GLOBALIZATION AND DEVELOPMENTAL OPTIONS

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There is no political future or economic scenario that is predetermined. That was the bold proposal Cardoso and Faletto made over 40 years ago in the midst of dependency theory's determinism (Cardoso, Faletto, 1967). This statement has even more relevance today in light of the profound transformations in the global economy and the surprises brought by the first decade of the XXI century.

As Reval (2010) says "rien ne s′est passé comme prévu". After the fall of the Berlin Wall, the world seemed to enter a phase of hyper-power in which the exercise of American "soft power" would be enough to assure peace and its hegemony. The European Union aspired to transform itself by 2010 into the main technological power of the knowledge society. On the other hand, the incorporation of China into the World Trade Organization, not without its tensions, was interpreted as a mechanism for both disciplining China and incentivizing its adjustment to the global economy. The results have been unexpected.

In fact, the US displayed an accentuated unilateralism until 2008, drawing on its "hard power" when it was not able to garner the support of its allies. In the economic sphere, the unbalanced domain of the market led to the fallacy of "rational and efficient financial markets" that are self-regulating, able to incorporate all the available information and anticipate future decisions, supported by sophisticated mathematical and informatics models…. until the subprime crisis exploded, plunging the American economy into one of its most significant crises, leaving behind a financial fragility that will last for years.

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The European Union is not only incapable of achieving technological leadership but its integration process is entering a deep crisis, as the challenges of its enlargement have combined with institutional innovations that are unappealing to the European citizenry (Badie, 2010). On the other hand, the financial crisis put the euro to the test, demanding a collective bail out plan that, alongside avoiding the financial collapse of several European economies, sought to defend monetary unity.

In contrast, China has exceeded expectations. It is already the second economy in the world and was the actor that saved the world from a deeper recession, with its massive reactivation program that allowed the maintenance of high levels of demand for international commodities and industrial inputs thus favoring the growth of Africa, Asia, Latin America, Australia, and Canada, among others. China has been strengthened by the crisis, which even has an institutional consequence in its presence in the G-20, the increase in its IMF voting share and the whirlwind of international seminars, business and diplomatic activities that are carried out in Beijing or Shanghai with first rate actors from all areas of the world. At the end of the XXI century's first decade, the conclusion is that the world has to begin "adapting" to China. Furthermore, in this decade, the emergent economies have taken unthinkable steps in their convergence with OECD incomes and have transformed themselves into the motor of the global economy. In just a few decades they will account for 60% of world GDP and constitute the most dynamic segment of international commerce.

This is a peculiar moment of hegemonic transition that will last decades. Together, the accumulation of disequilibria between globalization and rapid technological changes, emerging countries that erupt with force in the global economy and a multilateral institutionalism that is no longer functional for the development of these tendencies open new possibilities and unprecedented negotiation leverage for developing countries. Small or medium size countries can diversify their partners and markets as well as participate in international alliances of variable geometry, according to specific issues of interest. Today it is more valid than ever to say that the destiny of developing countries is not predetermined and that they are not condemned to waiting for the resolve of the main international actors.

It is true that the playing field continues to be uneven and, in particular, the disparity between the military power of the United States and the rest is colossal. However, without disregarding this issue, one of the particularities of this globalization, driven by the command of finance, technological change and market openness, is that it tends to reduce the relevance of weapons or military alliances. In fact, these do not help solve the difficulties of innovation or competitiveness, the fragility of the financial systems or the high public debt, issues that to varying degrees are affecting the main industrialized economies.

In the face of this scenario, the thesis of Cardoso and Faletto becomes more relevant than ever, because none of these tendencies could have been deduced from the dependency framework. It is true that there are a set of political, economic and social factors that when intertwined establish the conditions through which the future emerges. But the future of a society is not only based on objective conditions that shape power relations in the political-economic-social spheres but also on how these relations interact with social forces and with politics. As a consequence, there is no determinism and there is room for political maneuvering, both in the domestic and international spheres.

The "surprises" of this decade illustrate the possibilities that exist for transformation, allowing us to address complex global governance themes that ten years ago seemed utopian. Although it remains to be seen if we will be able to advance in substantive reforms regarding global governance, it is interesting to note that such issues are on the agenda, an agenda that also transcends traditional international institutions and is placed within the G20, an institutional expression representative of the new times in which the emerging economies command more attention.

TWO WALLS IN CRISIS AND AN EPOCHAL CHANGE: FROM THE IRON WALL TO WALL STREET

Globalization has produced two radical changes in the political sphere. First, the current globalization process is different from the one that dominated in the bipolar world until the fall of the Berlin Wall. During this period, there was not only economic but also political and military competition among the blocks that were seeking hegemony in the world. The fall of the Berlin Wall marked the transition from a bipolar world to another where a Pax Americana would be instated, which supposed a radical reordering of the world. However, the Iraq War and the difficulties in Afghanistan after the attack on the World Trade Center in 2001, have introduced qualifications with regards to the present meaning of a unipolar world. In fact, an "American Peace" has not emerged with the strength expected. What has emerged instead is a scenario where, on one hand, the United States is not capable of imposing its authority on the rest of the countries and, on the other hand, the will of the US remains indispensable for achieving solutions to global challenges. This is the perception transmitted by the Obama administration to the rest of the world, abandoning the unilateralism of the previous administration, and it is the reason why a negotiation space has opened in the global political sphere.

The second radical change is, without a doubt, the great economic crisis – that started in the financial sphere in 2007, became more severe in 2008 and generated a quasi-recession in 2009[3]. This has been the equivalent of the fall of the Berlin Wall with regard to its consequences for the ideas and praxis of international relations in this globalized world. It is due to the magnitude of this crisis that, in October 2008, George Bush convened 19 countries to collectively address the economic crisis, giving origin to the G20. This represented the most convincing proof that the G7, created thirty years earlier as a privileged space for the main industrialized countries to monitor and govern international economic relations, today is unable to deal by itself with the magnitude of the global

[3] It was a quasi recession because, although 80% of world GDP contracted in 2009, several medium and large economies, beyond China and India, were able to grow at around 4% or more. These countries include Bangladesh, Egypt, Zambia, Indonesia, Pakistan, Philippines, Sri Lanka and Vietnam.

crisis. In fact, the G7 was a substantial part of the public and private debt problem, of the vulnerability of the financial system, while growth, savings and economic solidity were produced by China and the emerging economies. It was necessary to enlarge the call and to sit 12 other actors, all emerging economies, at the table of global decision making. The G20 emerged as a result of the crisis, but it will certainly transcend it. The G20 is here to stay and this is the first big change in the international scenario. In the long run, the G20 will subsume the G7 or the G8, illustrating explicitly the new map of global power distribution that is emerging.

The crisis revealed that deregulated financial markets do not self-regulate or enhance economic and social efficiency. In a global financial context, regulation cannot be strictly national, because finance moves internationally. Any regulatory reform should cover the following issues: taking care of capitalization levels; avoiding excessive dependence on short-term financing; restricting risk-taking; limiting the use of complex instruments and unclear operations; implementing effective accountability of operations through firms' balance sheets; increasing transparency; modernizing normative frames and enhancing the technical capabilities of financial supervisors. As should be obvious, these substantial modifications to financial laissez-faire must be taken on a global scale.

Another important future challenge is to contain fiscal deficits and the growth of public debt in many OECD countries, such as the United States.[4] The elevated need to finance these fiscal disequilibria will compete with the financing needs of developing economies. Therefore, when growth and monetary normalcy are restored in the OECD countries, interest rates will increase which will increase the external financing costs for developing economies.

The financial world will never again be the same. It does not seem possible that the reactivation of the OECD economies will return us to the excessive risk levels, leveraging

[4] The OECD (2009) estimates that the public debt of the G10 will rise from 78% of GDP in 2007 to 114% of GDP in 2014. IMF estimations confirm that the total debt as a percentage of GDP in 2008 was 63% for Great Britain, 115% for Italy and 217% for Japan.

and opacity in financial instruments observed before the crisis. Furthermore, a drastic reduction in accumulated wealth can be seen in the entire world, especially in the industrialized countries. With this fact in mind, the scenario of virtually infinite and low-risk liquidity will be replaced by one of constrained liquidity and variable risks. The link between financial and productive flows and external commerce will have to be redefined because, as noted, the elevated needs for financing of the OECD countries will compete with those of developing countries. It is possible that new issues, such as sovereign funds and the internationalization of Chinese firms, will start to play an even more relevant role in the *de facto* architecture of international finance, given the great liquidity accumulated by the Chinese firms and banks as well as the petroleum economies, on one hand, and the low profitability of American Treasury notes, on the other.

What collapsed is more than the Washington Consensus. What is under question is speculative and deregulated capitalism and the more extreme version of the neoconservative project that includes supply-side economics, Hayek's minimal and passive state, the aggressive and unilateral geopolitics *à la* Hagan; the fundamentalism and universalist arrogance promoted by the Mont Pelerin Society and the Heritage Foundation. With this collapse, spaces have opened for a new paradigm of economic organization that provides greater room for non-conservative visions. However, for progressive projects to become a viable alternative it is necessary to carry it out with innovative proposals and with a good diagnosis of previous shortcomings- including the ones of progressive forces- and with capacity to mediate in an ever more global economy, with intense technological change, new actors and the challenge of climate change. In Latin America, any proposal must additionally take on the baggage of elevated poverty levels and unequal distribution.

THE RISE OF THE EMERGING ECONOMIES

The main change in the twenty-first century's first decade is the drastic modification of the composition of world economic growth and international trade. The weight of the emerging economies has grown, with the increasingly more relevant role of India and China. Pacific Asia has become the motor of the world economy as the relevance of South-South trade increased significantly. As a result, the West has lost economic and demographical momentum, accentuating a dynamic of gradual transition of the motor of the world economy from West to East and from North to South.

A structural tendency that already existed but has been heightened by the current crisis is the greater weight of China in the world economy. To a lesser degree, this tendency is accompanied by India, Russia and Brazil (the BRIC countries). While in 2008, 2009 and 2010 the GDP of the industrialized countries showed a mediocre performance, China and India kept growing at high rates, increasing their relative weight in the world economy, a tendency that will continue during the present decade.

In several spheres, China has achieved a dominant role in the world economy. It is currently the second largest economy- measured as GDP size- and the first global exporter of goods; it consumes one fourth of the world's supply of steel, aluminum, copper and iron and one third of the supply of petroleum. Furthermore, it is the gravitational center of the world industrial sector. With its enormous investments in education, infrastructure and innovation, China is becoming one of the strongest competitors at a global level. In the next few years, China will be an even more important protagonist and, as a consequence, will claim a major role in the international financial system reforms and the very governability of the international economic system.

For Latin America the global crisis means that China, India and the rest of Asia will become the main source of growth for their exports. The repercussions of the global crisis in international trade have manifested themselves above all in global industry and in trade relations with China. Commodity exporting economies- such as the South American and African countries- have been less affected, taking advantage of China's high growth rate which has kept international demand for these products high. In the case of Mexico and Central America, by contrast, competition with Chinese manufacturers for the US market is more accentuated, which could accelerate structural changes in certain industries, especially the "*maquila*".

In the last 20 years, the center of gravity of the world economy shifted from the OECD toward the emerging economies. While in 1990, the OECD economies represented 62% of world GDP, measured in PPP, at present they represent half of world GDP, and in 2030 they will account for 43% of world GDP. Conversely, in 2030 emerging and developing economies will represent 57% of the world's product. Furthermore, in the first decade of this century, almost three quarters of world economic growth is owed to this last set of countries. In that same period, 65 of these countries duplicated the growth rate of the OECD countries, while only 12 of them had achieved this in the 1990s (OECD, 2010). Such an accentuated trend of convergence towards OECD income has not been observed since the 1970s. This is the main economic tendency of the past decade and everything indicates that this tendency will continue in the coming decade.

A great part of the explanation for this structural transformation of the global economy is related to the rise of China. The numbers show that for many developing countries economic growth is beginning to depend more on the relationship with China than with the G7 (Levi Yeyati, 2009). Between 2001 and 2009, the growth elasticity of the emerging economies with regards to those of the G7 was 0.26 while with regards to China it was 1.11 (OECD, 2010). In the case of the middle income economies, like most Latin American countries, every Chinese GDP growth point adds 0.37 growth points.[5] As a result, China has not only unleashed a gigantic impulse towards growth in the developing economies, but also- through this means- has become the most important mechanism for poverty reduction in the history of humanity (Garroway, 2010).

Because growth has diffused widely across the Global South, South-South commerce has increased its importance in the world economy, from 8% of world trade in 1990 to 19%

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[5] This means that if China continues to grow at a 10% annual rate, the growth floor for middle income economies will be around 4% annually.

at present, although 75% of that amount is intra-Asia commerce. The high demand of China, India and Pacific Asia for commodities impacts their international prices, as well as the prices of the assets linked to the emerging economies. The more complementary countries to Chinese and Asian demand- such as the South American ones- face favorable prospects in their terms of exchange and their trade balances. By contrast, those nations that compete with Asian industrial production- such as Mexico and the Central American countries- tend to be harmed and must rethink their strategies of insertion into the global economy.

Developing countries should thus pay more attention to South-South linkages in their economic strategies, because these linkages will be an increasingly important source of their growth. The creation of South-South[6] value chains should be explored as should possibilities for regional integration and cooperation, especially because greater profit potential is associated with South-South trade liberalization (Mold and Prizzon, 2010).

South-South linkages are promising not only because of the greater growth that is projected for production and trade in developing countries, but also because the tariffs that are applied among these countries are currently higher than those between the South and the North. The liberalization of South-South trade would also facilitate flows of intra-industrial commerce, stimulating South-South investment, including sovereign funds and the emergence of developing country firms that are starting to invest abroad, such as the the translatinas, in the case of Latin America.

The current debate centers on how permanent the favorable impact of Chinese dynamism will be on the prices of commodities supplied by countries in the Global South. If this boom turns out to be a long-term phenomenon, this would run counter to the secular tendency of deterioration of terms of exchange predicted by Prebisch, and would oblige a careful revision of the possibilities of industrializing based on natural resources. Some

[6] For firms of developing countries it would be easier to integrate into South-South value chains, because their standards both in products and processes are lower. Therefore, these chains could be used as learning processes and as a platform for incorporation into more demanding value chains (Kaplinsky, 2010).

authors even predict a long cycle of elevated commodity prices, a "commodity super-cycle".[7] In fact, it is argued that the push by China and India and the rise of agricultural and mineral prices induced by the growth of such large-scale economies would be equivalent to the long period of price growth experienced from the end of the American Civil War until World War I. Many are asking if the long period of expansion of almost 40 years between 1860 and 1900 can have an equivalent today. The cycles are likely to be shorter, because of the more rapid pace of technological change as well as the ever more frequent financial crises. Still, even if the current commodity boom were to last not 40 years but only 20, Latin America would cease to be, on average, a middle-income region and would begin to approximate the income of developed countries.

Of course, this scenario of commodity-led development raises concerns about the impact of commodity prices on the productive and exporting structure, that is, about so-called "Dutch Disease." A sustained period of high prices of the main export goods will tend to increase the real exchange rate, thereby hindering the profitability of non-traditional exports. Economic history indicates that successful cases of convergence with the industrialized economies tend to coincide with long periods of total factor productivity growth in conjunction with productive and export diversification that, together, increase the relative weight of manufactures and high-skill services. This process could be threatened in Latin America by a return to its past in terms of a greater weight of commodities in total exports. The reliance on exports of primary products, in turn, could threaten the possibilities for socially inclusive growth, given the limited character of the productive and technical linkages associated with the export of natural resources (CEPAL, 2010b).

[7] A "commodity super-cycle" is present in cases of accelerated industrialization and urbanization in high-population economies which lead to strong demand for primary goods of various types, including metals, minerals and energy. The most important cases are the United States from the end of the 1800s to the early 1900s (expansion of the internal frontier, incorporation of various Mexican states and lands that belonged to indigenous groups) and the period between 1945 and 1974 (the reconstruction of Europe and the Japanese miracle). These super-cycles tend to last between 10 and 35 years (OECD, 2010).

We are not proclaiming a "curse of natural resources" here. Instead, we wish to call attention to the need to make the most of this favorable historical moment by investing in infrastructure, human resources and the creation of clusters of productive economic activities associated with the advantages of natural resources, adding value and knowledge to them. If a "commodity super-cycle" does occur, this will require a redoubled and intense effort to link natural resource exports with the rest of the economy, strengthening productive, technological and job-generating linkages. Without such efforts, a curse will prevail, though it will not be the curse of natural resources, but of bad policies.

In sum, it is necessary to revise and update the framework for understanding center-periphery relations. The experience of China and other Asian economies over the last three decades illustrates that convergence with the levels of income of the developed "core" economies, although gradual, is possible. Contrary to one of the main postulates of dependency theory, several of these "peripheral" economies have reached the technological frontier in several areas and play an important role as exporters of manufactures, services or technology. At the same time, as is especially evident in the case of China, they are the main holders of international reserves and suppliers of global savings. It is time to incorporate these new facts into the analysis of developmental options, acknowledging the existence of heterogeneity in the periphery exemplified by two groups of countries: one, a traditional group, limited to exporting commodities with little value added, and the other, an innovating one, able to compete successfully with the global leaders of the knowledge economy. A key next step for inquiry concerns whether the expansion of South-South relations has a negative and marginalizing impact on the traditional peripheral economies that still export low value-added goods (Rosales, 2009). This concern is ever more relevant, considering that South-South commerce is becoming the motor of the world economy and that Latin America and the Caribbean are increasing their economic and commercial ties with China.

LATIN AMERICA'S OPPORTUNITY

After a process of transformation spanning the last 20 years, Latin America today is fundamentally different. Three elements are at the heart of this transformation.

1) A process of democratic consolidation, that allows the countries of Latin America to be part of a globalized world. It is hard to imagine the reversal of this process in Latin America. What occurred recently in Honduras and the subsequent condemnation of the Latin American community makes it very difficult to imagine reversals like the one that occurred in that country. Today there are elections, political parties and respect for the rule of law. There is still a long way to go to achieve a civic culture like the one seen in more advanced countries, but clearly in a globalalized world you must have democratic credentials and respect for human rights.

2) The second element is that in Latin America today there is an understanding of what can and cannot be done with the economy. Although there are still some populist tendencies, it is clear, especially since the recent crisis, that countries with populist tendencies in their economic policies have faced greater difficulties overcoming the crisis.

3) The third, and perhaps most important element is that the crisis came at an extraordinary moment of growth for Latin America. The regional terms of trade were tremendously favorable as a result of the expansion of international commerce and the increase of world growth rates, in particular of emerging countries such as China and India, among others. These elements partly explain the growth rates observed between 2003 and 2008, which amount to 6 years of growth at over a 5% annual rate. This allowed Latin America to decrease the population living under the line of poverty from 44% to 35%. This growth was also accompanied by very low inflation and a significant expansion in

employment. As a result, the crisis affected Latin America far less than the rest of the world.

In 2011, Latin America is again on a clear path towards economic growth. In sum, while the crisis did cause a loss of economic dynamism in Latin America, the region is coming out of the crisis faster and better than the developed world. It merits emphasis that Latin American financial systems did not experience as deep a crisis as their counterparts in Europe and the United States. Perhaps the countless economic crises of the 1980s and 1990s and the financial reforms that took place in Latin America as a result allowed the region to face the 2008-2009 crisis in better shape. The norms of Basel I and II apply to the majority of the countries of the region. In this regard, the banks were in a much more stable condition.

Moreover, those countries that used the favorable economic cycle of 2002-2008 as an opportunity to consolidate their fiscal situation, elevate their international reserves and even save transitory resources, were able to face the crisis better, applying counter-cyclical policies that cushioned the crisis and helped spur a faster recovery than in the industrialized economies, also benefitting from the stable Chinese demand for the region's commodities. For example, Chile- which since 2000 has carried out a counter-cyclical policy through a structural surplus rule regarding its fiscal budget- was able to draw on its savings and low debt to apply a wide package of economic reactivation when the crisis of 2008 hit. The stimulus package was nearly 4% of the GDP- one of the largest in the world using percentage of GDP as a standard- and financed completely by what had been saved in the previous years. In sum, Latin America emerges from this international economic crisis as a strengthened region, with better prospects for growth and with room to apply development policies.

Most Latin American countries today correspond to the "middle income" category and therefore do not qualify for loans and Official Development Assistance (ODA). Therefore, they are countries that must be capable of financing their own development.

This generates important challenges, because the level of savings of the Latin American countries is insufficient, and as a consequence, foreign investment becomes an essential ingredient to reach levels of savings superior to 25% of GDP. This is an amount that many middle income countries are not attaining.

The great Achilles Heel for sustainable development in Latin America is, without doubt, the distribution of income. It is one thing to lower the levels of poverty and quite another to improve the distribution of income. The distribution of income continues to be highly unequal and the fiscal systems, as has recently been pointed out by the OECD, are not establishing the right targets. In Latin America, the distribution of income before and after taxes is practically the same, with very insignificant differences. However, public spending, by contrast, does seem to have a positive effect on the distribution of income, because a great majority of the countries in the region orient their fiscal expenditures toward creating a social safety net, both in the realm of social security, as in the health, education, housing and justice systems, and also through specific programs that directly help citizens living in extreme poverty. Hence, some, like President Cardoso in his contribution to this book, refer to globalized countries with social democracy, or "Globalized Social Democracy." This is because there is a political space for strong social policies in most Latin American countries today. Political will allows the modification of the initial distribution of income and the possibility of improving it through targeted expenditures. Practically all the countries in the region have these types of programs, including Mexico, Colombia, Peru, Argentina, Chile, Brazil and Uruguay. In all these countries, income distribution improved in the first decade of this century. As a consequence, the space for political action, to which Cardoso and Faletto referred to in their work over 40 years ago, aided by a favorable international commodity cycle, has proven it is possible to grow, reduce poverty and improve the distribution of income. Of course, this is not the first favorable international cycle experienced by Latin America, but it is the first that has produced such strong results in terms of improving social justice.

Some raise doubts about the sustainability of these distributive advances because they are rooted in an export structure dominated by commodities, which favors a climate prone to rent-seeking and low taxes (Sachs and Stiglitz, 2007). These phenomena will indeed occur if, on one hand, these export structures are not supplemented by fiscal and tributary safeguards that defend against the volatility of international prices and, on the other hand, tax policy does not correct the elevated income concentration that can be generated by the exploitation of such resources. The economic history of Latin America shows that more conservative governments have faced strong temptations to respond to favorable price cycles for export commodities by lowering taxes on firms and individuals. This generates a permanent downsizing of public sector revenue, financed by a transitory revenue windfall, which is a recipe for future fiscal crisis. The problem is even more pressing because, as the economy grows and income per capita increases, the demand for public goods increases as well, such as education, health social security, infrastructure, environment, all spheres where the market by itself will be clearly insufficient. Therefore the current challenge- in the context of what will likely be a long-term commodity price cycle – is to construct a new Fiscal Pact that will take advantage of the resources from that cycle by using them to bolster competitiveness, innovation and social justice. The opportunity that Latin America has today allows us to think about these great tasks. This is a debate that is not widespread in our countries but that should be promoted.

Seizing the opportunity for sustainable development offered by the commodity boom requires balanced budgets, an orderly macroeconomy, trade openness and disposition to compete in the global economy, as well as the political will to improve the distribution of income and pursue adequately financed social policies of broad scope. Serious social policies should be financed by economic growth, with more progressive tax structures than the ones currently in place, and sustained by political consensus. This will allow governments to address structural issues related to inequality, such as the lack of equal and quality access to services like education, health, housing and welfare. It is up to politics, to the citizens, to determine the magnitude of the transfer of the wealth generated by economic growth to the poorer sectors of society. Expecting these issues to be resolved by the market is naive and even dangerous, because in the best case scenario, in theory, the market will take several generations to resolve them. In practice, the unregulated action of the market, without correcting policies, tends to perpetuate inequalities.

Maneuvering room exists for politics, and this is fundamental aspect of Latin America's future. The contours of this maneuvering space will be different from the one that allowed the Asian miracle of the 1970s and 1980s, not only because of the new conditions imposed by globalization, including the normative and regulatory framework of the GATT-WTO, but also because Latin America today is starting with a higher income per capita than the Asian countries had and because the political and institutional conditions of democracy in Latin America force the process of development to occur with greater social justice.

How much growth and how much equality?

The premise that it is first necessary to grow and then it is possible to distribute is false, as is the argument that it is necessary to distribute first and grow later. What has been learned in Latin America is that it is necessary to simultaneously grow and distribute. And it is the growth delta that allows for improvements in distribution and equity. If both growth and distribution are maintained year after year, a revolution will occur in the long-run in comparison to what happened 10, 15 or 20 years before. The experience of Chile illustrates this point. Once democracy was reestablished, between March 1990 and march 2010, the 20 years governed by the coalition of the Concertación de Partidos por la Democracia, the average annual growth rate was 5%, while poverty was reduced from 47% of the population to 11.5% in 2009.[8]

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[8] However, the primary distribution of income only underwent a small transformation. When considering the effect of social policies the gap between the 10% richest and the 40% poorest was reduced from 14 to 7.

From an economic perspective, two distinct options are available for improving equity and equality: i) the welfare state, where the state provides public and merit-based goods (pension coverage, unemployment insurance, basic access to health, quality education, etc) financing them with a high tax rate; and ii) a productionist model, which seeks to improve the distribution of income through the generation of quality jobs with high productivity in enough quantity so individuals can finance their own social services. Of course, these are only theoretical and polar options. National realties conform to a combination of these alternatives in variable proportions, depending on the political-institutional context. Still, the mental exercise of focusing on these two polar possiblities is useful to illustrate that it is necessary to avoid an over-emphasis on these options, because the challenge is to find the right combination for each national context. The important thing to point out is that without improvements in the productive structure, any social policy oriented toward reducing inequalities will have limited effects. Likewise, a productionist model that underestimates the relevance of social policy –design, objectives, management, financing and results- will fail to reconcile growth with equality.[9]

Moreover, overcoming structural heterogeneity, that is, reducing the differentials in productivity and income across firms and sectors, through the "deliberate and systematic incorporation of the technical project" (Fajnzylber, 1990) in the productive phase raises demands both of great scale and productive diversification that rapidly lead to the necessity of developing exports. The presence of competitive markets should facilitate that improvements in productivity express themselves in greater labor incomes. However, asymmetries in power during negotiations may impede this. Making sure that improvements in productivity result in higher wages requires renewed and stronger unions, committed to the strategy of value creation in their firms and participating fully in

[9] This is why Munck, in his contribution to this volume, is wrong to conclude that no Latin American path is preferable for poverty and inequality reduction. What matters is for those reductions to be sustainable over time and not dependent on subsidies financed by favorable terms of exchange. True progress is supported by the transformation of the productive, export and occupational structures. From this perspective, the international indicators of equality and competitiveness make very clear that in Latin America some developmental options are preferable to others.

public-private alliances. This is another pending challenge facing social democrats and other progressive forces.

In the context of a developmental strategy like the one outlined, policies to support small and medium enterprises and respond to their traditional demands for credit, technical assistance, training, information, management, and quality should receive greater attention. These demands cease to be a concern only for social policy but become a key axis for a productive transformation with greater equality. For example, <u>access to knowledge</u> is the central element required for economic growth and competitiveness. The binomial education-training, digital education, generalized and low-cost access to broad band and systematic connectivity (access to information and communication technologies as a citizenship right) transform themselves into pillars of the productive transformation with equality.

Policies that promote productive development, in competitive settings, with the right incentives, including safeguarding the environment, and incorporating technical progress favoring small and medium enterprises are a fundamental axis of a development strategy that can reduce productivity and growth differentials. When this focus is accompanied by vigorous, well-financed, well-managed and ample social policies, then we will be advancing toward the Globalized Social Democracy proposed by Cardoso. When the goal of enhancing equality is pursued in this manner, the notion of a trade-off between growth and equality makes little sense. By growing this way, equality is achieved and, in turn, the enhancement of equality stimulates growth.

Neoliberalism reduced the issue of equality to the fight against poverty, removing from the national agenda questions of income distribution, social mobility and equal opportunities. A progressive post-neoliberal focus should bring back an integrated focus that links economic with social policy. Economic policy, besides having as its goals growth, stability and competitiveness, should be concerned with distributive consequences. Social policy, in turn, should promote efficiency and support growth, improving its management, reviewing the pertinence of programs, evaluating them in a transparent form, linking them to results and strengthening the tie with economic productivity.

The golden convergence of economic and social policy centers on the generation of more and better jobs, a base to raise productivity and salaries. From this perspective, access to innovation, technological diffusion, training, business opportunities, and promulgation of the entrepreneurial spirit become another axis of development with equality. A further decisive factor is public-private alliances. It is also necessary to work toward a new conception of the firm, where labor relations, besides stimulating competitiveness and strengthening identification with the goals of the firm, will also be concerned with the security and well-being of the employees. Sophisticated competitiveness, anchored in processes of continual improvement, total quality, synergic relations between clients and providers, team work and incremental innovations, is incompatible with firms that privilege hardware technologies, downsizing, spurious externalization and barriers to union organization.

Proactive Globalization: The Case of Chile

Over 85% of Chile's commerce is conducted under free trade agreements, and its external tariff is 6%. However, its effective rate of protection is less than 2% as a result of these free trade agreements. These types of agreements do not imply equal norms of trade. In fact, with regards to many norms, international commerce does not seem equal at all. It is unequal with regards to antidumping regulation; agricultural subsidies; intellectual property rights and norms of financial character. In these four areas, just to mention the most important ones, a long and complex negotiation was necessary, both with the United States and with Europe.

There is much specificity in the Chilean experience of negotiating free trade agreements with the United States and the European Union and, therefore, the lessons drawn from this case should not be applied as a package by other nations. The first specificity is that the Chilean economy was already open to external goods, services and investment before negotiating with Europe and the United States. Therefore, most of the negotiation was oriented towards consolidating practices and policies that already existed and not modifying norms and laws.

Second, this high level of openness was reflected in the vocation of Chile's business community. With an opening process of several decades, the fundamental goal of our business leaders in both negotiations was to obtain the most secure and consolidated access in both markets and in the least time possible. It was understood that an inevitable counterpart would be a high degree of exposure to imports from the United States and Europe. As was predictable, the negotiation with the former generated more polemic, but once the objectives of the negotiation were disclosed it ended up having strong support not only from business but also from public opinion. Congress was not enthusiastic at the beginning but as the process unfolded, its support grew and finally both FTAs were approved in Congress with an ample majority.

Third, it is important to highlight that although the negotiation with the US lasted two years (December 2000 to December 2002), during that period Chile negotiated and reached a free trade agreement with the European Union, the European Free Trade Association and South Korea. The issues involved in each negotiation and the emotions surrounding them led to a more global vision of Chile's international insertion. This also opened the possibility for a small economy to generate additional negotiation spaces, by overlapping negotiations with the main economies of three continents. This overlap lowered the tension with regards to any negotiation in particular by making it possible to point out in each of them the advances made in the others. It also helped undercut the well-known argument made by the larger economies in these types of negotiations: "you take it or leave it. I do not have any more political space to dedicate time to this negotiation". The strategy of multiple negotiations, far from weakening the position of Chile, strengthened it, allowing it to exploit, for example, the interests of the European Union in concluding its agreement with Chile before the United States; the United States' interest in closing its deal with Chile so that it could use this achievement to bolster its position in the NAFTA[10] negotiations; and South Korea's desire to be the first Asian country with an FTA with a Latin American one.

Finally, it was always clear that beyond the close public-private coordination, an issue to which we dedicated great time, energy and creativity, the responsibility to make decisions was always in the hands of the executive branch, that is, in the members of the negotiating team and, if fundamental disagreements emerged, in the ministers or even the President himself.

One of the main benefits of the negotiation with the United States, which is always filled with complexities, lay in establishing close coordination between our government and the diverse business and labor interests engaged with the FTA. From the beginning of the negotiation, we saw it as a process where a national purpose was being pursued, which meant that the main goals of the negotiation had to emerge from transparent and consensual work among the main economic and political actors of the country.[11] There are obvious reasons for this: the scope and depth of the opportunities and commitments entailed by negotiating an FTA with the biggest economy in the world had to be shared by the widest political spectrum, both to facilitate its approval in the Chilean Congress and subsequent compliance with its terms.

The stance was clear from the beginning: in a dialogue that strives to reach consensus, the government negotiates, and private organizations provide the necessary, detailed sectoral information and communicate their interests and apprehensions. But the government takes charge of constructing the negotiating position, once the stances of all the labor and business organizations are known and adequately weighed. The government must protect the common good, and it is the government that must be accountable to the country for

[10] The last meeting of Vice-Ministers of NAFTA took place in February 2004 while the negotiation between Chile and the United States concluded in December 2002.

[11] In fact, the way the government organized itself for this negotiation, the activities pursued and the form of dialogue and cooperation with the business and labor organizations resulted in an experience that have led several countries to request technical assistance and advice from us on this matter.

the successes and errors of the negotiation, through the political mechanisms provided by a democratic system.

The task entailed many technical and political complexities. A key issue was that the main business organizations opposed our government. Also, the economy was experiencing difficulties because the negotiation coincided with the consequences of the dot.com crisis and the September 11th attacks in 2001. At the end, the FTA with the United States was a political triumph for the government, affirming the economic expectations and lowering Chile's country risk, contrary to what business had expected from the first socialist President since Salvador Allende. In fact, the process laid the groundwork for a fruitful dialogue in other areas of public policy.

Close public-private coordination was reflected not only in agreements on the details of the negotiation, such as access to markets, norms of origin, and technical, sanitary and fitosanitary barriers. This coordination was also reflected in the construction of a shared understanding of the objectives of the negotiations, in sharing the "red lines"[12] of the negotiation, the main achievements expected and how to handle sensitive issues.

Organizing visits by representatives of the legislature, government, opposition, business and unions to the US Congress proved quite useful. Those visits were organized in great detail: the Chilean embassy in Washington prepared a two-day visit, with detailed protocol, minute by minute, including visits to the US Congress and conversations with senators, representatives and staffers as well as visits with officials in the administration (Trade Representative, State Department, Commerce Department). These visits in Washington were preceded by working sessions in Santiago to agree on the precise messages that should be communicated in each session and, therefore, those involved travelled with a precise script to maximize each meeting. As is natural, previous coordination meetings and the preparation of the script became opportunities for further dialogue between the government and the private sector.

[12] This refers to those lines that will not be crossed during the negotiation, even if that risks the FTA.

The solid national consensus that was built around these negotiations and the way this was perceived in Washington and Brussels afforded additional negotiating leverage. For example, despite the somewhat aggressive posture of the US Treasury, we were able to negotiate a one-year maintenance of capital controls in the balance of payments[13]; an unprecedented "cultural reservation" that allows for subsidies in the national cinematographic industry, and, among other things, a special treatment for business visas[14]. With regard to intellectual property, the main demands of the US, that is, prohibiting obligatory licenses, parallel imports and limiting exceptions to patents, were left out of the final text, and we were able to include in the preamble to the chapter on intellectual property the principles established in the Intellectual Property Agreement of the WTO that privileges public health and access to all medications.[15] With regard to market access, the elimination of tariffs on the universe of agricultural products was obtained, except for sugar, in a maximum term of 12 years, concentrating most of the exemptions in the first four years, a result considerably better than the one obtained in the negotiation with the European Union. The exceptions to the agreement fully preserved the objectives of public policy in health, education, culture and the environment as well as the autonomy of regulatory and economic policy. In this sense, the fears and charges made both in Chile and other countries of the region with regards to the FTA with the United States proved unsubstantiated.

The experience of Chile after this agreement, which went into effect in 2004, shows a clear progress towards development with equal opportunities. Since the signing of the FTAs, the *Plan Auge*, which democratizes access to health and medications, was established; a royalty was applied to copper mining to stimulate innovation; the pension system was reformed to introduce greater distributive quotas; the Congress is debating an

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[13] The negotiation with Chile overlapped with the one with Singapore. Singapore left open this issue of the balance of payments until Chile defined its position on it. Once our negotiation was concluded, Singapore was able to obtain the same concession. Negotiators from Chile and Singapore were in constant dialogue. This offers another example of how small countries can succeed in opening spaces for dialogue and negotiation with the main economies.

[14] The US Congress considered this an excessive benefit and explicitly legislated that this concession not be granted in any future trade agreement.

[15] As is obvious, this generates an important precedent for any controversy. It is probable that this explains why this clause was eliminated in the following American agreements.

additional modification to the taxes of the large copper firms, and Chile continues to be a driving force for integration and regional cooperation efforts in the Union of South America Nations (UNASUR) and now in the Community of Latin American and Caribbean States.

Despite all of this, we have always made clear that free trade agreements do not substitute for a good development strategy. The combination of an orderly macroeconomy, with improvements in infrastructure, competitiveness, innovation, regulation and solid social policies exceeds by far the contributions of any FTA, or even a web of them. In several countries of Latin America that faced free trade negotiations with the United States there was a belief that the FTA could substitute for or constitute by itself an adequate development strategy. This view is a serious mistake and it is necessary to warn against it.

Economic reforms, in conjunction with macroeconomic stability, a solvent financial system and strong economic institutions are indispensable components for a successful development strategy. Of course, the FTA helps, but it would be a mistake to think that with an FTA alone the task of economic reform is resolved. What is interesting about trade negotiations with mega-partners like the US is that they generate a political momentum which facilitates discussion of the best ways to exploit the opportunities provided by FTAs and how to manage their risks. This offers an excellent opportunity for the Congress to debate the instruments and modalities of export promotion, productive promotion, technological diffusion, training programs for workers and, especially, the efficiency and pertinence of these instruments, seeking to improve their focus or updating them. In the case of Chile, the legislative debate led to a revision of the set of instruments for productive support and export promotion for the agricultural sector.

The negotiation process also led to permanent improvements in public management. An important commitment required by the FTA with the United States is to improve practices with regard to the transparency of public policies. Here the magnitude of the commitments is large, forcing government agencies to inform citizens and stakeholders beforehand about the characteristics of any new regulation, allow for a period to receive feedback and proceed to approve and implement regulations only after having responded to the main concerns of the economic actors involved. Because many of these regulations affect North American, European and Asian exporters or investors, it is reasonable to suppose that their respective comments will be grounded in the advice of technicians and professionals who are close to the knowledge frontier. The same occurs in the activities that affect the main national economic actors. This regulatory process assumes a uniform treatment and a respect for the most favored nation clause, which means non discriminatory rules benefitting all economic agents, regardless of their nationality. Therefore, new public regulations will be sufficiently solid in their technical and juridical aspects to pass this challenging test. The requirement of transparency stemming from the FTA thus creates welcome pressure to improve the technical competence and professionalism of public management.

CONTRIBUTING TO "GLOBALIZED SOCIAL DEMOCRACY"

Making progress toward development requires leadership, quality institutions and gradualism in the implementation of reforms (Munck, this volume), because as Cardoso (this volume) reminds us, besides the structural factors, institutions and political and social actors also play an important role in finding the path to development and reducing inequality: history sets the conditions but does not define the results.

Of course, there is power asymmetry between countries (Heller et al., this volume). However what is fascinating about the present historical moment is precisely the transition towards new hegemonies that are still not consolidated and thus it is not determined how they will be shaped. This fluidity opens opportunities for developing countries to gain additional negotiating spaces and make progress on important issues on the international economic agenda (Evans, this volume; Harris, 2009). The global and regional outlook will also be very different for Latin America if it is able to take *seriously* its regional integration and transform itself into a more respected actor on the international stage, speaking with one voice about the main issues on the international agenda. Latin America's recent relationship with China- also still to be determined- opens up a spectacular opportunity to negotiate its economic and trade relation with the main industrialized economies.

Cardoso goes one step further and proposes a Globalized Social Democracy that would include openness to international markets, robust social policies that allow the reduction of poverty and a transparent and accountable state. These are valid objectives, but- in order to advance in this fascinating debate- it may be preferable to speak instead of an *active insertion* in international markets. The notion of openness evokes the passive stance of eliminating restrictions on trade and investment but does not highlight the need for an active policy of opportunity maximization supported by the transformation of the productive structure and strategic stimulation of innovation and competitiveness.

Historical experience shows that seizing the opportunities of the global economy requires a strategy, a national project agreed to by the main actors. This helps define a shared medium-term outlook, which, in turn, facilitates the design and implementation of long-term policies that induce investments, innovation, and value added to production and exports (Devlin, Moguillansky, 2009). In the developing countries most successful at closing their income gaps with the OECD what stands out is a long term strategy of productive transformation, with a vision that transcends the preservation of macroeconomic equilibrium. While this strategy is important, it should be accompanied by policies that promote international insertion in dynamic sectors of the global economy, favoring innovation and competitiveness. As is evident, the need to agree on long-term policies quickly leads to incorporating the fight against inequality on the agenda. As a result, competitiveness and social cohesion can be mutually stimulated.

Another interesting observation regarding Cardoso's contribution concerns the importance of relying on competitive markets and not merely "free markets". [16] Monopolistic or oligopolistic markets also generate inefficiencies in the distribution of resources, and therefore a social democratic agenda should emphasize regulation of non-competitive markets and, in general, the promotion of competition. This means using public resources to support and strengthen consumer organizations, subsidizing their technical and juridical efforts, in order to make them effective developmental watchdogs. Taking into account the pressing demands of carbon traceability, food safety and compliance with nutritional and sanitary norms for foodstuffs, as well as the intensity of technological change in the areas of telecommunication, informatics and biotechnology, it is evident that in Latin America we have much to learn from our European peers about how to create laboratories, centers of applied research and economic, judicial and environmental think tanks that help strengthen consumer power, thereby reducing asymmetries of information and facilitating an equilibrium between the ever more sophisticated supply of goods and services and a demand that is organizing and improving its information levels.

Last but not least, progressivism, or Globalized Social Democracy, without weakening its goal of equality, should place more emphasis on the productive dimension, that is, on the primary distribution of income. With levels of inequality as high as the ones in Latin America social policy alone is insufficient to correct the distributive inequalities that originate in the labor market. To improve equality we should focus on productivity and export diversification, job quality and narrowing productivity gaps, both the external gap with the industrialized economies and the internal gap, between the advanced sectors of the domestic economy and the ones that have been left behind.

From these observations, an integrated focus on growth with equality has four main axes: i) A countercyclical macroeconomic policy, including the efficient supervision and

[16] One thing is the unbalanced preponderance of the market in the distribution of resources and another thing is to deify it. In other words, we must not confuse, the "modest charm of the market" with the "unbearable lightness of neoliberalism" (Rosales, 1998).

prudential regulation of finance; ii) social policies of wide scope, with stable financing and increasing links with productive transformation through education and training programs; iii) policies of productive development that privilege accomplishments in innovation, productivity and competitiveness, seeking to reduce structural heterogeneity and facilitating the insertion of small and medium firms into export clusters and also global or sub-regional value chains; iv) active policies of international insertion of national firms in global value chains.

The Social Democratic stance with regard to markets does not stop with using them as efficient instruments for allocating resources. The challenge lies in creating markets where they do not exist and stimulating those that are just emerging in areas such as training, technology, environment, and infrastructure using the correct social prices; liberating the barriers to competitive markets and regulating those that are not competitive; and strengthening the regulatory framework for competition and supporting consumer organizations (Rosales, 1998).

The accountability and transparency that Cardoso proposes for the state should be complemented with a decisive fight against corruption and by promoting practices of performance evaluation, accountability, decentralization and stability in the bureaucracy, within a framework of long-term policies that allow for the professionalization of the public sector and its gradual autonomy.

In the face of today's accelerated globalization, these complex tasks can be best met through cooperative efforts among countries. Ample and integrated markets, with common discipline in trade and services, rule of law and room for productive, technological and commercial alliances would not only stimulate important synergies for growth, but would also facilitate formation of regional value chains and more effective international alliances.

THE NEED FOR ROBUST REGIONAL INTEGRATION

In the context of rapid globalization, regional integration cannot be limited to trade or restricted to partners with ideological affinities. Instead, it should privilege the creation of regional or sub-regional value chains. Between 2003 and 2008, despite an economic boom and notable political convergence across countries, Latin America did not experience any substantive advances in the regional integration process. It is necessary therefpre to tackle the conflicts between the countries of the sub-region, defining precise mechanisms for the resolution of those differences in order to advance in the promotion of sub-regional value chains. Strengthening the presence of regional firms in regional or global value chains is a challenge of productive internationalization. This process should start with those activities most closely connected to the main export products, which are usually natural resources, exploring their backward and forward linkages. It is possible, for example, to develop competitive advantages in engineering, biotechnology or business services connected to natural resources. This, in turn, would open new opportunities for export diversification, allowing exporters to participate in the webs of new business and benefit from a learning process that will allow them to make advances at a regional or global level.

Stimulating the convergence between "translatina" firms and the task of regional integration would help address the challenge of internationalization. The "translatinas" are precisely the regional companies that have advanced the most in this regard. Studying more closely their development would allow not only to update integration schemes but also to make them more pertinent for business decisions and for the very design of trade, innovation and industrial policies. For example, focusing on vocational training and quality certification for small and medium businesses that meet the specific requirements of segments of the value chains of the "translatinas" would allow these smaller firms to be incorporated into these chains as indirect exporters.

However, the current challenge goes beyond trade. Today the region urgently needs an initiative on regional cooperation to make the most of the opportunities of the current *international context*. The Economic Commission for Latin America has made 8 key proposals in two broad areas: a) proposals to stimulate regional cooperation and b) development of regional strengths to face global challenges (CEPAL, 2010a). The first area includes fostering interregional trade, supported by greater provision of financing and other concerted measures to facilitate commerce; stimulating investment in infrastructure; strengthening the social dimension of integration and reinforcing the management of asymmetries. The second area emphasizes increasing regional cooperation in innovation and competitiveness; making the most of the link with Asia Pacific to deepen cross-regional interaction; promoting the reform of the international financial system by using the presence of Argentina, Brazil and Mexico in the G20, and, lastly, jointly tackling the challenges of climate change.

This is an ambitious agenda to be sure, but one that is a product of the favorable winds for the developing economies. Various developing countries are gradually closing the income gaps with the industrialized economies, placing themselves in advanced segments of global value chains and making important technological breakthroughs. Multiplying these achievements depends precisely on the possibility of moving toward ample and integrated markets, in conjunction with common regulatory frameworks, the rule of law and gradual convergence of policies (Lagos, 2008). If Latin America advances seriously in this direction, the argument of Cardoso and Faletto from more than 40 years ago will be more relevant than ever, proving how the region generates new possibilities for growth and social justice, supported by ambitious yet realistic social policies and convinced that, as the poet said, "se hace camino al andar" (the path is made while walking).

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