

# **Past, Present and Future of Latin America in a Globalized World**

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by

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## **Executive Summary**

Latin America is a region which has always created big expectations in the rest of the world. Since the first human beings arrived from Asia crossing the Strait of Bering about 40.000 years ago, Latin America has been considered a land of opportunities, dreams and, today, the “magical realism” of famous writers like Nobel Prize winner Gabriel Garcia Marquez and Mario Vargas Llosa.

With the discovery of Latin America by European navigators in the late XV century, the region began its unstoppable globalization process. The discovery was the start of a period which opened the doors of this continent to peoples from all over the world, from Europe, from Asia and from Africa.

Latin America is facing three basic challenges in the XXI century: economic, social and political challenges. This paper deals with those three issues from the point of view of the new globalization wave. The only realistic choice for Latin America is to keep integrating within itself and within the international community. There are major threats imposed by the globalization, but the risks of isolation are even larger, as the sad experience of Africa shows.

The paper is divided in 5 sections, as indicated:

1. Historical background
2. Economic issues
3. Social issues
4. Political issues
5. Integration and globalization

## **1. Historical background**

*I believe that this is the Earthly Paradise,  
where no man can come except by divine will.  
I believe that this land ordered to be discovered by your Royal Highness is enormous  
and there may be more in this Hemisphere of which was never heard.*

*Big hints are these of the Earthly Paradise,  
because the place corresponds to the opinion of holy saints and sane theologues,  
and likewise the signals so indicate...  
And if such is not Paradise, it seems even more marvelous.*

### **Christopher Columbus, 1498**

The history of Latin America has always been involved in myth and fantasy. Since the prehistoric times, there have always been local epics of holy men and their gods. The *Popol Vuh*, the sacred book of the Mayas, recounts the timeline since the divine creation of the universe and the appearance of mankind.

According to the German authors of the internationally recognized *Chronik der Menschen* there were seven ancient cultures which nurtured the start of other civilizations around the world:

1. Egypt (3.000 B.C.)
2. Creta/Greece (2.000 B.C.)
3. Mesopotamia / Iraq (3.000 B.C.)
4. India (2.500 B.C.)
5. China (1.700 B.C.)
6. Olmecs / Mexico (1.100 B.C.)
7. Chavin / Peru (1.200 B.C.)

The Olmec culture in Mexico and the Chavin de Huantar culture in Peru were the basis of other more advanced cultures in Latin America. During that period the early nomadic populations became sedentary and agriculture quickly developed under the pressure of growing cities. At around the year 1500, the city of Mexico-Tenochtitlan was considered to be the largest in the planet, with a population close to half a million inhabitants. The Aztec capital was larger than any other Asian or European city at the time, and surprised the early Spanish conquerors with its abundant wealth.

The arrival of the first European settlers (after the Viking voyages corresponding to the European Middle Age) started a whole new period in the world history. The “discovery” or “encounter” between the then Old World and the New World even created new words, like “utopia”. The word utopia comes from Greek (no place) but was never used by the Greeks themselves. *Utopia* was immortalized in his 1516 by the Catholic priest Sir Thomas More, who was later condemned to death in Protestant England. The impact of the New World into the Old World can be seen by many other subsequent literary works, like *The City of the Sun* by Tomaso Campanella (1623) and *The New Atlantis* by Sir Francis Bacon (1627), and major scientific works like *Trips to the Equinoxial Regions of the New Continent* by Alexander von Humboldt (1834) and *The Origin of Species* by Charles Darwin (1859).

In brief, it can be said that the history of Latin America can be summarized by seven major revolutions (see Table 1): the settlement and the arrival of the first populations (40.000 BC), the invention of agriculture (8,000 BC), the start of the early cultures (1,200 BC), the development of the major pre-Hispanic cultures (900 AD), the “encounter” between the Old World and the New World (1492), the revolutions of independence (1810), and the integration of the region in a globalized world (1992).

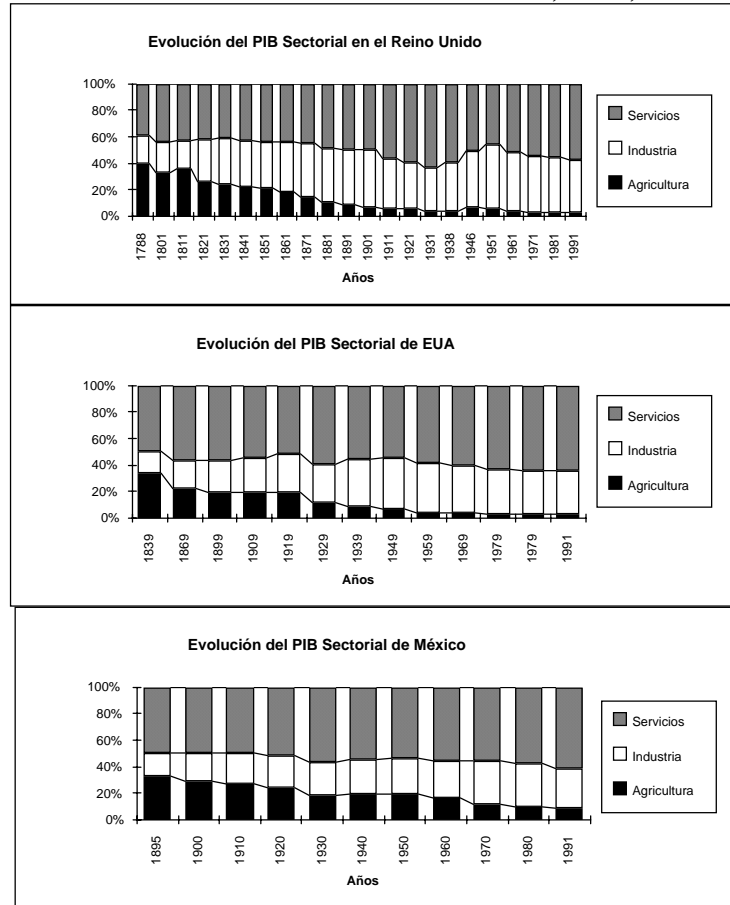
**Table 1: The seven revolutions of Latin America**

<b>Revolution</b>	<b>Years</b>	<b>Events</b>
<b>1. Settlement</b>	40,000 BC - 8,000 BC	First human beings arrive in the virginal continent <i>Homo sapiens sapiens</i> brings fire and language Hunters (Clovis, Folsom) and gatherers
<b>2. Agriculture</b>	8,000 BC - 1,200 BC	Animal domestication and plant cultivation Development of ceramics Founding of first cities
<b>3. Early Cultures</b>	1,200 BC - 900 AD	Olmecs in Mexico and Chavin de Huantar in Peru Teotihuacan and Tiahuanaco cultures Classical period of Maya culture
<b>4. Major Cultures</b>	900 AD - 1492 AD	Post-classical period of Maya culture Founding of Tenochtitlan by the Aztecs Founding of Cuzco by the Incas
<b>5. Encounter</b>	1492 AD - 1810 AD	Arrival of Christopher Columbus Fall of Tenochtitlan (1521) and Cuzco (1533) Real birth of Latin America
<b>6. Independence</b>	1810 AD - 1992 AD	Creation of the first 18 countries Caudillo system with internal and external wars Consolidation of the feudal mercantilist system
<b>7. Integration</b>	1992 AD - 2020 AD	Opening to intra-regional commerce Consolidation of regional integration Latin America in a globalized world

Source: Based on Cordeiro (1995)

In the XX century, Latin America became quickly urbanized and there were massive migrations to the cities. Today Mexico City is again the largest city in the world, Sao Paulo is the third (Tokyo-Yokohama is the second), and there are other cities with more than 10 billion inhabitants (Rio de Janeiro and Buenos Aires, and the metro areas of Bogotá and Lima are also close to that figure). The urbanization process was followed by a migration of economic activity from the fields to the cities. Agriculture decayed in importance, while industry, and also services became more and more important. That was the same pattern of development which occurred after the industrial revolution in the United Kingdom, the USA and other countries like Germany or Japan (see Figure 1).

Figure 1: Evolution of GDP sectors in the UK, USA, and Mexico



Source: Based on Mitchell and World Bank (several years)

The second half of the XX century was the start of many regional integration agreements. The first of all of them was the ALALC (Asociacion Latinoamericana de Libre Comercio) in 1960 which was superseded by the ALADI (Asociacion Latinoamericana de Integracion) in 1980. There were also sub-regional agreements for the Central American countries (MCCA, Mercado Comun Centroamericano, 1961), the Andean Countries (CAN; Comunidad Andina de Naciones, 1969), the Caribbean (Caricom, Caribbean Community, 1973), the Southern Cone (Mercosur, Mercado Comun del Sur, 1991), and North America (NAFTA, North America Free Trade Area, 1993). In 1995, during a Hemispheric Presidential Meeting in Miami, was launched the initiative to create an American Free Trade Area (AFTA) by the year 2005 (see Table 2).

**Table 2: Towards more and renewed integration**

Organization	Country	Entry	Reactivation
<b>ALADI</b>	Argentina	I.1981	
	Bolivia	III.1982	
	Brazil	XI.1981	
	Chile	V.1981	
	Colombia	V.1981	
	Ecuador	III.1982	
	Mexico	II.1981	
	Paraguay	XII.1980	
	Peru	XI.1981	
	Uruguay	III.1981	
Venezuela	III.1982		
<b>MCCA</b>	Costa Rica	IX.1963	VII.1991
	El Salvador	V.1961	VII.1991
	Guatemala	V.1961	VII.1991
	Honduras	IV.1962	VII.1991
	Nicaragua	V.1961	VII.1991
	Panamá	VII.1991	VII.1991
<b>CAN</b>	Bolivia	XI.1969	XII.1991
	Chile <sup>a</sup>	X.1969	
	Colombia	IX.1969	XII.1991
	Ecuador	XI.1969	XII.1991
	Peru	X.1969	XII.1991
	Venezuela	XI.1973	XII.1991
<b>CARICOM</b>	12 founding members <sup>b</sup>	VII.1973	X.1992
	Las Bahamas	VII.1983	X.1992
	Dominican Republic	I.1993	
<b>Group of the Three (G-3)</b>	Colombia	X.1990	
	Mexico	X.1990	
	Venezuela	X.1990	
<b>MERCOSUR</b>	Argentina	VI.1991	
	Brazil	VI.1991	
	Paraguay	VI.1991	
	Uruguay	VI.1991	
<b>NAFTA</b>	Canada	VI.1993	
	Mexico	XI.1993	
	United States of America	XI.1993	
<b>AFTA</b>	30 American countries	2005 ???	

<sup>a</sup> Chile left CAN in October 1976, and has since then not returned.

<sup>b</sup> Antigua & Barbuda, Barbados, Dominica, Belize, Granada, Guyana, Jamaica, Montserrat, Saint Christopher & Nevis, Saint Lucia, Saint Vicente & the Granadines, and Trinidad & Tobago.

Source: Based on Wilkie (2001)

The movement towards more integration within Latin America itself could be a major force for new growth in the region. According to international experience, larger markets are conducive to growth if they behave according to market laws, just like the United States of America before (see Table 3) and the European Union now.

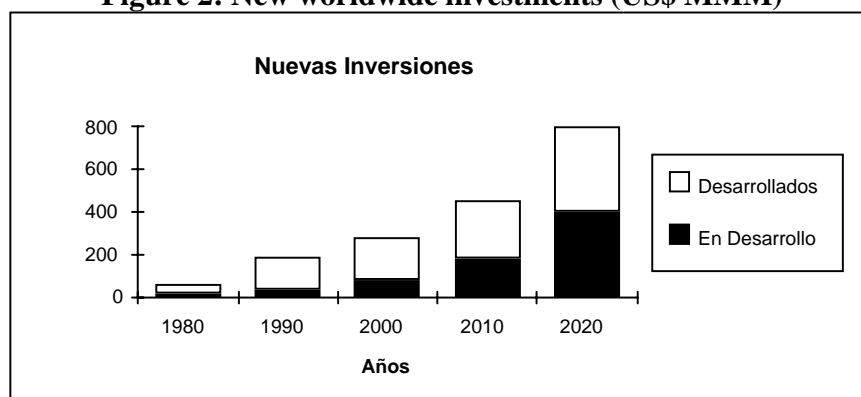
**Table 3: Where does growth come from?**  
(Growth factors in the US from 1929 to 1982)

Growth Factor	Growth rate (%)	Percentage of total GDP growth
Work	1.34	44%
Knowledge	0.66	22%
Capital	0.56	18%
Economies of scale	0.26	8%
Resource mobility	0.23	8%
Others	-0.13	-
<b>Total GDP</b>	<b>2.92</b>	<b>100%</b>

Source: Based on Dornbusch and Fischer (2000)

Additionally, more opening to North America and the rest of the world will also benefit Latin America thanks to the growing flows of capital around the world (see Figure 2). Foreign direct investment usually benefits regions which are open, predictable and behave according to the rule of law.

**Figure 2: New worldwide investments (US\$ MMM)**



Source: Based on The Economist

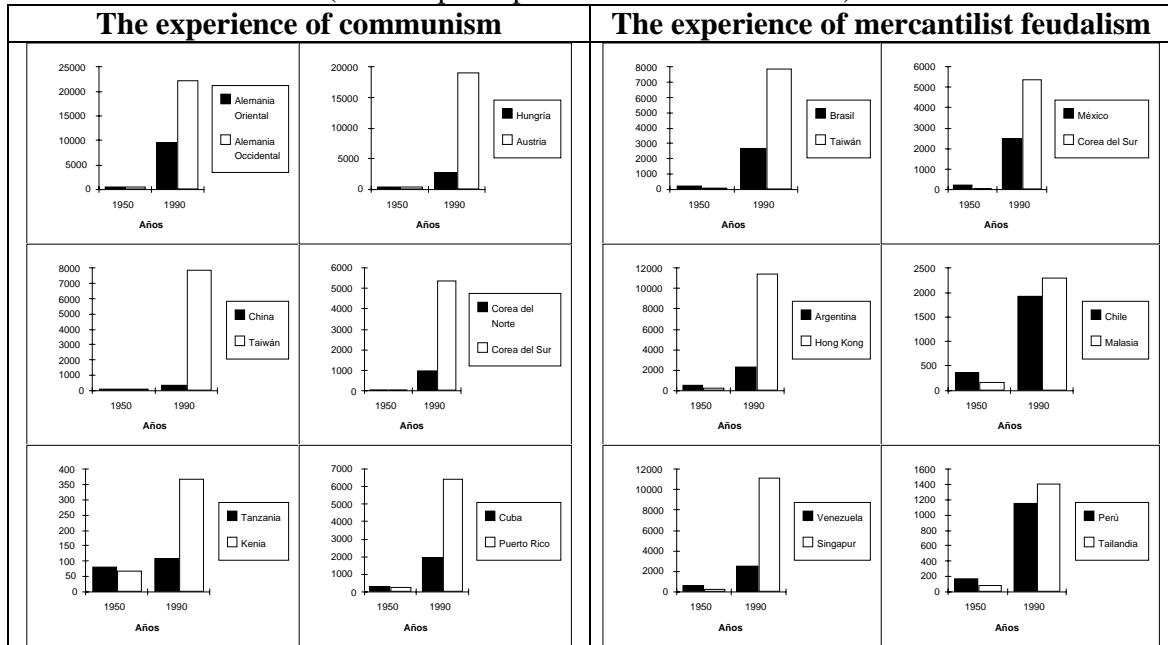
## 1. Economic issues

At the time of independence, Latin America had about the same income per capita than North America or Europe and, in general, higher income levels than those of other African or Asian countries. In fact, many Europeans continued coming to Latin America for several decades, just as Asians also emigrated from several countries, including China and Japan. For example, today, Sao Paulo has the largest Japanese community outside Japan, larger than any Japanese neighborhoods in the USA or elsewhere.

However, bad economic policies and political instability made Latin America fall behind most of Europe and North America. At the start of the XX century, Argentina was still among the richest countries of the world, but later interventionist government policies caused general stagnation. This strange mixture of terrible economic and political conditions can be called mercantilist feudalisms. The system basically affected all of Latin America, as the continent closed into itself. Together with communism, mercantilist feudalism has probably been the worst system in terms of economic development. Both communism and

mercantilist feudalism condemned many people around the world to poverty and tyranny (see Figure 3).

**Figure 3: The experience of bad economic systems**  
(Income per capita in current US\$ dollars)



Source: Based on United Nations and World Bank (several years)

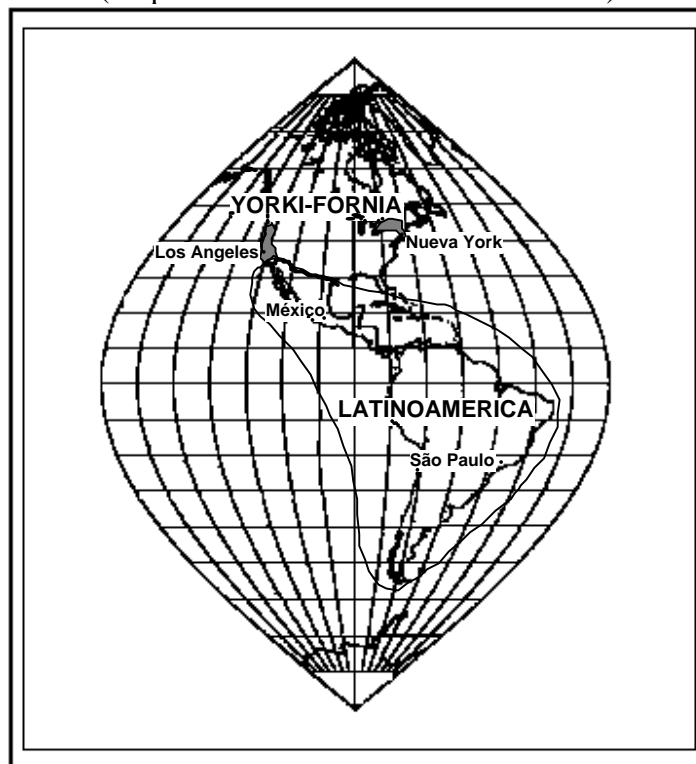
In the second half of the XX century, while most of South East Asia abandoned its import-substitution strategies, Latin American continued with them under the “intellectual” guidance of the United Nations ECLAC (Economic Commission for Latin America and the Caribbean). That was a newer version of the mercantilist feudalism which only enriched the rulers while most people kept falling into poverty.

In the United States, a free market system developed which permitted an incredible growth in a huge integrating market. On the other hand, in Latin America, mercantilist feudalism was the approach followed by the local “caudillos” who wanted to be the rulers of ever smaller regions of the disintegrating colonial empires.

Today it is interesting to compare Yorkifornia (an imaginary nation made up of New York and California states) with all of Latin America (see Figure 4). Yorkifornia has close to 53 MM inhabitants who produce almost as much as the over 500 MM Latin American together. While there are over 100 flights per day between New York and Los Angeles, there is not a single direct flight between Mexico City and Sao Paulo (which are the first and the third largest cities of the world, and much larger than either New York or Los Angeles, which are also roughly at the same distance from each other).



**Figure 4: Yorki-fornia versus Latin America**  
(Map of Latin America and Yorki-fornia)



In fact, Japan produces much more than double of all of Latin America with less than a quarter of its population, and not even 2% of its land area. In this ranking of the *New Wealth of Nations*, Latin America falls in between Germany and Yorki-fornia (see Table 4). Just the metropolitan area of Tokyo produces almost as much as all of Brazil, the largest, richest and most populous Latin American country, and the city of Los Angeles is wealthier than Mexico. General Motors produces with less than 0.4 MM workers 50% more than Mexico City with over 20 MM inhabitants.

**Table 4: The New Wealth of Nations**  
(Nations, regions, cities, companies, individuals, and universities in 1999)

ENTITY	Wealth (US\$ MMM)	Population (MM)	Area (M Km2)	ENTITY	Wealth (US\$ MMM)	Population (MM)	Area (M Km2)
European Union 15	8.412	337	3235,8	Itochu	109	0	0,0
United States	8.351	273	9529,1	Royal Dutch/Shell Group	105	0	0.1
Japan	4.079	127	377,8	Sumitomo	96	0	0,0
Germany	2.079	82	357,0	Singapore	95	3	0,6
<b>Latin America</b>	<b>1.890</b>	<b>510</b>	<b>20512,8</b>	<b>Colombia</b>	<b>94</b>	<b>42</b>	<b>1141,7</b>
Yorki-fornia	1.749	53	548,1	Nippon Telegraph & Telephone	94	0	0.2
France	1.427	59	544,0	Marubeni	92	0	0,0
United Kingdom	1.338	59	244,1	<b>Venezuela</b>	<b>87</b>	<b>24</b>	<b>912,1</b>
Italy	1.136	58	301,3	Bill Gates (USA)	75	0	0,0
California (State)	1.122	34	411,5	Malaysia	73	23	330,4
China	980	1.250	9572,9	<b>Chile</b>	<b>71</b>	<b>15</b>	<b>756,6</b>
<b>Brazil</b>	<b>743</b>	<b>168</b>	<b>8512,0</b>	IBM (EUA)	65	0	0.2
Tokio (Metro)	741	19	0,8	<b>Perú</b>	<b>60</b>	<b>25</b>	<b>1285,2</b>

New York (State)	627	19	136,6	Sultan of Brunei	37	0	0,0
Texas (State)	608	19	691,0	<b>Puerto Rico</b>	<b>36</b>	<b>4</b>	<b>9,1</b>
Canada	591	31	9970,6	PDVSA (Venezuela)	34	0	0,1
Spain	552	39	504,8	PEMEX (Mexico)	33	0	0,1
New York (Metro)	510	15	1,3	Petrobras (Brazil)	22	0	0,0
Florida (State)	480	15	151,9	<b>Uruguay</b>	<b>20</b>	<b>3</b>	<b>176,2</b>
Los Angeles (Metro)	455	13	1,2	<b>Guatemala</b>	<b>18</b>	<b>11</b>	<b>108,9</b>
India	442	998	3165,6	<b>Cuba</b>	<b>17</b>	<b>11</b>	<b>110,9</b>
Illinois (State)	429	13	149,9	<b>Ecuador</b>	<b>17</b>	<b>12</b>	<b>270,7</b>
<b>Mexico</b>	<b>427</b>	<b>97</b>	<b>1958,2</b>	<b>Dominican Republic</b>	<b>16</b>	<b>8</b>	<b>48,4</b>
Taiwan	410	21	36,2	Harvard	16	0	0,0
South Korea	400	47	99,3	King of Saudi Arabia	13	0	0,0
Netherlands	384	16	41,9	<b>El Salvador</b>	<b>12</b>	<b>6</b>	<b>21,0</b>
Paris (Metro)	383	9	0,4	Telmex (Mexico)	10	0	0,1
Australia	381	19	7682,3	Queen of England	10	0	0,0
London (Metro)	360	9	0,9	<b>Costa Rica</b>	<b>10</b>	<b>4</b>	<b>51,1</b>
Russian Federation	333	147	17075,4	Sheikh of Kuwait	9	0	0,0
<b>Argentina</b>	<b>278</b>	<b>37</b>	<b>2780,4</b>	<b>Paraguay</b>	<b>9</b>	<b>5</b>	<b>406,8</b>
Switzerland	273	7	41,3	<b>Panamá</b>	<b>9</b>	<b>3</b>	<b>75,5</b>
Sweden	221	9	450,0	General Motors of Mexico	9	0	0,0
Hong Kong	201	7	1,1	Carlos Slim (México)	8	0	0,0
General Motors	177	0	0,4	<b>Bolivia</b>	<b>8</b>	<b>8</b>	<b>1098,6</b>
Wal-Mart Stores	167	0	0,2	<b>Trinidad &amp; Tobago</b>	<b>6</b>	<b>1</b>	<b>5,1</b>
Exxon Mobil	164	0	0,1	<b>Jamaica</b>	<b>6</b>	<b>3</b>	<b>11,0</b>
Ford Motor	163	0	0,3	Safra Brothers (Brazil)	5	0	0,0
DaimlerChrysler	160	0	0,3	MIT	5	0	0,0
South Africa	133	42	1221,0	<b>Honduras</b>	<b>5</b>	<b>6</b>	<b>112,1</b>
México (Metro)	126	21	0,5	Emilio Azcarraga (México)	5	0	0,0
Thailand	121	62	513,1	<b>Bahamas</b>	<b>5</b>	<b>0</b>	<b>13,9</b>
Indonesia	120	207	1905,0	Luksic Brothers (Chile)	4	0	0,0
São Paulo (Metro)	119	19	0,5	<b>Haiti</b>	<b>4</b>	<b>8</b>	<b>27,7</b>
Mitsui	119	0	0,0	Ross Perot (EUA)	3	0	0,0
Mitsubishi	118	0	0,0	<b>Nicaragua</b>	<b>2</b>	<b>5</b>	<b>130,7</b>
Toyota Motor	116	0	0,1	<b>Barbados</b>	<b>2</b>	<b>0</b>	<b>0,4</b>
General Electric	112	0	0,1	<b>Surinam</b>	<b>2</b>	<b>0</b>	<b>163,8</b>

Source: Based on World Bank, Fortune, Forbes, AmericaEconomia, World Almanac

Nippon Telegraph & Telephone produces as much as all of Colombia, and Bill Gates, the richest man of the world, has more money than the yearly GDP (Gross Domestic Product) of Chile. PDVSA, the largest Latin America country produces almost as much as Puerto Rico, and the endowment of Harvard University is as large as the yearly production of the Dominican Republic. Carlos Slim, the richest Latin American, has as much money as the 8 MM Bolivians produce in one year. Such is the new world of globalization!

The 1980's is often called the "Lost Decade" in Latin America. That was the time of the debt problem and the region as a whole did not progress, in fact, in went backwards. The overall experience was terrible for Latin America (see Table 5). Inflation reached astronomical figures, just as the economies fell in severe recessions and contracted heavily. While food prices in Nicaragua increased from a normalized value of 100 in 1980 to nearly 1 trillion in 1991, the GDP contracted 3.5% per person per year, the very worst result in all of Latin America. At the other extreme, Panama had the lowest inflation in the continent (even

lower than in the USA) and the highest real growth (2.3% per person per year, excluding the year of the USA blockade). No wonder that Nicaragua had the more “floating” system while nearby Panama had the more “fixed” system. In fact, the famous Cuban exile writer Carlos Alberto Montaner says:

*When the currencies float, the people sink.*

**Table 5:** Inflation during the “Lost Decade” in Latin America  
(Food price indices, based on 1980 = 100)

Country	1980	1985	1990	1991
Nicaragua	100.0	1,156.7	33,913,149,677.7	966,894,484,150.7
Argentina	100.0	130,233.5	2,200,188,392.5	4,823,327,568.9
Brazil	100.0	8,386.8	215,935,200.6	1,068,717,291.6
Peru	100.0	3,137.8	138,781,388.4	606,614,932.3
Bolivia	100.0	1,968,948.1	12,373,600.0	15,046,600.0
Uruguay	100.0	596.3	11,470.8	21,272.4
Mexico	100.0	1,034.8	14,033.9	16,856.6
Ecuador	100.0	426.0	3,079.4	4,496.5
Venezuela	100.0	201.0	1,576.4	2,170.6
Dominican Republic	100.0	202.0	871.8	1,466.0
Costa Rica	100.0	471.5	1,014.0	1,277.2
Colombia	100.0	296.1	935.5	1,219.2
Paraguay	100.0	220.1	853.4	1,025.5
El Salvador	100.0	200.2	684.3	806.0
Chile	100.0	230.8	611.3	769.3
Jamaica	100.0	211.3	431.8	668.3
Guatemala	100.0	135.2	405.9	537.2
Trinidad and Tobago	100.0	196.0	394.7	418.5
Honduras	100.0	114.5	195.9	281.6
Bahamas	100.0	128.7	177.5	192.8
Barbados	100.0	140.2	179.7	188.3
USA	100.0	130.5	158.4	165.2
Puerto Rico	100.0	117.8	132.0	155.5
Panama	100.0	120.4	123.2	127.1

Source: Based on ECLAC and IMF

The Latin American “Lost Decade” was followed by the decade of the worldwide currency crises. The 1990s have also served as a monetary “laboratory” to compare the failure of the floating (i.e., sinking) exchange rate regimes versus the success of the fixed (i.e., rich) exchange rate regimes. The first of such crisis was the Mexican “tequila” crisis started by the devaluation of the peso on December 20, 1994. In less than one year the exchange rate dropped from about 3 to 8 pesos per dollar. In addition to that, the inflation reached 52%, the country lost US\$ 25 billions in foreign reserves and the GDP contracted by a whopping 7% (and almost 10% in per capita terms).

In fact, partly due to the terrible experiences with “floating” exchanges rates, “independent” central banks, and “management” of the money supply, Latin America has been moving *de facto* into a dollarized area. Argentina went into a currency board fixing the

parity of its currency 1 to 1 to the US\$ in 1991. Long before, Puerto Rico (1898) and Panama (1904) were using the US\$.

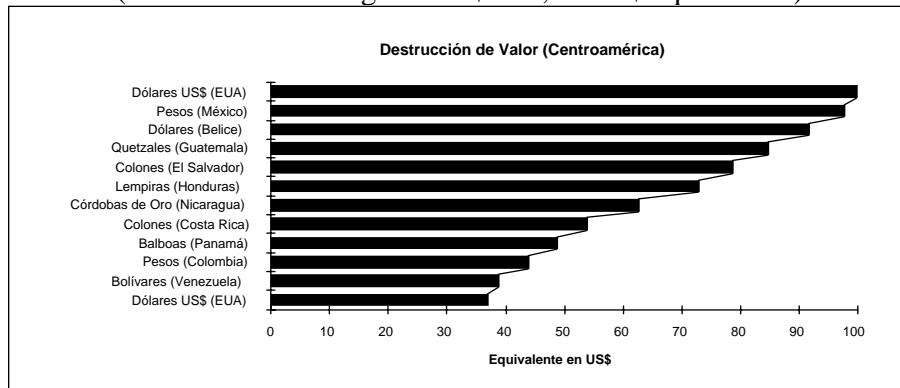
Lat year, Ecuador officially “dollarized”, eliminating completely its old currency, the “sucre”. In 1999 the country was heading towards hyperinflation, the government officially defaulted on its foreign debt, the bank accounts were frozen, the financial system collapsed, and the rumors about a coup d’état kept increasing. Then, on January 9, 2000, the President said publicly that he would dollarize the economy. Just that announcement made his popularity increase immediately from 3% to 27% and interest rates fell from over 200% to less than 20%. Nonetheless, the President was overthrown two weeks later but the dollarization process continued. On September 9, 2000, the US\$ became official legal tender in Ecuador, and the economic recovery is heartening. All the current forecasts look positive for the year 2001. In January 1, 2001, El Salvador also dollarized and Guatemala is scheduled to follow a similar path (free circulation of currencies, which in reality will make people choose the dollar over other competing currencies, including their own Guatemalan “quetzal”).

The short term, medium term and long term results of fixing the exchange rate are positive according to all historical evidence. Furthermore, “fixing” the currency helps to “depoliticize” the economy. The economic stability that Argentina is experiencing right now is unusually small considering the big political scandals, kickbacks and other forms of corruption among its top ministers and senators. The same could be said about Bulgaria and its currency board, which has survived very well all the mayhem of the Balkan wars next door (Bosnia and Herzegovina, Kosovo, Serbia, all of which have also “markized”). And Ecuador is recovering fast in spite of the two quarreling Congresses working in parallel during several weeks and indigenous protests. If those countries still had “floating” exchange rate regimes, their currencies, and the inhabitants, would have been sinking very badly.

The fact that countries in such critical conditions as Argentina and Ecuador managed to quickly “fix” their exchange rates, indicates that there really are no pre-conditions for a currency board or full dollarization. Indeed, the more extreme cases of “markization” in Kosovo (September 1999) and Montenegro (November 1999) and “dollarization” in East Timor (February 2000) show that sheer political will can achieve it. Even the “myth” of needed foreign reserves is just that: a “myth”. The citizens of a country always have a certain amount of internal monetary resources to live on, and “fixing” the currency just means exchanging those monies for hard currency. If at the time of “fixing” there are more international reserves than the monetary base, then some foreign debt can be paid with the remnant. If there is less, then some money can be borrowed or some assets can be sold. Indeed, selecting the right exchange rate before “fixing” is much more important than the actual amount of international reserves.

Just as Latin America has been dollarizing, Europe has created the “euro” as their new currency. The facts indicate that in a globalized world it is better to have fewer and stronger currencies. Small and weak currencies only destruct the value of people assets. For example, changing a 100 US\$ bill in Mexico and then re-changing the amount left in every country across Central America before reaching Venezuela (my own country), shows that almost two thirds of the total value are destroyed without really “using” the money for anything (see Figure 5). That can easily be called the “value destruction” power of small and weak currencies. (Notice that the economy of Japan, with only one currency, is almost 100 times larger than all the economies of Central America combined.)

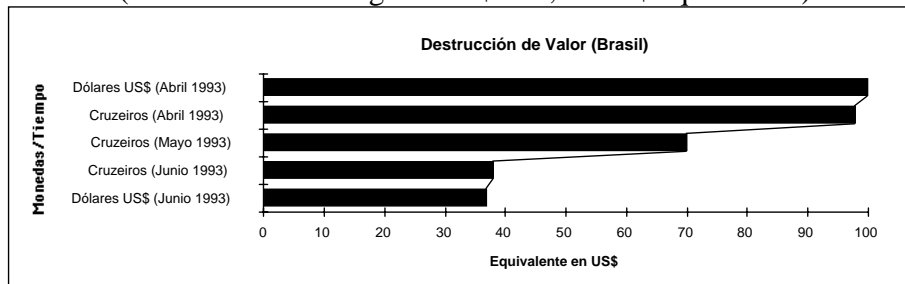
**Figure 5: Value destruction between Mexico and Venezuela**  
(Transactions of original US\$ 100, in US\$ equivalents)



Source: Based on Cordeiro (1999)

The same can be said about the time value of small and weak currencies. Brazil has been for a long time the typical case of a country with currency which devalues very quickly and, therefore, destroys the monetary value of people's assets (see Figure 6).

**Figure 6: Value destruction in Brazil**  
(Devaluations of original US\$ 100, in US\$ equivalents)



Source: Based on IMF (1999)

Another fundamental aspect of the economic integration of Latin America is its fiscal harmonization. Besides monetary integration, fiscal integration is also important. With the increasing mobility of capital flows, there is also a growing discussion about fiscal coordination. The current lack of fiscal "harmony" in Latin America will certainly be worked upon (see Table 6).

**Table 6: Current lack of fiscal “harmony” in Latin America**  
(Different tax rates)

Country	Corporate	Dividends	Interest	Royalties	Value added tax
Argentina	30%	0%	12%	24% <sup>â</sup>	22%
Bolivia	0% <sup>â</sup>	13%	13%	13%	13%
Brazil	25% <sup>â</sup>	15%	25%	25%	17% <sup>â</sup>
Chile	15%	35% <sup>â</sup>	35% <sup>â</sup>	35% <sup>â</sup>	18%
Colombia	30% <sup>â</sup>	10% <sup>â</sup>	30% <sup>â</sup>	30% <sup>â</sup>	14%
Costa Rica	30% <sup>â</sup>	15%	15%	25%	11%
Ecuador	25% <sup>â</sup>	25%	10%	33%	10%
El Salvador	25%	0%	20%	20%	10%
Guatemala	25%	12,5%	12,5%	25%	7%
Honduras	40,25%	15%	5%	35%	7%
Jamaica	37,5%	20%	20%	20%	10% <sup>â</sup>
Mexico	34%	0% <sup>â</sup>	15% <sup>â</sup>	15% <sup>â</sup>	10%
Panama	42% <sup>â</sup>	10% <sup>â</sup>	6%	21%	5%
Paraguay	30%	5%	17,5%	17,5%	16%
Peru	30%	10% <sup>â</sup>	30% <sup>â</sup>	30% <sup>â</sup>	18%
Puerto Rico	42% <sup>â</sup>	10% <sup>â</sup>	20% <sup>â</sup>	20% <sup>â</sup>	6% <sup>â</sup>
R. Dominicana	25%	25%	15%	25%	8%
Trinidad and Tobago	45%	25%	30%	30%	15%
Uruguay	30%	0% <sup>â</sup>	0%	30%	22% <sup>â</sup>
Venezuela	34%	0% <sup>â</sup>	0% <sup>â</sup>	20% <sup>â</sup>	15%

<sup>â</sup> There are additional tax rates

Source: Based on PriceWaterhouseCoopers

Finally, the globalized economy requires the creation of larger companies and the shift from the traditional areas to the coming areas of the future (see Table 7). The move from the old economy to the new economy is certainly global and also affects Latin America and the operations of many local and multinational companies operating in the region. This is the real change from the manufacturing of the present to the “mindfacturing” of the future.

**Table 7: From the old economy to the new economy**

Old Dow Jones index	New Wired index
<b>General Motors</b> (big manufacturing)	<b>Microsoft</b> (big “mindfacturing”)
<b>IBM</b> (old mainframes)	<b>Sun Microsystems</b> (new microservers)
<b>Exxon</b> (has oil)	<b>Schlumberger</b> (finds oil)
<b>Aluminum Company of America</b> (produces aluminum)	<b>America OnLine</b> (creates software)
<b>JP Morgan</b> (traditional banking)	<b>Charles Schwab</b> (new banking)
<b>McDonalds</b> (hamburgers with potato chips)	<b>SmithKline Beecham</b> (vaccinations)

Source: Based on Dow Jones and Wired

## 2. Social issues

Latin America has just passed the mark of half a billion people. Most Latin Americans share a common history, culture, religion, literature, art, music, traditions and similar languages. The two major languages spoken in Latin America (Spanish and Portuguese are mutually comprehensible), sometimes referred to as Portu-ñol (from Portuges-Español), come second only to Chinese Mandarin in the world (see Table 8). This is certainly a major competitive advantage as seen by the popularity of Latin American music

and literature, for example. The songs of Julio Iglesias Junior and Ricky Martin and the books of Gabriel Garcia Marquez and Mario Vargas Llosa are very popular worldwide.

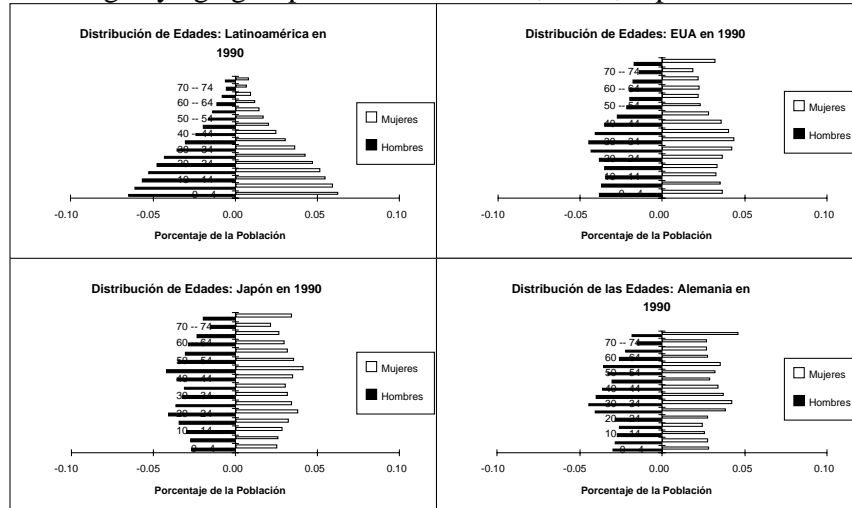
**Table 8: A linguistic competitive advantage**  
(Number of speakers worldwide, MM)

Language	Mother-tongue speakers	Total speakers
Chinese Mandarin	910	1023
Portu-ñol (Portuguese-Spanish)	543	605
Hindi	360	440
Spanish	359	408
English	351	509
Bengali	202	211
Arab	200	235
Russian	172	291
Portuguese	184	197
Japanese	126	127
German	98	120
French	72	124
Malay-Indonesian	54	167

Source: Based on World Almanac and Encyclopedia Britannica

Latin America is young region, where the average citizen has only 20 years. In fact, this is a major contrast with more developed countries like the USA, Japan and Germany (see Figure 7). The young inhabitants are indeed entering their premium working age and therefore constitute a fantastic opportunity to increase the production of the region.

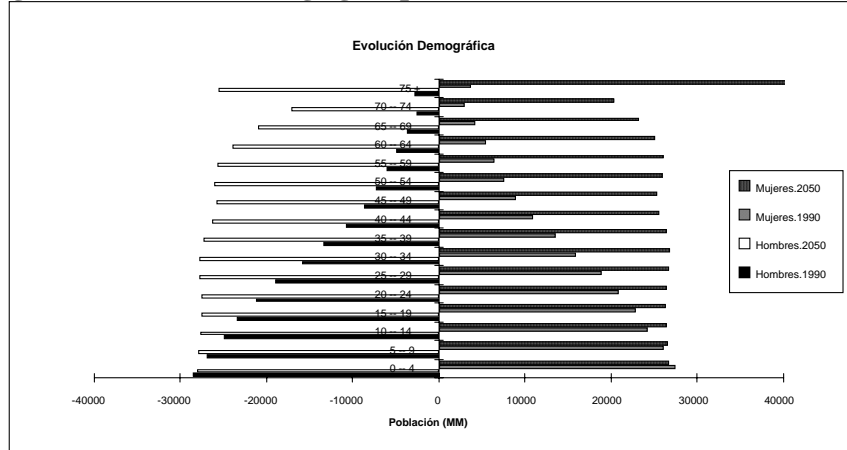
**Figure 7: Distribution of ages around the world (1990)**  
(Percentage by age groups in Latin America, USA, Japan and Germany)



Source: Based on World Bank (1994)<sup>i</sup>

However, it is estimated that the current age pyramid becomes more like the typical age distribution of an advanced country by the year 2050 (see Figure 8). This is precisely the time to make the important social changes that will help create a more equal and just society in Latin America.

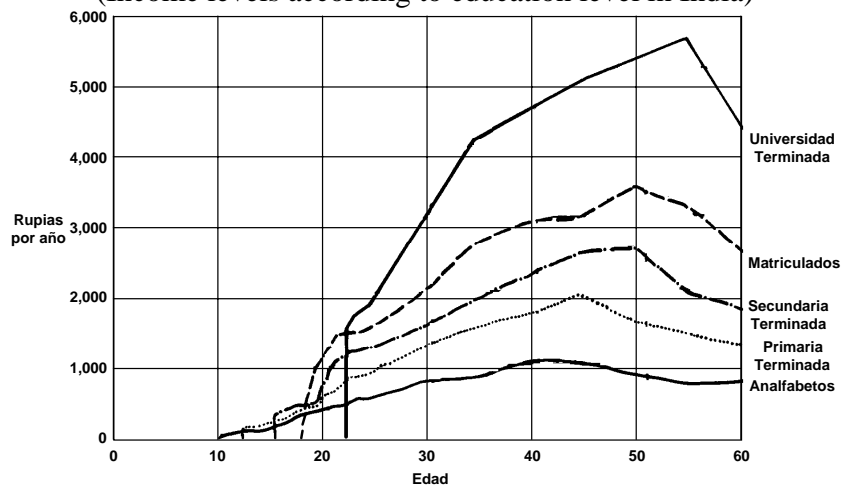
**Figure 8: Evolution of age groups in Latin America (1990 and 2050)**



Source: Based on World Bank (1994)<sup>ii</sup>

The basic social priority has to be education. Studies all over the world show that education is not an expense but an investment. One of the most complete studies, in India, demonstrates that the higher the educational level achieved, the higher the individual income becomes (see Figure 9). Furthermore, the higher the individual income becomes, the better the whole society advances.

**Figure 9: The costs and benefits of education**  
(Income levels according to education level in India)



Source: Based on Psacharopoulos y Woodhall (1985)<sup>iii</sup>

The “Lost Decade” of the 1980’s has left many problems in Latin America, but the trend is slowly reversing. After a very difficult adjustment, the poverty and indigence levels are beginning to decrease (see Table 9). However, this will be a slow and difficult process.



**Table 9: Poverty and indigence in Latin America**  
(Evolution of poverty by decades)

Households / years	1960	1970	1980	1990	2000
<b>Poverty (%)</b>	51	40	35	37	35
Urban	–	26	25	31	30
Rural	–	62	54	54	50
<b>Indigence (%)</b>	26	19	15	17	16
Urban	–	10	9	12	11
Rural	–	34	28	31	30

Source: Based on ECLAC (several years)

Latin America faces a huge challenge reverting not just the poverty but also the large inequalities (see Table 10). The extended periods of hyperinflation have made the rich richer and the poor poorer. Additionally, educational resources were distributed preferentially to the wealthier groups and this has increased the social inequalities.

**Table 10: Latin America tops the inequality league**  
(Income difference between the richer 20% and the poorer 20%)

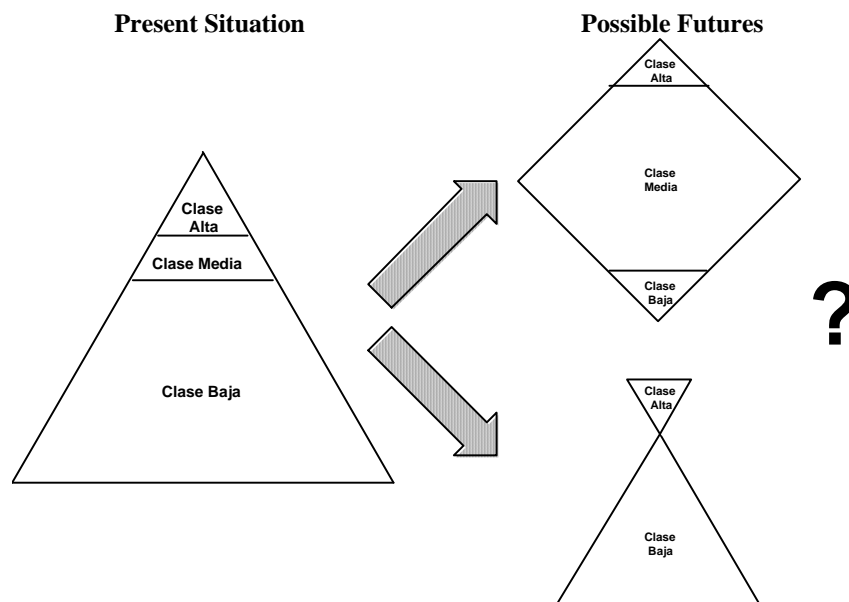
REGION	20% rich (A)	20% poor (B)	Rich/Poor (A)/(B)	REGION	20% rich (A)	20% poor (B)	Rich/Poor (A)/(B)
<b>Latin America</b>	–	–	–	<b>Europe</b>	–	–	–
Argentina	51.4	5.0	10.3	Germany	40.3	7.0	5.8
Bolivia	48.2	5.6	8.6	Spain	36.6	8.3	4.4
Brazil	67.5	2.1	32.1	Francia	41.9	5.6	7.5
Chile	62.9	3.7	17.0	Italy	41.0	6.8	6.0
Colombia	55.8	3.6	15.5	Netherlands	36.9	8.2	4.5
Costa Rica	50.8	4.0	12.7	United Kingdom	44.3	4.6	9.6
Ecuador	50.4	3.5	14.4	Sweden	36.9	8.0	4.6
Guatemala	63.0	2.1	30.0	Switzerland	44.6	5.2	8.6
Honduras	63.5	2.7	23.5	<b>China</b>	41.8	6.4	6.5
Jamaica	48.4	6.0	8.1	<b>India</b>	41.3	8.8	4.7
Mexico	55.9	4.1	13.6	<b>Japan and Tigers</b>	–	–	–
Nicaragua	65.4	2.5	26.2	South Korea	42.2	7.4	5.7
Panama	59.8	2.0	29.9	Hong Kong	47.0	5.4	8.7
Paraguay	46.4	5.5	8.4	Japan	37.5	8.7	4.3
Peru	51.4	4.9	10.5	Singapur	48.9	5.1	9.6
R. Dominicana	55.6	4.2	13.2	Taiwan	41.5	6.4	6.5
Trinidad and Tobago	48.4	5.5	8.8	<b>Oceania</b>	–	–	–
Uruguay	50.4	3.5	14.4	Australia	42.2	4.4	9.6
Venezuela	49.5	4.8	10.3	New Zealand	44.7	5.1	8.8
<b>North America</b>	–	–	–	<b>Africa</b>	–	–	–
Canada	40.2	5.7	7.1	Kenya	61.8	3.4	18.2
USA	41.9	4.7	8.9	Tanzania	62.7	2.4	26.1

Source: Based on World Bank (several years)

The social challenges for Latin America are indeed bigger than the economic challenges. Latin America is at a crossroads where it has to decide to follow the dreadful path of greater inequality or to jump into the changes that creates a more just and balanced society (see Figure 10). As the recognized Japanese consultant Kenichi Ohmae has said: “Japan is poor but the Japanese are rich, while Latin America is rich but the Latin Americans are poor”.

The key to this change comes from more and better education since the new wealth of nations does not come any more from natural resources but from human resources.

**Figure 10: More or less inequality**



#### **4. Political issues**

The major political challenge facing Latin America is to eradicate its systemic corruption and its government instability under recurrent non-democratic regimes. According to several international benchmarks, many Latin American countries are constantly among the most corrupt countries in the planet, mostly behind a few African states. In Latin America, corruption is systemic, even endemic, present at all government levels and there is very little punishment (see Table 11).

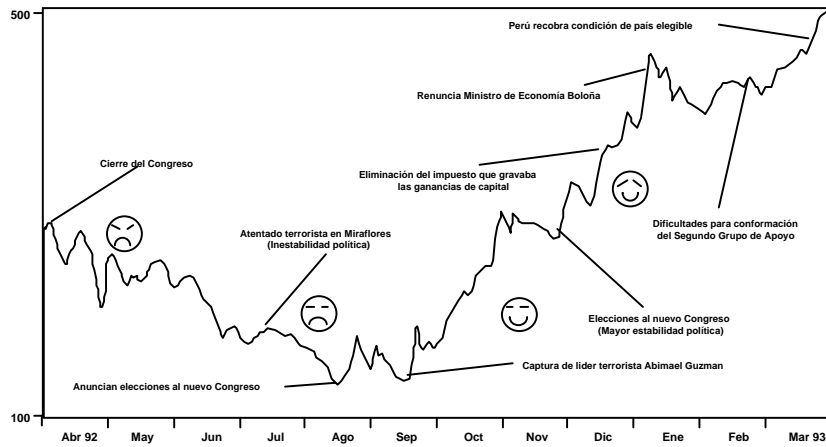
**Table 11: Corruption around the world**

<b>Magnitude of Corruption</b>	<b>Levels with Corruption</b>	<b>Punishment to Corruption</b>	<b>Country / Region</b>
Low	High	Severe	Scandinavia, Switzerland Germany, Singapore United Kingdom
Medium	High and medium	Severe	USA, Canada Japan, South Korea
Systemic	High, medium and low	Strengthening	Southern Europe
		Weak	Latin America
		Lax	Russia, Eastern Europe
		Inexistent	Africa (kleptocracia)

Source: Based on Grondona (1993)<sup>iv</sup>

Corruption and political instability thrive on each other and produce economic volatility. The price of shares of a company, for example, does not really depend on the productivity of the company, its worldwide competitiveness, its basic finances, or even the quality of the products, it depends mostly on the politics in the country (see Figure 11).

**Figure 11: Politics and economics**  
(Share index of the Lima Stock Exchange)



Source: Based on Lima, Peru, Stock Exchange

This political nightmare is partly due to the “caudillo” traditions which spread after the Latin American revolutionary wars. Many strong men wanted to, or at least try to, rule a country or parts of it. Once in power, if successful, he would write a new constitution to fit his own interests. That is how the Dominican Republic has had 33 constitutions, the world record, Venezuela has 26 and Haiti 24. If there were a correlation between constitutions and development, the Dominican Republic, Venezuela and Haiti would be among the most developed nations. Unfortunately, the relationship seems to be the opposite way. Japan has had only two constitutions, the USA one, and the United Kingdom does not even have a written constitution.

**Table 12: The constitutions around the world**  
(Number of constitutions and year of the latest)

Region	Number	Latest	Region	Number	Latest
<b>Latin America</b>	–	–	<b>North America</b>	–	–
Argentina	6	1853	Canada	1	1867
Bolivia	15	1967	USA	1	1789
Brazil	8	1988	<b>Northern Europe</b>	–	–
Chile	9	1980	Germany	3	1949
Colombia	12	1991	Austria	1	1920
Costa Rica	9	1949	Belgium	1	1831
Cuba	7	1976	Norway	1	1814
Ecuador	19	1979	United Kingdom	0	–
El Salvador	14	1983	Sweden	2	1975
Guatemala	9	1986	<b>Southern Europe</b>	–	–
Honduras	14	1982	Spain	8	1978
Haiti	24	1987	Portugal	6	1976
Mexico	8	1917	<b>Japan and Tigers</b>	–	–
Nicaragua	14	1987	South Korea	2	1988
Panama	4	1972	Hong Kong	0	–
Paraguay	6	1992	Japan	2	1947
Peru	13	1993	Singapur	1	1959
Puerto Rico	2	1952	Taiwan	1	1947
R. Dominicana	32	1966	<b>Oceania</b>	–	–
Uruguay	7	1967	Australia	1	1899
Venezuela	26	1999	New Zelandia	0	–

Source: Based on Blaustein and Gisbert (several years)<sup>v</sup>

What Latin America needs is less laws that are followed, not thousands of laws which are never respected. Development can not be simply decreed with a new constitution, it has to be achieved with hard work and good public policies.

## **5. Integration and globalization**

The pre-history of globalization can be followed through the growth of the very human species, since the very first *Homo sapiens sapiens* colonized the world and made it one interconnected globe.

Millennia ago, after the first humans conquered all the continents, many of them remained isolated for thousands of years, for example, in Australia and the Americas. Then, after the “encounter” between the Old World and the New World, the human beings have been reconnecting the planet at ever increasing speeds. The population of the world has increased from barely 3 MM, 40.000 years ago, to over 6 MMM today and close to 11.5 MMM around the year 2170, when the population is expected to stabilize (see Table 13).

**Table 13: History and forecast of world population (MMM)**

Country / year	40000 BC	1 AD	1000	1500	1600	1700	1800	1900	2000	2100	table-2170
<b>World</b>	<b>3.0</b>	<b>170.0</b>	<b>265.0</b>	<b>425.0</b>	<b>545.0</b>	<b>610.0</b>	<b>900.0</b>	<b>1,625.0</b>	<b>6,113.7</b>	<b>10,957.8</b>	<b>11,473.0</b>
<b>USA</b>	<b>0.0</b>	<b>0.2</b>	<b>0.4</b>	<b>0.8</b>	<b>0.8</b>	<b>1.0</b>	<b>6.0</b>	<b>76.0</b>	<b>272.8</b>	<b>330.9</b>	<b>348.0</b>
<b>Japan</b>	<b>0.0</b>	<b>0.3</b>	<b>4.5</b>	<b>17.0</b>	<b>22.0</b>	<b>29.0</b>	<b>28.0</b>	<b>45.0</b>	<b>127.6</b>	<b>113.0</b>	<b>108.0</b>
<b>European Union 15</b>	<b>0.4</b>	<b>24.2</b>	<b>24.7</b>	<b>53.4</b>	<b>60.2</b>	<b>77.6</b>	<b>110.8</b>	<b>216.0</b>	<b>374.3</b>	<b>329.3</b>	<b>333.0</b>
Germany	0.1	3.0	3.5	9.0	12.0	13.0	18.0	43.0	81.1	60.8	62.0

Spain	0.1	4.5	4.0	6.5	8.5	8.0	11.5	18.5	39.2	31.4	32.0
France	0.1	5.0	6.5	15.0	10.5	22.0	29.0	41.0	59.4	61.1	62.0
United Kingdom	0.0	0.6	1.5	3.8	4.3	5.8	9.3	33.0	58.9	59.3	60.0
Italy	0.1	7.0	5.0	10.0	12.0	13.0	19.0	34.0	57.9	42.9	43.0
Portugal	0.0	0.5	0.6	1.3	2.0	2.0	2.8	5.0	9.9	9.1	9.0
<b>Russian Federation</b>	<b>0.0</b>	<b>1.4</b>	<b>2.7</b>	<b>8.1</b>	<b>10.1</b>	<b>13.5</b>	<b>24.5</b>	<b>70.3</b>	<b>149.8</b>	<b>155.5</b>	<b>160.0</b>
<b>China</b>	<b>0.9</b>	<b>53.0</b>	<b>66.0</b>	<b>110.0</b>	<b>160.0</b>	<b>160.0</b>	<b>330.0</b>	<b>475.0</b>	<b>1,255.1</b>	<b>1,629.7</b>	<b>1,680.0</b>
<b>India</b>	<b>0.5</b>	<b>28.6</b>	<b>64.7</b>	<b>84.0</b>	<b>109.2</b>	<b>134.4</b>	<b>155.4</b>	<b>237.0</b>	<b>1,016.2</b>	<b>1,813.3</b>	<b>1,888.0</b>
<b>Latin America</b>	<b>0.0</b>	<b>4.2</b>	<b>8.5</b>	<b>13.2</b>	<b>10.5</b>	<b>11.8</b>	<b>17.6</b>	<b>64.4</b>	<b>516.5</b>	<b>888.3</b>	<b>915.0</b>
Argentina	0.0	0.1	0.2	0.3	0.3	0.3	0.3	4.8	35.8	51.9	53.0
Brazil	0.0	0.4	0.7	1.0	1.0	1.3	2.5	18.0	172.2	275.4	285.0
Chile	0.0	0.2	0.4	0.6	0.6	0.6	0.9	3.0	15.1	22.7	23.0
Colombia	0.0	0.3	0.6	1.0	0.8	0.8	1.0	4.3	37.5	60.3	62.0
Ecuador	0.0	0.2	0.4	0.6	0.5	0.5	0.5	1.5	12.9	23.9	25.0
Mexico	0.0	1.5	3.0	5.0	3.5	4.0	5.5	13.5	98.8	177.3	182.0
Peru	0.0	0.8	1.5	2.0	1.5	1.5	1.5	3.8	25.9	46.6	48.0
Venezuela	0.0	0.2	0.3	0.4	0.4	0.5	1.0	2.5	24.2	44.0	45.0
<b>Asia Total <sup>a</sup></b>	<b>2.0</b>	<b>115.0</b>	<b>185.0</b>	<b>280.0</b>	<b>375.0</b>	<b>415.0</b>	<b>625.0</b>	<b>970.0</b>	<b>3,703.2</b>	<b>6,288.6</b>	<b>6,543.0</b>
<b>Tigres Asiáticos</b>	<b>0.0</b>	<b>2.8</b>	<b>7.6</b>	<b>14.4</b>	<b>16.7</b>	<b>19.9</b>	<b>25.8</b>	<b>62.8</b>	<b>396.4</b>	<b>609.3</b>	<b>633.0</b>
Korea <sup>b</sup>	0.0	0.2	2.5	4.0	5.0	6.3	7.5	12.0	72.5	94.6	97.0
Hong Kong	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	6.1	5.2	5.0
Indonesia	0.0	2.0	3.8	7.8	8.5	9.5	12.5	38.0	206.2	338.2	355.0
Malaysia	0.0	0.1	0.2	0.4	0.5	0.6	0.8	2.5	21.9	40.1	41.0
Singapore	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.2	4.1	4.0
Thailand	0.0	0.5	1.0	2.0	2.5	2.5	3.0	7.0	64.5	100.8	104.0
Taiwan	0.0	0.0	0.1	0.2	0.2	1.0	2.0	3.0	22.0	26.3	27.0
<b>Oceania</b>	<b>0.0</b>	<b>1.0</b>	<b>1.5</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>6.8</b>	<b>30.6</b>	<b>44.8</b>	<b>46.0</b>
Australia	0.0	0.2	0.2	0.2	0.2	0.2	0.2	3.8	19.3	23.5	24.0
<b>Middle East <sup>c</sup></b>	<b>0.6</b>	<b>31.9</b>	<b>41.1</b>	<b>37.0</b>	<b>46.0</b>	<b>45.2</b>	<b>51.5</b>	<b>88.6</b>	<b>563.4</b>	<b>1,449.1</b>	<b>1,518.0</b>
Egypt	0.1	4.0	5.0	4.0	5.0	4.5	3.5	10.0	62.7	115.9	121.0
Iran	0.1	4.0	4.5	4.0	5.0	5.0	6.0	10.0	74.6	197.9	204.0
Pakistan	0.0	1.7	3.9	5.0	6.5	8.0	9.3	16.0	148.0	379.9	400.0
Turkey	0.1	6.0	7.3	6.3	8.0	8.5	9.5	14.0	66.1	109.0	112.0
<b>Africa</b>	<b>0.4</b>	<b>16.5</b>	<b>33.0</b>	<b>46.0</b>	<b>55.0</b>	<b>61.0</b>	<b>70.0</b>	<b>110.0</b>	<b>821.5</b>	<b>2,643.1</b>	<b>2,858.0</b>
<b>Sub-Saharan</b>	<b>0.1</b>	<b>8.4</b>	<b>22.5</b>	<b>37.8</b>	<b>44.5</b>	<b>52.3</b>	<b>60.3</b>	<b>87.7</b>	<b>680.4</b>	<b>2,357.5</b>	<b>2,562.0</b>
Ethiopia	0.0	0.5	1.0	2.0	2.3	2.5	3.0	5.0	67.3	334.4	367.0
Nigeria	0.0	1.7	3.9	6.1	7.8	10.0	11.1	15.0	127.8	355.0	382.0

<sup>a</sup> All of Asia, including China and India

<sup>b</sup> Includes both North and South Korea

<sup>c</sup> Includes both Asian (South West) and African (North) countries

Source: Based on McEvedy and Jones (1980)<sup>vi</sup> and World Bank (1994)<sup>vii</sup>

It took millennia to reach the first 1 MMM inhabitants at about the year 1820. From that time the population has not stopped growing at even faster rates, and it will continue growing fast for close to a century. After 1820 it took another 105 years to reach 2 MMM, then 35 years to reach 3 MMM, later other 14 years to reach 4 MMM, and now only 12 years to reach 6 MMM in 1999 (see Table 14).

**Table 14: Increase of world population (MMM)**

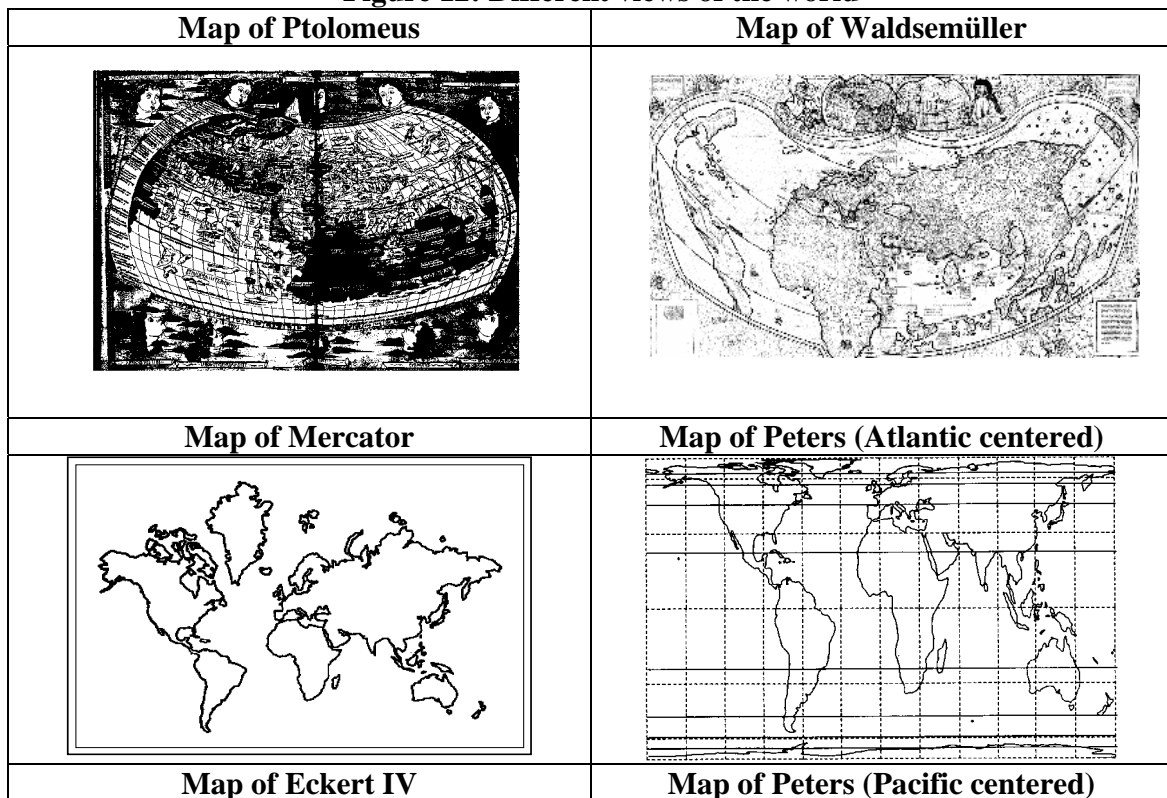
Years	1820	1925	1960	1974	1987	1999	2011	2023	2039	2060	2103	~2170
-------	------	------	------	------	------	------	------	------	------	------	------	-------

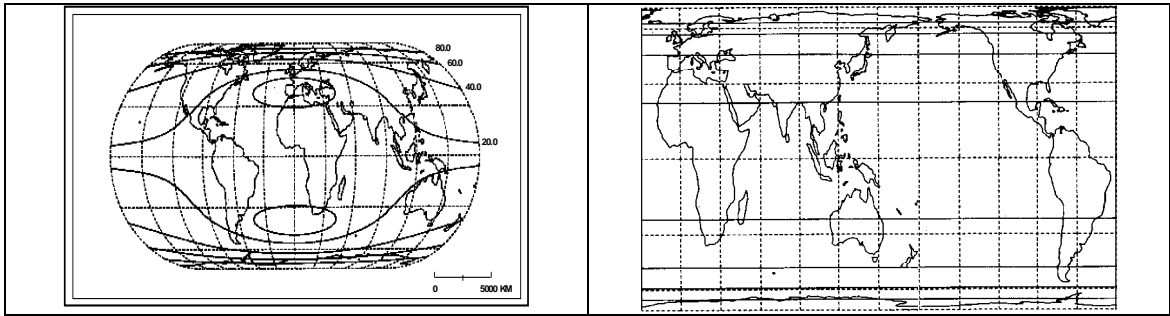
<b>Population (MMM)</b>	1,0	2,0	3,0	4,0	5,0	6,0	7,0	8,0	9,0	10,0	11,0	11,5
<b>Years to increase</b>	105	35	14	13	12	12	12	16	21	43	67	stable

Source: Based on World Bank (1994)<sup>viii</sup>

Globalization can also be seen through the use of certain maps in different historical periods (see Figure 12). For centuries, the map of Ptolomeus was the standard map used around the Mediterranean region. This map combined the ancient expertise of Greek and Egyptian scientists, and was used by the Romans and later by most Europeans during the Middle Ages. Then, after the “encounter” between the Old World and the New World, a German cartographer called Waldsemüller draw a supposedly round world in which he wrote the word America in the new continent. However, soon afterwards, Mercator (a Belgian merchant) drew another design which immediately became more popular. That map became very popular for several centuries, even though it was sometimes modified according to the country (for example, in Australia and parts of South America it has been drawn “upside down” to accommodate the local preferences).

**Figure 12: Different views of the world**

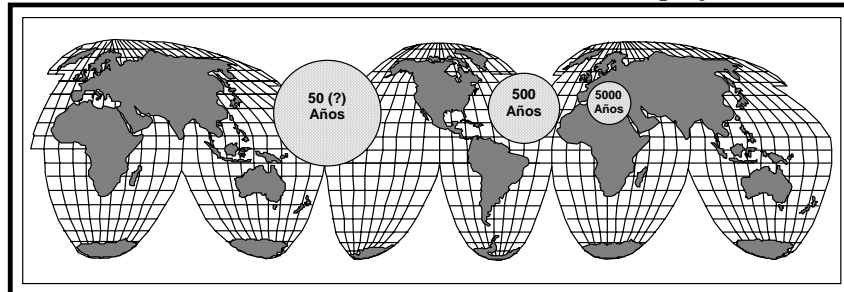




More recently, the Peters projection (due to the German cartographer Arno Peters) is becoming increasingly popular since it fulfills three important requirements: equal areas, equal distances and equal axes. Furthermore, this rectangular cylindrical projection is being equally used on an Atlantic-centered or Pacific-centered basis. Another popular map representation corresponds to the Eckert IV projection (one of the many projections studied by the German cartographer Max Eckert), which is not rectangular cylindrical but pseudo-cylindrical and elliptical.

This map review also serves to view the world as a rotating and evolving entity, which has gone from the Mediterranean millennia, to the Atlantic centuries to the Pacific decades before a hoped for *Pax Pacifica* (see Figure 13). This new world period of peace and prosperity could start very soon once the different regions become fully integrated in a globalized world.

**Figure 13: Towards the *Pax Pacifica*?**  
(Historical movement of world axis, sinusoidal projection)



The world is truly becoming an “archipelago” of island groups (see Table 15). First we have the “rich” powers (the triad described by Kenichi Ohmae and consisting of USA, Japan and the European Union). Second we have the “poor” powers of China (the Middle Kingdom), India and Russia (or what is left of it). Third we have the “powers to come”, basically the “fast” moving regions of Latin America and South East Asia and the “slow” moving regions of the Middle East and Sub-Saharan Africa.

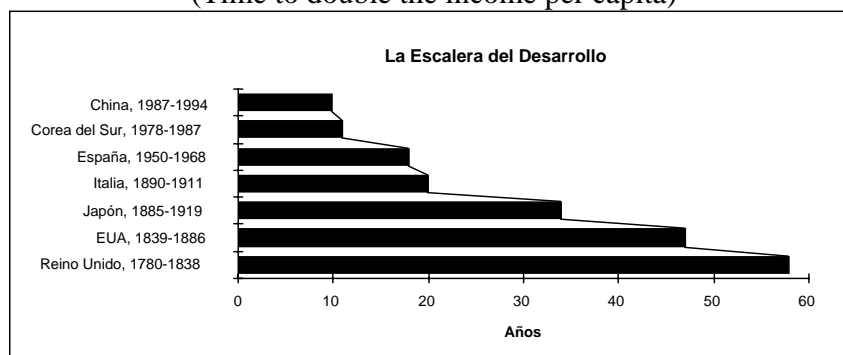
**Table 15: The global “archipelago”**  
(Major groups of countries in the XXI century)

Major country groups	Countries or Regions	Area (MM km <sup>2</sup> )	GDP (1999) (US\$ MMMM)	Population (MMM)	
				in 2000	in 2170
The rich powers	USA	9.5	8.4	0.3	0.3
	Japan	0.4	4.1	0.1	0.1
	European Union 15	3.2	8.4	0.3	0.3
The poor powers	China	9.6	1.0	1.3	1.7
	India	3.2	0.4	1.0	1.9
	Russian Federation	17.1	0.3	0.2	0.2
The powers to come	Latin America	20.5	1.9	0.5	0.9
	Asian Tigers 8	3.4	1.7	0.4	0.6
	Middle East	14.3	0.5	0.6	1.5
	Africa sub-Saharan	22.6	0.3	0.7	2.6

Source: Based on Cordeiro (1995)

Development will soon become a “commodity” and everybody will “know” how to achieve it. The first country in the world to double its income per capita in a systematic and continuous way was the United Kingdom during the industrial revolution (from 1780 to 1838, that is, 58 years). The second country was the USA and it took 47 years to double its income per capita (from 1839 to 1886). Later Japan did it in 34 years, Italy in 21 years, Spain in 18 years and now China in just 7 years. Mainland China has the record of doubling its income per capita in just under 7 years, that means growing faster than 10% per year above the population growth (see Figure 14).

**Figure 14: The “stairs” to development**  
(Time to double the income per capita)



Source: Based on World Bank (1991)<sup>ix</sup> and Maddison (1994)

For Latin America, if the 1980’s were a “Lost Decade”, then the XX century was a “Lost Century”. Latin America had a good head-start early after its independence in the XIX century, but it kept losing the race of development, first to Europe and North America, and now to East and South East Asia (see Table 15). The comparative numbers show how tragic has been the stagnation of some Latin American countries that were still relatively well off at the beginning of the XX century (like Argentina, Chile and Mexico) or even later (like Brazil and Venezuela). On the other hand, the Asian tigers are moving ahead with few natural resources and much worse geopolitical conditions.



**Table 15: The lost century for Latin America**  
(Income per capita in constant US\$ of 1992)

Country / Year	1900	1913	1929	1950	1960	1973	1980	1992	2000
<b>USA</b>	4405	5708	7428	10296	14079	17861	19916	23240	28519
<b>Japan</b>	1647	1936	2830	2718	9353	15988	20894	28190	28248
<b>European Union</b>									
Germany	3168	3876	4376	5097	10378	15658	19004	23030	26889
Spain	2595	2871	2584	2971	6372	9773	10902	13970	15682
France	3611	4255	5784	6471	11255	16039	17749	22260	26064
United Kingdom	5192	5688	5939	7740	10648	13556	14793	17790	22999
Italy	2201	3161	3724	4318	8720	13123	16036	20460	21956
Portugal	942	906	995	1427	3247	5066	5693	7450	9246
<b>Russia</b>	588	689	739	1503	2358	3213	3957	2510	1535
<b>India</b>	145	153	155	137	167	196	240	310	416
<b>China</b>	103	106	114	93	137	180	270	470	879
<b>Latin America</b>									
Argentina	2189	3016	3990	3962	5080	6331	7534	6050	8165
Brasil	421	501	642	999	1354	2338	3041	2770	3684
Chile	735	1001	1389	1443	1760	1896	2336	2730	3918
Colombia	257	327	405	553	673	936	1150	1330	1710
Ecuador	170	230	290	450	550	870	1090	1070	1142
Mexico	785	996	1017	1415	1901	2843	3591	3470	3993
Peru	272	345	709	753	961	1316	1337	950	1275
Venezuela	261	351	1142	2358	3223	3404	3303	2910	2758
<b>Asian Tigers</b>									
South Korea	577	643	790	594	1260	1926	3688	6790	10915
Hong Kong	350	400	450	600	1950	4100	8500	15360	22032
Indonesia	182	223	279	213	294	375	470	670	1021
Malaysia	150	230	280	200	365	530	1690	2790	4474
Singapore	350	400	450	600	2000	4200	8600	15730	25517
Thailand	318	332	313	332	509	686	1078	1840	3099
Taiwan	629	657	915	762	1895	3027	4621	9320	14907
<b>Oceanía</b>									
Australia	4570	5852	5431	7673	10472	13272	14996	17260	20339
<b>Middle East</b>									
Egypt	160	160	160	163	231	298	500	640	713
Iran	350	500	650	800	1000	1300	2380	2200	2381
Pakistan	176	186	188	166	209	251	290	420	541
Turkey	280	438	485	582	904	1226	1400	1980	2817
<b>Africa sub-Saharan</b>									
Ethiopia	100	100	100	90	112	134	120	110	105
Nigeria	100	100	100	152	232	311	1100	320	312

Source: Based on Cordeiro (1995)

Underdevelopment is not a matter of race, culture, religion or language. It is not either a matter of weather as some “eccentric gurus” preached. Underdevelopment is just a matter of good versus bad policies. And today we mostly know what is good in economics, in social issues and in political issues. The excuses are finally running out for the bad governments.

Latin America has gone through many development models since its independence. First we had the “caudillos” who wanted weak governments to make their own feuds. Much later we had the ECLAC vision of large States supporting inward looking development based on import substitution. Then we had the new ECLAC vision advocating for large governments with outward policies that favored bureaucrats and international corruption. What Latin America needs is the “orthodox” vision of development based on an outward approach (integration at the regional level and globalization at the world level) with a small State (strong but small State, or as the post-war German Chancellor Konrad Adenauer once put it: “as much market as possible, as little State as needed”).

**Figure 15: Models of development in Latin America**

		Development	
		Outward	Inward
State	Small	“Orthodox” Vision	Caudillo Vision
	Large	New ECLAC Vision	Old ECLAC Vision

Source: Based on Ramos (1993)<sup>x</sup>

Latin America, and other parts of the world, have to go ahead with this new vision of development. But for that, another change is required: how will the new decision makers behave? We need a different style of management, not the political style used long ago by “caudillos” and many politicians during many decades, nor the bureaucratic approach used later by some governments., nor the technocratic style of Mexico and Venezuela in the 1980’s. What we need is an “entrepreneurial” style that combines high technical capacity and high political ability (see Figure 16).

**Figure 16: Managerial styles for development**

		Political Ability	
		Low	High
Technical Capacity	High	Technocratic	Entrepreneurial
	Low	Bureaucratic	Political

Source: Based on Metcalfe (1989)<sup>xi</sup>

This “entrepreneurial” style should indeed combine techniques of private management with public policy. It should be innovative and exploratory, it should be fast and responsive, it

should try to intermediate and integrate, and it should maximize fast the regional needs (see Table 16).

**Table 16: Managerial styles for development**

Style	Bureaucratic	Technocratic	Political	Entrepreneurial
<b>Vision / Decision</b>	<ul style="list-style-type: none"> <li>• Traditionalistic</li> <li>• Myopic</li> </ul>	<ul style="list-style-type: none"> <li>• Scientific</li> <li>• Expert</li> </ul>	<ul style="list-style-type: none"> <li>• Subjective</li> <li>• Representative</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative</li> <li>• Exploratory</li> </ul>
<b>Attitude / Behavior</b>	<ul style="list-style-type: none"> <li>• Passive</li> <li>• Not analytic</li> </ul>	<ul style="list-style-type: none"> <li>• Specialist</li> <li>• Rationalist</li> </ul>	<ul style="list-style-type: none"> <li>• Gradualist</li> <li>• Slow response</li> </ul>	<ul style="list-style-type: none"> <li>• Active response</li> <li>• Viability</li> </ul>
<b>Objective</b>	<ul style="list-style-type: none"> <li>• Follow the rules</li> <li>• Submissive</li> </ul>	<ul style="list-style-type: none"> <li>• Maximization</li> <li>• Optimization</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiation</li> <li>• Accommodation</li> </ul>	<ul style="list-style-type: none"> <li>• Intermediation</li> <li>• Integration</li> </ul>
<b>Adaptation to regional needs</b>	<ul style="list-style-type: none"> <li>• Minimal</li> <li>• Slow</li> </ul>	<ul style="list-style-type: none"> <li>• Depends on political constraints</li> </ul>	<ul style="list-style-type: none"> <li>• Depends on technical constraints</li> </ul>	<ul style="list-style-type: none"> <li>• Maximal</li> <li>• Fast</li> </ul>

Source: Based on Zapico Goñi (1993)<sup>xii</sup>

Based on an outward vision with a small State, and a “entrepreneurial” managerial style, Latin America can forge ahead quickly through the stages of regional integration and eventual globalization (see Table 17). The region has already started the XXI century with several working free trade agreements (Caricom and NAFTA), a customs unions (CAN) and even a common market in the making (Mercosur). The future will soon bring a Hemispheric-wide free trade area (AFTA), but plans should continue towards a real economic union with a common currency and shared fiscal policy and, eventually, a total integration of the whole region (at least beginning with Latin America, since it is normally easier to integrate first with your “neighbors”) and the world.

**Table 17: Typical evolution of integration process**

Stages of integration	Principal characteristic
Free trade area	Elimination of trade tariffs
Customs union	Creation of a common external tariff
Common market	Free circulation of goods, services, capital and people
Economic union	Creation of a common currency and a common fiscal policies
Total integration	Complete integration of national countries into larger federation

The ideal case would be to advance simultaneously with the regional integration and the global opening, but something is always better than nothing. Chile, for example, has decided to move ahead faster than its neighbors with both the regional integration (including trying for direct membership in NAFTA and having lower tariffs than its other Mercosur members) and global opening (unilaterally tariff reductions ahead of the WTC or other global proposals). The results are certainly encouraging and show that even unilateral opening is good for a country. The dilemma is actually very simple for Latin America: integration or isolation?

It might now sound difficult for Latin America, even impossible according to some, but others countries have done. One of the best examples of a complete paradigm change is Japan (see Table 18). In fact, Japan was a very poor country in the XIX century when Latin America was relatively wealthy, and many Japanese emigrated not just to large cities like Sao Paulo and Lima (like the Fujimore family in Peru) but also to smaller cities and towns. Even as recently as 1965 the Japanese products were known because of their bad quality. In fact, Akio Morita, the late founder of Sony, used to say that he would have his employees write “Made in Japan” in very small letters so that foreigners could not identify the bad quality of

their first badly copied products made in Japan with Japan itself. Some decades later, Japan is an example of quality and innovation. It can be done, in a globalizing world!

**Table 18: Japan: a paradigm change**

Japanese products in 1965	Japanese products in 1995
Example: bad toy	Example: modern car or computer
Terrible quality	Excellent quality
Imitation	Innovation
Cheap products	Great products
Low tech	High tech
Third category	Top category
Many defects	Zero defects
Unreliable	Very reliable

Source: Based on Barker (1995)

The same that could be said about Japan in the 1960s could be said about South Korea in the 1980s, and now South Korea is a major trading nation reaching developed status, as some more other East Asian nations are doing as well. Unfortunately, Latin American has continued to slip backwards in this globalized world.

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