Globalization and Development Options

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There is no political future or economic scenario that is predetermined. That was the bold proposal former Brazilian President Fernando Henrique Cardoso and Enzo Faletto made over 40 years ago in the midst of dependency theory's determinism.[1] A very influential analytical framework in Latin America between the 1950s and 1970s, dependency theory asserts that the world economy is organized in an industrial core and a commodity-producing periphery. Countries in the periphery (mostly developing ones) remain stuck in the production of low-value primary products for the consumption of the industrial core and are thus unable to significantly close their development gaps with the industrialized countries. Cardoso and Faletto's 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 twenty-first century.

After the fall of the Berlin Wall, the world seemed to enter a phase of "hyperpower" in which the exercise of American "soft power" would be enough to assure peace and American hegemony. The EU 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 (WTO), not without its tensions, was interpreted as a mechanism for both disciplining China and motivating its adjustment to the global economy.

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The results have been unexpected. China has exceeded expectations. It is already the second largest economy in the world in GDP terms and was the key player that saved the world from a deeper recession. Its massive stimulus program in response to the 2008 financial crisis allowed for the maintenance of high levels of demand for commodities and industrial inputs, favoring the growth of Africa, Asia, Latin America, Australia, and Canada, among others. China has been strengthened by the crisis, which has even had an institutional consequence in China's presence in the G20; the increase in its IMF voting share; and a whirlwind of international seminar, business, and diplomatic activities carried out in Beijing or Shanghai with first-rate players from all areas of the world. At the end of the first decade of the twenty-first century, the conclusion is the world has to begin "adapting" to China.

This is a peculiar moment of hegemonic transition that will last for decades. The United States faces a medium-term fiscal crisis that will affect its potential economic growth. The EU will end this decade with serious economic and social decline. Meanwhile, China, East Asia, and the emerging economies have been responsible for two-thirds of the world economic growth in the first two decades of the twenty-first century. Together, the accumulation of disequilibria between globalization and rapid technological changes, the emerging countries erupting with force in the global economy, and the multilateral institutionalism no longer functional for the development of these tendencies open new possibilities and unprecedented negotiation leverage for developing countries. In this decade, the emerging economies have taken unthinkable steps in their convergence with OECD incomes and have transformed themselves into the engine of the global economy. In just a few decades they will account for 60 percent of world GDP and constitute the most dynamic segment of international trade. Small- or medium-size countries can diversify their partners and markets as well as participate in international alliances of variable dimensions 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 players.

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 of the world is colossal. However, one of the peculiarities 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 are to varying

degrees affecting the main industrialized economies.

In light of this scenario, Cardoso and Faletto's theory 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. However, the future of a society is based not only on objective conditions that shape power relations in the political, economic, and 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.

Two Walls in Crisis and Epochal Change: From 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 blocs seeking hegemony in the world. The fall of the Berlin Wall marked the transition from a bipolar world to one where a *Pax Americana* would be implemented, one which assumed 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 limitations with regard to the present meaning of a unipolar world. In fact, an "American Peace" has not emerged with the force that was expected. What has emerged instead is a scenario where, on the one hand, the United States is not capable of imposing its authority on the rest of the world and, on the other hand, the will of the United States remains indispensable for achieving solutions to global challenges. This is the perception transmitted by the Obama administration to the rest of the world, a departure from the unilateralism of the previous administration and the reason why a negotiation space has opened in the global political sphere.

The second radical change is, without a doubt, the economic crisis that started in the financial sphere in 2007, worsened in 2008, and generated a global quasi-recession in 2009.[2] This has been the equivalent of the fall of the Berlin Wall in terms of its consequences for the ideas and praxis of international relations in this globalized world.

Indeed, the crisis has been located in industrialized economies and in the financial sector, the most dynamic segment of the globalization. With increased trade and economic links between developing economies themselves, they could resist the financial crisis well and recover sooner and faster than industrialized economies. In the last five years, in comparison with developed economies, developing economies are growing more, their fiscal accounts are more orderly, their financial systems are most healthy, their exports more dynamic, their poverty indicators are declining, and even in a large group of developing areas their distributional indicators are improving.

The magnitude of the financial crisis led former U.S. President George W. Bush to convene 19 countries in October 2008 in order to collectively address the problem, giving rise to the G20. This represented the most convincing proof that the G7, created 30 years earlier as a privileged space for the main industrialized countries to monitor and govern international economic relations, was unable to deal with the magnitude of the global crisis by itself. In fact, the G7 was a substantial part of the public and private debt problem and of the vulnerability of the financial system, while growth, savings, and economic solidity were produced by China and the emerging economies. It has thus become necessary to sit other relevant economies—all emerging economies—at the table of global decision making. The G20, which emerged as a result of the crisis, will certainly transcend it. It will eventually subsume the G7 and the G8, illustrating explicitly the new distribution of global power 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 taking care of capitalization levels, avoiding excessive dependence on short-term financing, restricting risk taking, limiting the use of complex instruments and opaque operations, implementing effective accountability of operations through firms' balance sheets, increasing transparency, modernizing normative frameworks, and enhancing the technical capabilities of financial supervisors. These substantial modifications to financial laissez-faire must be undertaken on a global scale.

What has collapsed is more than the so-called Washington Consensus of privatization, liberalization, and deregulation. Now concerns focus on speculative and deregulated capitalism and the more extreme version of the neoconservative project that includes supply-side economics, the concept of the minimal and passive state, and aggressive and unilateralist geopolitics. With this collapse, spaces have opened for a new paradigm of economic organization that provides greater room for nonconservative visions. However, in order for progressive projects to become a viable alternative, it is necessary for governments to carry them out with innovative proposals and a good understanding of previous shortcomings,

including those of progressive forces. These projects must also be relevant in a global economy marked by intensified technological change, the emergence of new players, and the challenge of climate change. In Latin America, any proposal must additionally take on the baggage of still high poverty levels and unequal income distribution.

The Rise of the Emerging Economies

The main transformation of the first decade of the twenty-first century is the drastic change in the composition of world economic growth and international trade. The weight of the emerging economies has grown, placing India and China in an increasingly more relevant role. The Asia-Pacific region has become the engine of the world economy, while the relevance of South–South trade (that is, trade among developing countries) has increased significantly. As a result, the West has lost economic and demographic momentum, accentuating the gradual transition of the world economy's center of gravity from West to East and from North to South.

A structural trend that was already clear before the crisis but has been heightened by it is the greater weight of China in the world economy. To a lesser degree, this tendency is accompanied by India, Russia, Brazil, and South Africa (the other BRICS countries). Besides being the world's second largest economy, China is since 2010 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's industrial sector. With its enormous investments in education, infrastructure, and innovation, China is becoming one of the strongest competitors at a global level.

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In the next few years, China will be an even more important player and, as a consequence, will claim a major role in the reforms of the international financial system and more broadly in the governance of the international economic system.

For Latin America the global crisis means that India, Asia, and—above all—China will become the main source of export growth. Commodity-exporting economies—such as those of 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, accentuated competition with Chinese manufacturers for the United

States market could accelerate structural changes in certain industries, especially the *maquila* in textile industry and other labor-intensive manufactures.

In the last 20 years, the center of gravity of the world economy shifted from the OECD toward the emerging economies. In 1990 the OECD economies represented 62 percent of world GDP, measured in purchasing power parity. Presently these countries account for half of world's GDP and by 2030 will account for only 43 percent. Conversely, in 2030 emerging and developing economies will account for 57 percent of the world's production. Furthermore, these countries accounted for almost three-quarters of global economic growth in the first decade of this century. In that same period, 65 of these countries doubled the growth rate of the OECD countries, while only 12 of them had achieved this in the 1990s.[3] Such an accentuated trend of convergence toward OECD income has not been observed since the 1970s. This is the main economic trend of the past decade and everything indicates that it 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.[4] Between 2001 and 2009, the growth elasticity of the emerging economies vis-à-vis growth in the G7 was 0.26, while it was 1.11 vis-à-vis China.[5] In the case of the middle-income economies, like most Latin American countries, 0.37 growth points are added for every additional Chinese GDP growth point.[6] As a result, China has not only unleashed a gigantic impulse toward growth in the developing economies but also, through this impulse, has become the most important force for poverty reduction in the history of humanity.[7]

Because growth has spread widely across the developing world, South–South trade has become more important in the world economy, increasing from 8 percent of world trade in 1990 to 19 percent at present, although 75 percent of that amount is intra-Asian trade. The high demand for commodities by China, India, and other Asian economies impacts their international prices as well as the prices of the assets linked to the emerging economies. Those countries whose economies are more complementary with the increased Chinese and Asian demand—such as the South American ones—face favorable prospects in their terms of trade and their trade balances. By contrast, those nations that compete with Asia's industrial production—such as Mexico and the Central American countries—tend to be harmed and must rethink their strategies to position themselves in the global economy. Nevertheless, since the increasing wages in China and Mexico have been recovering their comparative advantage and their

industrial production is going up, now the Mexican economy is expanding fast.

Developing countries should thus pay more attention in their economic strategies to the liberalization of South–South trade flows. These exchanges will be an increasingly important source of growth; however, they are often subject to higher tariffs than those between the South and the North. Furthermore, the creation of South–South 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.[8]

The current debate centers on how permanent the favorable impact of Chinese dynamism will be on prices of commodities supplied by countries in the Global South. If this boom turns out to be a long-term phenomenon, it would oblige a careful revision of the possibilities of industrialization based on natural resources. Some authors even predict a long cycle of high commodity prices, a "commodity super-cycle" that could rival the one that occurred in the United States between the end of the Civil War and the First World War.[9] 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 enter the range of income of developed countries.

Of course, this scenario of commodity-led development raises concerns about the impact of commodity prices on the production and exporting structure, a phenomenon known as Dutch disease. A sustained period of high prices for the main export goods will tend to increase the real exchange rate, thereby hindering the profitability of nontraditional exports. Economic history indicates that successful cases of convergence with industrialized economies tend to coincide with long periods of total factor productivity growth in conjunction with production and export diversification that, together, increase the relative weight of manufactured products and high-skill services. This process could be threatened in Latin America by a return to its past reliance on commodity exports. Such a scenario could jeopardize the possibility of socially inclusive growth, given the limited productive and technical linkages associated with the export of natural resources.[10]

We are not proclaiming a "natural resource curse" here. Instead, we wish to call attention to the need to make the most of this favorable historic moment by investing in infrastructure, human resources, and the creation of clusters of productive economic activities associated with natural resources by 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 production, technological, and job-generating linkages. Without such efforts, a curse will prevail—not the curse of natural resources, but that 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 different areas and now play an important role as exporters of manufactured products, services, and technology. Some of those economies are also among the main holders of international reserves and suppliers of global savings, something that is especially evident in the case of China. It is time to incorporate these new facts into the analysis of developmental options, hereby acknowledging the existence of heterogeneity in the periphery. This is exemplified by two groups of countries: a traditional group limited to exporting commodities with little value added and an innovative one able to compete successfully with the global leaders of the knowledge economy. A key line of inquiry concerns whether the expansion of South–South relations has a negative and marginalizing effect on the traditional peripheral economies that still export low value-added goods.[11] This concern is ever more relevant, considering that South–South trade is becoming the engine 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.

A process of democratic consolidation has allowed the countries of Latin America to be part of a globalized world. It is hard to imagine a reversal of this process. With national differences, today there are elections, political parties, and respect for the rule of law. Of course, there is still a long way to go to achieve a civic culture like the one seen in more advanced countries.

In Latin America today, there is a better understanding of what can and cannot be done with economic policies. Although there are still some populist tendencies—protectionist temptations, inflationary pressures, easing in fiscal discipline, and some administrative controls over foreign trade—it is clear that these trends are the minority.

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 trade and the increase of world growth rates, in particular those of emerging countries such as China and India. These elements partly explain the growth rates observed between 2003 and 2008, which amount to six years of growth at an annual rate of five percent. This allowed Latin America to decrease its population living under the poverty line from 44 percent in 2003 to 34 percent in 2007. This growth was also accompanied by low inflation and a significant expansion in employment. As a result, the crisis affected Latin America far less than the rest of the world.

After an interruption in 2009 due to the world economic crisis, Latin America is again on a clear path toward economic growth. Thus in 2011 the regional poverty rate reached 29.4 percent, its lowest level in three decades. Those countries that used the favorable economic cycle of 2003 to 2008 to consolidate their fiscal situation, increase their international reserves, and even save transitory resources from high export prices were better able to apply countercyclical policies that cushioned the impact of the crisis and helped spur a faster recovery than in the industrialized economies. The region also benefits from the stable Chinese demand for its exports. For example, Chile—which since 2000 has carried out a countercyclical policy through a structural surplus rule regarding its fiscal budget—was able to draw on its savings and low debt to implement a broad package of economic stimulus when the financial crisis struck. The package amounted to nearly four percent of GDP—one of the largest in the world by this standard—and was financed completely by what had been saved in previous years. In sum, Latin America emerges from the international economic crisis as a strengthened region with better prospects for growth and with room to implement development policies.

Most Latin American countries today are classified in the middle-income category and therefore do not qualify for some official loans and Official Development Assistance. Therefore, they must be capable of financing their own development. This generates important challenges because the level of savings in Latin American countries is insufficient. As a consequence, foreign investment becomes an essential ingredient to achieve levels of savings above 25 percent of GDP. This is a level that many middle-income countries such as those in Latin America are not reaching.

The great Achilles' heel for sustainable development in Latin America is the distribution of income. It is one thing to lower the levels of poverty and quite another to improve the income distribution. The region continues to be highly unequal and its fiscal systems, as has recently been pointed out by the OECD, are not establishing the right targets. Proof of this is that the distribution of income before and after taxes is practically the same. However, public spending does seem to have a positive effect on the distribution of income because a great majority of the countries in the region target their fiscal expenditures toward creating a social safety net in the realm of social security and the health, education, housing, and justice systems, as well as through specific programs that directly help citizens living in extreme poverty. Hence some, such as former President of Brazil Fernando Henrique Cardoso, refer to globalized countries as having social democracy, or "globalized social democracy."

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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. Most countries in the region with these types of programs—including Mexico, Colombia, Peru, Argentina, Chile, Brazil, and Uruguay—experienced a rise in the equality of income distribution 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 proved that it is possible to grow, reduce poverty, and improve the distribution of income. Although this is not the first favorable international cycle experienced by Latin America, 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.[12] These phenomena will indeed occur if economic policy do not supplement export structures in order to defend against the volatility of international prices, and if tax policy does not correct the high concentration of income 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 prices 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—such as education, health care, social security, infrastructure, and environmental protection—increases.

Therefore, the current challenge—in the context of what will likely be a long period of high global commodity prices—is to reach a national consensus on fiscal priorities (a "Fiscal Covenant") that uses revenues from favorable global conditions to bolster competitiveness, innovation, and social justice. The present and expected favorable prices in commodity markets allow Latin America to think about these great challenges. Working toward this new Fiscal Covenant should thus be an essential part of the political conversation in Latin America.

Seizing the opportunity for sustainable development offered by the commodity boom requires balanced budgets, a stable macro economy, trade openness, and a willingness 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 a broad scope. Serious social policies should be financed by economic growth within more progressive tax structures than the ones currently in place, and these should be sustained by political consensus. This will allow governments to address structural issues related to inequality, such as the lack of equal access to quality services like education, health, housing, and welfare. It is up to the political system and 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 market forces 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.

There exists maneuvering room for politics and this is a 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, for at least three reasons. First, there are new conditions imposed by globalization, including the regulatory framework of the WTO. Second, Latin America today is starting with a higher per capita income than the Asian countries had at the time. Third, 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 necessary to grow first and then redistribute is false, as is the argument that it is necessary to redistribute first and grow later. What has been learned in Latin America is that it is necessary to simultaneously grow and redistribute. It is higher growth that allows for improvements in income distribution and equality. If both growth and redistribution are maintained year after year, a revolution will occur in the long run comparable to these last 10, 15, or 20 years. The experience of Chile illustrates this point. Once democracy was reestablished, between March 1990 and March 2010 (the period during which the "Concertación de Partidos por la Democracia" coalition was in office) the average annual growth rate was five percent, while poverty was reduced from 47 percent of the population to 11.5 percent in 2009.[13]

From an economic perspective, two distinct options are available for improving equity and equality. First, a welfare state could provide public and merit-based goods such as pension coverage, unemployment insurance, basic access to healthcare, and quality education financed with a high tax rate. Second, a production-centered model could improve the distribution of income through the creation of quality jobs with high productivity in a large enough quantity so individuals could finance their own social services. Of course, these are theoretical and polar options. National realities conform to a combination of these alternatives in variable proportions depending on the political and institutional context. Still, focusing on these two contrasting possibilities is useful to illustrate that it is necessary to avoid an overemphasis 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.[14] Likewise, a production-oriented model that underestimates the relevance of social policy—design, objectives, management, financing, and results—will fail to reconcile growth with equality.

Moreover, overcoming structural heterogeneity—such as reducing the excessive differentials in productivity and income across firms and sectors—through the "deliberate and systematic incorporation of technical progress" in the productive phase raises demands both of greater scale and productive diversification that rapidly leads to the necessity of developing exports.[15] The presence of competitive markets should result in productivity improvements that translate in higher labor incomes. However, asymmetries in bargaining power between capital and labor may impede this. Making sure that improvements in productivity result in higher wages requires renewed and stronger unions that are committed to the strategy of value creation in their firms and participating fully in public–private alliances. This is another pending challenge facing social democrats and other progressive forces.

In the context of such a development strategy, 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 also become a key axis for a productive transformation with greater equality. For example, access to knowledge is a central component required for economic growth and competitiveness. Education and training, digital education, generalized and low-cost access to broadband, and systematic connectivity (access to information and communication technologies as a citizenship right) become 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 excessive productivity and growth differentials as well as link economic and social policy. When this focus is accompanied by vigorous, well-financed, well-managed, and ample social policies, then the region will advance toward the globalized social democracy proposed by President Cardoso (more on this concept below). When the goal of enhancing equality is pursued in such a post-neoliberal manner, the notion of a trade-off between growth and equality makes little sense. By growing this way, income inequality lessens and in turn further stimulates growth.[16]

The golden convergence of economic and social policy centers on the creation of more and better jobs as a basis to raise productivity and salaries. From this perspective, access to innovation, technological diffusion, training, business opportunities, and promotion of the entrepreneurial spirit become another axis of development with equality. Another 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, teamwork, and incremental innovations, is incompatible with firms that privilege hardware technologies, downsizing, spurious externalization, and resistance to union organization.

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Contributing to "Globalized Social Democracy"

Making progress toward development requires leadership, quality institutions, and gradualism in the implementation of reforms. According to Cardoso, in addition to the structural factors, institutional, political, and social actors also play an important role in finding the path to development and reducing inequality. Simply put, history sets the conditions but does not define the results.

Of course, there is a power asymmetry between countries. However, what is interesting about the present historical moment is precisely the transition toward new hegemonies that are still not consolidated. This fluidity opens opportunities for developing countries to gain additional negotiating spaces and make progress on important issues of the international economic agenda. 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 by speaking with one voice about the main issues on the international agenda. Latin America's recent relationship with China, which is still very fluid, opens up a spectacular opportunity to negotiate its economic and trade relations with the main industrialized economies.

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President Cardoso goes one step further and proposes a globalized social democracy that would include openness to international markets, robust social policies to reduce poverty, and a transparent and accountable state. These are valid objectives, but instead of just openness to international markets, it may be preferable to speak of an active policy geared toward successful participation in international markets. This is because 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 maximizing opportunities supported by the transformation of the productive structure and strategic stimulation of innovation and competitiveness. The current challenge is to encourage the gradual internationalization of companies, promoting and enhancing their position in global value chains, trying to set them in those knowledge-intensive segments of those chains.

The Chilean experience with the negotiation of free-trade agreements illustrates some of the ideas behind this "proactive globalization." When it regained democracy in 1990, Chile was already a very open economy to trade and investment due to aggressive unilateral liberalization undertaken since the mid-1970s. However, it lacked stable preferential access to its main export markets. Today, 93 percent of Chile's exports enjoy preferential access to their markets, due to a systematic policy of negotiation of free-trade agreements. The agreements reached between 2002 and 2003 with the United States, the European Union

and the Republic of Korea represent a milestone in this effort.

For a small country with limited financial and human resources, simultaneously negotiating with three of the world's largest economies represented a huge challenge. Nevertheless, the strategy of multiple negotiations, far from weakening the position of Chile, strengthened it by allowing Chile to exploit the interest of the European Union in concluding an agreement before the United States, the United States' interest in closing a deal with Chile in order to utilize this achievement to bolster its position in the FTAAA negotiations, and South Korea's desire to be the first Asian country with a free-trade agreement with a Latin American nation.

The parallel negotiation with three "mega markets" demanded a great effort of interagency coordination, as well as an active outreach to Congress, the business sector, labor unions, and civil society more generally. The result was a unified national stance and broad political and popular support for the negotiations, which were seen as an integral part of Chile's development strategy. In this way, Chile was able to make the most of its negotiating position, even when facing much more powerful partners such as the United States.

Historical experience shows that seizing opportunities in the global economy requires a strategy—that is, 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.[17] Those developing countries most successful at closing their income gaps with the OECD have 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 participation in dynamic sectors of the global economy by 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 observation concerns the importance of relying on competitive markets and not merely "free markets."[18] Monopolistic or oligopolistic markets also generate inefficiencies in the distribution of resources. Therefore, a social democratic agenda should emphasize regulation of noncompetitive markets and, in general, the promotion of competition. This means using public resources to support and strengthen consumer organizations and subsidizing their technical and judicial efforts, in order to make them effective developmental watchdogs.

Last but not least, progressivism, or globalized social democracy, should place more emphasis on the productive dimension of the primary distribution of income without weakening its goal of equality. 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:

- A countercyclical macroeconomic policy that includes the efficient supervision and prudential regulation of finance.
- Social policies of a wide scope, with stable financing and increased links with productive transformation through education and training programs.
- Policies of productive development that privilege accomplishments in innovation, productivity, and competitiveness, seeking to reduce structural heterogeneity and facilitating the incorporation of small and medium firms into export clusters.
- Active policies of international insertion of national firms in global and regional value chains, with emphasis on policies oriented to improve the technological standards of small and medium enterprises, in order to promote their participation in these value chains.

The social democratic stance with regard to markets is not limited to 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—by 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.[19]

Accountability and transparency today is a requirement for the state. This should be complemented with a decisive fight against corruption and by promoting practices of performance evaluation, accountability, and decentralization 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. Herein lies the relevance to give more important steps on regional integration in Latin America. Large and integrated markets, featuring common disciplines for trade and investment, the rule of law, and room for productive, technological, and commercial alliances, would not only stimulate important synergies for growth but would also facilitate the 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 subregional 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 its regional economic integration process. It is therefore necessary to tackle the conflicts between the countries of the region by defining precise mechanisms for the resolution of differences in order to advance in the promotion of 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 region's main export products, usually natural resources, and explore 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 networks 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 Latin America–based multinational companies ("Translatinas") and regional integration efforts would help address the region's internationalization challenge. This is because Translatinas are precisely the regional companies that have advanced the most in this regard. Studying their development more closely would allow for not only updating of integration schemes but also making these initiatives more pertinent for firms' business decisions and for the design of trade, innovation, and industrial policies. For example, focusing on vocational training and quality certification for small and medium businesses, so that they can meet specific requirements as suppliers to Translatinas, would allow those smaller firms to access value 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 opportunities of the current international context. The Economic Commission for Latin America and the Caribbean has made eight key proposals in two broad areas: first, proposals to stimulate regional cooperation and second, development of regional strengths to face global challenges.[20] The proposals in the first area include 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 proposals in the second area emphasize increasing regional cooperation in innovation and competitiveness, making the most of the link with Asia-Pacific to deepen cross-regional interaction, promoting 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 certainly an ambitious agenda, but one that is a product of the current favorable winds for 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 larger integrated markets characterized by common regulatory frameworks, the rule of law, and the gradual convergence of policies.[21] If Latin America makes significant advances in this direction, the argument of Cardoso and Faletto from more than 40 years ago will be more relevant than ever in proving how the region generates new possibilities for growth and social justice, supported by ambitious yet realistic social policies.

Notes

1. Fernando Cardoso and Enzo Faletto, *Dependencia y desarrollo en América Latina* (Mexico: Siglo Veintiuno, 1977). This book was published originally in 1968 and on the occasion of the 40th anniversary of publication, the *Brown Journal of World Affairs* published several articles as a follow-up, including one by Cardoso.
2. It was a quasi-recession because, although economies accounting for 80 percent of world GDP contracted in 2009, several medium and large economies besides China and India were able to grow by around four percent or more. These countries include Bangladesh, Egypt, Zambia, Indonesia, Pakistan, the Philippines, Sri Lanka, and Vietnam.
3. OECD, *Perspectives on Global Development: Shifting Wealth* (Paris: Development Centre, 2010).
4. Eduardo Levy Yeyati, "On Emerging Markets Decoupling and Growth Convergence," *Vox*, November 7, 2009, www.voxeu.org/index.php?q=node/4172.
5. OECD, *Perspectives on Global Development: Shifting Wealth* (Paris: Development Centre, 2010).
6. This means that if China grows at a ten-percent annual rate, the growth floor for middle-income economies will be around four percent annually.

7. Christopher Garroway, et al., "Global Imbalances, the Renminbi and Poor Countries," *Development Centre* (Paris: 2010).
8. Andrew Mold and Annalisa Prizzon, "South–South Trade Liberalisation as Way out of the Financial Crisis" (OECD Development Centre, 2010). For developing-country firms, 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 acceding into more demanding value chains. See: Raphael Kaplinsky, et al., "What happens in Global Value Chains when the Markets Shift from the North to the South" (paper prepared for the World Bank project on Global Crisis and Value Chain Governance, 2010).
9. A "commodity super-cycle" is present in cases of accelerated industrialization and urbanization in high-population economies that 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 (during the expansion of the internal frontier and incorporation of various Mexican states and lands that belonged to indigenous groups) and the period between 1945 and 1974 (during the reconstruction of Europe and the Japanese miracle). These super-cycles tend to last between 10 and 35 years. See: OECD, *Perspectives on Global Development: Shifting Wealth* (Paris: Development Centre, 2010).
10. ECLAC, "Latin America and the Caribbean in the World Economy 2009–2010: A crisis generated in the centre and a recovery driven by the emerging economies" (LC/G.2467-P), United Nations publication, sales No. E.10.II.G.5 (Santiago: ECLAC, 2010).
11. Osvaldo Rosales, "Globalization and the new international trade environment," *ECLAC Review*, no. 97 (Santiago: 2009).
12. Jeffrey Sachs and Joseph Stiglitz, *Escaping the Resource Curse* (New York: Columbia University, 2007).
13. The distribution of income only underwent a small transformation. When considering the effect of social policies, the relationship between the income received by the richest 10 percent and the poorest 40 percent was reduced from 14 to 7 times.
14. Osvaldo Rosales, "Balance y renovación en el paradigma estructuralista del desarrollo latinoamericano," *Revista de la CEPAL*, no. 34 (Santiago: 1998).
15. Fernando Fajnzylber, "Industrialización en América Latina: de la 'caja negra' al 'casillero vacío,'" *Cuadernos de la CEPAL* 60 (Santiago: 1990).
16. Joseph E. Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers our Future* (W.W. Norton & Company. New York. 2012)
17. Robert Devlin and Graciela Moguillansky, "Public–Private alliances for long-term national development strategies," ECLAC Review 97 (2009).
18. It is one thing to accept the preponderance of the market in the allocation of resources and quite another to deify it. In other words, we must not confuse the "discreet charm of the market" with the "unbearable lightness of neoliberalism." See: Osvaldo Rosales, "Balance y renovación en el paradigma estructuralista del desarrollo latinoamericano," *Revista de la CEPAL*, no. 34 (Santiago: 1998).
19. Ibid.
20. *Espacios de convergencia y de cooperación régional* (Cumbre de Alto Nivel de América Latina y el Caribe, ECLAC, Cancun, Mexico, February 21 to 23, 2010).
21. Ricardo Lagos, comp., *América Latina: ¿Integración o fragmentación?* (Editorial Edhasa, 2008).