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special feature

New Paths: Globalization in a Historical Perspective

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Forty years ago, in 1967, I completed with Enzo Faletto, in Santiago de Chile, the draft of a book, *Dependency and Democracy in Latin America*.[◊] The book discussed the main interpretations on the theme of development. At that time, both of us worked at the Economic Commission for Latin America (ECLA) better known in the region by its Spanish acronyms, CEPAL, the UN institution that proposed an approach to the studies on economic development known as *Latin American structuralism*. The main architect of this theory was the Argentinean economist, Raul Prebisch, but it underwent several developments.

Prebisch defined the region's underdevelopment as being structural. Based on the statistical analysis by Hans Singer, an important UN economist, Prebisch highlighted that there was a process of ongoing loss in international trade that limited the chances of growth for underdeveloped countries. This happened because international trade was limited to imports by underdeveloped countries of manufactured goods and the exports of raw materials and agricultural products, the so-called commodities. These commodities had low technological content and the wages paid to the workers for their production were low. On the other hand, despite the high technological component embedded on manufactured goods that should make them cheaper, unions and other organized sectors of the developed societies withheld the productivity gains. These were the social and political foundations for the existence of a growing gap between the countries in the Center and in the Periphery. This gap was structural and could not be explained solely by short-term factors linked to price fluctuations.

The new technologies incorporated by the export sector did not spill over to the economy as a whole, not even to the agrarian sector. The situation was sharply different in the central countries. There, the productivity gains in one sector quickly were shared by the whole economy. Even though developed economies were diversified, they were homogeneous in terms of their capacity to absorb technological innovation. Conversely, in the countries of the periphery, productivity gains were concentrated on the export sector, giving birth to specialized and heterogeneous economies. This differential situation took shape since the rise of commercial capitalism, when underdeveloped countries at the periphery became

[◊] This paper was presented March 26, 2007 at a conference at the University of North Carolina, Chapel Hill under the title "Globalization and Development: The Brazilian Experience."

linked through the international market to countries in a more advanced economic and technological situation.

I mention this for two reasons. To show that CEPAL's economic thinking had nothing to do with the simplifications intrinsic to a vulgar version of the theory of imperialism, that is, always ready to reduce everything to a political coercion imposed by the central countries over the periphery. But also, and foremost, to underscore that Latin American structuralism always sought to combine economic analysis with political analysis.

Prebisch never forgot that the development process has an inescapable component of productivity gains which are impossible to achieve without scientific and technological innovation and without capital accumulation. Neither did he forget to show why economic analysis based on classical theory no longer worked for a couple of reasons. First, because trade unions in industrialized countries struggled for a greater share of the national product. Likewise, because the State needed to increase tax revenues to build a better society. And also because the concentration on the agro-exporting sector profoundly distorted the structure of peripheral economies.

What was to be done to reverse such a situation? The answer was a complex one.

The State had to do what the market had not done: achieve capital accumulation through taxation and enlarge the technological component of production. In other words, it would be necessary to industrialize the countries, releasing them from the straitjacket of the agrarian, pastoral and mining production. Instead of directing production to the external market, direct it primarily to the internal market. The constant deterioration of the terms of trade leading to cyclical crises in the balance of payments, foreign exchange controls had to be imposed. To stimulate the reorientation of the economy *hacia adentro*, some planning would be required. It was essential to attract foreign and domestic capital to spur economic growth.

All this implied improving the efficiency of the State apparatus and of public policies.

In the book written with Faletto, we expanded the structuralist argument, including other historical and political aspects that conditioned the development of peripheral economies. Instead of considering all economies as homogeneous, we showed that, in each one, social groups and classes interacted in a variable way with each other and with the central countries. There were two basic types of insertion for the Latin American economies in the international system. One, when the export-oriented production remained under the control of domestic producers. Another was when there was foreign investment. Historically, this differentiation depended on many factors, such as the availability of land or mineral resources. It also depended, since colonial times, on the size of the population, on the political capacity of groups and classes to build effective power structures, on their capacity to negotiate with the external sectors, and so forth. In all cases, there was no *single and inevitable specific form of dependency* insofar as it was not the outcome of an external imposition, but the combination of internal and external factors, and of their ensuing alliances.

In some cases, as a result of direct foreign investment in the export sector, the so-called economies of enclave were formed. Seldom had any domestic sector taken part in such type of economic exploitation. In general, local agricultural and mining producers played a secondary role in the enclaves throughout the 19th century. The middle classes only marginally benefited from the system, using the local state as collector and re-distributor of the taxes levied in the enclaves.

The workers of this sector, indeed, were directly dependent on it, whereas the rural masses of the traditional sector were marginalized, especially in the countries with huge indigenous populations (the cases of Bolivia and Central America and, to a lesser extent, of Chile and Mexico). In other cases, local proprietary classes devoted themselves to agricultural activities, generating their own capital accumulation (given the abundance of land and the cheap labor force, when not outright slave labor). Later, this enabled them to diversify their capital toward industrial production (as in the case, for instance, of Argentina and Brazil).

The emphasis of the book was not, therefore, on *dependency*, even though it was read through this prism because the "theory of dependency" was then fashionable, despite our explicit opposition to this simplified version of the theory of imperialism.

The emphasis was on the variability of the forms of integration to the world market and on the existing alternatives for the countries' economic growth, even when in situations of dependency.

In the 1960s, a trend toward a growing association between domestic capitals and foreign capitals in local production was already discernible, particularly in industry and services (transport and financial services being the ones with a strong foreign participation, especially from Britain since the 19th century). Taking advantage of the boom in the production of manufactured goods after the Second World War, foreign capital became prominent in industrial investment, especially in Brazil and, to a lesser extent, in Mexico. In other words, what we then called the "the new form of dependency" was, actually, the beginning of the process that would fully unfold later and be known as *globalization*.

At that time, not even the notion of multinational corporations was of current use. They were called trusts insofar as the expression "multinational corporation" was only coined by Raymond Vernon in 1971. What then about globalization?

We knew nothing about it at that time. And yet, using another expression — internationalization of the internal market — we were actually dealing with the dawn of the globalization process. We demonstrated, furthermore, that foreign capital investment to produce industrial goods required the expansion of the internal market, with all the ensuing political consequences. We went as far as foreseeing that the continuity of development in the periphery was now feasible, contrary to the widespread belief at the time that this was impossible within the capitalist system. We argued that to maintain future expansion of the production, it would be necessary to gain the international market for manufactured goods through exporting differently than primary-export economies. The external market would become the condition for the continuity of economic growth, thus turning around the argument that the driver of development was the internal market. However, we did not and could not have any idea of the immense impact that the new phase of capitalism would bring about, mainly in the financial systems.

In this essay, I do not wish to follow, step-by-step, the relation between Center and Periphery as we saw it in the past compared with today's relationship between advanced economies and emerging economies, to use the current fashionable term. I just want to emphasize that ECLA had then a "vision" that stressed the structural differences between Center and Periphery and the fact that my book with Faletto did not deviate from it. It added the historical dimension to show how the diverse situations of dependency came into being. We did this through an integrated approach of the economic, social and political factors in the formation of capitalism in the periphery. And more importantly, the book revealed that there were differences between countries concerning the opportunities for growth and integration in the international market. It downplayed the relative weight of the external factors in the interplay of the indigenous social classes among themselves and in their relations with the countries of the Center. It also analyzed the changes that occurred in the countries of the region as the overall conditions of capitalism evolved.

We were concerned with the degrees of national autonomy and, therefore, with the role the state would play in development decisions. It was not yet possible to anticipate the relative autonomy of multinational corporations vis-à-vis states, not even central states. Nor could we envision a situation in which the great organizations created to stabilize the economic order and to provide greater opportunities of growth to underdeveloped countries, like the IMF (International Monetary Fund) and the World Bank, would reveal their fragility. Today they are clearly incapable of managing the dynamism of the global economy and of the multinational corporations as well as balancing the growth of emerging economies.

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Forty years later, where do we stand?

After the fall of the Berlin wall, signaling the end of the bipolarity between the Soviet Union and the United States (or the "free world," as the Western bloc presumptuously called itself) and after the technological advances, with the prevalence of the hi-tech and of the revolution in the means of communication and transport, we live in another world. Neither better nor worse, but different. The ongoing technological innovations that change the mode of production and, above all, the rise of finance capital that became globalized — thanks to the Internet, (among other factors), redesigned the global order. International trade has been growing at a higher rate than the GDP (Gross Domestic Product). In spite of that, the scarcity of jobs and the inequalities keep hurting the poor countries while the global population continues to grow.

The discussions about *another globalization*, non-asymmetric nor producer of income and employment concentration, inflame hearts and some minds. They may have a denouncing power, but they do not change the predictable course of events. Quoting a famous statement uttered at the end of the seventies by the then-secretary for international affairs of the Italian Communist Party and now President of Italy, Giorgio Napolitano: "Either we internationalize ourselves or they will internationalize us." It may seem like a play on words, but it is not.

In the final chapter of the book *Dependency and Development* that describes the new dependency, we stressed that some countries like China and the Soviet Union took political decisions that allowed them a greater autonomy in the international market and economic development. The price paid for this outcome was the initial closure of the economy, the omnipresent state, the suppression of civic liberties and the concentration of human and technical resources in the pursuit of strategic objectives of economic growth and military power. Such a path seemed excluded from the horizon of the Western world and also from the majority of the countries of Latin America, the region that some have called the "farthest West." With the exception of Cuba and of some few and failed alternatives to ensure autonomy through isolation, the majority of the countries of the region followed another path. On the other hand, in the context of the Cold War, any misbehavior was soon construed as a dangerous threat to the Western world. Even so, it is impossible to understand the political environment and the intellectual viewpoints of that period without recalling that the Soviet Union, Cuba and China represented a counterpoint to the style of Western capitalist development and influenced the decisions and intellectual analyses made in the region.

What about today, after the end of bipolarity?

The unfeasibility of a path to autonomy[1] at the price of freedom (even though the global economy is dominant) does not imply the nonexistence of forms of international integration that safeguard national interests and ensure better standards of living for each people. This is what Napolitano's statement refers to: the search for alternative paths that do not imply the automatic repetition of the recipes prescribed by the ideologues of the globalization and of the economy as if there was one single path to development.

The opportunities for a more favorable integration are not the same for all. As in the past, there were different forms of integration into commercial capitalism and later, of reintegration into the world order under the aegis of industrial capitalism. Now, with globalization anchored on the technological and financial advantages of central countries, each country of the old periphery will follow paths of variable success. And I say the "old" periphery for the following reasons: insofar as the expansion of globalized capitalism is based on the planetary distribution of world production and on the interconnection and power of financial capitals, the notion of *national property* is undermined, in the same way as the national mechanisms of control became fragile to deal with capital mobility.

Global networks were created, incorporating across borders, segments of the old peripheral countries. Simultaneously, with the migrations and with the continuing marginalization of industrial and commercial segments, provoked by technological innovation, sectors of the central countries are now being confronted with situations that make them closer to what occurs in less developed countries, and

[1] In the Latin American analyses, the active presence of the national state was seen as the condition to achieve, at the same time, autonomy and economic growth.

vice versa. New Orleans is farther from New York than São Paulo, despite the fact that, taken as a whole, Brazilian economy and society are "underdeveloped" when compared with the American situation. We have, however, to place this qualification between quotes since it is now much more difficult to evaluate countries as a whole, given the interconnection of parts of them with the global networks. Even in the case of China, while Shanghai pulsates in the rhythm of globalization, a large part of the Chinese countryside remains immerged in underdevelopment.

Things being what they are, what are the opportunities for Latin American countries to position themselves in the new global environment?

Let us start with foreign policy.

Who could envision that the outcome of the end of bipolarity would not be the Pax Americana but, rather, the end of the possibility for any Global Empire? Today, after the deadlock in Iraq and the tensions in the Middle East and the Islamic world in general, it would be more fitting for the world diplomacy to focus on rebuilding what the United Nations was supposed to be: a forum to avoid war, with enforcement capacity. For such a mechanism to be viable, it is imperative to revise the global political objectives of the hegemonic countries. It will be necessary to define a policy more of containment than of aggression, forsaking the dream of westernizing the world and of raising the American democratic institutions to the condition of universal paradigm. We must act as if we were in the post-Napoleonic period, though without the restoration ideals. We need new democratic Metternichs capable of strengthening peace through the inclusion of more partners and not through the *entente* between the superpowers. There is no military might nor moral convening power capable of uphold a world controlled neither by a single hyper-power nor by a coalition of a few superpowers.

If the great powers fail to acknowledge the need for a new global contract, we will witness, in silence and complicity, the emergence from the shadows of new gladiators, unconstrained by any rules, with profound risks of global confrontations.

The most salient of these new actors is, of course, China, with a growing influence on Asia and Africa. But it is not the only one. Great Russia is also repositioning itself as a powerful player in Central Asia and the Middle East. The Islamic world is seeking to affirm its unity in response to the interventionist follies. Meanwhile, Europe hesitates about how far to expand its Union (will it encompass Islamic Turkey or not?) and about the role it should play in the world. Latin America is divided between a regressive populism and the fear of becoming again the vassal of an exhausted empire, reliving the fate of some Latin American countries that remained attached to English interests when Britannia no longer ruled the waves.

Not to mention Africa, still seen uniformly by the West as a continent of tragedy, in spite of the many advances made and of the growing alliances of Sub-Saharan African countries with China and, in some cases, with other "South" countries.

From the political standpoint, contrary to the Cold War period, globalization did not shrink the options open to underdeveloped countries. It acts more like a fragmenting force than like the leveling force that would render the world homogeneous. It disconnects and reconnects segments of countries at another level as economic growth produces more inequality, within and among countries. The very dynamics of the globalized economy hampers unilateral impositions.

There is always a lack of consent and the monopoly in the use of force is undermined as an increasing number of countries manage to acquire powerful weapons, be they atomic or not, thanks to the existence of a global black market, besides the proliferation of new weapons of terror, such as the suicide-bombers.

On the other hand, the expansion of the technological revolution in communications (the same one that paved the way for globalization) hammers in the minds and concerns of the richest countries the persistent inequality between classes and nations. The challenge of poverty is for good at the core of the global agenda. There are also new challenges affecting both the rich and the poor that the world as a whole is confronted with, rich and poor included. That is the case, for example, of the greenhouse effect that, in correlation with the energy question, has an impact on national and international policy decisions on an unprecedented scale. In this context, developing countries are playing a new strategic role in global discussions. Some of them have become polluters, due to their model of economic growth; others are at the forefront of attractive energy alternatives, such as ethanol. These factors enlarge the margin of action for some underdeveloped countries to negotiate and defend their interests in the global stage.

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At the domestic level, the first challenge that Latin America had to confront after the end of the Cold War and the ensuing withering away of the two opposing blocks was the full-fledged adoption of democracy. There was neither space for the survival of military dictatorships in the region nor any support for them from the dominant poles. The transition to democracy, in a way or another, has been accomplished.

This happened, however, without the strengthening of the very foundations of democracy. I refer here to a greater equality (at least in terms of opportunities) and to the existence of a truly democratic civic culture. Many sectors of Latin America still lack those loadstones of a capitalist-democratic culture, so eloquently praised by Tocqueville: the communal solidarity of protestant inspiration and the American's sense of personal responsibility. But the architecture of democracy is present. Political parties, elections and even this essential component of the democratic ideals — the taste of freedom — have spread throughout the region with one caveat: freedom is mixed up with non-compliance with the law and the arbitrariness of the powerful that follow the dictum "to enemies, the law, to friends, forgiveness." We created the infrastructure of democracy but the soul is missing: we still lack the "due respect to the legal process," the prevalence of the "rule of law." We keep moving back and forth between institutions and personalism. Charisma threatens the compliance with the rules and the citizen still runs the risk of being treated as a client, as a dependent, entitled to receiving gifts rather than to exercising rights.

The second challenge that globalization brought to the region was its insertion in the global competitive capitalism. It is essential to take into account these two challenges together — to build democracy, even though in an incomplete way, and to come to grips with globalization — to grasp what is happening now. Integration to the global market implied breaking with high protective tariffs and limiting state interventions over the market. These traditional instruments of protection against external competition and of promotion of a development *hacia adentro* had become inefficient. On the other hand, the rules for the attraction of international capital are clear: respect for contracts and reduced arbitrariness in interpretation of the law. To these conditions should be added economic predictability, excluding inflationary indulgencies and, hence, a greater control of public spending, and so forth. If we recall that in the 1980s oil crises affected many countries of the region and, combined with inflation, led treasuries to the verge of bankruptcy or to huge debts, we have another factor leading to drastic change in the action of states: the time for privatization had come. Privatization was undertaken less as the consequence of a neo-liberal-inspired ideological decision and more to help the adjustment of the government accounts and to provide market mobility to the large, previously state-run, corporations as well as to build the modern infra-structure needed for economic development. Even the companies that by political decision remained under state control started to operate in the market as large private corporations, having in the quest for profit, compliance with the law and transparency in decisions an ideal that, even when not fully attained, did limit the level of interference by political and partisan interests.

These overlapping processes generated a contradiction or, at least, an ambiguity between traditional interests rooted in the political system, with influence on the state apparatus and rules of the market, increasingly more homogeneous at the international level, due to the global standards of quality required for the operation of the productive system, specially in the case of exports of industrial goods. Moreover, the slow resumption of economic growth (which only from 2003 onwards received incentives from the international market[2]) and the growing demands from the masses created a cauldron of pressures. This situation led in several countries to political crises or, at least, to the electoral defeat of proponents of the modernization required for adjustment to the global economy. In some cases, democracy itself, not only the economy, started to be blamed for the failure to respond promptly to popular demands.

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Not all countries of the region had the conditions for an insertion in the new world order with opportunities for economic development and better well-being for the people[3]. In a nutshell, the hurricane

[2] Comparatively, Latin America was not the region with the highest rates of growth in the world. In 2006, it will have grown around 5% and the forecasts by ECLA and the World Bank point toward a decrease to 4.5% and less than 4%, respectively, in 2007 and 2008. These figures are lower than the forecasts concerning the average developing countries, expected to grow beyond 6%, not to speak of China with an estimated rate estimated at more than 9% and India at more than 7%.

[3] As we did in the book about *Dependency and Democracy*, it is necessary to reconstruct, in an in-depth way, the historical-structural situations through which each country came to grips with the challenges of globalization. On the diversity of the Latin American response to global challenges, see Carlos Pérez

of macro-economic adjustments that swept the continent in the last decade of the past century (known, unjustly, as the application of the Washington Consensus agenda) took different forms and met with different political, economic and social situations. By and large, countries lacking a diversified economy, specially those with characteristics similar to the old economies of enclave (Bolivia, Ecuador, Venezuela and some countries of Central America) experienced a greater difficulty to adjust positively than countries whose economies and societies had undergone processes of diversification and had developed an urban-industrial base that complemented the agro-exporting sector.

The climate of political freedom and the continuity of elections enabled previously marginalized sectors gradually to enter the stage. There was a resurgence or emergence, all over the continent, of peasant demands as well as a growing pressure by urban masses. In the first stages of globalization, there were protest movements of Cuban or Maoist inspiration. In one particular case, that of Allende's Chile, the demand for profound social change was supported by the popular vote and gained power. After the downfall of Allende, a process that had the participation of the international forces fighting the Soviet block, and after the smothering of the strongest guerrilla movements, such as Sendero Luminoso, the Tupamaros and the Montoneros, or of their containment, like in Colombia, the high-pitched rhetoric for change was not followed by transformative action. The nonexistence of "another bloc," with the demise of the Soviet Union, limited the transfer of the revolutionary myth into reality.

This does not mean that the revolutionary myth has disappeared from the ideological amalgam of political movements active in many parts of the region. The appeal of a radical structural transformation remains alive in many them, from the neo-*zapatistas* of *comandante* Marcos, through the Bolivarianistas proclamations of the Venezuelan leadership, to the Bolivian *indigenismo* and the rebel movements in Guatemala. The same is true for Colombia, where the *narco-guerrilleros* still see themselves as revolutionaries. In other cases, like in the Landless Movement (MST) in Brazil, the overall situation of the country is so removed from the revolutionary rhetoric that it is hard to assume it publicly, even though the dream of "another society" remains alive.

More recently, the political challenge to the established order took a new shape.

Many have used the notion of populism or neo-populism to characterize the policy of countries like Venezuela, Bolivian or even Argentina, given the charisma of the leader and the "distributivism" of these countries' social policies. What emerges from these experiences, however, is above all the mistrust of markets and the return to statism. The new populist situations emerged in reaction to the adjustment policies, blamed for all the evils of the present. Hence, the regressive component of the rhetoric that supports them. Their leaders do not propose new forms of social or economic organization. Their rhetoric is negativist. They give voice to an anti-American and anti-globalization message, but abstain from defining the utopian way towards a future of greater equality and economic prosperity. Pari passu with the messianic attitude of the Bush government that imposes political regime change and sustains the legitimacy of preventive wars, anti-Americanism is the magnet for the new Latin American populism. An

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Llana, *Modelos politicos internos y alianzas externas*, Universidad Siglo 21 y Torcuato di Tella, draft, 2007.

external enemy is singled out to justify the national-statist rhetoric in a way that is immediately understood by the masses, increasingly disgusted with the arrogance of Bush's America[4].

Though these patterns of political behavior have been qualified as populist (even in the case of Lula in Brazil who, from time to time, is defined in those terms), they differ significantly from the classical populism. We are living through situations that are different from former populist processes, of a Varguista or Peronista type, or whatever other name they may have had. Those appealed directly to the masses, partially incorporating them in society. They despised representative democracy, promoted the redistribution of resources but did not seek to change the prevailing social and economic order. Anti-Americanism was strong with Perón, but was not a characteristic of Vargas. And both never entertained an anti-market stance. Their statism, especially in Vargas democratic period, was more pragmatic – as today's privatizing wave – than ideological. The new populism, of Chávez or Morales, has in common with their predecessors the policies of income distribution. However, it is much more anti than in favor of, and does not hide its hostility towards the markets. In Morales's case, there is still the *indigenista* component that drives the rhetoric toward the proposal of another society, based on non-Western values.

Each country implemented the agenda of adjustments to the global order according to their specific situation. In countries with an economy with little differentiation and dependency on one basic export commodity, like Bolivia, the consequences of the adjustment were traumatic. There was an outright crisis of the political system and the rise of a leadership with indigenous roots strongly influenced by the negativism typical of the anti-globalization reaction. In Ecuador, the same conditions generated a situation of profound instability, with indigenous communities playing an active role in political pressure. It would, therefore, be simplistic to explain the dynamics of these countries just as the result of a lack of economic alternatives in the globalized world. These factors interacted with the demands of cultural identity expressed by indigenous masses, previously marginalized from influence in society (in Bolivia, for instance, more than 60% of the population declares to be indigenous). The same is true of other countries where the original populations conserved their cultures and are in sufficient number to exercise political power in times of democratic affirmation.

The difficulty to accommodate democratic demands to the macro-economic adjustments in countries with few productive alternatives characterized Venezuela already under president Caldera. They paved the way for Hugo Chávez's successive armed or electoral victories. With the difference that Venezuela controls an important tool for success in the global world, oil. Fujimori's Peru (still at the time of Sendero Luminoso's revolutionary illusions and before the end of bipolarity) escaped this dilemma. Thanks to the liberalizing reforms that were pursued by President Toledo, Peru achieved high rates of economic growth and a certain differentiation of its productive base. This opened space for a modest incorporation of segments of the impoverished masses.

[4] For an instigating analysis of what anti-Americanism and the national-statist vision have meant for Latin America, see Eduardo Graeff, "Nossa América e a deles." draft, Brasilia, July 2006.

Let me again restate the importance of avoiding simplifications. It was not only the inconsistency between the modernizing pressures of the globalized economy and the scant productive differentiation of these countries that led them to political crises. There was also a fraying of pre-existing democratic institutions, undermined by corruption and by inefficiency, as occurred in Venezuela prior to Caldera and in Peru. And it was not a hazard that in both Venezuela and Peru what happened was the tearing down of relatively old democratic experiences, not military dictatorships.

Chile represents a different and specific case. Since the pre-globalization period, Chile, although crucially dependent on the export of copper, presented a more diversified economy. On the other hand, the beginnings of the Chilean adjustment took place (without the reward of economic growth, let it be said) still during Pinochet's government. Later, with the redemocratization, Chile achieved what few countries could, a consensual agenda supported by government and opposition — moreover, a consensual policy embedded on society itself. This led to the strengthening of democratic institutions and the promotion of economic growth. Pinochet's violence produced antibodies in a society with a history of deeply rooted values of respect for the institutions.

Nothing was written or pre-ordained, of course. Political options evidently depend on leadership and Chile had competent leaders. Competent and capable of understanding that, in the global economy, the brand, the design, the circuits of commercialization, together with efficiency and compliance with the rules, are as important as abundant natural resources, labor force and capitals to accomplish a full economic circuit in the framework of the national frontiers. In other words, we no longer live in a time where the Prussian economic model *a la* Frederich Lizt, or even of the industrialization driven by import substitution, was seen as the only path toward GDP growth. Exporting oysters, salmon, wine or fruits, provided that in accordance with the quality requirements of the global market, adds value to products and leads to an international insertion appropriate for a country with a relatively small economy and population.

This strategy highlighted the value of a political model that might be called "globalized social democracy." which does not fear the external market. Rather, it values the institutions, the responsibility of citizens and is aware that the stability of the democratic process depends on some measure of economic progress. But also, a great deal depends on active policies geared to reducing poverty and enhancing social well-being. Somehow, this application in our continent under other conditions, referred to in Europe as *market social economy*, with the difference that, besides respecting the rules of the local market, there is an engagement with the global market and the promotion of social and economic policies that stimulate social action by governments and society. In countries marked by an Iberian cultural tradition, like ours, possessive individualism and the belief that competition in the market leads to common good have never been assimilated. This facilitates the acceptance of the new version of the social democracy. It promotes economic modernization and, at the same time, paves the way for action by government in the social and productive areas. It also stimulates an active civil society. Far from praising individualism, this philosophy values people's engagement in society, imparting them with responsibilities, especially in the struggle against poverty and inequality.

This was also the path followed by Brazil. A country with a greater degree of economic diversification than any other in the region, facing obstacles like none other to overcome poverty and social inequality. Brazil underwent the opening of the economy, the reforms of the state (still incomplete), taking forward its democratization despite relatively low growth rates of its domestic product over the last 15 years. The resilience of economic structures and democratic institutions, combined with the existence of a vibrant civil society led to significant progress in response to the dual challenge of building a democracy and participating in the global market. In contrast with the Chilean experience, based on consensus, the Brazilian case's political disputes between the two polarizing parties, Partido dos Trabalhadores (PT) and Partido da Social Democracia Brasileira (PSDB), did not hinder the pursuit of both processes. The differences between the parties finally proved to be less of an ideological nature than linked to the struggle for political power. There was one fundamental difference: the belief in the values and practices of democracy is stronger in the PSDB while the Leninist vision of the path "political party — state controlled by militants — with the goal (or excuse) to promote far-reaching reforms, remains alive, even though somewhat faded, in the PT. Once in government, the PT pursued, in broad terms, the same policies adopted by PSDB. It may eventually reduce their impetus or introduce changes here and there, but nothing that undermines the path followed since the previous government, insofar as such path was not arbitrarily chosen by one government but embodied what was needed to adapt the country to the challenges of reality.

What I said earlier about Chile can be repeated for the Brazilian case. Much more than following a neo-liberal model, the policy adopted in Brazil followed the model of a globalized social democracy. Brazil seized the opportunities of the global market, deepened the economic transformations that came from previous decades and what seemed an impossibility in the past is today a reality. The country became an exporter of sophisticated industrial products (such as airplanes or cell phones), developed autonomous technologies[5] (for instance, deep-water oil drilling), revolutionized its agro-industry with new technologies and is seeing some of its companies[6] become global players. Simultaneously, it launched ambitious social programs, both with a universal scope (health and education) and targeted to specific groups (land reform, social protection networks and direct income distribution). The levels of poverty and even, incrementally, those of inequality started to fall since the nineties[7].

[5] In the case of the agro-industry, the role played by EMBRAPA, the state agency for agricultural and cattle-raising research, was prominent. With its more than 1,000 Ph.D.s, it developed new techniques enabling the adaptation of seeds to previously deemed unproductive savanna areas, like the Brazilian cerrado.

[6] There are more than a dozen Brazilian corporations, including the state-owned oil company, that through mergers and acquisitions are expanding on a global basis. Vale do Rio Doce Company is the second largest global mining corporation. Embraer has plants even in China. The steel, beverages, textiles and citric industries are also becoming globalized.

[7] A recent study by IMF economists recalculated the impact of the *Plano Real* on the income of the poorest. They concluded that, instead of talking about a 1.5% annual increase in income, it would be more correct to speak of 4.5%, which accounts for an immense cumulative effect (Francisco Ferreira, Philippe Leite and Julie Lichtfeld, *The rise and fall of Brazilian inequality*, Development Department, International Monetary Fund, 2007. On the other hand, the minimum wage has been growing, in real

In Argentina, events followed a different course. There was no correlation between the economic advances in the period prior to globalization and an effort aimed at productive diversification. The pre-existing industrial investment was not the basis for the country's integration in the new phase of the world market. Since the 19th century, the Argentinean economy was internationally integrated through agriculture. With globalization, linkages were deepened in the same way.

The adjustment undertaken in the time of President Menem and Minister Cavallo — this, indeed, a truly neo-liberal one — did not prevent Argentina from being more severely hit than other countries by the consequences of the world financial crises. The way government controlled inflation, pegging the peso to the dollar, led the economy to default as soon as the speculative international tornado turned against the local currency. Argentinean democracy, however, remained afoot even though reeling (De la Rua resigned the presidency; there was a succession of interim presidents until Eduardo Duhalde took power). With the election of President Kirchner, due to the action of the minister of Finance, Roberto Lavagna, the government managed to control the crisis, without having to accept the negotiation of the foreign debt on the traditional terms proposed by the IMF.

Having reestablished the control over the economy, the Kirchner government opted for an intermediary path between the neo-liberal position of his predecessors and the strengthening of the internal market to stimulate industrialization and growth of domestic product. It raised custom tariffs, imposed price controls and, fearful of Brazilian competition, reneged on some integrationist measures that the Mercosul had adopted. Argentina remained, therefore, to a certain extent in the sidelines of the more dynamic international market. The success of the adopted policies is based on the high rates of economic growth allowing the government to mitigate the demands of the popular classes, highly repressed in the previous period. These rates were achieved due to the expansion of international agricultural commerce, accelerated by China's entry on it, and to measures protecting local production. It was in this context that the president asserted his popular leadership, in this case with a higher resemblance with the past, even though without the fiery anti-Americanism of early Peronism.

To conclude these considerations, we have to mention another important country of the region, Mexico. If there was one country hard-pressed to rebuild its policies and institutions to respond to the dual challenge of the globalizing modernization and of democracy, that was Mexico. Heir to a political system stemming from a popular revolution which had withered away in bureaucratism from a single ruling party and in a strong state intervention in the economy, Mexico did not seem poised to engage constructively with the changing times. The regime of the Institutionalized Revolution had achieved marked economic progress but had also created all kinds of difficulties for the flourishing of a competitive market, opening of the economy, political power alternatives and democratic transparency.

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terms, at an average rate of 4% a year since 1993. As for inequality, measured by the Gini coefficient, it has also decreased, as outlined in the World Bank's report for the decade of the 90s and has continued to decrease in the current decade.

I recall the conversation I had with the present Italian Prime Minister Romano Prodi, when he exercised this same function before the effective entrance of Italy in the Maastricht rules and fiscal disorder prevailed in the country. I asked him how it would be possible to fulfill the obligations in terms of fiscal and budgetary control for Italy to integrate the European Union. He answered: there is only one way — to sign the engagements and impose the discipline from the outside in. That is what happened with Mexico. By signing the integration agreements with the USA and Canada, the country entered into a straitjacket. The NAFTA can be contested by the opposition but, for better or worse, it set the parameters for the Mexican economy and opened new perspectives for the country.

The previous economic diversification already signaled in the direction of an industrialization complementary to the American economy. The "*maquila*" was already in place, based on the local assemblage of components of durable consumption goods geared to the North American market. The production expanded and became differentiated. Today, Monterey, center of the area of greatest industrial dynamism in the country, became an important pole, even hosting (as in the Brazilian case) global companies, for example, in the cement sector. There was a partial privatization of public companies, as in the case of telecommunications (with less emphasis on regulatory agencies and competition than in Brazil); power companies stayed in government hands and the financial system (contrary to Brazil) was denationalized.

The impression one has is that, in the Mexican case, there was a one-way integration in the North American market. Statistics show the enormous proportion of export products going in that direction (circa 90%)[8]. Economic growth accelerated in the initial phase of globalization, lost impetus later on and, as in Brazil, employment demand did not match employment supply, which explains the persistence of the migratory flow to the United States. Mexico still has indigenous populations with a relatively low level of integration to the national society and suffers from a lack of transparency in the political system (despite the democratizing efforts that started electoral reforms in the seventies and were deepened during President Ernesto Zedillo's government. The Mexican answer to the globalization challenges generated a significant level of economic growth but was obtained thanks to the growing links with a single large market. The political process, event though advancing, has not yet fully consolidated the democratic practices. This is reflected in the electoral rhetoric that keeps emphasizing nationalist values (to warn against the risks of an umbilical link with the American economy) and has not yet disassociated itself from the anti-globalization and anti-American debate, as expressed in the recent campaign by López Obrador, defeated by President Calderón by a slim margin of votes.

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As the purpose of this lecture is not to analyze exhaustively each country, I will abstain from making specific references to many of them. Some, given the small dimension of their economies, keep looking for some trade agreement opening space for their exports (as is the case of Uruguay and

8 Brazilian exports have always been more diversified. Today, 18% are exported to the U.S., 22% to the European Union, 23% to Latin America and 37% to other parts of the world. Sixty percent of the exports are made of industrialized goods.

Paraguay). They respond to the challenges of democracy according to their history and tradition. Uruguay, for instance, ruled today by a Left coalition, preserved its democratic tradition.

If I had to qualify the Uruguayan political system, I would say that it is closer to the Chilean-style contemporary social-democracy than to the anti-market and anti-globalization positions adopted by the countries of the old economies of enclave.

Paraguay, in turn, characterized by a political system with a strong patrimonialist and clientelistic tradition, has not moved away from this pattern and has not found a way toward economic growth that would release it from the grip of underdevelopment. Paraguay has therefore more possibilities to follow the paths of today's anti-liberal and anti-American populism than to attempt a different alternative.

The countries of Central America represent a fairly specific case. In all of them, representative democracy is afoot in its traditional form, that is, without the complement of active civil societies capable of stimulating citizen social participation and reducing clientelism. This happens, of course, at variable levels. In Costa Rica as well as in Panama and Santo Domingo, the landscape is more dynamic. In other countries, like Nicaragua, we are witnessing the return to power of leaders that, in the past, seemed closer to the Cuban ideals. If, today, they still cling to them, it is in a watered down way, given the changes that took place in the world and in their own local economies. Taken as a whole, Central American economies have found some relief thanks to commercial agreements with the United States that opened market shares to their few export products, while deepening the traditional links of dependency. Globalization here, more than in Mexico, that has at its disposal a larger array of productive resources, is synonym with a growing and unequal relationship with the United States.

There are, however, some trends that qualify the Central American situation. The main one is the migration to the United States that generates a huge volume of income remittances to the families that stayed in the countries of origin. One out of each three Salvadorians lives abroad, 2.5 million of them in the United States alone. The same happens in neighboring Mexico, with many millions living in the United States and sending money back to their families, even though the dimension of the phenomenon is smaller given the size of Mexican economy and population.

Not only the people of El Salvador, but also the Colombians, the Ecuadorians (many of them in Spain), Dominicans, etc., migrate and create attachments of a different nature with the host country. Their remittances have a huge economic impact in the countries of origin. It is easy to imagine the complexity of the relationship thus established between them and the United States, made, at the same time, of reaction against and cultural and financial amalgamation. All this leads to a scenario that is quite diverse from what happens in the relations between the Southern cone of South America and the United States.

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It is time to conclude. I tried to demonstrate in this essay that the historical- structural framework of analysis is still useful to describe the transformations generated by globalization in the underdeveloped countries, provided that it is used with the subtlety needed to avoid reductionism in the analysis. Globalization, in the same way as *dependencia*, is nothing more than an enfoldment of the capitalist system in today's historical conditions.

The standpoint of the structural analysis conditions, but does not determine, the shape taken by economic and political processes. Political strategies of insertion in the global economy have a certain margin of autonomy. Even though they depend on factors that differ from country to country such as the local capacity of income accumulation, the presence of direct foreign investment, the mix between nationally controlled production and the one controlled by multinationals, the participation of the public sector in production, the capacity of the leadership, the prevailing ideologies and so forth. In other words, there are alternative paths. Not all and any of them, of course, nor with the same chances of success in every country. The choice of the alternatives and their ultimate success depend as much on the structural basis as on the political capacity of the leadership, and even on the institutions and political culture in the broader sense.

In the recent history of Latin America, at least three countries achieved a more favorable integration in the globalized market and provided more or less acceptable, even though still insufficient responses to the demands of their populations: Chile, Brazil and Mexico. Others developed a strategy of *exit*, rather of withdrawal, like Argentina, while the majority, like the countries of Central America, Uruguay and Paraguay, lacking the resources to accelerate the transformation of the economic base needed to achieve a qualitative leap, designed survival strategies looking for niches in the global market for their traditional production. And, there are those that disposing of a global value commodity, but lacking the other resources needed for bolder globalizing leaps, defined a *voice* strategy: they vocalize their discontent with globalization as a whole and, in less clear terms, also with representative democracy. Not to speak of countries like Peru and Colombia[9] that, even though with less resources than the three forerunners in terms of globalization, dispose of enough resources to give them, in time, better chances to face the challenges of the new world order.

The failure to take into account these multiple paths and alternatives would be similar to not acknowledging the structural limits (even though changeable across time) imposed on developing countries. Globalization, as I have insisted, implies in the extension to the planetary scale of the financial links and the rapid diffusion of new productive techniques that create the so-called knowledge economy. Both processes remain, by and large, under the control of the great multinational corporations or the mega financial organizations, based in a handful of countries. These remain the dominant players in the global economy.

However, the number of main partners is not static; suffice to see what is happening with China. It is also clear that the path to enlarge the chances for creation and diffusion of new technologies and access to capitals is an arduous one. Even though, to mention just the countries with the largest

[9] For an analysis of the different strategies of insertion in the global order, see Santiago, Javier, *Latin America as a Political Economy of the Possible*, Cambridge, Mass., 2006, MIT University Press.

populations, Brazil, Russia and India, not to speak of China that has taken the lead, the so-called BRIC, are right now engaged in a course against time to see who gets there.

Everything will depend not only on the economy but also on the world political scene, and mainly, on the capacity of local societies and their leaders to frame policies, as much as possible consensual, that seize opportunities — and not only economic ones — and make the effects of globalization and democracy more favorable to the developing countries and to their peoples[10].

[10] A recent study by Kristalina Georgieva, from the World Bank, compares at different dimensions the BRIC's relative participation in the global economy. It reveals that, according to the dimension into taken consideration, each time one of the four countries — Brazil, Russia, India or China — emerges as better positioned to make the leap to the condition, if not of a developed country, of a relevant player in the global scene.