American countries. Its manufacturing sector is integrated with the United States (for better and for worse) and much of what it produces involves medium-skilled labor. The challenge is to support small farmers in the South, to improve the quality of education, and to stem violence to maintain foreign investment. It has chosen a different master—the rich aging U.S. economy over the vast rising Chinese market—but its proximity to the United States may justify this.

The current commodity-driven boom in South America has provided much needed hope for a region that has endured three difficult decades. As the region looks to 2060, it must secure itself against cyclical fluctuations and create new job opportunities for its people. Latin America’s enduring wealth is in its human capabilities, not the minerals beneath its earth or in the crops produced by mechanized agriculture.

2. International Integration and Economic Growth in Latin American Countries

Ramón Espinasa

Within the global economy, the Latin American and Caribbean (LAC) region is becoming increasingly specialized in the provision of primary goods with varying degrees of value added along the energy, mineral, and food chains. The evidence of the last few decades shows a quantum leap in exports with a growing concentration of exports in primary goods and their manufactures. There has been a noticeable growth in the number of new products downstream of raw natural resources and commodities.

Evidence from the Andean Countries shows exports increasing fourfold in real terms between 1984 and 2004 (Espinasa 2006). In the same period, the concentration of exports of the first 15 products increased from 65 percent to 85 percent. Primary sector related products—raw materials and their manufactures—remained around 96 percent in the first 15. There has been a homogenous increase in the number of new products produced in clusters downstream of the raw materials in different countries (Manzano 2006). A similar phenomenon can be observed in countries such as Chile, Argentina, and Brazil.

The evolution of LAC exports is a consequence of the recent dynamics of world trade, particularly the integration of China and the rest of Asia into world production and trade. The LAC cannot compete with the Asian countries on the basis of cheap labor, as witnessed by the demise of the maquila industry in Mexico and Central America. On the other hand, the fast growth of manufacturing in Asia has put additional pressure

The evolution of LAC exports is a consequence of the recent dynamics of world trade, particularly the integration of China and the rest of Asia into world production and trade.

on the demand for raw materials, seen in the upward pressure on the prices of primary goods over the last decade. Exponentially growing prices for commodities and primary goods fueled by world economic growth between 2002 and 2008

prefigures aspects of Malthusian boundaries to growth in decades to come. In this context, LAC has a comparative advantage, given that its vast endowment of natural resources will increase over time. It is possible to devise an economic growth strategy on the basis of the exploitation of natural resources for decades to come.

LAC COMPARATIVE ADVANTAGE AND GROWTH STRATEGY

Shifting ownership: The primary sectors with the highest potential for growth, particularly in mining and energy intensive industries, are characterized by being high capital and technology intensive and low labor intensive. The development of these sectors, however, is defined by state ownership of the natural resource and high rents over and above production costs. These rents are a source of large revenues for government with well-known macroeconomic consequences that may hamper the development of other productive sectors. Development of primary sectors can engender high revenues with very little employment. Increasing the national content in the production of primary goods, be it through the supply chain of goods and services required upstream or adding national value downstream in the processing industry, is the main challenge of a growth strategy based on the exploitation of natural resources where LAC has an international comparative advantage.

In most cases, the specialized technologies and large investments needed for the development of primary industries require opening these sectors to foreign investment. Unless there is a deliberate policy to integrate these industries into the national economy, the development of primary sectors may be concentrated in enclaves with foreign personnel, equipment, and productive inputs. The same can be said of primary sectors developed by national operators; national ownership of productive capital does not automatically secure integration into the national economy. The development of primary sectors can increase revenue but have a limited impact with respect to employment and national wealth creation.

State ownership of natural resources requires operators contracting with the government to have access to the mines and natural reserves. This opens a window for policies oriented to maximize growth impact in two respects: maximize the national content in the production of the primary goods and secure the transfer of technology and knowledge for the development of specialized national industries. Thus a strategy can be implemented to maximize the national impact of the development of primary industries. As part of the concessionary contracts, clauses can be included to reward larger national content in terms of labor as well as goods and services produced locally. The training of the local labor force

and the ordered transfer of technologies can be part of the negotiations leading to the concession of mines, public lands for agricultural purposes, or oil/gas-bearing lands.

Conditional open markets: The implementation of such a strategy requires not only agreement between the state and the operators, but also between the operators and national firms that can be suppliers of goods and services. The condition in the procurement policy requires national companies to be ready to engage with operators in a long-lasting relationship. These companies would then be the national recipients of sustainable skills and knowledge.

The same process can be implemented with regard to the development of industries downstream of the primary sectors. Concessions for the production of raw materials can be conditioned to the establishment of processing plants along the value chain in order to add value in the country. Thus the “population” of neighboring industries, both suppliers of goods and services and downstream of the primary goods, can be facilitated by active policies by the resource owner state (Hausmann, Rodrik 2003, 603–633).

Opening primary sectors to foreign investment applies not only to new sectors but also to long-established ones that have been expropriated and monopolized by state-owned industries. In most cases such state control has hindered the development of these sectors by limiting access to capital, technology, and know-how.

Recent experience shows how the successful performance of the oil and gas sectors in countries such as Brazil, Colombia, or Peru is related to institutional reforms. Opening these industries to direct foreign investment and competition brought access to fresh capital, new technologies, and additional engineering capacity. The counterexample would be the dismal performance of the oil industry in the countries with the largest reserves in the region such as Venezuela, Mexico, or Ecuador, all run by state-owned monopolies lacking such capabilities (Espinas 2008).

There are a number of countries in LAC that are overcoming “barriers, with deep historical roots, to technological adoption and innovation” (Maloney 2002, 111). They are prepared to take advantage of the opportunity to grow and diversify by pursuing a strategy of resource-based growth following the successful example of countries like Australia, Canada, or the Scandinavian nations.

Industrializing strategy: The industrializing strategy associated with the opening of primary sectors can vary depending on the characteristics of each country.

For example, the conditionality of the very successful opening of the Norwegian oil sector was on technology transfer (Noreng 2004). This made sense given the very small size of the Norwegian labor force where employment was not an issue. In response to its own context at present, Brazil is implementing a strategy to increase local content with emphasis on good quality employment under the guidelines of the National Oil and Gas Mobilization Program (Prominp) program (Prominp 2008).

A success story in state intervention to induce the transfer of technologies and diversification is that of Norway. In the words of Øystein Noreng (2004):

In Norway, both the state and the market have had a role in the policy of economic diversification in relation to petroleum. One key lesson is that market forces alone never would have accomplished the transfer of competence, the successful establishment of supply and service industries...If left to market forces, oil companies would have had a preference for foreigners with a proven competence, established foreign suppliers of goods and services, often with a long-term symbiotic relationship with the oil industry...a long-term state strategy has worked out surprisingly well, based on a broad political consensus.

LAC has space to grow in world trade as a supplier of primary goods and commodities. The development of these industries can generate large revenue with very little labor. The state has a role to play in order to maximize the national impact in terms of employment and wealth creation by inducing the vertical and horizontal integration of these industries. However, the implementation of such a growth strategy is complex and will depend on the quality and strength of the national institutions.

INSTITUTIONS FOR INVESTMENT AND GROWTH IN NATURAL RESOURCES

There are at least four types of national institutions required for the success of a growth strategy based on the development of primary sectors: Institutions for natural resource development; institutions to promote national value added; institutions to secure property rights; and institutions for macroeconomic revenue management.

Institutions for Natural Resource Development: State ownership of mines, oil/gas-bearing lands, public lands for forestry and agriculture, and sea waters gives

the nation the right and the obligation to regulate the exploitation of natural resources. Typically, the two spheres of interest for state action have been the fulfillment of environmental and safety standards and maximizing rent from the development of natural resources. To the latter should be added the need to secure the greatest impact possible in terms of national value-added and growth effect along the lines outlined above.

Best international practices have shown that the state does not have to assume direct production in the primary sector to fulfill the national interest. The development of natural resources can be done by private or public operators under the guidelines of a regulatory agency that administers the development of the natural resources on behalf of the owner state.

This regulatory agency opens up mines and lands to a bidding process by private/public operators. Typically the bidding process includes the rent to be paid to the state as owner. Besides this basic parameter, the bidding process may also include, based on what has been outlined above, parameters such as national content goals, transfer of technology, training of the domestic labor force, and development of downstream industries. Government income per unit of product as the sole parameter can be replaced by such “softer” parameters as national value added and technology transfer. There is room for a negotiation process between the state and the operator to set up conditions for the development of the natural resources beyond compensation for the raw material alone.

Institutions to Promote National Value Added: Best international practices provide examples of a second set of institutions oriented to design and help implement a strategy to maximize the national impact of the development of natural resources. These institutions exist to coordinate the action of the government and the private sector. They help in the process of “self-discovery” of industries with growth potential and exist over and above the national companies. One of the tasks of these institutions is to assess the gaps in the supply of national inputs required to maximize national content. These gaps may be in the provision of skilled labor force or in public infrastructure such as transportation and public utilities. Once the potential gaps are identified, these institutions work on devising and implementing strategies to strengthen national response.

An example of this kind of institution, Prominp in Brazil, has made a detailed assessment of the skilled labor force required by the expansion of the oil sector

over the medium term, how large a gap there is, and how to train the human resources required.

Institutions to Secure Property Rights: Contracting for investment in natural resources is particularly difficult for a number of reasons. Among them:

- Investment is asset specific;
- It is made up front;
- It is very expensive by any measure;
- The capital recovery periods are long;
- There are risks associated with the conditions of the resources in nature;
- The presence of rents and their distribution is a permanent source of tension between the owner state and the operators;
- A strong nationalistic feeling is associated with the development of natural resources (often generating a call from some political quarters for private company expropriation and state control of production).

Such investment is risky compared to investment in manufacturing. With the addition of the natural tensions between the resource owner and the operator and so-called “rent nationalism,” potential investors will demand specific safeguards against the threat of expropriation. Without such guarantees, weak institutions and political risk will translate into low investments for a given endowment of reserves.

The geographic distribution of investment in the development of primary industries demonstrates that, just as the endowment of natural resources for

The geographic distribution of investment in the development of primary industries demonstrates that, just as the endowment of natural resources for investment is important, the institutional framework to minimize the possibility of expropriation is also crucial.

investment is important, the institutional framework to minimize the possibility of expropriation is also crucial. For example, investment in the oil sector in the United States (as measured by the number of drilling rigs) is

similar to investment in the rest of the world combined, but the United States holds only 2.1 percent of world oil reserves.

Institutions for Macroeconomic Revenue Management: The large rents present in the production of most primary commodities and the wild fluctuations in such rents, given the volatility in the price of most commodities, are the source of permanent macroeconomic instability in countries specialized in primary exports. The rents received and spent by the state translate into real exchange rate appreciation and thus of real wages, thus hindering the development of sectors that are more labor intensive (“Dutch disease”).

Furthermore, real wage volatility makes investments in these industries riskier. Industries with lower margins include those that can develop as suppliers or downstream of the primary sector, thereby killing any strategy to create employment associated with the development of natural resources. Thus a successful growth strategy based on the development of primary sectors requires institutions to save rents and/or regulate their flow; savings and stabilization mechanisms are required.

There are two main arguments for saving and regulating the flows of rents beyond the need to secure macroeconomic stability. First is the need to save at least part of the revenue out of the depletion of a national asset for future generations. The asset represented by the natural resource is monetized and transformed into an investment asset that, if well administered, can yield revenue as high as that of the exploitation of the natural resource itself. This is the case at present of the Norwegian Petroleum Fund. Second, it is necessary to reduce macroeconomic instability to minimize animosity against the development of natural resources by sectors affected by the macroeconomic disturbances described above. Calls emanate from different quarters to halt production of commodities, not because of the production itself but because of the negative macroeconomic consequences of the rent present in their production.

CONCLUSIONS

The world division of labor and the comparative advantage of natural resources open the door for economic growth in the LAC countries for decades to come. However, the current trajectory is growth based on the production of high-capital, low-labor primary goods that tend to generate high revenues with little employment.

The capital and technology needed for fully developing these sectors requires opening them up to both national and foreign private operators. State ownership of natural resources can be better used to negotiate concession contracts to

ensure transfer of technology and employment creation in the country. Employment in clusters to produce inputs and to process the primary goods may partially offset the low employment ratio in the extractive industries themselves.

Such contracting is complex and requires solid and credible institutions to entice and manage the characteristics of investment in extractive industries associated with both natural conditions and the economics and politics of primary production. Effective institutions that can promote and secure investment in natural resource development are as important as the natural resource endowments themselves.

The main challenge for LAC is to create credible institutions, to attract investment, administer the natural resource, extract the wealth-creation potential of these sectors, and minimize their macroeconomic distortions. Only these steps will together ensure a positive growth strategy based on the exploitation of the vast endowment of natural resources in LAC in a world constrained by the supply of raw materials.

This proposal is just a small piece in the complex puzzle to devise a strategy for LAC economic growth in the long run; it is even smaller when put in the context of the challenges for institutional and political development. However, the LAC region risks being caught in a low-wage trap if it fails to take advantage of its natural resource endowment to attract investment and technology in ways that ensure creation and growth of good quality employment for its citizens in important industry clusters. The trap might be related either to competition among other regions with lower salaries or because of a lack of dynamism and productivity in a closed economic system. Either way, LAC will move toward sustained development and prosperity only by avoiding the trap and creating the institutional platforms needed to take the best advantage of its natural assets.

Section II: Governance, Democracy, and the State

3. Is Latin American Democracy Finally Here to Stay?

David Scott Palmer

Between 1978 and 1991, an unprecedented political transformation swept across Latin America—generalized electoral democracy. In a long-independent region in which the only political certainty was uncertainty, with instability or authoritarianism all too often the dominant modalities, the rapidity of the shift was as surprising as it was welcome. Almost 20 years have passed since the last true military coup (Haiti 1991–94); universal suffrage and regular elections are now routine events almost everywhere. Oppositions are now voted into office with regularity; every country in the region except Cuba has had at least one change of party in power, a sure sign of democratic routinization, if not consolidation (Diamond 1999).

Beginning in the 1990s, the oppositions elected have included a number of left parties and groups, from socialist or workers' parties of long standing (e.g., Chile, Brazil), to both "top-down" and "bottom-up" populists (e.g., Venezuela, Bolivia), to former guerrilla forces (Uruguay and El Salvador) (Agüero 2003, Corrales 2009, Lehoucq 2008, Chávez 2004, Colburn 2009). This is a major achievement in a region that historically has had major difficulties in allowing new political actors to come to power through free and fair elections.

At the same time, however, democratic practice is still open to pressure from elite and civil society actors, as well as outside governments on occasion. The pressure stems from an informal and unpredictable accountability mechanism that has produced "interrupted" mandates of elected heads of state in half of the region's 20 republics (Diamond 1999, 239–260). Other limitations are present as well. These include electoral devices that fail to ensure that all have access to the ballot and/or that votes have the same weight in determining electoral outcomes. They also involve a variety of executive branch-generated initiatives that limit opposition leader political participation, restrict media coverage, or allow previously prohibited consecutive terms, among others. So the democratic routinization

that has occurred is imperfect in multiple ways, even as it has been able to retain democratic practices and civilian rule via elections.

THE POTENTIAL FOR LASTING DEMOCRACIES

The return to democracy and generalized universal suffrage took place at a time of severe economic stress, due in many cases to the multiple failures of the authoritarian regimes that previously dominated the region. Such national political transformations while under economic duress increase the likelihood that democratic procedures will be sustained, for at least two reasons.

First, they suggest that the current democracies may have a greater ability to withstand future economic downturns without collapsing, as has happened so often in the past. Second, there is less possibility that military institutions, generally chastened by their most recent long-term occupations of the seats of political power, will want to take over again. Most, in fact, have now accepted the principle of subordination to civilian control, a long-standing but elusive aspiration in the region in the past. In addition, the sustainability of these democratic forms is also likely to be reinforced by a worldwide pro-democracy climate fostered by governments, international organizations, and regional bodies alike.

Nevertheless, there are a number of lingering areas of concern in any attempt to project contemporary positive political outcomes in Latin America over the next 50 years. One is the emergence of populist regimes in which elected heads of state progressively manipulate electoral mechanisms to ensure their continuation in power (Carey 2003). Another is a growing tendency to change constitutions in order to allow more than one successive term in office, which threatens to reintroduce presidential *continuismo*, historically a major political pattern in a region in which constitutions have granted greater powers to the executive branch than to the legislatures.

A third is an erosion of established political parties and their ability to channel societal demands in an orderly fashion within national political systems in the context of rapid social mobilization and the generalized and multifaceted political expression it has generated within current “third wave” democracies (Peeler 2009, 169–173; Valenzuela 2004, 5–19; Pérez-Liñán 2007). Ad hoc political groups have proliferated, competing with and often supplanting traditional parties, frequently serving as “flash parties,” or short-term electoral vehicles that virtually disappear after the vote. Their failure to become institutionalized

in most cases adds a disquieting lack of predictability to democratic practices, generating concerns over their long-term viability.

A fourth, related concern is the proliferation of local protest groups with the generalized return or establishment of electoral democracy. These groups, often far from national political centers, make demands relating to such issues as water rights, environmental degradation, incursions into protected forests or indigenous preserves, or greater access to financial resources. In too many cases, central government authorities are either unable or unwilling to respond quickly or effectively to address them, often provoking confrontations and violence and eroding the political legitimacy of democracy itself in the process.

Ironically, much of such local ferment can be attributed to the restoration of open democracy itself and the opportunities it presents for civil society to seek access and satisfaction of multiple pent-up needs and demands. This ongoing dynamic is reinforced by a variety of political decentralization initiatives that central government elected officials have carried out over the last 20 years. They include the establishment of elected regional governments, the provision of substantial resources to both regional and local political entities, and the addition of responsibilities for governance at these sub-national levels. As a result, new opportunities have been created for political involvement beyond the center and, in the short run at least, new challenges as local groups press for access to the resources and programs they offer (Montero and Samuel 2004).

A fifth challenge to democracies in the region that reemerged around the turn of the new century, dividing civil societies and political actors alike, is the ongoing debate in many countries over the best balance between the role of the state and that of the private sector in generating economic growth, alleviating poverty, and reducing income inequalities. Should the state be the principal engine of growth, as articulated in the post-Marxist slogan, "21st century socialism?" Or is the nation better served by the so-called "Washington Consensus," with a market-oriented economy and a state that facilitates private sector entrepreneurship and improves tax collection levels in order to accomplish growth and development objectives through more effective governance?

While both international economic dynamics and the domestic market liberalization initiatives that accompanied most transitions to democracy in the 1980s appear to favor the latter approach, some political elites, parties, and sub-national groups press for greater state economic influence and control. A key

question is whether this emerging left-right divide can be channeled constructively over time, through continued electoral alternation and moderate adjustments within mutually acceptable parameters, or if it will deepen to produce political polarization, division, and conflict.

IMPORTANT CONCERNS GOING FORWARD

Whatever the qualifications, which are numerous as the above summary discussion suggests, by the early 21st century Latin America had unquestionably overcome the long-standing historic challenge of finding ways to put in place

The key question is whether the routinization of electoral democracy, with universal suffrage and respect for results, even when an opposition wins, can become fully consolidated over the coming decades.

democratic procedures that can be sustained over time. The key question is whether the routinization of electoral democracy, with universal suffrage and respect for results, even when an opposition

wins, can become fully consolidated over the coming decades. Various ongoing concerns muddy the waters, making any clear and definitive predictions uncertain at best.

One such concern is a massive increase in criminal activity in recent years to such a degree that public opinion polls in many countries of the region note this as citizens' number-one concern today. The often underpaid and undertrained police forces, especially in smaller countries, have been overwhelmed by the proliferation of petty criminals and organized gangs (Millett 2009). In addition, recent U.S. policy that now returns thousands of undocumented immigrants, often members of criminal gangs or presumed participants in illegal activities, to their home countries severely exacerbates the problem.

Compounding the issue are weak civil law-based judicial systems which are underfunded, subordinate to the executive, and characterized by increasingly outdated procedures that are unable to keep up with the massive increases in caseloads. Even when apprehended, the accused too often languish for years in an antiquated and overcrowded prison system with minimal facilities, at best. Clearly, if a government is unable, for whatever reason, to protect the security of its people and to bring those accused of criminal behavior to justice in a reasonable period of time, democratic formalities, however well established, ring hollow across civil society (Pinheiro 1996).

A second concern is widespread corruption. Although often alleged over the years, only since rough measures have been devised during the last decade or so has the magnitude of the problem captured popular attention. Transparency International's Corruptions Perceptions Index rates all but three Latin American countries (Chile, Uruguay, and Costa Rica) as below or well below acceptable standards (Corruption Perceptions Index 2010 Results).

The democratic wave provides greater freedom to the media, making information about corruption more widely available. In addition, the communications revolution stimulated by the internet gives citizens the ability to ferret out hitherto inaccessible materials. Thus, while popular indignation at abuses may be widely expressed and weaken the support for electoral democracies, the weaknesses in most judicial systems make prosecution of such abuses difficult to pursue, further fostering an aura of impunity for corrupt practices under democracy.

A third challenge to the sustainability of democratic practices over time is closely related to populism, an approach to governance that relies on the capacity of individual political leaders to impose their personal priorities on political procedures and practices (Peeler 2009, 225–228). Such leaders have been democratically elected after the traditional political parties and political elites that preceded them failed to respond effectively to popular demands and priorities. Once in office, however, they have tended to use their executive powers to manipulate democratic procedures in order to expand their authority and perpetuate their mandates, thereby undermining the democratic process that brought them to power in the first place (Roberts 2007).

Historically, such populist regimes in the region have tended to overreach and have eventually either been forced from power or have collapsed under the weight of their own excesses. If history is any guide to contemporary populist dynamics, such regimes are likely, sooner or later, to suffer the same fate as their predecessors. The concern is that the legitimacy crises that are likely to provoke their demise could also include the democratic systems that brought them to power in the first place and cause their collapse as well.

Other factors likely to affect the sustainability of democracy in the region and its full consolidation over the years include the role of individual countries and of regional actors.

Several key questions are relevant here:

- To what degree will the growing economic influence of China and Russia strengthen or weaken democratic institutions?
- Will ties to Iran in the guise of “strategic alliances” compromise commitments to democratic procedures and practices?
- Can the United States play a constructive role, or does its failure to respond to the 2009 democratic “interruption” in Honduras denote a loss of commitment to the principles of the Democratic Charter?
- Will Venezuela’s use of petroleum resources to expand its influence through concessional oil prices and ALBA offer sufficient incentives to participants to sacrifice democratic practices for economic advantages?
- Can Brazil use its diplomatic prowess and growing international stature to serve as a democracy-reinforcing regional counterweight to Venezuela through bilateral initiatives and such sub-regional organizations as UNASUR?

How such questions are answered within the region will help determine whether or not the democratic transformation of Latin America over the past 30 years can be sustained for the next generation and beyond.

4. Reform of the State and Democracy in Latin America

Carlos Blanco

This analysis is based on a vision of the state as a complex system, structured in the form of networks and constellations in which states and non-state actors are intertwined. The rise of democratic governance in Latin America requires denser institutional networks and constellations whose growth depends more on autonomous dynamics than on government policies. Some of the key issues addressed here are reforms related to political parties, public administration, state power, the office of the presidency, and decentralization. These reforms should be integrated into a system characterized by its complexity and denser institutionalization, and should lead to what Riordan Roett has referred to as a “smart state.”

FROM FRAGILE TO SOLID TO FLUID STATES

The political analysis of Latin America concludes that most states in the region are fragile due to the weakness of their institutions; therefore, strengthening these institutions will contribute to a stronger and more robust state, with greater possibilities for implementing successful public policies. Currently, however, governance in these states is limited and in some cases compromised, and governments are very inefficient in service delivery as well as in their institutional and political leadership. Reforms have been proposed to decentralize the state and to renew its institutions, but government and governance—conceptually distinct—remain weak (Rosenau 2007, 88–97).

Reforms fail because institutional changes have been sought through changes in organizations without considering the complex nature of the state structure. Institutions are important but so are the networks in which they are embedded.

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Institutions are important but so are the networks in which they are embedded. The state consists of constellations of network structures, which evolve over time and whose nodes gain or lose density depending on their degree of interconnectivity. Networks are not controllable at will and are difficult to line-up with public policies, except through indirect and often unexpected outcomes.

A series of layers surrounds all constellations. These layers come either from constitutional and legal arrangements, the formal system of norms, or from a variety of informal elements emanating from cultural standards prevailing in societies. Some constellations behave according to these standards and others violate them.

Constellations are neither at the “top” nor at the “bottom.” Rather, they are permanently changing their relative position within the state due to their interactions. Most notably, they are not state-dominated constellations limited to existence “inside” of the state, but are entangled with non-state networks in which multiple “private” agents participate.

The real state action agents are mixed and complex constellations, autonomous to some degree, either participating primarily within the state, or both inside and outside the state. These constellations act as energy packets or political and institutional “quanta” reacting to the impacts produced by other constellations. They are self-organized and fairly fluid due to interactions with other social actors (Burnes 2005, 73–90)

The state, as a result of this political-institutional setting, is fluid, highly flexible and in permanent process of self-organization, with intricate systems of negotiation among the agents producing unpredictable and sometimes unmanageable results.

THE ROLE OF GOVERNMENT

In the context of the state as a complex system, the government is also a constellation, shaped simultaneously as a public-private network with constrained capacity for action. Paradoxically, the less complex states are, government interventions are more likely, but governance itself is lower. Whereas with more dense and complex constellations, the role of governments is limited but the governance of society is higher (as the processes of self-organization and adaptation are more fully developed). Too much government can be a negative sign for a society and can reveal a much more fragile state characterized by lack of governance (Jessop 2005; World Bank: accessed October 30, 2010).

When considering a highly complex state, public policy impacts different constellations without necessarily reaching all desired components, and may set in motion unexpected response mechanisms. Results may not be manageable or controllable and may include unpredictable side effects (Duit and Galaz 2008, 315–335). For this reason, policy making (i.e., a deliberate move to achieve a specific goal) is more limited in societies with more complex states (Archibugi 2003). Government's role in these is to define objectives and to search for strategies that can affect state or parastatal constellations. Each constellation is a combination of state institutions, civil society actors, representatives of "special interests," and information and communication systems. Government decisions may impact these constellations and impel their interactions, but without necessarily leading to the intended results.

Governance is the product of the interactions between the constellations. When institutional development is high, government may well be a high-quality, but not necessarily the most important, actor. Public policies end up as the outcomes of negotiations and conflicts among the constellations, depending on the "stocks" of power available to each one. As a result, equilibrium is dynamic and unpredictable rather than static and predetermined.

In this context, change is an ongoing process among the constellations, and crises are produced by sudden imbalances amongst the interest groups, which are part of these constellations. They involve the media, business organizations, NGOs, and other formal and informal associations. Their critics often argue that they should be regulated or even eliminated. However, another way to affect their influence is to promote more, rather than fewer, such groups linked to different or conflicting interests. Such proliferation then becomes a mechanism of (self-) regulation within these constellation networks.

LATIN AMERICA TODAY

Since the 1980s, market-oriented reforms have been adopted without compromising the important role of the state. Inflation and external debt have been overcome by most countries in the region. Other problems persist, however, but have been met with varying degrees of success. For example, poverty has fallen as a result of the economic recovery that began during 2002–2003, although it continues to be a serious problem, especially in rural areas.

However, the success of these economic reforms proved to be insufficient without strong political and institutional reform. Several countries took important

initial steps in decentralization, judicial, public administration, and security and defense system reforms, but by the early 2000s these changes often either slowed or stopped. Some improvements became distorted, as with certain manifestations of a new centralism within the umbrella of decentralization. It is possible to identify three causes that have led reform to slow down or wither away:

1. Due to a lack of political will, leaders did not push for reforms that might have made them lose political power in the short term;
2. The economic boom appears to have lessened the perceived urgency of major changes. Success in overcoming the economic crisis of the early 2000s and the sustained economic growth that followed dampened enthusiasm for change, just as efforts to counteract the effects of the crisis that began in 2008 did in the United States (Wagner 2002, 105–122);
3. We have seen a reemergence of popular protests in favor of maintaining the government's central role as the main distributor of public resources, rather than favoring a more comprehensive role of the state as a whole.

However, within the framework presented above, it may be that the difficulties experienced when attempting reform have a more direct relationship to the weakness of state institutions. In the context of weak state networks and low-intensity constellations, governments tend to become the most important actor, thereby inhibiting the potential cascade effects of networks. In Latin American regimes, which are characterized by strong presidential systems, government revolves around initiatives of the head of state—a post which often has limited powers to promote change but is very effective at stopping it.

LATIN AMERICA'S CHALLENGES

In developing a “smart state,” Latin America’s main challenge is how to go about adopting reforms that will produce an institutionally interconnected state capable of increasing democratic governance. Such governance will involve close interaction between the public sector and private institutions to promote more intensive constellation building. In the context of our theoretical framework, the reform of the state entails the creation of more complex constellations, suggesting denser institutions able to fulfill their intended roles with close links to non-state networks. The following analysis of key institutions includes reform processes of network and constellation building. They assume a context of state and civil society fragmentation and offer a dynamic of recreation and interconnection of the fragments.

Political Parties: Many mass political parties of the region have not been able to retain their once-dominant role and passionate popular support, even though several still have the votes to win elections. Examples include the Institutional Revolutionary Party (PRI) of Mexico, Argentina's Peronist party, the Workers' Party (PT) of Brazil, and Peru's American Popular Revolutionary Alliance (APRA).

Not only in Latin America but also throughout the world, modern political parties are changing. They are too often unable to aggregate interests in highly fragmented societies, so encounter major obstacles in promoting citizen participation and representation. One problem is significant popular disaffiliation from major parties. Another is the proliferation of opportunistic parties that are characterized by loose ideology, personalism, and internal fragmentation. Moreover, there is a temptation to fill the political space created by the absence of effective parties with NGOs working on public administration and political affairs or with social protest groups.

Another development is the growing orientation of political parties towards market policies for either ideological or pragmatic reasons. The interaction between economies, institutions, and networks contributes to such programmatic convergence by parties. Combining a market economy with a state that has a strong social focus is the dominant vision of most Latin American leaders today, with only a few exceptions.

Differences between parties are becoming less ideological and more related to their degree of representativeness and their ability to promote participation. There is an overlap of political parties and civil society organizations in complex systems; this seems to characterize the future of Latin American political parties. Such a future requires parties to be more open to participation without rigid membership stipulations, to have greater ideological and programmatic flexibility, and to be more willing to engage in internal debate. In practical terms, this means establishing and developing associative networks that extend beyond the boundaries of traditional parties.

Horizontal networks-based organizations, able to assume fragmentation as a condition rather than a setback, interconnected with various social networks, decentralized and with high levels of autonomy in sub-national arenas, may be the destiny of Latin American political parties.

Public Administration: Public administration (PA) is a complex system in its vertical and horizontal extension. In Latin America, PA is a set of institutional

arrangements that responds to demands of political parties and government leaders. PA posts are too often seen as a reward for supporters and for those who are able to control rather than perform.

Autonomy may be the future of PA structures, guided by general principles designed to provide result-oriented, citizen-led strategy, with safeguards against corruption. The major control mechanisms may come from the interconnection with citizens, which will tend to keep the PA within more defined boundaries and will also at least partially be influenced in public space by non-state agents (Teisman and Klijn 2008, 287–297).

The creation of constellations of PA is more easily accomplished at regional and local levels, both of which are already highly intertwined with civil society. In these areas, the provision of services is linked to recipients' ongoing assessments of the benefits they obtain. These recipients promote greater transparency and control, according to their interests, shifting the center of gravity from the supply of services to their demand.

The major reform of the PA—which will define its possible future—will be the expansion of networks in which citizens are involved in its design, as well as with its financing, monitoring, and evaluation. At some point this approach will partially transform public services into self-sufficient services, since specific state agencies are interconnected with the communities that support them.

Heads of Government: Given the region's political history of *caudillo*, or strong man rule, the presidency of the republic in contemporary Latin America is often perceived to be much more powerful than it actually is in practice. This is because most of today's heirs of that nineteenth-century tradition are constrained by the array of special interests that made their rise to power possible. Nevertheless, these presidents try to maintain the illusion of power in the hope that they might be able to realize their electoral promises. So they utilize a communications system to renew and manage popular hopes and to give orders, but too often fail to produce the desired results because their outcome depends on factors beyond their control, such as sudden prosperity due to a favorable external economic environment (Heinrich, Lynn Jr., and Milward 2009, 3–19).

Reform should seek to replace the president with the presidency, where the dynamics of exercising political power revolve around the institution rather than the individual. The presidency demands complexity and requires an institutional system that is capable of understanding its limitations. This system is essential because it

recognizes that interventions are possible beyond the designation of a large number of PA officials, that they can only be strategic, and that they often have unintended consequences. In the traditional authoritarian regime, government was personalistic and unilateral. Presidential reform should move towards a more interconnected government, with more limits on its specific arenas of activity, but also more effective in creating a cascade effect that is ultimately the secret of its power.

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Non-Centralized Decentralization: Decentralization has been undertaken in Latin America as a “top-down” shift of functions. This two-dimensional view implies that what is “down” is always subordinate to what is “on top.” A reformist approach implies both a multidimensional and a horizontal and vertical dynamic capable of creating autonomous decentralized networks that are not necessarily subordinate to the political center.

In too many cases, decentralization initiatives have involved the micro-reproduction of highly centralized upper levels at regional and local levels. Rather than achieving decentralization, this has created disseminated centralism. A real process of decentralization should involve both a vertical and horizontal redistribution of power and institutions in which what is “on top” is neither permanent nor solid but depends on themes and forces in play at given moments.

CONCLUSIONS

Latin American countries were not able to achieve nation-states structured like those found in industrialized countries due to a combination of weak institutions and a legacy of *caudillismo*. It is too late to build nation-states with the same pattern as industrialized countries because globalization, the information and technology revolutions, and social fragmentation have unleashed forces that have created new realities. The complexity of societies is superimposed onto projects and leaders’ wills, paving the way for the emergence of new dynamics that no one, even highly regarded leaders, is able to control. What is required are reforms that generate cascade effects and the ability to act on the ripple effects they produce. In concrete terms this means that empowered societies have to grasp state constellations, embolden their institutions, and navigate them as malleable networks when changes emerge.

5. Can Judicial Reform Achieve a Rule of Law in Latin America?

Silvia Inclán

To answer this question over a 50-year trajectory, we must examine the region's experience with judicial reforms over the last two decades. Beginning in the late 1980s and throughout the 1990s, Latin America engaged in a crusade to transform traditionally weak and subordinated judicial branches into strong, independent institutions. Those decades underwent a new democratic era in which supreme courts and constitutional tribunals needed to be empowered as counterweights to executive and legislative authority. In addition, the independence and scope of action by courts and justices also required constitutional and legal protection to effectively enhance the rule of law. Finally, justice had to be accessible to all, so problems of access and efficiency had to be addressed through institutional and legal reforms.

But have these goals been met? To what extent can judicial reforms affect the rule of law? Is it worth doing more of the same? What are the most important judicial challenges today? Do Latin American states have the constitutional and legal muscle to face their main threats over the coming decades?

JUDICIAL INDEPENDENCE

At the core of all judicial reform projects undertaken in the late 1980s and 1990s was the objective of establishing or reestablishing judicial independence. The motivations for both domestic actors (reformers) and external agencies (donor and financing institutions) were twofold. One, they wanted to strengthen the historically weak and subordinated judiciaries in the context of the democratic wave which had swept the region as a necessary condition for democratic governance. Two, they saw the need to create or reinstate more autonomous judicial institutions to foster economic growth and development as well. The region's judiciaries had to overcome their historical weakness and subordination to be able to provide meaningful political limits for executive and legislative branches. Only strong and independent judiciaries could protect property

rights and offer the legal assurances necessary to attract and secure creditors and investors.

Throughout the 1990s, judicial reform offered governing elites a means to distance themselves from their nations' authoritarian pasts. In addition, a number of other political incentives for reform were present (Hirshl 2004; Ginsburg 2003; Finkel 2008; Woods 2009; Hilbink 2009; Woods and Hilbink 2009; Erdos 2009; Shambayati

After the return to democracy in Latin America, the wave of reforms designed to enhance the independence and relative power of judicial branches is arguably the most significant change affecting political systems in the region.

and Kirdis 2009; Inclán 2009; Ruibal 2009), which would serve to increase the legitimacy of both courts and governments (Ginsburg and Moustafa 2008). After the return to democracy in Latin America, the wave of reforms designed

to enhance the independence and relative power of judicial branches is arguably the most significant change affecting political systems in the region. Through alterations to the rules of appointment and career requirements for justices and judges, the creation of judicial councils, and enhanced constitutional review powers for new or existing constitutional tribunals (Inclán and Inclán 2005, 55–82), many judiciaries became relevant political actors for the first time in their countries' history.

Today, stronger and more independent judiciaries have been established in the region. We lack neatly comparable information of the justices' and judges' levels of independence for either supreme or lower courts before and after reforms at the regional level. However, case studies documenting the new and increased power of Latin American courts after reforms abound.¹ Rather than trying to estimate levels of judicial independence, scholars today are studying the various roles being played by courts and judges in different countries.² Increasingly as well, studies are also addressing the consequences or policy implications of the new constitutional review powers and are raising new concerns over the old question of judicial accountability and judicial review.³

1 Latin American courts are no longer an understudied institution, although not all countries have received equal academic attention. Kapiszewski and Taylor's (2008) review of academic literature in English addressing the region's courts reports that four-fifths focus on four countries (Argentina, 31%; Mexico, 18%; Brazil, 16%; and Chile, 15%). The remaining fifth covers all the others.

2 For example, the Mexican Supreme Court devotes most of its time and attention to the resolution of political conflicts while Argentine and Colombian courts are ruling mostly on human rights issues.

3 A major focus is on cases in the surprisingly progressive courts of Brazil, Colombia and Costa Rica (Kapiszewski and Taylor 2008:755-6).

From this data, it is clear that Latin American judiciaries have gained significant independence and power through reforms. The adoption of structural safeguards for judicial independence is certainly not complete, and it has not occurred without ups and downs and significant delays in many cases over the past 20 years.⁴ We also now know that democracies are more likely to produce judicial independence than authoritarian governments, and that judicial independence is greater and has greater chances of surviving under divided rather than unified governments (Helmke and Rosenbluth 2009). Safeguards for judicial independence can be violated or ignored where political power is more concentrated, but strengthened judiciaries have certainly raised the political costs of doing so for elected officials. Although reforms are incomplete, the introduction of formal protections has begun to help to institutionalize judicial independence in the region.

PROPERTY RIGHTS, DEVELOPMENT, AND ECONOMIC GROWTH

The question of whether the new judiciaries are doing a better job in terms of securing property rights and promoting economic growth and development has produced inconclusive empirical results in the economic development literature. Formal judicial independence has not been found not to correlate with economic growth; however studies using indicators of de facto independence reach opposite results (Haggad, McIntyre, and Tiede 2008, 217). The current academic discussion on the validity of the link between judicial independence and the rule of law and growth and development has yet to find conclusive explanations as to when and how such positive dynamics are likely to occur.

This is largely because of powerful counterexamples, such as China, and because measurements of judicial independence and the rule of law⁵ are still based on either formal provisions or on opinions of experts and users of justice services (as they were 20 years ago, before the reforms). Moreover, measurements still tend to rely on information from supreme courts rather than lower courts, where most of the conflicts regarding property rights are solved (Haggad,

4 For example, in El Salvador, the integration of a new supreme court took two years after the passing of the new mechanisms for justices' appointments. Similarly, judicial councils were first formed with a two year delay in Paraguay, Ecuador, and the Dominican Republic and with a four year delay in Bolivia and Argentina. The whole judiciary was put under the control of an executive committee in Peru for six years after the passing of reforms (Inclán and Inclán 2005). Supreme Court suspensions and sweeping renewals have also occurred, as in Ecuador between 2003 and 2005. In Venezuela, courts, justices and judges have been subject to renewed executive branch influence after earlier reforms. Even so, such delays and reversals are not as common in the region as they used to be (Verner 1984).

5 The current tendency not to base indicators of the rule of law solely on private property security but to break down the indicators should be strengthened to learn more about the roles of courts as limiting government authority and as promoting economic, civil, and political rights and liberties.

McIntyre, and Tiede 2008, 217). Finally, there is almost no information available about compliance with rulings.

ACCESS TO JUSTICE

Another main objective of reforms was to enhance access to justice, particularly for marginalized populations. This included solving the common problem of overwhelming workloads of courts, the main cause of delays and inefficiencies in most systems. Since its beginnings in the 1980s in Central America, reform projects emphasized the introduction of accusatory criminal proceedings (ACRs) to replace Latin America's traditional inquisitorial systems. The former are perceived as more transparent, less prone to corruption, and more likely to arrive at objective justice given the integration of investigations by a single judge (Hammergren 2008, 91). The introduction of ACRs required the formulation of new procedural codes and related laws, but also a major effort to train judges and officials at all levels, administrative improvements, and automation (which in turn requires more resources, from computers to forensic laboratories).

The results of these efforts are mixed.⁶ On the one hand, Latin American judiciaries have grown in size and relative importance. In certain areas their total numbers are still lower, such as the number of judges and specialized courts, salary levels, career credentials, shares of national budgets, constitutional and legal protections, and faculties. Nevertheless, in each of these areas they are better equipped than they were 20 years ago and are more internationally comparable as well. Workloads have also increased, suggesting the increased use of courts as channels for dispute resolution.⁷

However, many experiments with the adoption of ACRs and alternative dispute resolution mechanisms (ADRs) show insufficient efforts to reeducate the sector's staff to work according to the new procedural codes. In many cases, justice procurement continues to be carried out with traditional practices despite new legal provisions. Domestic and external participants have also noted the need to introduce monitoring and evaluation mechanisms.

However, not all experiments intended to facilitate access to justice have disappointing results. There are few successful national-level examples, but we can

6 Evaluations in terms of access to justice and efficiency, particularly of results after the adoption of ACRs and alternative dispute resolution mechanisms (ADRs) for justice procurement cannot be made at the regional level, since these programs have so far not been part of all reforms and have been implemented at different levels in each country. The process of conversion continues in many nations.

7 See Centro de Estudios de Justicia de las Américas—CEJA (2010) for the best current summary of statistical indicators of Latin American judiciaries.

find several cases of local level implementation which show encouraging results in terms of access, efficiency, and compensation. These were carried out after there had been a sufficient reeducation of the sector's community.⁸

GROUP RIGHTS

A more recent trend transforming laws and justice procurement in the region is for the protection of group rights (Hammergren 2008, 89–104), particularly those of indigenous or traditionally marginalized poor groups in their fight for their communal rights, particularly property rights to land and resources. This time the reforms, which include the promotion of new versions of ADRs, education programs, and technical support mechanisms, are being developed with professional and financial support of nongovernmental organizations (NGOs), local groups of lawyers, civil society organizations, and both traditional and new external donor and financial actors. The movement is relatively new and is largely being carried out on a (legal) case-by-case basis (Anaya and Williams 2001).

It should be noted, however, that the logic of such moves largely runs counter to that of promoting the protection of individual property rights, (Hammergren 2008, 89–104), at least at face value. A discussion of the constitutional rights to property of land and resources, their use, exploitation, administration and particularly alienation in each country is an urgent challenge. Constitutional and legal clarifications are necessary to prevent this trend from moving into socially undesirable or unplanned directions.

CONCLUSIONS

Judicial reforms were certainly oversold by their promoters as “the means” to achieve the rule of law in Latin America. Clearly formal creation of strong and independent institutions does not automatically produce rule of law. Nevertheless, empirical evidence suggests that it is certainly necessary to continue establishing, reestablishing, or reinforcing judicial independence and strength with formal protections at all levels within judicial branches and justice procurement authorities. This is particularly important today with the growing problem of organized crime and its ability to capture important parts of the state, especially in the Tri-Border Region (Paraguay, Argentina, and Brazil), Central America, and Mexico.

⁸ Among successful cases are those with ACPs in Chile (Cooper 2008) and in the state of Chihuahua in Mexico (Zepeda 2008), those with individual constitutional writs (*tutela* in Colombia and *amparos* in Costa Rica), and with small claims courts in Brazil (Hammergren 2008:94-6).

The independence and capacity of courts and justices need to be backed up with further safeguards to fight corrupt authorities at all levels across the three branches of government. These include increased constitutional and legal powers as well as the elimination of informal and formal obstacles (*fueros* and special legal regimes for certain public officials and private groups).

Increased institutional and legal capacity is also necessary to address the current challenges related to organized crime—its armed capacity, its economic power, and its ability to corrupt. Stronger judiciaries are also necessary to back up still pending fiscal reforms required for more effective tax collection and healthier revenue management systems. Over the next 50 years, the extractive capacity of states is one of the most important areas to be addressed. Future reforms should no longer be focused primarily on limiting executive and legislative power, but should turn more to strengthening the constitutional and legal leverage of the state vis-à-vis powerful groups currently able to circumvent the law.

Ongoing efforts to enhance access and efficiency in justice procurement will most likely include deeper case diagnosis, and monitoring and evaluation mechanisms. Successful cases so far include conversions to ACPs and ADRs, as well as other mechanisms and procedures. Whether the entire region will convert to these is hard to tell at this point, but any such changes will require major educational efforts with significant domestic political will and long-term commitment. However they evolve, future reforms will have to address the difficult challenge of promoting greater transparency and publicity for the work of judicial branches and justice procurement authorities.

One hopes the need for more detailed and specific diagnosis of cases will generate the production of systematized and comparable information at all levels for the whole region. There is still much room for improvement in information produced by supreme courts and constitutional tribunals, but a major effort is required for the systematization of information on rulings produced by lower courts and on reporting information about compliance (an essential component for adequate evaluations of reforms' effects). Constitutional and legal reforms that target transparency and publicity are also among today's main challenges. The reputation and legitimacy of judiciaries—and hence the power of the state to fully apply the law—would certainly benefit if public perceptions were based on statistical indicators, rather than on opinions, collective hearsay, or scandalous headlines in the media, as they are today.

6. How Can Effective and Sustainable Governance Be Achieved?

Enrique Saravia

Attempting to foretell the future is a permanent desire of humankind. The results are normally disappointing. This is why Keynes is frequently quoted when the talk is of forecasting: “In the long run we are all dead.”

But governments and organizations, as well as families and individuals, need to be prepared for shortages of food and other vital elements for survival. In other words, they need to plan for the future.

Planning is also an essential element of politics and management and it requires imagining goals in the future. Those goals are considered in variable future contexts. And both—context and goals—could be considered as descriptive or prescriptive.

The question is how to distinguish real or plausible possibilities from wishful thinking, science fiction, or dreams. Yet, as history shows, many ideas from science fiction have become reality. The aim must then be not to limit dreaming, but to know what is possible to recover from dreams, or how to implement dreams, and, especially, what is required for being prepared—or, at least, for surviving in the future.

When reflecting on the changing elements and forces that shape life and institutions, it is possible to detect some permanent characteristics in human behavior. From the pre-Socratic philosophers to modern novels, movies, and intellectual research, some virtues and failings are always considered as driving forces for politics, strategies, and action: greed, hate, and envy on the one hand; solidarity, friendship, love, and compassion on the other. William Shakespeare was authoritative and conclusive in the description of all those human passions. Machiavelli described the manipulative nature of political behavior in a way that remains absolutely consistent over the centuries.

The first conclusion we can consider in any dynamic and changeable context is that human behavior will continue its patterns and must be considered as a driving

and decisive variable. Greed and envy, as well as solidarity and compassion, will maintain their influence in the actions of countries, corporations, and leaders.

SCENARIOS OF HUMAN BEHAVIOR IN LATIN AMERICAN COUNTRIES (LAC)

Modern planning is increasingly reliant upon (and improving) the technique of scenario development. An interesting example was performed by the Brazilian National Development Bank in the late 1980s. The “Brazilian Scenarios for the Year 2000” studied the national characteristics and possible developments of Brazil in five areas: economic, political, social, international, and technological. It concluded with three possible scenarios: the maintenance of the status quo, a discrete growth and some variable changes, and the competitive integration of the country on the international stage. The effort, even though not highly regarded by politicians as an input in deliberations on public policies, was important in helping public and private organizations with their planning.

The scenario technique considers trends and tendencies as well as the possibility of unforeseen or unpredicted events. What I will attempt here is to identify some trends in recent Latin America politics and economics and try to imagine their possible development.

- First is the contradictory but dialectical dynamic affecting national and regional integration and fragmentation.
- Second is the particular way Latin America is integrated into global systems, especially into global government mechanisms.
- Third, related strongly to the previous tendency, is the growing common regulation of activities and services.
- Fourth are the difficulties and contradictions in finding a satisfactory political system.
- Fifth is the political and economic strengthening of some countries and the parallel weakening of others, and
- Sixth is the consideration of the degree to which mechanisms of income concentration, growing regional unbalance, and social injustice and inequity are permanent characteristics.

Latin America as a whole shows profound differences between countries and even internally within them. Consequently the trends listed above need to be understood in the particular context of each nation.

NATIONAL AND REGIONAL FRAGMENTATION AND INTEGRATION

Since the Congress of Panama, organized by Simon Bolivar in 1826, regional integration has been a permanent goal of Latin American countries.

After World War II, several attempts were made to achieve some degree of regional integration. In 1960, a group of countries, including Argentina, Brazil, and Mexico, established the Latin American Free Trade Association (LAFTA). After some achievements in improving trade among Latin American countries, LAFTA failed in its larger goal of establishing a free market. In 1980, it was replaced by the Latin American Integration Association (LAIA), which included Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

In 1969, the Andean countries decided to accelerate the integration process and established the Andean Pact with the Cartagena Agreement (since 1996, the Andean Community of Nations). The integration process has suffered many problems, including Chile's withdrawal in 1976 during the Pinochet government and Venezuela's declaration of withdrawal in 2006. The Group is now reduced to four members.

Mercosur, the Southern common market established in 1991 by the Treaty of Asuncion, was more successful. Its four founding countries (Argentina, Brazil, Paraguay, and Uruguay) increased trade and negotiated many common rules to prepare a complete common market. Chile, Bolivia, and Peru are commercial partners of Mercosur, and Venezuela will become a full member after approval by the congress of Paraguay.

In 2008, the South American countries decided to establish a stronger union, called UNASUR—Union of South American Nations, including all the countries of Mercosur and the Andean Community plus Chile, Guyana, Suriname, and Venezuela. In December 2010, Uruguay became the ninth nation to ratify the UNASUR treaty, thus giving the union full legal status.

At the same time, however, several countries negotiated special agreements with third parties, as recent bilateral conventions with the United States illustrate. The formal relationship of the larger Latin American community with some countries changed as a consequence of those pacts (the best example being Mexico after the NAFTA agreement).

Despite these ongoing agreements, internal feuds have produced fragmentation in many Latin American countries since the times of Bolivar's Panama Congress

almost 200 years ago. Several former Mexican provinces declared their independence in the 1830s (Central America), Panama separated from Colombia, and Greater Colombia was divided into three national states (Colombia, Venezuela, and Ecuador). Mexico lost huge territories to the United States, and Haiti and the Dominican Republic were unified for a time but then split apart again. Bolivia is today facing a separation threat, and Ecuador continues to cope with the strong rivalry between the coast and highlands. Every country has had border disputes—and even wars in some cases—over establishing permanent limits to their territories. Some of these disputes remain unresolved and are continuing sources of tension.

The activity of networks, enhanced by the Internet and other digital connections, could accelerate such fragmentation. Groups, regions, and individuals now connect and interact directly without crossing geographical borders. Another new problem is the recent establishment of “Indian Nations,” some of them in territories shared by two or more countries. All of these challenges demonstrate the historical difficulties in establishing common goals and mechanisms oriented toward sharing benefits and resolving conflicts. The reasons for such divisive tendencies are deeply embedded and will continue to pose significant obstacles to the establishment of common institutions.

INTEGRATION TO GLOBALIZED SYSTEMS AND GLOBAL GOVERNMENT MECHANISMS

Globalization could be understood at three different levels: economic, cultural, and legal. The first, and the most frequently considered when speaking about internationalization of social systems, is the field of economy and finance: currencies, stock exchanges, banking, trade, production, prices, and other related systems, as well as corporations’ internal and external activities. The second is the arena of culture, arts, communication, and social practices: values, customs, traditions, rituals, and music, movies, television, Internet and other media, among other social practices. The third level is the rapidly growing supra-national institutional legal system that is progressively displacing the historical concept of unlimited national sovereignty. Nowadays it is hard to imagine a national public policy that is not conditioned to international agreements or norms, or in some sense shaped by international organizations’ activities. In addition, there are growing numbers of integration agreements and treaties that strongly associate several countries and modify their internal legislation.

If we look at the links between Latin American countries and the rest of the world, we will see strong interlinkage at all three levels of globalization. Conse-

quently, it will be very difficult in the future to separate the region's realities from the global systems. They are profoundly intertwined.

The possibility and necessity of global governance in many aspects of economic and political life will orient the world to common mechanisms of policy and rule making. Most likely, those mechanisms will gather together not only national states but also civil society organizations—especially those acting internationally—as well as large corporations, international organizations, and others. The rise of multilevel public policies is an unambiguous symptom of this new reality.

A review of the so-called Heiligendamm process, the negotiation and association of the G8 and the G5¹ countries later absorbed by the G20², illustrates the new global trend. The European Union is already an individual member of G20. It is also the case, however, that both regional and international cooperation by Latin American countries, either individually or as a group, will follow their own needs and priorities. One good example of this is the dynamic cooperation of Brazil, India, and South Africa in the framework of the IBSA agreement.

COMMON/COLLECTIVE REGULATION OF ACTIVITIES AND SERVICES

Considering the increasing interdependence of activities and countries, a particular global governance concern will be the common regulation of such activities, services, and public utilities. It does not make sense to have a regulatory authority for each country in fields that are integrated by globalization or formal integration agreements. The creation of common regulatory authorities, a phenomenon today arising in Europe,³ is likely to be extended universally over time.

In Latin American countries there are areas, especially with regard to natural resources, that are shared by two or more countries and where national borders are hindering the possibility of rational regulation and exploration. The move towards supra-national regulation is especially necessary in the case of the Amazon region, shared by at least six countries, as well as in the general field of raw materials, such as oil and iron, but especially water.

1 Brazil, China, India, Mexico, South Africa.

2 Argentina, Brazil, and Mexico are the Latin American members of G20.

3 Europe is creating a new type of international regulatory authority. Some examples are the European Aviation Safety Agency; European Food Safety Authority—EFSA; European Maritime Safety Agency—EMSA; Body of European Regulators Group for Electronic Communications—BEREC; the European energy regulators the Council of European Energy Regulators (CEER) and the European Regulators' Group for Electricity and Gas (ERGEG); and the European Platform of Regulatory Authorities—EPRA; among others.

It is possible that common regulatory authorities will emerge to ensure effective governance of those sectors and activities. There are already some initiatives which are attempting to provide common authority, such as the Commission of Regional Electrical Integration (CIER), a nonprofit association of the state-owned electrical corporations of ten South-American countries.⁴

THE SEARCH FOR A SATISFACTORY POLITICAL SYSTEM

An ongoing trend in the Latin American political climate relates to the difficulties and contradictions countries face in finding a satisfactory political system. Since independence, the possibility of reconciliation between the old elites and other social classes, immigrant groups, and more progressive political parties and ideas remains a utopian vision, never completely achieved.

Another historical problem has been to define the fields and limits of state intervention. Traditionally, national economies, strongly dependent on the international financial and trade system, struggled to achieve sound domestic progress. Since the aftermath of World War II, dramatic breaks and shifts have occurred. During the late 1940s, many Latin American countries entered a development era. In this period, the state was preeminent—both in democratic and dictatorial regimes—as the sole planning and funding actor as well as the producer of goods and services. During the 1980s and 1990s there was a rapid change to market-oriented economies with the government as a mere regulator. Now, the general regional pattern is a return of the state to a more active role.

The problem is that policies and models were discarded before being fully implemented. Presently, two main models are being followed: a democratic way to economic and social development (Brazil, Chile, Uruguay, and probably Colombia and Peru) and a populist political system with a confused economic pattern (Argentina, Ecuador, and Venezuela). Some countries are still undefined (Mexico, Bolivia, and Paraguay) and others maintain archaic styles (Cuba and Nicaragua).

Another emerging question is how to admit civil society organizations, corporations, and other social actors into the political decision-making process. In other words, the question is how to reinforce institutions by allocating nongovernmental social actors within them. At the same time, Latin American states need to determine how to strengthen governance through administrative reform in order to update their management, juridical, economic, and technological tools and techniques.

4 See CIER site at: <http://www.cier.org.uy/>

STRENGTHENING AND WEAKENING OF NATION-STATES

The fifth trend is the cyclical political and economic strengthening of some countries and the parallel weakening of others. The changing status of Latin American countries in relation to the world depends on many factors, of which the most important among them relate to internal political considerations. Actions by powers outside of the region have also had an impact.

Both internal and external factors explain the rise and fall of Argentina—from the 10th wealthiest nation per capita in the world in 1913 to 62nd by 2010. In 1913 the country was firmly linked to the British economy. Its slow decline began after World War II, when President Perón's political activity and economic policies engaged the country in a succession of social struggles, coups d'état, weak governments, and populist political models. Uruguay, also strong at the beginning of the 20th century and whose economy was also firmly linked to British imports, became a very weak economy because of the decrease in its terms of trade ratio. Trade ratios explain fluctuations in many cases. The present world economic situation is very favorable to Latin American countries rich in natural resources because of the increase in the price of commodities.

Periods of recession have provoked unemployment and emigration. Increasing and permanent emigration of citizens to rich countries, especially the United States, has characterized recent Latin American experience. The consequences of such emigration are well known: difficulties of integration, rejection and threats to an immigrant's human rights, coupled with money transfers to the countries of origin that, in many cases, constitute a significant share of national income. The presence of Latin American immigrants is not limited to rich countries, however. There are numerous contingents in other Latin American countries, including Bolivians, Paraguayans, and also Africans—especially Angolans—in Brazil; Bolivians, Paraguayans, and Chileans in Argentina; and Colombians in Venezuela.

The presence of a large number of Latin American immigrants in other countries, as far as they maintain permanent links with their countries, stimulates the idea of nations without borders. Over time, one can even foresee Latin American nations that transcend formal country borders.

INCOME CONCENTRATION, REGIONAL IMBALANCE, AND SOCIAL INJUSTICE AND INEQUITY

The permanence of income concentration, growing regional imbalance, and social injustice and inequity have traditionally helped to explain social and

political instability. Recent shifts in such patterns in some countries and regions suggest that positive change is occurring. Chile, Chiapas in Mexico, Medellín in Colombia, Brazil's North-East region, and Rio de Janeiro's shantytowns are all good examples of how the social and economic situation of places traditionally affected by poverty, injustice, and violence can improve in a relatively short time.

Section III: Environmental Sustainability

7. Environment, Population, and Natural Resources of Latin America and the Western Hemisphere

Anitra Thorhaug

In many aspects, Latin America is natural resource rich. It has a varying environment dependent on atmospheric, geological, and oceanic forces to distribute its plants, animals, humans, forests, fish, and fresh waters. Within the next 50 years, the addition of 320 million people along with intensive decimation of forests and fisheries is likely to change aspects of natural resources beyond sustainability. Thus, clear action is necessary from individuals, governance structures, and the private sector. Especially

Especially in terms of natural resources, Latin America cannot be separated by the artificial boundaries of man's map-making, colonial languages, and culture imposed on the hemisphere.

in terms of natural resources, Latin America cannot be separated by the artificial boundaries of man's mapmaking, colonial languages, and culture imposed on the hemisphere. Although the Task Force is focusing on forecasting the future of Latin America, what will happen in this region is grounded in the paradigm of changes throughout the Western Hemisphere (Thorhaug et al. 2010).

The water of the Western Hemisphere includes 26 percent of the world's fresh water for 13 percent of the world's population. Created from the oxygen of three of the last remaining primordial forests plus prolific oceanic plants, it is estimated to produce more than 20 percent of the world's oxygen. The last two sustainable fisheries run along Southeast and West South America, fed by Antarctic currents (Garcia and De Leiva Moreno 2001). The animal and plant biodiversity of Central and South America contains some of the most important sources of plant and animal species of the planet (Peru alone contains as many endangered species as the United States and Canada combined). For millennia, the flow of air, water, fish, plants, and animals in the hemisphere has sustained the lives of

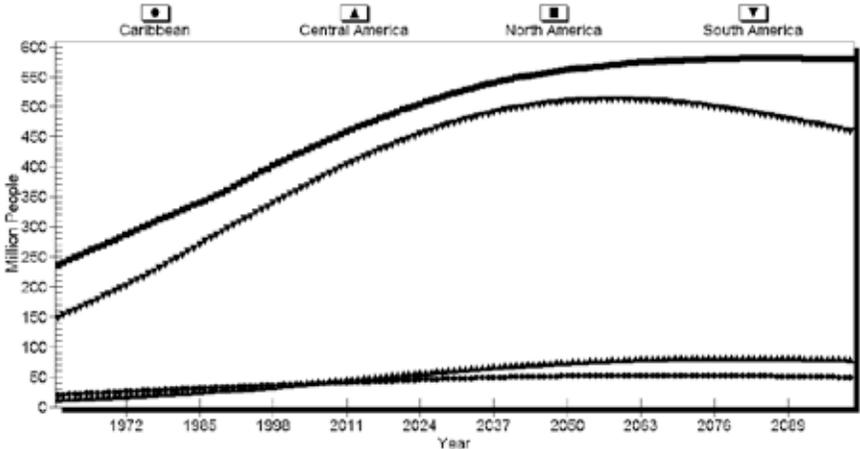
its peoples. It has created a sustainable basis of life during the cultures of Amer- indians for 20,000 years, European colonists for 300 years, and independent republics during the last 200 years.

FUTURE TRENDS

Population Growth: The future, however, may be very different from the past three millennia, or even the past 400 years. The present delicate balance presents the need to plan for challenges rather than reacting to crises as they emerge (as in Haiti, for example). Overall, Western Hemisphere inhabitants are projected to increase from 889 million to almost 1.2 billion within the next 50 years. This includes a large increase in South America from 349 to 522.3 million; Central America from 35.92 to 78.3 million; the Caribbean nations going from 35.96 to 49.25 million; and Mexico from 112 to 136 million (Hughes 1999, 304–326) (see Figure 1).

Population increases will not be spread evenly throughout Latin America, but will be concentrated within Northern Central America and the Andean region (between 80 percent and 131 percent per nation). These same regions have not only some of the poorest people per capita in Latin America but also the highest per capita indigenous population. The larger nations such as Brazil, Venezuela, and Argentina are also expected to grow between 28 percent and 34 percent within the same period, accounting for much of the total growth due to their far larger populations.

Figure 1. Total Population History and Projections for the Western Hemisphere Regions, 1965–2099



Source: International Futures Model, Hughes 2010

It is the mountainous nations' poor, already greatly underserved (in terms of education, health services, enfranchisement, and other services such as potable water), who will form the bulk of their population growth. This growth will put great stress on governance and the delivery of goods and services. A struggle to obtain basic life requirements such as potable water, adequate food, and health services for children is likely to ensue and will have to be attended to.

Water and Food Demand: In the mountainous regions and the Caribbean, the demand for water and food will be greater due to the pressure of increased population as well as to rapid industrialization in many parts of Latin America and the increased expectations of quality of life within industrialized nations. At present, the problems of potable water and increased food demand for populations with malnutrition (including the poor earning under \$2/day) are not resolved and will only become more pressing in the near future. Two fundamental obstacles in meeting these demands are the lack of space to increase farming in the mountainous areas of Central and South America coupled with the low yield the typical farmer derives per acre from his field.

Additionally, many of Latin America's most important sites of global biodiversity (the library for future crops, pharmaceuticals, and wildlife) are in these same mountains. Basic services such as sewage treatment (serving only 15 percent of residences in Latin America) are continually ignored, leaving a large catch-up for government or private industry to deliver potable water, even where large volumes of fresh water exist. Notably, the Caribbean has the lowest ratio of water per capita in the hemisphere due to low precipitation.

Energy: Energy futures show that despite an abundance of reserves of fossil energy in many Caribbean countries—as well as sources of renewable energy in Brazil, Ecuador, and Peru—demand will outstrip production during most of the next 50 years (Mitchell, Thorhaug, and Tobar 2010, 99–109). In the short term, nations are turning increasingly to natural gas, which is found in abundance throughout the coastal plains regions of the hemisphere and is the least polluting to air resources. Meanwhile, forward-planning nations are utilizing other renewable sources such as hydropower and solar. The steps now being taken by Argentina-Paraguay and by Colombia to build large hydroelectric plants, as well as Argentina's increased usage of natural gas vehicles, are examples of rapid shifts away from coal and petroleum.

However, according to the International Futures Model, demand from rapidly industrializing economies will outpace the production of energy by about 30

percent or more in all nations of the region except Venezuela (Mitchell, Thorhaug, and Tobar 2010, 99–109). The future of Latin America's industrialization itself is dependent on filling this energy production gap. Despite the high levels of energy resources that have been discovered recently, North America will also face a demand-production challenge. Mexico is experiencing the first production downturn of its oil rich economy in decades. Authorities there acknowledge that the best alternative is exploration to bring production back to a high level. Such an appreciation is central to Mexico's promised and planned development. The best strategy for Latin America in this uncertain world is to be energy independent as a region, rather than trying to solve the problem by energy imports from other regions.

Health: The problem of health is bimodal. Citizens who receive little to no health care, no emergency health services, and no vaccinations or infant health services have the highest infant mortality (up to 122 infants dying before the age of 5 per every 1,000 born in rural Bolivia, for example). For Latin America's industrializing nations, however, the infant mortality rate as of 2010 has dropped dramatically compared with rates just a generation ago. This is no doubt due to the increase of vaccinations and use of antibiotics.

Longevity of the populations of Latin America in the last half-century is also increasing. An example repeated throughout the region is that of Bolivia, which has gone from an average male life expectancy in the low 40s in 1965 to an average around 58 years (which also partially accounts for the increase in population). At the same time, females are living about eight years longer than males. In addition, citizens in the region's industrializing nations who benefit from modern medicine are experiencing technological breakthroughs that will improve their health and extend their lives.

Much of the direction of health in Latin America will be decided by budgetary allocations, especially if there is effective governance and low levels of corruption. Not surprisingly, the quality of public health services is highly correlated with good governance. It is important to spread the health services so that major epidemics, such as Haiti's recent outbreak of cholera, will be avoided.

ENVIRONMENTAL PROBLEMS

Critical, non-sustainable environmental issues include deforestation, loss of fisheries, loss of biodiversity, water pollution, lack of sufficient water for ecological systems, and climate change. The consequences of the degradation of Latin

American and hemispheric resources will be felt in food production and water availability, especially by groups struggling on less than \$2 per day.

Deforestation: The deforestation problem is intimately linked to lost biodiversity and is occurring concurrently with biodiversity loss in rivers and seas. The forest and biodiversity resource losses will particularly affect Northern Central America, the Andean areas, and the Amazonian forest (shared by eight nations) (FAO 2005 and Meyers et al. 2000, 853–858). The destruction of forests for more farming or ranching areas, along with the expansion of villages and urban centers, will be severe until controlled by consent of the governed. All major forests are global biodiversity hot spots and will be continually diminished in the future.

Water Scarcity: The region must confront the reality of allocating limited water resources in response to highly increased human consumption, increasing industrial usage, more intense agriculture, and ecosystem needs. Unfortunately, ecosystems tend to have the lowest priority in what is too often becoming a zero-sum game between competing demands. Furthermore, the doubling of population means half the water per capita if precipitation remains constant. So ecosystem resources, such as forests and marshes, become ever more important for the purification of water through underground seepage and recycling.

Many Latin American nations avoid their water governance responsibility at local and federal levels. There are some areas where sufficient water will be maintained, but others will need a far greater water management effort (Mexico, the Caribbean, Central America, the Andean nations, and Argentina).

Food Production and Fisheries: Food production not only consumes a large percentage of national water but also requires farmers to control their soil loss into the ecosystems by buffering the fields with vegetation (so that soil is retained during heavy rains and other wind events). Buffering could clear streams, near shore estuaries, and coastlines. It could also lead to the retention of residual soil, especially important in mountainous areas.

The problem of fisheries is several-fold. First, fish nurseries are being destroyed for many species, especially those near the shore where artisanal fishermen tend to dominate. Second, factory fishing by foreign fleets in both the Atlantic and Pacific Oceans is rapidly depleting stocks. It is of the highest priority that the hemisphere act together to ban such hemispheric fish resource piracy. University of British Columbia Professor Daniel Pauly (2002, 689–695) has stated that within 50 years the Pacific and Atlantic fishing catch will be decimated if

present fishing levels continue. Such decimation is taking place in the world's largest ecosystem. If there is such a drop in fish stocks just when 320 million more people have entered the hemisphere, continued nutrition and health gains will be jeopardized.

Climate Change: Many of the drivers of climate change result from physical and chemical forces within the Western Hemisphere, including ocean currents, atmospheric interaction with oceans, fresh water, and forests. The oceans contain the earth's heat pump, which maintains temperatures within a range that makes possible agriculture and other activities required for the human population density as we know them. Amazonia's rainfall is a combination of cycling of waters evaporated from the Atlantic and seasonal winds.

The activities of humans in this hemisphere are now intense enough to over-balance the natural cycles as they have occurred for millennia in the Middle East and coastal China. The question of climate change affecting melting glaciers in the Andes (which benefits agriculture in the short term due to the melt water) must be balanced against the end of glacial melt and the resulting greater aridity that will mostly affect very poor populations. The water cycles between the Atlantic Ocean and the Amazon, as well as other climates such as those Pacific nations with deserts (Mexican, Peruvian, Chilean, and the Caribbean environments) would also be affected by climate change.

CONCLUSIONS

Fluctuating natural environments and resources are the norm in the hemisphere. However, there are tipping points that will have dire consequences if exceeded. Oceans, fresh water, forests, fisheries, deserts, populations, agriculture, and plant and animal populations have varied widely in time and space, both in the hemisphere and the nations comprising Latin America. The populations and governing leaders now occupying the Latin American nations appear not to understand their effect on natural resources. They will need to appreciate and adjust soon to ensure future sustainability of their nations.

Policies and actions must point toward sustainability to make the future tenable. Critical steps include:

- Careful stewardship of forests and biodiversity
- Fresh water allocation and water pollution reduction

- Soil retention for agriculture
- Fishery sustainability (both near shore and offshore as well as in lakes and rivers)
- Lower capture from fisheries and more mariculture
- Reduced emissions from petroleum and coal while switching to more sustainable energy sources, including natural gas.

Above all, governments, industry, and individuals must be more aware of the role they have to play to deal with and overcome the environmental challenges over the next 50 years if the region is going to be able to sustain itself as we have known it.

Section IV: Outside Actors

8. Taking the China Challenge: China and the Future of Latin American Economic Development

Kevin P. Gallagher¹

Over the past 30 years, both China and nations across Latin America and the Caribbean (LAC) have sought to move away from inward-looking economic models and to integrate into the world economy. In 1980 the collective economic output of Latin America was seven times larger than China's. Now China's economy is larger than all of the economies in Latin America combined.

In the process of leapfrogging over Latin America and the Caribbean, China has tugged some Latin American economies along with it. However, the longer-run implications could prove less favorable unless Latin America rises to the challenge and uses China as a Latin American opportunity.

China's demand for LAC products will only increase into the future. This demand will feed a rapidly industrializing and diversifying economy in China. LAC nations should help stabilize their economies through exporting to China and use that space to follow China's lead in building a diversified economy.

CHINA'S RISE AND LAC DEVELOPMENT

Over the past decade, China's rise has been of great benefit to LAC. The region's exports to China jumped nine times between 2000 and 2009 in real terms, far outpacing Latin America's overall export growth. In 2009, Latin American exports to China reached \$41.3 billion (2005 USD), almost 7 percent of all Latin American exports. The pre-financial crisis peak, 2006, for exports to China was \$22.3 billion.²

These trends have helped spur economic growth in Latin America, not only because China is an export destination, but also because Chinese demand

1 The author would like to thank Elen Shrethsa for research assistance.

2 Unless otherwise noted, all figures in this analysis from Kevin P. Gallagher and Roberto Porzecanski (2010).

constrains global supply and thus raises the price that Latin Americans receive for exports from other trading partners as well.

However, this windfall has not been widely shared: five countries and a handful of sectors generated just over 80 percent of all regional exports to China. Iron and copper ores, crude oil, and soybeans from Argentina, Brazil, Chile, Colombia, and Peru supply a portion of China's fuel. Chinese foreign investment, now totaling over \$30 billion, has flowed in large part to these same countries and sectors.

While much of the attention regarding China and LAC focuses on the LAC region's direct relations with China, relatively less attention has focused on the extent to which Chinese firms compete with LAC firms in the region and in third markets

These trends have helped spur economic growth in Latin America not only because China is an export destination, but also because Chinese demand constrains global supply and thus raises the price that Latin Americans receive for exports from other trading partners as well.

outside of LAC or China. In our research, Roberto Porzecanski and I found that nearly all Latin America and Caribbean exports are under "threat" from China (Gallagher and Porzecanski 2010). Drawing on previous work with the Asian Development Bank, we characterize a

"threat" as those products in world markets where China's market share is increasing, while the market share of Latin America and the Caribbean is either decreasing or increasing at a slower rate than China's share. We found that 92 percent of Latin American manufacturing exports is threatened by China, representing 39 percent of the region's total exports.

China is not to blame. These trends are largely the result of policies taken by Latin American countries. Many adopted "shock therapy" or the "Washington Consensus" tenets. Governments rapidly liberalized trade and investment regimes and reduced the role of the state in economic affairs, often through privatizations that, in a number of cases, went painfully awry.

China has taken a more gradual approach to integrating with world markets. In contrast to Latin America, China embarked on a program of economic reform aiming at strategic integration into the world economy by following a "dual track" policy. The policy consisted of liberalizing foreign investment and inflow of imported inputs to selected industries while buttressing those sectors to the point of maturity and nurturing other sectors until they were ready to face competition with imports.

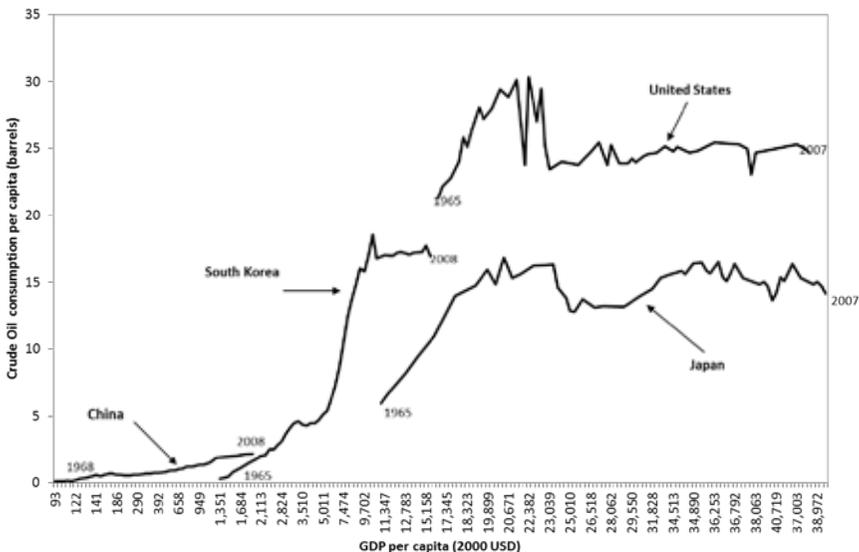
TAKING THE CHINA CHALLENGE

China’s demand for LAC products, barring a significant slowdown in the Chinese economy, is likely to last for some time into the future. LAC could capitalize on that opportunity by solidifying a series of stabilization funds, embarking upon a process of “self-discovery” to examine where opportunities for diversification may lie, while taking environmental protection seriously.

Chinese Demand for LAC Products: The main benefit of China’s rise for LAC has been China’s increasing demand for LAC commodities. China has become a new export destination for LAC products. In addition, China’s demand for the basket of goods that LAC offers the world in general has boosted global prices for many of those goods and thus has indirectly helped LAC export as well. But will that demand last?

Predicting far into the future is beyond any economic modeling available. Literally anything could happen, including the discovery or invention of new products that could substitute for LAC exports. With those caveats in mind, it seems that China will have interest in LAC’s four core commodity exports to China for a significant period into the future. Figures 1–4 compare annual income levels and per capita consumption of crude oil, iron ore, copper, and soybeans with the consumption patterns between China, South Korea and Japan—as well as with the United States in some cases.

Figure 1. Crude Oil Consumption Per Capita

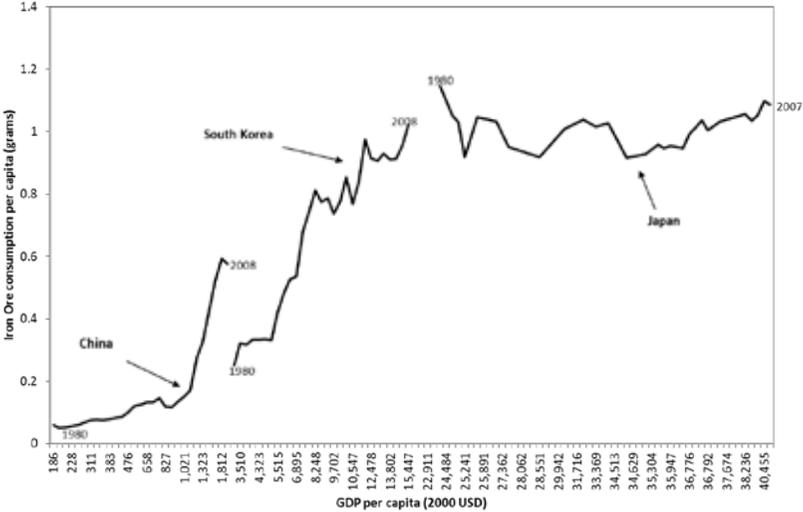


Sources: BP Statistical Review of World Energy 2010; The World Bank

Such juxtaposition allows us to examine how China's consumption of key LAC commodities compares with the consumption path of other East Asian middle- and high-income nations, and the United States. By this admittedly crude measure, in three out of the four cases it will be some time before China's markets are saturated with key LAC commodities.

In terms of oil consumption, South Korea and Japan's consumption of crude oil has peaked at approximately 15 barrels of oil per person. For South Korea that peak came at \$10,000 GDP/capita, for Japan at \$18,000. If the Chinese annual consumption growth rate of crude oil from 1960 to 2008 continues at its historical pace, China will hit the East Asian plateau in 46 years. If the growth rate is one quarter of the historical rate, China will reach that level of oil consumption in 183 years.

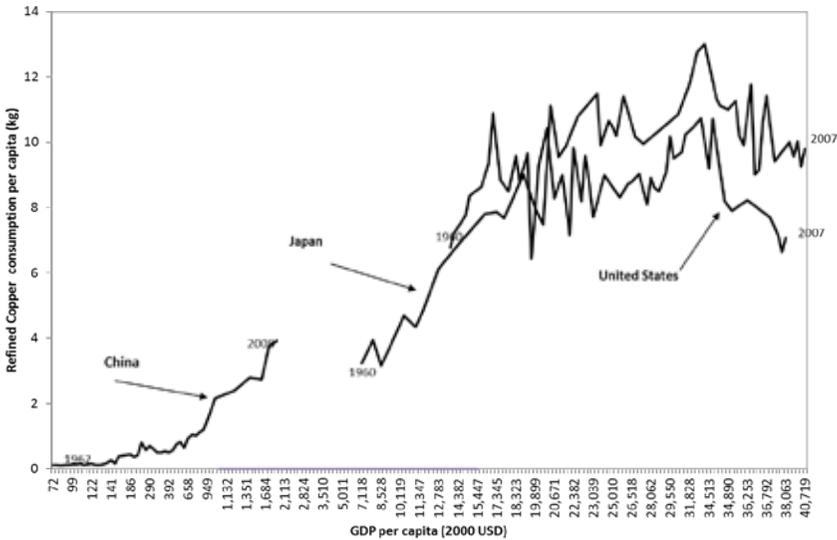
Figure 2. Iron Ore Consumption Per Capita



Note: Apparent consumption = Production + Import - Export
 Sources: Iron Ore Statistics 2010 (UNDP); The World Bank

By these calculations, it appears that China will demand significant amounts of iron ore for some time as well. This could be good news for nations such as Brazil, which accounts for 65 percent of all Chinese imports of iron ore. If China consumes at its historical rate, it will reach Japan's level of consumption in 50 years; if China consumes one quarter of the historical average, it will not reach Japan's levels for over 190 years.

Figure 3. Refined Copper Consumption Per Capita



Note: Apparent consumption for China, reported consumption for Japan and the U.S.
 Sources: International Copper Study Group; The World Bank

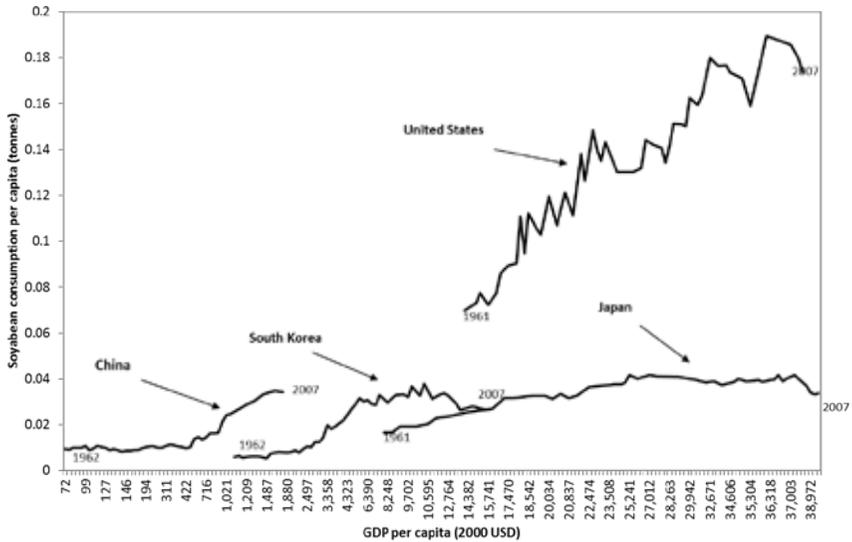
For copper, there is no data available for South Korea, but here we can also see that China seems to generally be following the path of Japan but wouldn't reach Japanese levels for 70 years or more.

The case of soybeans is the most interesting because, compared to fellow East Asian nations, China seems to have met the same level of soy consumption as its neighbors but at a much lower level of GDP per capita. If this is the case, Chinese demand for soybeans may not last. Also, neither South Korea nor Japan has a significant livestock industry that needs soy as a feedstock. However, China has begun such a sector and a better comparison may be the United States, where the majority demand for soy is in its feed sector.

This exercise is by no means the last word on the subject. Still, if the Chinese economy continues to grow, it is not implausible to predict that demand for at least crude oil, iron, copper, and probably even soybeans will sustain for many years to come.

Using China to Help with Stabilization: If China does maintain its appetite for Latin American commodities, the consequences may not all be beneficial. China could accentuate Latin America's (over) reliance on commodities exports and jeopardize the region's capabilities for diversifying its export basket toward

Figure 4. Soybean Consumption Per Capita



Note: Soybean consumption per capita is domestic supply quantity divided by total population. Sources: Food and Agriculture Organization; The World Bank.

manufactures and modern services, and cause long-lasting social and environmental impacts.

Economists also express concern that China's tug on the LAC export basket will inflict the region with Dutch disease, where primary commodity-dependent countries do not develop strongly because they are victims of a "resource curse." Nations overly dependent on commodities have been shown to de-industrialize because discoveries of such resources and their subsequent export raise the value of a nation's currency. Resource dependency also makes manufactured and agricultural goods—as well as services—less competitive, eventually increasing imports, decreasing exports, creating balance-of-payments problems, and leading to poor economic performance.

In the past few years we have witnessed significant currency appreciation across Latin America, though it is not clear that such appreciation has been due to commodities prices or other factors. In terms of competitiveness, however, it is fairly clear that China is outcompeting Latin America in world manufactures and services exports. China has become the most competitive manufactures exporter in the world, measured by the China share of manufactures in total world manufactures exports.

Reliance on commodities can accentuate employment and environmental problems as well. For example, between 1995 and 2009, Brazilian soy production quadrupled, in part due to the fact that approximately half of all Brazilian soy exports went to China. At the same time, employment in the soy sector shrank as cultivation became highly mechanized. Moreover, increased demand for soy has been linked to the deforestation of some 528,000 square kilometers in the Brazilian Amazon. Such deforestation has threatened the livelihoods of many indigenous Brazilians and contributed to accentuating global climate change.

A number of LAC nations have put in place “stabilization” funds that effectively tax export commodities when prices are high in order to stabilize the economy when prices are low or when a nation is experiencing a downturn. Of the stabilization funds that exist in the region, Chile’s stands out. To take full advantage of China’s appetite for LAC commodities, more nations in the region should put in place programs like Chile’s.

Chile’s government revenues have grown in recent years, in large part due to higher copper revenues. The share of copper revenues in government revenue was 2.4 percent from 1999 to 2002, but leapt between 12.6 and 17.6 percent in 2004. The state-owned copper company CODELCO accounted for 75 percent of government revenues from copper in 2004. Chile’s copper funds have for several years been in part appropriated into the Copper Stabilization Fund, established in 1986 to isolate public spending from the variation of copper prices and to conduct counter-cyclical macroeconomic policy.

In 2006, Chile’s Fiscal Responsibility Law created two new sovereign funds: the Pension Reserve Fund (PRF) and the Economic and Social Stabilization Fund (ESSF). While the purpose of the PRF is to support the sustainability of Chile’s elderly and disability pensions, the purpose of the ESSF is to enable Chile’s government to conduct counter-cyclical macroeconomic policy. According to Chile’s Ministry of Finance, the ESSF was created to finance fiscal deficits during periods of weak growth and/or low copper prices as well as to pay down public debt. This helps to ensure long-term financing for social programs. The ESSF was initially capitalized with US\$2.58 billion, most of which (\$2.56 billion) came from the Copper Stabilization Fund that the ESSF replaced.

As a result, in years when Chile has a fiscal surplus, the Fiscal Responsibility Law establishes that all remaining fiscal surplus must be paid into the ESSF after contributions to the PRF (which have to be between 0.2 and 0.5% of GDP) and

the five year (2006–2010) capitalization of Chile’s Central Bank (in an amount that is the difference between the capitalization of the PRF and the effective fiscal surplus, with an upper limit of 0.5% of GDP). However, repayments of public debt and advanced payments into the ESSF during the previous year can be subtracted from this contribution.

By December 31, 2008, the ESSF was worth more than US\$20 billion. As a result, in 2008, Chile became a net creditor for the first time in its history. In terms of the performance of the ESSF, in 2008 the investments made by the ESSF showed a return of 7.63 percent. The annualized net return accumulated from March of 2007, when the ESSF started operating, has been of 9.47 percent.

Self-Discovery: We know that economic growth and a diversified economy go hand in hand. It is important to underscore “diversity” because past analyses have focused on moving away from primary commodity production rather than building upon and diversifying alongside commodity production. LAC needs to ensure that the proper environmental provisions are put in place so that LAC can maintain its foothold in commodities markets for years to come. LAC also needs to refocus on the competitiveness of products beyond primary commodities.

Diversification strategies will take different forms in different LAC countries. In contrast with the past, it will be more important for LAC countries to put in place a process of industrial policy, as opposed to policies themselves. Past attempts

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at industrialization in the region had a one-size-fits-all approach: industrialize in all sectors at all costs. New more nuanced approaches to industrial policy emphasize

the need to put in place a process whereby policy makers (embedded within the private sector) can “self-discover” the binding constraints to economic growth in a particular economy. After such a “diagnostic” approach is in place, then the policy process can commence. (Hausman and Rodrik 2002)

China embarked on a program of economic reform aiming at strategic integration into the world economy by following a “dual track” policy. The policy consisted of liberalizing FDI and inflow of imported inputs to selected industries while buttressing those sectors to the point of maturity and nurturing other sectors until they were ready to face competition with imports.

Such an approach stands in stark contrast to Latin America. The region experimented with industrial policy during its Import Substituting Industrialization period (roughly 1940 to 1980). The approach was a modest success at best. The policy did help industrialize nations like Brazil, Mexico, Argentina, and others in the region. Yet, with a few exceptions many of the firms within those industries were extremely inefficient by global standards because there was too much focus on domestic markets. What is more, Latin American industrial policy was financed largely by debt, in contrast to export revenue and savings in the Chinese case.

Environmental Protection: China serving as an increasing source of demand for LAC products could take a heavy toll on the region's environment. The environment is not something to preserve solely for altruistic reasons. Indeed, a stable environment will be necessary to sustain the ability of LAC to produce commodities for years to come. Moreover, Chinese demand will create pressure to design new infrastructure projects, such as highways through the Amazon in order to get iron, cattle, and soy to Pacific ports. Such projects will need to take the environment into account. Nations like Mexico serve as an example of what can happen when the environment is ignored. According to official Mexican statistics, the economic costs of environmental degradation have equaled 10 percent of GDP per annum since 1985.

Inigorating and expanding stabilization funds with export revenue from China and elsewhere, coupled with an innovative approach to industrialization, could form part of a strategy where China is an opportunity for the future of Latin American development. A business-as-usual approach could be dangerous. Overreliance on primary commodities could cause macroeconomic, employment, and environmental problems in the longer run. What's more, China is already swiftly out-competing Latin America in world manufacturing markets. As China has shown, nations can conduct economic reforms to great benefit. Latin America could and should follow suit.

9. The Decline of U.S. Influence in Latin America

Riordan Roett

Unless there is an abrupt turn in U.S. policy, America's future position in the Western Hemisphere will continue to slowly decline over the next five decades. Traditional diplomatic ties, of course, will remain in place. The United States will interact with the region in the context of the Organization of American States (OAS), the Inter-American Development Bank (IDB), the National Defense University (NDU), the United Nations (UN), the World Bank (WB), the International Monetary Fund (IMF), the World Trade Organization (WTO), and other multilateral organizations. U.S. foreign direct investment (FDI) will continue to play an important role in the region. And trade ties will decline but not disappear. But the centuries-old concept of the region as the "backyard" of the United States has disappeared. References to the Monroe Doctrine are viewed as quaint in the hemisphere. America's current deficits make it difficult to imagine new financial initiatives—and it is doubtful that most of the countries in the region would want to be beholden to Washington, D.C., as in the past, even if America's fortunes improve over the coming decades.

The following trends appear to be irreversible in United States–Latin American relations for the foreseeable future. Again, there could be a dramatic change in U.S. policy, but it would have to accommodate the new realities in the region. That will not be easy for the United States given the longstanding belief that the asymmetries between the North and the South are immutable. But the tables are turning, to the advantage of the Western Hemisphere.

THE GROUP OF TWENTY

The Global Financial Architecture: The financial crisis that began in 2008 was not caused by the emerging market economies; it occurred because of major policy mistakes in the United States and the European Union (EU). Indeed, many of the countries in the Latin America and the Caribbean (LAC) region had taken precautionary steps in the decade preceding the collapse of Lehman Brothers to forestall a banking crisis and related institutional deficiencies. At the end

of 2008, in recognition of the financial reality, the administration of George W. Bush decided to reconstitute the Group of Twenty (G20)—the largest economies in the world—for an emergency meeting in Washington, D.C. Prominent among the group members was Brazil, followed by Mexico and Argentina. It became clear at that meeting, and in subsequent summits in London, Pittsburgh, Toronto and Seoul, that the old order, dominated by the G-7 industrial countries, had imploded. A new financial architecture, badly needed, would require the active participation of the new emerging market economies. In that process, Brazil would play an increasingly important role (Roett 2010, 127–144).

Brazil's emergence as a global player represented the work of two administrations—Fernando Henrique Cardoso (1994–2002) and Luiz Inácio “Lula” da Silva (2002–2010). Following the devaluation of the Brazilian real in 1999, policy initiatives were taken to insure that the Brazilian economy would not be exposed to the risks of the 1990s. Some countries took a similar position (Uruguay, Chile, Colombia, and Peru); others did not (Bolivia, Venezuela, and Ecuador).

It became clear in the successive summits that the “chairs and shares” at institutions such as the IMF would need to be adjusted to represent the interests of the emerging economies. Subsequent consultations led to a decision to reduce the representation of the European Union and increase the voting power and financial contribution of countries such as India, China, Brazil, and South Korea. It is clear that future decision making regarding global financial arrangements will need to include the policy preferences of those and other countries, such as South Africa. The Bretton Woods arrangements of the post–World War II period are slowly yielding to new realities.

Trade Issues: In the attempt to come to a global agreement on trade issues, years have been spent on intensive negotiations known as the “Doha Round.” The final effort collapsed in a meeting in Geneva in July 2008 when India and China refused to accept an apparent compromise proposal put forward by the EU and the United States. Brazil was willing to pursue further negotiations to make the compromise palatable to the other emerging market countries, but those efforts failed. If and when the Doha Round is resuscitated, it is clear that the United States and the EU will not be able to dictate the terms of reference as they have in the past. The emerging market economies will need to be part of the entire process, not handed a final draft at the last minute. Once again, the countries of Latin America will have to be given a greater voice in future trade negotiations.

THE BRIC COUNTRIES, IBSA, AND OTHER GLOBAL REALITIES SUCH AS CHINA

The BRIC Countries: In recent years, it has become clear that the countries of Latin America have sought to diversify their global relations without the tutelage of the United States. Conceived as an investment strategy by Goldman Sachs in 2001, the BRIC concept—Brazil, Russia, India, and China—has taken hold, and these countries are now seen as the avant-garde of the emerging market economies. If growth trends continue as predicted, they and a small number of other emerging market economies will replace the traditional EU economies over the next few decades as the largest economies in the world. Met with cynicism when first proposed by Goldman, the BRIC idea has taken on a life of its own.

In recent years, it has become clear that the countries of Latin America have sought to diversify their global relations without the tutelage of the United States.

Brazil is a strong advocate of the group and hosted the second summit of BRIC leaders in Brasilia in April 2010. The group is not a new monolith seeking to dominate the world; it is a symbol of the rise of new global players that are not beholden to the United States. They have similar interests in some policy arenas and differences in others, as was seen in the last Doha trade round in 2008. But they represent the new, emerging world order.

IBSA: The India, Brazil, and South Africa initiative known as IBSA was also undertaken without the participation or approval of the United States. Established in 2003, following the failed Cancún WTO Conference, the three countries were determined to enhance South-South cooperation. The aim of the IBSA Dialogue Forum is to provide a framework for cooperation in the fields of agriculture, trade, culture, and defense.

At the first meeting in Brasilia in June 2003, the countries called for reform of the UN Security Council and discussed measures to combat international terrorism, transnational crime, and illegal arms dealing. The foreign ministers highlighted their priorities on promotion of social equity and inclusive growth by reiterating the need for tackling hunger and poverty. Brazil hosted the most recent IBSA summit in April 2010. The Forum will expand over time to emphasize the South-South agenda of the emerging market countries. It complements the interests of the BRIC countries, two of which are founding members of IBSA. Moreover, it takes to task developed nations for failing to address poverty and inequality at the global level. IBSA and similar fora will emerge over the next decades to

represent the policy preferences of the developing countries and will often be critical of the positions of the industrial countries.

China: Since the visit of President Hu Jintao to South America in 2004, relations between Beijing and the countries of South America have developed rapidly and will continue to do so. Mexico and Central America will not benefit in the same way since their economies often compete with Chinese manufactures seeking to enter the North American market.

Two trajectories merged with the visit of the Chinese president. The first was the emergence of China as a global player in trade, finance, and diplomacy. In particular, the impressive growth rates of the Chinese economy require a constant flow of raw materials and commodities from developing countries. South America, abundant in both, has benefitted in a dramatic way from the two-way trade relationship. Soybeans, copper, iron ore, and many other products are now a staple of the trade ties between the region and mainland China. As the relationship continues to grow, there will be voices warning of a new dependence of the region on one country and on earnings from the export of their products. This is a legitimate argument that will need to be addressed in the region—that greater emphasis should be placed on adding value to traditional exports and finding a way to produce more competitive products for world markets in the decades ahead (Roett and Paz 2008).

There was a great deal of criticism following President Hu Jintao's visit that China was only interested in exploiting the region's comparative advantage in commodities and raw materials. But slowly the second component of China's expansion has begun to materialize and will undoubtedly be a key link in the decades ahead—direct investment. By 2010–2011, the investment stream has increased and will remain in the longer-term relationship between South America and China.

It was announced at the end of 2010 that China spent more than \$15 billion in oil and gas deals in South America. China's Petrochemical Corporation purchased Occidental Petroleum's operation in Argentina for \$2.45 billion. That deal followed the decision by the China National Offshore Oil Corporation's (CNOOC) agreement to pay \$7 billion for British Petroleum's 60 percent stake in Argentina's Pan American Energy company. China's state-owned chemicals group, Sinochem, successfully won the bid to develop a share of the Peregrino oil field off the coast of Brazil; the purchase price was \$3.1 billion. While these are all energy-related investments, the expansion from commodities and raw materials

to energy investment will, over time, open opportunities for China in manufacturing and other areas of the South American economies.

OTHER REGIONAL INITIATIVES

There are also other Latin American undertakings without U.S. participation that highlight the drift of the region away from the traditional power dynamics. Often instigated by Brazil, an acknowledged regional leader, these efforts will grow to represent the interests of the region without particular reference to the interests or wishes of the United States. Beginning in 2000, a series of South American summits were held in the region. At the third summit, held in Cuzco, Peru, in 2004, the South American Community of Nations (SACN) was established. SACN proposed to bring together two sub-regional trade blocs, Mercosur and the Andean Community of Nations. At a subsequent summit meeting in Brasília in 2005, the participating heads of state decided to create the Union of South American Nations (UNASUR) to replace SACN.

In 2009, the first meeting of the new South American Defense Council met in Santiago, Chile. The purpose of the Council is to preserve the region as a zone of peace and as a base for democratic stability. Other initiatives have included a Latin American and Caribbean Summit for Integration and Development (CALC). Held in Northeast Brazil, the first CALC summit brought together thirty-three states in the hemisphere, including Cuba. Symbolically, the United States, Canada, and the EU were not invited to attend. At the initiative of Mexico, a summit of the Rio Group, founded in 1986, and the Caribbean Community (Caricom), met in Mexico in 2010; it was called the "Unity Summit" to bring together all of the countries in the hemisphere, minus the United States and Canada.

CONCLUSIONS

There is widespread skepticism in the United States that any of these initiatives will prosper or endure. The cynics in Washington, D.C., may be correct, but the trajectory of global and regional initiatives of the last decade is the template for the future of U.S.–Latin American relations. Normal ties will obviously continue among the states of the Western Hemisphere and interactions will take place in various multilateral fora. But even within those fora, the South American states in particular will seek to expand and diversify their economic, political, and diplomatic contacts with less and less reference to the wishes or interests of the United States. There will be many policy arenas in which the United States and individual states in the region will cooperate and collaboration with sub-regional

groups, such as free trade agreements, will continue. The presence of new players, such as China today, and probably India tomorrow, represents an historical development that is probably irreversible. Overall, the probable path to 2060 is an increasingly independent hemisphere, with greater indifference in South America to U.S. interests than in Mexico and Central America.

Section V: Socio-Cultural Capacity

10. Projecting Education, Knowledge, and Authority in Latin America

Dylon Robbins

What does the future hold for education in Latin America? And what role shall it play in regional integration? The UNESCO Institute for Statistics would seem an appropriate place to begin our inquiry, for it regularly assembles data sets and generates reports on education and literacy throughout the world.¹ Indeed, the breadth of information that it offers, in addition to the carefully organized reports regarding education and especially literacy in Latin America, demonstrates an informed concern with guaranteeing a universally available basic education for all Latin Americans.

We can understand this as a mission in assuring the human rights of Latin Americans according to Article 26 of the Universal Declaration of Human Rights, which states that “everyone has the right to education.” And yet, despite the universal nature of the right, the particular nature of that education should presumably also be culturally specific, for Article 22 of the same document states that “everyone [...] is entitled to [...] [the] cultural rights indispensable for his dignity and the free development of his personality.”

The extent to which statistical analysis can take into account the varying cultural specificities of the region’s differing visions of education is worthy of significant consideration. This is because

Latin America, despite the predominance of Portuguese, Spanish, and French speakers there, is home to millions of speakers of indigenous and other languages and, even when considering only

...Latin America, despite the predominance of Portuguese, Spanish, and French speakers there, is home to millions of speakers of indigenous and other languages and, even when considering only Romance-language speakers, is far from culturally homogeneous.

¹ See for example the selection offered at: <http://www.uis.unesco.org>

Romance-language speakers, is far from culturally homogeneous. When we note as well that cultural and ethnic specificities are rarely coterminous with linguistic groups, it is apparent that the region's heterogeneity significantly complicates the task of analyzing national-level information on education.

While data on the percent enrolled or the pupil/teacher ratios throughout the region afford us a widely applicable rubric for measuring the features of an education system, we should ask what aspects of the experience of education in the region may escape the level of generality employed in developing them. After all, although two schools in two different enclaves may appear equivalent when comparing them according to these criteria, the fact that one may be providing a Spanish-language curriculum to a rural indigenous group and another may be providing a space where an urban middle class can gain eventual access to tertiary institutions demands that we contextualize culturally (and socially) the realities premising the implementation of education in Latin America. It is important, thus, that we approach the problem of education in Latin America according to a paradigm that allows us to articulate the difference between these and similar circumstances in the region.

My aim here, therefore, is not to argue that statistical methods are inappropriate in this context (in fact, they certainly are), but rather to complement their contribution through reference to some central ideas in the cultural and intellectual history of Latin America with an interest in exploring some questions related to education in the region. Beyond the applicability of learned skills and abilities in the public sphere or the marketplace, what can be said regarding the lived experience of education in Latin America? How may we address, as well, education's particular use in citizen formation in the region? What may we say with regard to education's social and cultural relevance?

"LA LETRA CON SANGRE ENTRA": KNOWLEDGE, AUTHORITY, CULTURE, AND THE STATE

Tensions between lettered and oral cultures have shaped modern Latin America since even before the Incan emperor Atalhuapa would supposedly angrily toss a priest's bible to the ground. "If it is the word of God," he is presumed to have said, "then why can't it speak?"² The written word as both divine and earthly law was used to dominate and control peoples for whom writing was, in significant

² Julio Ortega (2003) analyses and explores the greater implications and complexities of this event and its subsequent interpretations.

ways, a relatively new medium and a foreign technology of knowledge transmission and inscription.

The historian Ángel Rama is among the many Latin American intellectuals who have studied the tensions between written and oral cultures, and has described it using the image of the Lettered City—presumably an enclosed urban space defined by its relationship to authorities that use language and writing as instruments of power through law, liturgy, and education. He is known in particular for remarking how lettered and oral cultures were split along geographical, ethnic, and social lines; written culture was of the white, Creole elites in the cities, while oral culture was of the rural indigenous, non-white, or other marginalized cultures.³

It is the agents of lettered culture, then, who have played central roles in administering state power in Latin America for centuries. They have also been the architects and providers of education in the region—either as priests and monks during the Colonial period and early decades after independence, or as secular, lettered statesmen beginning in the mid- to late 19th century.

Literacy education—either as an instrument of evangelization or as a liberal campaign to bring outlying regions and peoples into the orbit of a republic's capital—has been experienced by many as an ideologically (and even physically) violent enterprise of conquest, colonization, and settlement. It is through these operations that states have worked with public intellectuals to define and enforce hierarchies of cultural production, ones that more often than not have favored the cultural features of the ruling classes and ethnicities, while marginalizing (and even explicitly criminalizing at many junctures) those of the dominated. In gross and imprecise terms, then, “literature” and writing would trump many popular forms in status and relevance with respect to their placement in the public sphere, while the general avenues of civil society would be shaped by writing, writers, and a lettered consciousness and sociability.

Public intellectuals, under this model, are those who write and are known for their written production. Those public figures who do not write or whose writing does not conform to the prevailing models—popular religious leaders, shamans, healers, *babalões*, rebels, and the like—would be perceived as obstacles to political life, “modernization,” and “progress.” Equally important is the role of information and knowledge in the Lettered City paradigm, which is viewed as an asset to be accumulated and strictly controlled by a few.

3 Some essential references are Rama (1984; 1996), Ramos (1989; 2001), Cornejo Polar (1994), and Franco (2002).

True enough, varied and heterogeneous immigration, mass migrations to the cities, bilingualism, miscegenation, and the resurgence of non-written media have blurred the boundaries between lettered and oral cultures. However, the nearly five centuries of this and similar experiences in many parts of Latin America have shaped a specific cultural context regarding intellectual authority, written culture, access to information, and the state that is different in meaningful ways from the way similar phenomena may be conceived in other parts of the world. Therefore, faced with the challenge of speaking of education in the longer-range future and for the region as a whole, it is necessary to invoke a sufficiently general model that already describes the region *longue durée*.

The most appropriate model to this end is the tension between oral and written cultures and how it has shaped a place of status and power for certain types of intellectuals and the strata of culture that they represent as they attempt to shape a public through educational and cultural policies. Thus, I approach the problem of education in Latin America here by seeking out representative examples of how more macroscopic transformations in the relationships between intellectual authority, the state, culture, and the people manifest in cultural policy related to shaping the greater scope of education. Through an examination of recent cultural policies in Cuba and Brazil, we may map out two important axes along which to project later transformations in such historically hierarchical relationships. These examples will help to formulate some of the key features likely to emerge in terms of the state's use of culture to form its citizens.

RETHINKING KNOWLEDGE AND AUTHORITY I: THE CUBAN "BATALLA DE IDEAS"

The *Batalla de ideas* (or the Battle of Ideas) was an important initiative of Cuba's post-Soviet era comprising economic, political, and cultural fronts.⁴ Of particular interest are those of its aspects relating to education and the uses of culture, for they suggest a reappearance and reconfiguration of the classical model of the lettered intellectual, state alliance, and public education that have defined in gross measure the cultural history of the region.

The policies' aims were, first, to counter the deepening marginalization of significant numbers of young Cubans who were otherwise not engaged in post-secondary education and, second, to invigorate a general appreciation of knowledge and learning among the greater public. This arm of the initiative

⁴ Few comprehensive sources address the initiative on the whole. An essential starting point in English is Kacpia (2009). Remarks summarizing the initiative in the terms of official state discourse can be found in Castro (2003).

called upon the participation of state-backed university students in the creation of a variety of short-term schools that worked toward a greater universalization of a post-secondary level education by having university students teach those of their peers not pursuing higher education.

Likewise, courses were created to train university students as “social workers” capable of later incorporating themselves into other institutions or service providers in the interest of addressing problems of efficiency and accountability that were seen as undermining the public’s confidence in their effectiveness and transparency. While in a few instances the aim of the initiative was to retrain workers for structural shifts in the economy, the overall scope invoked education as a means toward revitalizing the social fabric through self-improvement and encouraging higher-order thinking skills (yet only applied to state-sanctioned problems).

With respect to the general public, two television stations were launched that provided an array of educational programs as well as lessons in different disciplines geared toward educating a wider audience. Furthermore, inexpensive editions of fiction, nonfiction, and historical texts from a range of traditions were printed and distributed widely to encourage reading. While many of these works were literary, or otherwise of “high” culture, the selection included also a range of variants that would normally be described as “mainstream” or “middle-brow.”⁵ Thus, the book-driven part of this initiative on one level revitalizes the enthusiastic literacy campaigns of the first years of the Revolution that sought to enfranchise marginalized swathes of society. However, on another level it reinforces the status of written culture while adopting a socially stratified approach.

Certainly, due in part to economic and material limitations, the preferred media—print or broadcast—are geared toward top-down communication and transmission, leaving little to no space for audience response or feedback. Thus, the *Batalla de ideas*, when seen within the context of the Lettered City, would appear to affirm traditional models of authority and their relationships to information while at the same time trying to make a circumscribed body of knowledge more available.

It is also important to note that these initiatives were orchestrated and pushed forward in the midst of the direst years of the Cuban Revolution—years marked by fuel and food shortages and massive unemployment. It is possible to see in these policies a type of quixotic capriciousness in the face of very real hardships,

5 An array of titles launched electronically for the initiative may be viewed at: <http://www.sld.cu/sitios/bibliodigital>

or an implementation of educational policies that do not immediately address the needs of a people confronting daily hunger. There are certainly elements of truth in that assessment, and yet on a regional level, the educational initiative resonates with the recycling pushes toward greater privatization in certain sectors of Latin American society as a vehicle of “modernization.”

That is, the educational portion of the *Batalla de ideas* would seem to argue against and even resist (at an absurdly high price even) the trend toward subjecting all social procedures to a marketplace logic. Indeed, should the primary measure of education’s effectiveness be its use to create and place workers, to foster material production, or to answer the demands of capital? The *Batalla de ideas* seems to suggest not. Unfortunately, it has taken place amidst grave historical circumstances that make it difficult to appreciate.

RETHINKING KNOWLEDGE AND AUTHORITY II: THE BRAZILIAN “LIBERDADE DIGITAL”

Liberdade digital (or Digital Liberty) was one of the many noteworthy initiatives of Gilberto Gil as the Brazilian Minister of Culture (2003–2008). His role as minister was to synthesize the collective efforts of an array of intellectuals in Brazil and elsewhere that were interested in rethinking notions of intellectual property in a digital age.⁶ The approach stems from the assumption that if we accept that print media have shaped modern consciousness, sociability, and government, how may we rethink these areas given the different features and characteristics of digital media? Gil has argued that digital media and the technologies that support them have further democratized knowledge production and distribution (Gil 2008, 234). This has occurred not only by enabling users to respond and alter discourse, but also by collapsing the distances—whether concrete or ideological—between the “universal” knowledge-producing centers in the world and “marginal” locales. Information, according to his estimation, is no longer the exclusive resource of the major metropolises; it may now be channeled diffusely throughout the entire world, provided the appropriate infrastructure and equipment is available to users.

Given the newer and more fluid ways in which information may flow, then, how should other spheres of life be altered? What should political participation begin to look like? How do its characteristics alter notions of sovereignty, work, and intellectual capital?

⁶ Hermano Vianna has been one of the important Brazilian voices in this initiative, and many of his interventions have appeared as edited columns in *O Globo* or on his blog at: <http://hermanovianna.wordpress.com/>. Also, see Lessig (2001). Likewise, much of the impetus and creative shape of the initiative finds its roots in the open license software movement.

As Gil has noted: “Digital culture brings with it a new idea of intellectual property, and [...] this new culture of sharing can and should inform government policies” (Rohter 2007). Among those policies are a series of programs that trained citizens to work with different media to intervene in public debates that affect them. Likewise, other programs used education in the arts in order to model citizenship and forms of political participation. Most of these policies set out from the premise that the end-user—here, those participating in the programs—should have their agency affirmed, a principle that grows from *Liberdade digital*'s approach to information.

If we situate these policies within the context of Latin American intellectual history, it is clear that they constitute a dramatic departure from the centrally controlled knowledge-production model characteristic of the Lettered City paradigm. *Liberdade digital* carries wider implications, then, which send ripples through other spheres of Brazilian society as it constitutes a departure from a top-down approach to managing knowledge. Furthermore, by emphasizing a model of intellectual property premised upon the principle of sharing rather than amassing and retaining, it affirms the agency of information end-users, which is counter to the basic assumptions regarding knowledge that underlie much of Latin America's cultural history. It is important to note how these macroscopic changes in the politics of rights to information come on the heels of decades of efforts in Brazil to further democratize education both by making it more accessible (Chauí) and by altering pedagogy and the roles of the teacher (Freire).

And yet, we should approach with caution the push by *Liberdade digital* to decentralize knowledge production and distribution. After all, if everyone becomes an expert, then in many ways no one is. Indeed, there are points at which liberation can begin to look like liberalization. In other words, the push toward a greater democratization can also be part of laying the groundwork for the ascendancy of other models of authority that are just as limiting and exclusive.

It is compelling to take the *Batalla de ideas* and *Liberdade digital* as two examples from which to extrapolate general tendencies in the relationships between education, knowledge, and authority in Latin America. If we could envision the terrain in 2060, it is likely to unfold somewhere between these two tendencies. One represents a critical reaction to alterations in traditional models of authority, while the other involves their critical embrace. On balance, then, our 50-year projection suggests advancing, if sometimes hesitant, movement toward greater diffusion and access to information and knowledge along with a

further de-centering of authority. Given the essential role of technologies in such a transformation over time, the growing material capabilities of Latin America will serve to further facilitate such diffusion and access.

Section VI: Policy Recommendations

In many ways, as members of this Task Force have laid out in our discussions and in the analyses in this volume, Latin America is at a crossroads. So much has been accomplished over the past two decades, but so many challenges remain. As we look ahead to the next 50 years and the alternative scenarios that may develop, depending on the decisions that policy makers and stakeholders reach today or in the near future, we fully appreciate both the challenges and the opportunities the region faces. Even though Latin American decision makers do not control many of the forces that affect them now, nor will they in the future, we have concluded that they have already taken steps that enhance the possibilities for political, economic, and social consolidation over the longer-range future within the arenas that they can influence.

At the same time, as individual chapters have pointed out, they are buffeted by a myriad of problems that could all too easily broaden and deepen over time, undermining the important progress already achieved and generating chaos instead. In this concluding section of the book, then, we lay out a wide-ranging set of recommendations drawn from our individual analyses. We believe that these, if implemented even in part, will significantly increase the likelihood of sustainable political, economic, and social consolidation in Latin America over the next 50 years.

ECONOMIC GROWTH AND DEVELOPMENT

- **Stabilization funds** that set aside a portion of commodity revenues, such as Chile's Economic and Social Stabilization Fund (ESSF), can cushion volatility. The difficulty for most countries is to distinguish between short-term fluctuations and long-run growth, and to manage political pressure to reduce taxes and poverty.
- Over the longer term, **export diversification** would help mitigate the impact of a secular decline in commodity prices. Chile has done some of this in fruits, wine, and fish, but exchange rate appreciation and the covariance of primary commodity prices limit progress.

- Capital controls can provide a defense against appreciation, but governments can do more than impose modest taxes. Most oil and mineral leases are government owned; the pace of concessions to foreign capital is under public control. **Stronger banking regulation** can stem speculative inflows and shore up the stability of the financial sector.
- Latin America must raise **labor productivity** to counter the effect of uncompetitive currencies and relatively high wages. To do so requires better education, technical training, and infrastructure.
- **Stronger skills and better infrastructure** can facilitate a move up the value chain. The goal is to create jobs by producing inputs such as seeds and fertilizer and processing primary commodities into steel, copper tubes, animal feed, or meat. Latin America has to be more aggressive both in trade negotiations and in improving product quality.
- Advanced South American economies can **diversify the service sector** to improve current account balances. Brazil now sells oil services to Africa and financial services to the Latin American regional market. These service sectors create jobs at a wide range of skill levels.
- Finally, ethnic and racial tension is far from resolved and fuels both political and economic instability. To the extent that the region relies on primary commodities, it must **resolve disputes** about who will benefit from this strategy.
- The world division of labor and the **comparative advantage** that represent its endowment of natural resources open a door for economic growth in the LAC countries for decades to come. The capital and technology needed for developing these sectors require opening them up to private operators both national and foreign.
- Growth based on the production of primary goods is high-capital and low-labor intensive and tends to generate high revenues with little employment. **State ownership of the natural resources** opens a window for negotiating in the concession contracts transfer of technology and domestic employment creation. Employment in clusters to produce inputs and to process the primary goods may partially offset the low employment ratio in the extractive industries themselves.

- The main challenges for LAC countries that have adopted a growth strategy based on the exploitation of **natural resources** in a world constrained by the limited supply of raw materials are to create credible institutions in order to efficiently administer these resources, to attract investment, to extract the wealth-creation potential of these sectors, and to minimize their macroeconomic distortions.

GOVERNANCE, DEMOCRACY, AND THE STATE

- There needs to be a significant **strengthening of police forces** to combat the spike in criminal activity in many countries that threatens to undermine democratic institutions.
- It is crucial to achieve **greater transparency** in public financing through public disclosure of information on ministry and agency websites.
- LAC should seek ways to make better use of the OAS Santiago Resolution 1080 (1991) and the Democratic Charter (2001) to forge **collective responses** to abuses of democratic procedures and practices that fall short of actual military or self-coups.
- **Convocation of a multilateral conference** on the *continuismo* problem would help to determine areas of consensus on ways to limit extended or indefinite terms of office for elected heads of state.
- In order to **strengthen political parties** through leadership training, cadre workshops, and democracy institutes, resources should be expanded, ideally administered by multilateral organizations rather than by individual country-directed programs.
- In order to increase citizen participation and monitoring mechanisms on the state, LAC should **develop civil-society organizations** with the support of the state and the private sector. Civil-society organizations should not prevent the existence of organizations that promote special interests but should offer alternatives which serve to mitigate the power of such special interest groups.
- It is crucial that LAC countries develop modern political parties that can represent the interests of its members and also the NGOs with which they are in contact. Such parties should be more open to participation and to debate as well. In practical terms, this means establishing and developing associative networks beyond the boundaries of parties. **Horizontal networks-parties**

need to be interconnected with various social networks, decentralized, and have high levels of autonomy at sub-national levels.

- Transforming the **public administration** should be on the agenda. Citizens must be involved in the design of public administration as well as with its financing, monitoring, and service provision evaluation. Public services may be transformed into (partially) self-sufficient services if specific state agencies are interconnected with the communities that support them.
- A more effective **presidency** needs to be developed to be able to have a more interconnected government, with more limits on some areas of past activity, but capable of creating a cascade effect that is ultimately the secret of its power.
- In order to cope with social and institutional fragmentation, territorial diversity, and complexity, **non-centralized decentralization** needs to be expanded so that it is both locally multidirectional and intertwined with non-state institutions.
- Most LAC countries require additional **judicial reform** to further increase the capacity of the legal system to prosecute cases more effectively and efficiently. Can Chile be a model? (Retraining and replacement of prosecutors and judges, introduction of oral adversarial procedures to speed up trial processes, longer terms for judges, and elimination of selection processes based on political party criteria).
- Future judicial reforms should no longer be aimed at limiting the power of the elected branches—as they were in the 1990s—but rather be designed to **strengthen the states' constitutional and legal leverage** vis-a-vis powerful groups currently able to circumvent the law.
- State **capacity to extract resources** is a central feature of good governance. Therefore, the still-pending constitutional and legal fiscal reforms required for more efficient and effective tax collection and for healthier revenue management systems for the future need to be implemented.
- Future reforms should also include the **elimination of informal and formal obstacles to the rule of law**, i.e., *fueros* and special legal regimes for certain public officials and private groups still in place in many nations in the region.
- The reputation and legitimacy of judiciaries—which affect state capacity to apply the law—would benefit if public perceptions were based on **data and indicators produced by the judiciaries** themselves.

- Future efforts to enhance access and efficiency in justice procurement will require **deeper case diagnosis and monitoring and evaluation mechanisms**. The production of better—systematized and comparable—information on court rulings and compliance are vital components of a good reform diagnosis and evaluation, and also serve to further our knowledge about ways to deepen the rule of law.
- LAC countries need to **strengthen capabilities for scenario design** and other planning techniques.
- In order to achieve economic and social integration, LAC countries should undertake efforts to **fortify institutions** like UNASUR.
- It is crucial to negotiate **common treatment of some strategic sectors** such as environment, telecommunications, energy, nuclear power, transportation, public health, migrations, water, and banking, and to establish cooperation and regulation through common regional authorities.
- In order to foster **the participation of civil society organizations** in the political decision-making process, continued efforts to implement democratic mechanisms are required.
- It is necessary to establish common regional instruments in order to protect **emigrant and immigrant populations** of Latin American countries.
- LAC countries need to pursue initiatives that will **eliminate the structures and methods that boost income concentration**, regional unbalance, and social injustice and inequity.

EXTERNAL ACTORS: THE UNITED STATES AND CHINA

- A White House decision to **endorse a permanent seat for Brazil** on the United National Security Council would help repair relations between Brasilia and Washington, D.C., that have developed in recent years.
- The United States should involve the BRIC countries in advancing the discussion of **new financial architecture** in the context of the G20, as these countries will play an increasingly important role in the multilateral organizations and the world economy. As “stakeholders,” they have an increased interest in global financial regulation and transparency.

- It is in the interest of all parties to address the issues that caused the failure of WTO negotiations in 2008, and **Brazil** would be the best choice in the LAC to represent emerging market economies.
- LAC, China, and the United States have interests in confirming that China's expansion into the hemisphere is not seen as a security threat to the United States and in **exploring areas of mutual interest** for meaningful negotiations—climate change, global trade, and new financial architecture.

ENVIRONMENTAL SUSTAINABILITY

- Marine fisheries policies in each nation must incorporate **sustainability of all fish species** and the food webs on which they subsist in regulations and in practice with regional oversight. This sustainability includes restoration of critical habitat for fisheries.
- The problem of poorly managed fisheries beyond the Law of the Sea limits of territorial waters must be overcome by mutual monitoring and far better **regional management**, including size and catch limits and seasons of catch.
- A major priority in most LAC countries is the delivery of **potable drinking water and the sewerage** of urban residential and industrial areas, which are critical for sustainability of drinking water resources and health of the citizens.
- Soil erosion needs to be addressed through the **education of farmers about sustainable soil management**, coupled with government programs to retain soil, incorporation of teaching about soil conservation, and reforestation programs.
- A regional policy of **aiding infant and maternal health** must be put into place, funded and supported by the more industrialized nations, in order to prevent large-scale disease outbreak and transmission, to stem unrest, and to lessen unwanted immigration as the result of population growth from poverty areas into more industrialized parts of Latin America.

SOCIO-CULTURAL CAPACITY

- **Harness** the ability of **the Internet** to increase the capacity of historically less privileged groups to become more aware of opportunities and more educated in areas relevant for improving their conditions and circumstances.
- **Transform traditional state educational models** that emphasize rote learning to ones that emphasize critical thought to form citizens and innovators able to adapt to and alter rapidly changing conditions and situations.
- **Use education as a tool for building civil society** so that individuals and groups can become more engaged in influencing political processes and in affecting governance outcomes in constructive ways.

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The Pardee Center Task Force on Latin America 2060

The Pardee Center Task Force on Latin America 2060 was convened on behalf of the Pardee Center by David Scott Palmer, Professor of International Relations and Political Science and Director of Latin America Studies, and Carlos Blanco, Visiting Professor of International Relations, at Boston University. The Task Force, which included leading scholars and practitioners from Latin America and the U.S., met at Boston University in November 2010 to discuss the many advances made by Latin America in recent years and to consider both the opportunities and the challenges the region faces over the next five decades. The Task Force focused on five key areas that are most likely to set the parameters of the region's future, including: 1) Economic growth and development; 2) Governance, democracy, and the state; 3) Environmental sustainability; 4) Role of outside actors; 5) Socio-cultural capacity.

Most of the participants, drawing on their areas of expertise as well as the exchanges in the meeting, finalized their analyses and projections resulting in the original articles appearing in this volume. The concluding chapter offers policy recommendations drawn from the individual analyses to suggest concrete steps that could be taken to deal with the issues discussed. This publication is intended to contribute to the debate concerning the future of Latin America among the many communities who have a stake in the outcome of the complex dynamics now unfolding, from political and economic leaders to scholars and civil society.



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