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Alternative Pathways to Sustainable Development:
Lessons from Latin America

International Development Policy

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Alternative Pathways to Sustainable Development: Lessons from Latin America

Edited by

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Foreword

Together with Humberto Campodónico and Sergio Tezanos Vázquez, I am pleased to introduce this 9th thematic issue of *International Development Policy*. As editors, we took as a starting point the idea that the diverse development experiences in Latin America and the Caribbean (LAC) during the latest commodity price super-cycle offer important insights regarding competing development narratives and strategies, and how the latter translate into policies and practices.

This issue brings together some twenty authors, the majority of whom originate from the LAC region. Collectively, their contributions examine the lessons that can be drawn from various experiments related to alternative development models spearheaded in the LAC region at the level of ideas, discourses and policies. Drawing on economics, anthropology, law, political science and sociology, the authors bring a rich diversity of perspectives. While most of them come from academia, this issue includes contributions from policy makers, political figures and development practitioners.

Articles in this issue were the subject of lively exchanges during an authors' workshop held in Geneva in January 2016. This led to a first round of revisions before submitting the collection of articles to an anonymous reviewer who commented on the volume as a whole as well as on individual chapters, leading to a second round of revisions. The guest editors wish to thank the reviewer for substantive comments as well as Theotonio dos Santos, Peter Larsen, Isabelle Schulte-Tenckhoff, Achim Wennmann, and Anida Yupari for critical inputs during the authors' workshop.

The contributions to this thematic issue are organised in three parts. Following an introduction by the guest editors and a scene-setting interview with Fernando Henrique Cardoso, chapters in Part 1 trace the origins, development and influences of alternative development strategies in Latin America. This is followed by chapters addressing different policy experiments and actual development outcomes, with a look at the role of multilateral development banks and China in the region. The last part examines legal and regulatory developments in relation to social dynamics with a focus on the Andean region, indigenous rights and the role of civil society organisations.

Taken together, the articles in this issue of *International Development Policy* challenge readers to reconsider the relationship between varied development narratives and ideologies anchored in different knowledge ecologies, the

ensuing development policies and practices and their sustainability. Looking at outcomes may lead one to downplay the actual impact of narratives and discourses. Yet, the jury might still be out.

The Editors,
Geneva, Lima and Santander, April 2017

Preface

International Development Policy is a critical source of analysis of development policy and international cooperation trends and is aimed at scholars, policy makers and development professionals. It offers a diverse range of academic views from both industrialised countries and emerging economies.

International Development Policy is edited by the Graduate Institute of International and Development Studies, an institution of research and higher education dedicated to advancing world affairs. Located in Geneva at the heart of an international centre of multilateral governance, the Graduate Institute benefits from a rich legacy linked to the founding of the international system and the League of Nations in the 1920s, and the emergence of the developing world in the 1960s.

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List of Acronyms and Abbreviations

ALBA	Bolivarian Alliance for the Peoples of Our America
ALECD	Latin American Alliance of Critical Studies on Development
ANLA	National Agency for Environmental Licenses (Colombia)
ANM	National Mining Authority (Colombia)
APEC	Asia-Pacific Economic Cooperation
BANCOLDEX	Banco de Comercio Exterior de Colombia (Bank of Foreign Trade of Colombia)
BNDES	Banco Nacional de Desenvolvimento Econômico e Social (Brazilian Development Bank)
CADA	Andean Center for Agricultural Development in (Bolivia)
CAF	Corporación Andina de Formento (Development Bank of Latin America)
CAOI	Andean Coordinator of Indigenous Organizations
CCSI	Columbia Centre on Sustainable Investment
CDB	China Development Bank
CELAC	Comunidad de Estados Latinamericanos y Caribeños (Community of Latin American and Caribbean States)
CIDOB	Confederación de Pueblos Indígenas de Bolivia (Confederation of Indigenous Peoples of Bolivia)
CLACSO	Consejo Latinoamericano de Ciencias Sociales (Latin American Council of Social Sciences)
CLAES	Centro Latinoamericano de Ecologia Social (Latin American Center for Social Ecology)
CNCP	China National Petroleum Corporation
CNOOC	China National Offshore Oil Corporation
CODELCO	Corporación Nacional del Cobre de Chile (Chilean state owned copper mining company)
COFIDES	Corporación Financiera de Desarrollo (Development Finance Corporation S.A.)
COMIBOL	Corporación Minera de Bolivia (Bolivian Mining Corporation)
CONAIE	Confederación de Nacionalidades Indígenas del Ecuador (Confederation of Indigenous Nationalities of Ecuador)
CONAIP	Confederación de Nacionalidades Indígenas del *Perú* (Confederation of Indigenous Nationalities of Peru)
CONAMAQ	Consejo Nacional de Ayllus y Markas del Qullasuyu (Guarani Indians and the National Council of Ayllus and Markas of Qullasuya)

CONDESAN	Consorcio para el Desarrollo Sostenible de la Ecorregión Andina (Consortium for Sustainable Development of the Andean Moorlands, Peru)
CORFO	Corporación de Fomento de la Producción de Chile (Production Development Corporation of Chile)
CRCC	China Railway Construction Corporation
ECLAC	Economic Commission for Latin America and the Caribbean
EIA	environmental impact assessments
FDI	Foreign Direct Investment
FDN	Financiera de Desarrollo Nacional (National Finance Development)
FENOCIN	Confederación Nacional de Organisaciones Campesinas, Indígenas y Negras (National Confederation of Peasant, Indigenous and Black Organizations)
FILAC	Fund for the Development of Indigenous Peoples of Latin America and the Caribbean (Fondo Indígena)
FLAR	Fondo Latinoamericano de Reservas (Latin American Reserve Fund)
FTA	Free Trade Agreement
GASENE	Southeast Northeast Interconnection Gas Pipeline (Brazil)
IAEN	Instituto de Altos Estudios Nacionales (Institute of National Higher Education, Ecuador)
ICSID	International Centre for Settlement of Investment Disputes
IDB	Inter-American Development Bank
IDH	Impuesto Directo a los Hidrocaburos (Direct Tax on Hydrocarbons)
IFC	International Finance Corporation
ILDIS	Instituto Latinoamericano de Investigaciones Sociales (Latin American Institute of Social Research, Ecuador)
ILO	International Labour Organization
IMF	International Monetary Fund
INCODER	Instituto Colombiano de Desarrollo Rural (Colombian Institute for Rural Development)
ISI	import substitution industrialisation
LAC	Latin America and the Caribbean
LAC_7	Seven largest Latin American Countries (including Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela)
LNG	liquefied natural gas
MAS	Movimiento Al Socialismo (Movement Toward Socialism, Bolivia)
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MDIS	Multilateral Development Institutions
MERCOSUR	Mercado Común del Sur (Southern Common Market)

MIP	Mechanisms for Moorlands Information
MPD	Ministerio de Planificación del Desarrollo (Ministry of Development Planning, Bolivia)
NAFIN	Nacional Financiera (Development Banking Institution owned by Mexican government)
NAFTA	North American Free Trade Agreement
NICS	newly industrialised countries
OCAD	Collegiate Bodies of Administration and Decision Making
OECD	Organisation for Economic Co-operation and Development
OEFA	Organismo de Evaluación y Fiscalización Ambiental (Agency for Environmental Assessment and Enforcement, Peru)
OPEC	Organization of the Petroleum Exporting Countries
OPIP	La Organización de los Pueblos Indígenas del *Pastaza* (Organisation of Indigenous Peoples of Pastaza, Ecuador)
PDVSA	Petróleos de Venezuela SA (Venezuela's national oil company)
PNB	Biocultura programme, Bolivia (Programa Nacional Biocultura)
PPA	Andean Moorlands Projects
PPP	Purchasing power parity
PRATEC	Andean Project of Peasant Technologies (Peru)
SDC	Swiss Agency for Development and Cooperation
SDGS	Sustainable Development Goals
SDSN	UN Sustainable Development Solutions Network
SENPLADES	Secretaría Nacional de Planificación del Desarrollo (National Secretariat of Planning and Development, Ecuador)
SOES	state-owned enterprises
TIPNIS	Territorio Indígena y Parque Nacional Isiboro Sécure (Indigenous Territory and Isiboro Sécure National Park)
UNCED	United Nations Conference on Environment and Development
UNDP	United Nations Development Programme
WISCO	Wuhan Iron and Steel Company

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PART 1

Development Alternatives in Latin America



CHAPTER 1

Alternative Development Narratives, Policies and Outcomes in the Andean Region

Humberto Campodónico, Gilles Carbonnier and Sergio Tezanos Vázquez

Abstract

Since the early 2000s, many Latin American countries achieved remarkable economic growth coupled with poverty and inequality reduction, largely due to the pursuit of a centuries-old pattern of commodity exports. The end of the commodity price supercycle in 2014 puts some of these development gains in jeopardy, raising anxiety among emerging middle classes wary of slipping back into poverty. Drawing on a rich intellectual heritage, Latin American leaders have designed novel approaches in the pursuit of sustainable development. Alternative development narratives brought to the fore by left-wing governments have emphasised notions such as *buen vivir*,[1] arguably the most influential and revolutionary proposition originated in the region since different variants of the dependency theory. What is less clear is the extent to which competing ideologies and narratives have translated into diverging outcomes, be it with regard to (neo-) extractivism, ecological sustainability or the rights and cultural identity of indigenous peoples, or simply in terms of economic diversification. This chapter introduces the thematic issue of *International Development Policy*, which deals with recent paradigmatic innovations and development experiences in Latin America, with a particular focus on the Andean region.

1 Setting the Scene

The outset of the 21st century brought something of a 'boom time' for many resource-rich countries. Driven to a large extent by robust growth in China and other emerging economies, commodity prices boomed from 2002 to 2014. In many Latin American countries, the centuries-old pattern of producing large quantities of extractive resources and soft commodities for export intensified in the context of high prices for oil, gas, metals, minerals and agricultural products. This pattern has often been referred to as the *'modelo primario exportador'*

1 Also referred to, in certain contexts, as *vivir bien* and translated into English as 'Good Living'.

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or primary commodities export model in the Latin American context. While the commodity price 'super-cycle' may arguably be over, it has had major economic, social and environmental impacts in commodity-dependent countries of the Latin American and Caribbean (LAC) region.

Looking back over the period of high commodity prices, the overall performance of the LAC region vis-à-vis the Millennium Development Goals (MDGs) was positive in aggregate terms. The region achieved two-thirds of the MDG targets,[2] which—compared with the other nine regions evaluated by the United Nations—was paralleled only by East and South-East Asia (UN, 2015). Yet, substantial development challenges persist. LAC countries failed to meet six key MDG targets related to gender equality, the fight against major pandemics, and environmental sustainability (Sanahuja et al., 2015). There was also little progress with respect to the poorest quintile of the population, conditions of self-employed workers, and gender balance in secondary education. Post-2015, LAC countries continue to face significant challenges with regard to widespread inequality (in a multidimensional sense, including gender), armed violence, respect for human rights and cultural diversity, public health, the quality of institutions and the strengthening of democracy.

In some ways, these persistent challenges are not surprising. Since the 1980s, scholars and policy makers have highlighted the difficulty of resource-dependent countries escaping the so-called resource curse (Auty, 1993; Karl, 1997; Sachs and Warner, 1997); that is to say, the paradox that resource-rich developing countries—particularly those with weak governance institutions—tend to remain poorer, more autocratic, and more violent and unequal than resource-poor ones (see, e.g., Sachs and Warner, 1997, 2001; Di John, 2011). Large corruption cases also tend to be associated with the resource curse, as illustrated by the recent Brazilian scandals related to the national oil company Petrobras[3] or the massive corruption case, involving the Brazilian construction firm Odebrecht that swept across Latin America,[4] involving dozens of political figures and officials from both right- and left-wing governments. Such cases erode democratic institutions and help propel anti-system, populist leaders.

While resource nationalism has been the rule rather than the exception in Latin America, governments—and left-wing governments in particular—have sought to alter several facets of the traditional extractivist accumulation pattern. In light of high commodity prices, governments have further sought to

2 Only once the final statistics of the 60 indicators become available, which could take several more years, will the definitive results be clear.

3 For an overview of the Petrobras scandal, see Gallas (2015).

4 For an overview of the Odebrecht scandal, see 'Bigger and oilier' (The Economist, 2016).

secure a larger share of the rent from extractive industries, partly to redistribute via social programmes aimed at reducing poverty and inequality. Countries such as Argentina, Brazil, Bolivia, Ecuador and Venezuela have channelled substantial revenues from oil, gas, mineral and agricultural sales to pay for 'pro-poor' expenditures popular with large segments of their societies.

Often referred to as 'neo-extractivism', such approaches favour state control over natural resources and the primacy of state-owned extractive enterprises. In spite of official discourses critical of past extractivist strategies, these approaches do not radically alter the former logic of accumulation inherited from (post-) colonial times. Commodity exports remain a pillar of neo-extractivism. During the recent commodity price boom, the pace and intensity of natural resource extraction intensified in all the resource-rich countries of the region, with dire socio-environmental effects on producer regions and host communities (Gudynas, 2010). Rent seeking and rentier-state dynamics did not disappear and, in some cases, were reinforced. A critical question is: how sustainable are such approaches if commodity prices—which began to fall after the 2008 financial crisis and have fallen further since 2014—remain low for a long period of time?

The approach to development in the face of high commodity prices has not been the same everywhere, particularly at the discursive level. Chile, Colombia and Peru pursued (neo-) liberal policies inspired by the (post-) 'Washington Consensus', seeking to attract foreign direct investments in agribusiness and the extractive sector. Bolivia, Brazil, Ecuador and Venezuela, by contrast, were swept by a 'pink tide', with governments—emerging from social movements—that benefited from high commodity export prices that enabled them to allocate a greater share of government revenues to the poor and the emerging middle classes. Bolivia, Ecuador and Venezuela embraced 'twenty-first century socialism', a concept that emerged in the 1990s and was loosely developed in Latin America. They adopted new constitutions that emphasise ethnic diversity and indigenous peoples, who had long questioned the unitary conceptions of nation states imposed upon them. They introduced the concept of *buen vivir* (*sumak kawsay* in Quechua or *suma quamaña* in Aimara), which prioritises living in harmony with the community and nature in an era marked by rising ecological and social concerns.

Against this background, this issue of *International Development Policy* starts from the assumption that the diverse development experiences in LAC since the turn of the millennium offer a wealth of insights into diverse development pathways. It addresses the following research questions: What have been the varied experiences of countries in the region during a time of high commodity prices? To what extent do the alternative development strategies spearheaded

in several Latin American countries hold the promise of producing superior sustainable development outcomes? To what extent do ideological inclinations and development narratives matter? How have they affected social, environmental and economic outcomes in Latin American countries in general, and Andean countries in particular?

2 Alternative Pathways and Sustainable Development in the Latin American Context

Countries in the LAC region have pioneered alternative ways of understanding what can be generically referred to as 'human progress'. Among such alternatives, the notion of *buen vivir* (or 'good living') has probably been the most influential and revolutionary proposal originating in the region since variants of dependency theory. Broadly speaking, *buen vivir* is a way of life that simultaneously pursues three aspects of harmony: with oneself, with nature and with society. However, there is no unique conception of *buen vivir* but three alternative—and contending—ways of understanding it: an 'indigenista' or 'pachamamista'[5] conception that prioritises cultural identity, a socialist and statist conception that prioritises equality and resource nationalism, and an ecologist or post-developmental conception that prioritises environmental sustainability. Each conception is rooted in its own ideology and the proponents of each rival conception seek to dominate the left-wing discourse in the region.

While this debate goes on in Leftist social and political circles in Latin American, it is important to recognise that *buen vivir* is still an aspirational concept. It is rooted in the critique of a Western notion of development as increased material production and consumption at the cost of environmental degradation and widening inequality. It is inspired by indigenous ways of life that seek greater harmony among peoples (collectivity) and with nature (sustainability). Yet there is still a need to define the public policies and political strategies that can allow large and complex societies such as those in Latin America to achieve such a way of life. From this perspective, *buen vivir* is a concept that summarises a critique and proposes alternative values. But as a concrete alternative containing a set of public policies and defined roles of the state and the market, it is still a project under construction.

5 Pachamama, often translated as Mother Earth, refers to a goddess worshipped by indigenous people in the Andes.

Latin American and Caribbean countries as a group have actively participated in the global discussions regarding sustainable development. More specifically, LAC countries were active in the post-2015 debate that led to the adoption of the 2030 Agenda for Sustainable Development and worked together with a view to adopting a common position with regard to the associated Sustainable Development Goals, bringing specific priorities to bear. The contribution of the Economic Commission for Latin America and the Caribbean (ECLAC, 2014a) to the 2030 Agenda, derived from ECLAC's 'Equality Trilogy' (ECLAC, 2014b, 2012, 2010), was influential in this regard, as was the consensus reached at the summits of the Comunidad de Estados Latinoamericanos y Caribeños (CELAC) in 2014 and 2015, which put special emphasis on addressing inequalities and environmental sustainability. Beyond inequality and environmental sustainability, ECLAC focuses on economic diversification as key to reducing dependence on commodity exports. Moving away from the primary commodities export model will require massive investments in human capital, infrastructure, and economic diversification. Industrial policy, neglected for many years in Latin America under the Washington Consensus, has returned as a central concern under the impetus of international financial institutions themselves.

In the Andean context—to different degrees depending on the country—sustainable development extends beyond the three traditional dimensions and involves the exercise of effective citizenship by large segments of the population historically deprived of enjoying such rights. Indeed, after five centuries of political and socio-economic exclusion, Indians account for a majority of the poorest in Andean societies. Extractive activities in the Andean region have been concentrated in regions inhabited by indigenous people. Local communities have borne the brunt of the damage to the natural environment and to the social fabric typically associated with mining booms. Although Peru is the country with the largest indigenous population in the Andean region, the *buen vivir* agenda has not acquired the prominence it did in Ecuador and Bolivia for several historical reasons. That said, Amazonian native communities in all three countries tend to support *buen vivir*.

Pursuit of *buen vivir* entails hard choices for those in power. Trade-offs between short-term gains and long-term environmental preservation can be particularly acute for governments committed to breaking with past exclusion and the violation of the rights of indigenous communities. Protecting the rights and respecting the cultures of Indian communities under a 'pachamamista' and ecological version of *buen vivir* means refraining from exploiting subsoil assets at high pace, if at all. In other words, it means relinquishing extractive revenues that could otherwise be channelled to finance basic

services (e.g., health and education) and investments in infrastructure and agriculture. In this conception, the state may opt to reject the commodification of nature associated with modernity and instead favour decentralisation and the devolution of power to the local level. In the statist or socialist version of *buen vivir*, resource nationalism is a response of choice, but it may run counter to the assertion of the pluri-national nature of the state, which—in resource-rich regions—should arguably prioritise the rights and aspirations of indigenous communities.

How do *buen vivir* proponents behave once in power? Can leaders in Bolivia or Ecuador decide to effectively abandon the primary commodities export model, devolve effective power to the local level, and 'do away with modernity'? Can such a strategy be implemented in just one or two relatively small countries while neighbours and major trading partners do not follow suit? The Ecuadoran attempt to receive financial compensation from international donors for not exploiting the oil beneath Yasuni National Park shows that such attempts have not been successful (see Martin, 2014, 2011). In Bolivia, the government proposal to build a highway across the TIPNIS National Park, or decrees adopted in 2014 and 2015 that limit the scope for the free determination of indigenous peoples for prior, informed consent with regard to extractive projects, hint at the priority of exploiting new natural resource deposits to increase fiscal revenues. The Bolivian state has taken concrete measures towards industrial diversification, building liquefied natural gas (LNG) facilities and urea and ammonia plants, and planning to build a petrochemical industry around ethane and methane. In Ecuador, the state is investing in building a 'city of knowledge' (*Yachay* in quechua), whereby investing in human capital is seen as a way of moving beyond 'extractivism'.

Can we see this as evidence that governments inspired by a *buen vivir* vision invest more heavily in transition strategies that seek to move away from the primary commodities export model, putting emphasis on economic diversification and human capital development? Variations in experiences and differences in outcomes (or lack thereof) are the subject of several contributions in this issue, which contrast 'heterodox' development experiences pursued by countries such as Bolivia and Ecuador, whose governments embraced *buen vivir,* with that of other countries that pursued more orthodox policies, such as Colombia and Peru. In this issue, Alberto Acosta refers to the challenges of transitioning away from 'extractivismo'. For him, the success of such transition strategies hangs on the strength and coherence of alternative development strategies and, more importantly, the political and social support that such strategies can muster.

3 Introducing this Thematic Issue

Focusing on the resource-rich Andean region, this issue of *International Development Policy* examines development experiences and outcomes in countries that display not only exceptionally varied political constellations, but also radically different developmental narratives and strategies. The contributions to this issue are organised into three sections. The first group of chapters examines Latin American development alternatives, tracing their origins, trajectories and influences. The second part considers development policies and outcomes, factoring the role of multilateral development banks and that of China into the equation. Finally, the third section examines legal, regulatory and social issues in relation to extractive industries and the rights of indigenous populations. The chapters in this section also address the high levels of armed violence that plague the continent as well as the role of civil society.

3.1 *Development Alternatives*

The first section introduces alternative development strategies that originated in Latin America, from the *Dependentistas* in the 1960s and 1970s to the proponents of *buen vivir* under different guises. In an interview that sets the scene, Fernando Henrique Cardoso reflects on the seminal book he co-authored with Enzo Faletto in 1969 entitled *Dependencia y desarrollo en América Latina* (Dependency and Development in Latin America). Seen as a preliminary attempt to identify the consequences of globalisation for the global South, the book departed from the idea of a homogenous 'periphery', highlighting different forms of interrelations between developing countries and 'the centre'. The diversity of development trajectories reflects the role of social and political actors in shaping development pathways in spite of structural constraints imposed by dependency relations. Fernando Henrique Cardoso notes that Latin American development strategies—even in countries that espoused economic orthodoxy—have been marked to some extent by a sense of urgency in addressing three woes that have long plagued the region: extreme poverty, high levels of inequality and weak democratic institutions. Turning to the experience of Brazil, former President Cardoso reflects on successes and failures, and discusses the increasingly important role played by emerging economies, including the BRICS, and the rise of Chinese investments in Latin America.

In Chapter 3 Antonio Hidalgo-Capitán and Ana Patricia Cubillo-Guevara explore the genealogy of the Latin American concept of *buen vivir* and its various intellectual offspring. The authors discuss how diverse versions of *buen vivir* are embedded in a variety of knowledge ecologies that have been

nurtured by a great wealth and diversity of intellectual influences: the Andean world view, theories of world-system and dependency, liberation theology, twenty-first century socialsim, happiness economics, the social and solidarity economy, eco-feminism, post-extractivism, and 'de-growth'. The authors provide a detailed analysis of the various and evolving conceptions of *buen vivir* and what they entail in terms of policies and practices. They conclude that *buen vivir* is an innovative conception of development that emerged due to the dissatisfaction of Latin American intellectuals in the face of the dominant (Western) conception of development. They further note that the concept has not just been embraced by the governments of Ecuador and Bolivia and by Latin American social movements, but has also benefited from the support of international cooperation agencies, and Latin American and European academics who further elaborated on the original (and more restricted) indigenous conception of *buen vivir*.

To what extent have alternative development pathways seemingly departed from the traditional forms of accumulation and negative development dynamics associated with the 'resource curse'? Looking at Latin America as a whole, José Antonio Ocampo shows that, following a period of export diversification that started in the mid-1960s, commodity dependence intensified again during the latest commodity price boom. Based on an analysis of commodity price super-cycles, Ocampo argues that resource-rich countries in the region have not been able to capture the potential benefits associated with the latest price boom. Some of them suffered from the 'Dutch Disease' and other macroeconomic woes in the absence of appropriate countercyclical policies. The author notes that a lack of significant progress in economic diversification does not bode well in the face of a potentially prolonged phase of relatively weak commodity prices.

How can countries envisage moving beyond a (neo-) extractivist development pattern? For Alberto Acosta—who critically examines the notion of post-extractivism and the potential for its implementation—getting out of the extractivism trap requires overcoming 'the religion of economic growth'. The author calls for the integration of the visions, values, experiences and knowledge ecologies embedded in various forms of *buen vivir* put forth and practiced by a variety of indigenous peoples in the Andean region and beyond.

3.2 *Development Outcomes and External Influences*

The second set of chapters in this issue focuses on the outcomes of different development strategies and on the influence of external actors on development in the LAC region. The first two chapters discuss policies and outcomes in Andean countries. Both authors find that despite differing strategies and

narratives, countries have tended to display relatively similar economic, social and environmental outcomes, at least over the last decade—that is, a timespan that may be too short to draw definitive conclusions. In Chapter 6, Fernando Eguren focuses on the agricultural sector and compares Ecuador and Bolivia, which embraced twenty-first century socialism, with Colombia and Peru, which followed more orthodox, neo-liberal recipes. He finds that the two groups of countries achieved comparable results with respect to land ownership and indigenous populations. Land ownership has remained highly concentrated in all four countries over the past three decades. When considering reductions in rural poverty and the chronic malnutrition prevalent among indigenous communities, Eguren does not find much difference across jurisdictions.

Chapter 7 turns to the operationalisation of *buen vivir* in the context of a biodiversity project implemented in Bolivia. Frédérique Weyer reflects on the 'Biocultura' project carried out jointly by the Government of the Plurinational State of Bolivia and the Swiss Agency for Development and Cooperation (SDC). Her case study highlights both the difficulty and the feasibility of reconciling biodiversity conservation objectives with the task of raising incomes, promoting local knowledge, and strengthening policies and institutions that are consistent with the promotion of *buen vivir*.

In Chapter 8, Javier Herrera studies the extent to which the recent decade of robust economic growth in Peru and neighbouring countries translated into reductions in poverty and inequality, allowing for the middle classes to expand. Herrera finds that poverty and inequality rates declined to the same extent in countries that pursued policies that emphasised foreign direct investment and prudent fiscal and monetary policies (Chile, Colombia and Peru) and in other countries that emphasised resource nationalism and revenue redistribution. This does not mean that policy does not matter. Fiscal policies did play a role in reducing poverty and inequality in both groups of countries.

The next two contributions turn to external influences, looking at China and international financial institutions. Adriana Erthal Abdenur analyses Chinese foreign direct investments in the LAC region with a focus on the extractive sector. Chinese investors have relied on a wide range of strategies to enter Latin American markets and secure access to oil, gas and minerals. Initially, they tended to favour mergers and acquisitions as well as joint ventures, before taking the greater risk of investing in greenfield or new extractive projects. For Abdenur, Chinese investors opted for a cautious approach that combined gradual institutional learning with a desire to reduce the risks of facing unrest and accusations of neo-colonialism. The second contribution addresses the complex interactions between LAC countries and multilateral

development institutions (MDIs). Guillermo Perry and Eduardo Garcia note that the influence exerted by MDIs has varied greatly over time and across countries depending on variables such as ease of access to private capital markets and the economic and political weight of client countries. Conversely, the dominant doctrines and policy recipes of MDIs evolved under the twin influences of research and policy circles. Latin American policy makers implemented a set of policies that were sometimes at odds with MDI recommendations, but yet proved to be successful policy innovations that eventually made it into MDIs' official positions. Relaxing the unitary actor assumption, the authors provide examples of significant divergences between individual MDIs, which reduced conditionality pressures and offered client countries increasing space for negotiations. More importantly perhaps, the authors show that—notwithstanding a few exceptions—governments with widely different political inclinations espoused remarkably similar macro-financial policies while persistently diverging on microeconomic policy issues.

3.3 *Environmental and Social Dynamics*

In the third and final section of this thematic issue, seven authors confront governance issues and policy options in relation to environmental and social dynamics. In their chapter on the evolution of mining legislation in Latin America, Ana Elizabeth Bastida and Luis Bustos focus on constitutional principles and legal frameworks applicable to the governance of natural resources and territories, in particular in the cases of Bolivia and Colombia. Their study underscores the necessity of filling legal and institutional design gaps to promote more sustainable natural resource management models. Darío Indalecio Restrepo Botero and Camilo Andrés Peña Galeano address the tensions between extractivism, decentralisation, protection of ethnic rights and the environment. Comparing Bolivia and Ecuador with Colombia and Peru, the authors find that the major ideological fissure—embedded in different constitutional and governance frameworks—between the two groups of countries has not translated into significant differences in terms of overall dependence on the extractive sector and of associated social and environmental problems. This raises again the question of the sequencing of a potential move towards post-extractivism.

Latin American and Caribbean societies are among the most violent worldwide. Robert Muggah explores the promise of 'citizen security' in this context. Beyond widespread legal impunity and social inequality, the high prevalence of homicides relates to overly repressive and punitive approaches to tackling criminality in the region. Muggah reviews recent home-grown 'citizen security' measures that include strategies to reform not only policing, but also the

criminal justice and penal systems. Citizen security measures further include violence prevention activities targeting highly exposed people and communities. The author concludes that such measures offer a promising alternative to traditionally overly repressive responses, even if it is premature to hail the success of novel citizen security approaches.

Increasing civil society participation in public affairs is obviously not restricted to security issues. Ricardo Fuentes-Nieva and Gianandrea Nelli Feroci examine the evolution of social participation and activism in Latin America. In the context of a widening gap between institutionalised politics and the citizenry, traditional social movements are giving way to a new form of social activism that is not identified with well-defined centres of deliberation and coordination. But like LAC's former social movements, these new expressions of social activism are the product of enduring problems affecting Latin American societies: poverty and inequality associated with social and political exclusion. A topic deserving further research is how the civic space for contestation evolves in countries that spearhead alternative development strategies. How constrained is the civic space when the governing elite has recently emerged, and drawn legitimacy, from civil society movements?

4 To Conclude

As pointed out by Fernando Henrique Cardoso, leaders and policies matter a great deal for development, notwithstanding structural barriers and adverse power relations. In today's multipolar world, Latin America can draw on a rich intellectual heritage and varied knowledge ecologies to imagine, formulate and implement novel approaches in the pursuit of sustainable development in all its four dimensions: economic, social, ecological and cultural. Courted by Western and Asian investors for their natural wealth, some Latin American countries have become important players in South–South cooperation and have acquired a greater voice when doing business with international financial institutions.

The latest commodity price boom resulted in a period of economic growth and poverty reduction. It provided the financial means to invest in essential public services, infrastructure, and social protection programmes. The end of the commodity price super-cycle puts some of these gains in jeopardy, raising anxiety among an emerging middle class wary of slipping back into poverty. In this context, several contributions in this volume acknowledge the mobilising force of alternative development narratives espoused by left-wing governments.

Yet, several authors wonder why development outcomes appear not to differ radically between countries in the Andean region in particular—countries whose governments either stuck to orthodox or adopted heterodox discourses. Looking at the last decade, diverging ideologies do not seem to have translated into radically different outcomes when considering modes of extractivist accumulation and associated social and environmental impacts. For development economists, a major challenge facing many Latin American countries is simply to succeed in diversifying the economy away from primary commodity exports. For the proponents of *buen vivir* as an alternative development paradigm, the challenge is to effectively depart from (neo-) extractivism while promoting ecological sustainability and the rights and cultural identity of indigenous populations.

Paradigmatic innovations and development experiences in Latin America, and more specifically in the Andean region, offer a wealth of insights into the relationship between different knowledge ecologies, ideologies, development narratives, policies and practice. Certainly, it is not possible to cover in one volume all the relevant issues arising in Latin America. In the case of Argentina and Brazil, for example, further research would be required to explore the consequences of commodity-led development beyond the extractive sector, looking at the impact of the large-scale cultivation of genetically modified plants on land ownership, the environment, public health and poverty. It is nonetheless our conviction that the collection of chapters in this thematic issue will enrich the academic literature and policy debates on development processes in Latin America, and on what the rest of the world can learn from them.

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CHAPTER 2

The Future of Latin America in the Global Economy: An Interview with Fernando Henrique Cardoso

Fernando Henrique Cardoso and Humberto Campodónico

Abstract

Fernando Henrique Cardoso is a former two-term President and Minister of Finance of Brazil. A distinguished scholar, Dr Cardoso has written over 40 books, with his 1969 contribution to 'dependency theory' among his most well-known. In this interview with guest editor Humberto Campodónico, President Cardoso discusses the evolution of development theories in Latin America, offers his views on recent growth and challenges in the region, and provides insights regarding the future of Latin America's engagement in the global economy.

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The global economic landscape has changed radically since you wrote your first book in the late 1960s. How has this affected the evolution of dependency theory? In particular, how do you perceive the impact of the rise of China and the other BRICS in terms of structural changes that affect economic power and hegemony relations globally?

What Enzo Faletto and I tried to describe and conceptualise in our 1969 book (published in English in 1979) could be considered a preliminary attempt to understand the consequences of 'globalisation'.[1] When we wrote the book,

1 Cardoso, F.H. and E. Faletto (1969) *Dependencia y desarrollo en América Latina: ensayo de interpretación sociológica* (México: Siglo Veintiuno Editores); and Cardoso, F.H. and E. Faletto (1979) *Dependency and development in Latin America* (Berkeley: University of California Press, translated by Marjory Mattingly Urquidi).

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even the notion of multinational corporations didn't exist: the usual terms applied to describe companies that acted on a global scale were 'trusts' or 'cartels'. The predominant view in Latin America in the late sixties and seventies was that the capitalist system, under an imperialistic umbrella, was not interested in industrialising the region. Even some economists working at the Economic Commission for Latin America (ECLAC)—a very influential United Nations commission for which I worked at the time—suffered from the influence of that vision. They believed it would be almost impossible to achieve continuous growth without breaking with traditional policies. The cyclical price oscillations inherent in the exchange between commodities exported by the periphery and industrialised goods imported from central economies were detrimental to developing countries. It would be hard to ensure continuous growth and people's well-being without concentrating the decision-making process in the hands of local producers, both state-owned and privately owned companies. The notion behind all this was that the 'periphery'—that part of the planet composed of dependent and underdeveloped countries—was economically and socially homogeneous. As a group, dependent countries were exploited by industrialised countries.

To change this situation it would be necessary to industrialise our economies. Such a process would require that governments encourage local investment. To make this possible, some planning was required.

The main contribution of our book was a change in this paradigm. Instead of a homogenous periphery we sought out different forms of interrelation that linked developing countries with the central economies. Some were 'enclave type' economies, whose growth was dependent on foreign investment in mineral extraction or food production; others were already semi-industrialised economies, with relatively strong domestic markets. On top of that, in some countries, domestic capital accumulation made possible the formation of a 'national' bourgeoisie while in others, foreign capital was predominant; very often local and foreign entrepreneurs formed an intertwined production chain.

The book was opposed to the predominant ideas of the time with regard to the inevitable economic stagnation of the region, and we never agreed with the mechanical and often exclusively economic approach proposed by so-called dependency theory. Our focus was on diverse paths to development, on the necessary role of social and political actors in the process of development and, lastly, on emphasising the existence of opportunities for growth, despite the constraints imposed by links of dependency. Of course, we recognised and emphasised such constraints, but the book showed that development was making its way.

Nowadays, it seems clear that globalisation is not the same as imperialism, despite the fact that asymmetries remain and new links of dependency emerge. One simple example: with imperialism, companies operating in under-developed countries relied on the action of their mother country State to control local populations and/or sources of raw material; globalisation, meanwhile, places the emphasis on corporations, hates regulation—the less State involvement, the better—and does not need to colonise.

From the 1970s onwards, technological innovations (information technologies, revolutionary changes to the means of transportation, etc.) deeply transformed global production systems. These and other transformations made it possible to maximise production factors at the global level. Investment sprayed all around looking for a cheap labour force, more flexible regulations and/or proximity to consumer markets. A global view allowed the spreading out of investment from multinational corporations looking for profits.

You distanced yourself from dependency theory in the 1990s. What were the main analytical elements that led you to make that decision? Do you think the current economic situation proves that you made the right choice?

I had—as I have already mentioned—always distanced myself from a mechanistic view of dependency theory. Globalisation made it clear that in order for a nation to grow, rather than promoting an increase in import tariffs to protect domestic markets it has to encourage its companies to compete at the global level. The global environment continues to be asymmetric and developing countries continue to be dependent on technological and financial matters. For developing nations to become integrated into the global order they must have in place adequate cultural and educational conditions and possess the necessary political strength. All this implies more than just capital investment: development is a socio-political process.

Most of Latin America experienced economic growth and falling poverty and inequality rates during the period 2003–14 due to the super-cycle of high prices in raw materials and agricultural products. Did the region take advantage of this opportunity? What policies should have been implemented to foster further sustainable development (e.g. boosting the diversification of production)?

Even before that positive global economic cycle, some Latin American countries (Brazil, Chile and Mexico, for instance) had moved towards best practices. Sound public finances alongside efforts to ensure access to education, health

care and, in some cases, to land, and income distribution programmes, are all necessary if a nation is to benefit from the positive phases of the world economy. Policies that encourage better income distribution are also important instruments of socio-economic integration. But, without economic diversification and investment, the best intentions and public programmes will not be enough to provide and sustain a better quality of life.

In the case of Brazil, it was possible in the nineties to keep inflation under control (the Real Plan) and to achieve social and economic progress. More recently, from 2004 up to 2008, the economy benefited from the global economic boom. Nevertheless, the wrong policies, mainly those implemented after the 2008 global crisis, have led the country backwards in economic, social and even political terms.

Several of the chapters in this volume argue that the economic and social impacts of the policies implemented by those countries that adopted 'orthodox' (Colombia, Chile and Peru) and 'heterodox' (Bolivia and Ecuador) development strategies are very similar. What is your opinion on this issue?

These countries don't have similar economies and neither have they adopted similar political approaches. They were positively affected—as was the rest of Latin America—by global waves of prosperity, crisis, and recovery. Chile, Colombia and Peru have adopted, step by step, policies of 'liberalisation' inspired by 'Western views'. The populations of Bolivia and Ecuador are significantly comprised of indigenous groups. Historically those populations were marginalised. So, social and economic integration policies have been crucial to creating a more cohesive society. Of course, in the case of each of these countries, the lack of economic diversity (with Ecuador being heavily dependent on oil prices and Bolivia on gas and before that on minerals) in the long run continues to be an obstacle to socio-economic progress. Not to mention Venezuela, whose recent, desperate situation is dramatic.

What do you think of the theory of 'buen vivir', which has been included in the constitutions of Bolivia and Ecuador? Do you see it as an alternative development path for Latin America? Do you see any connections between it and some of the theories you have developed in the past?

To have good purposes as goals puts a toll on a nation's integration processes. Who can oppose *buen vivir*? The 1988 Brazilian Constitution is often criticized by conservative thinkers because it prescribes high social targets as if Brazil would be like a 'Nordic country'. Criticisms arise because the implementation

of those objectives was assigned to government (a burden on public finance due to the lack of resources to achieve them). Nevertheless, I participated in the creation of the 1988 Constitution and I approved of those goals. I continue to believe that markets alone will never deliver what people need. States must act to promote social development. So, in that sense, yes, what I wrote and think about development theories has links to certain aspects of 'unorthodox theories'.

You state that there is 'an urgent need to build a socially oriented market economy'. Has any country in the region fully (or even partially) achieved this? If so, how was this feat accomplished?

I cannot say that a fully 'socially oriented market economy' has been put in place in Latin America. Nevertheless, even more 'orthodox' economies—such as that of Chile—are largely penetrated by a sense of social urgency with regard to taking care of the poorest. Development in Latin America is, to a growing extent, not conceived merely as 'economic development'. In most countries it implies both reducing levels of inequality and the consolidation of democratic institutions.

How do you analyse the current downturn in the Brazilian economy—the most industrialised economy in Latin America and the eighth largest in the world? In this context, do you support maintaining social programmes such as Bolsa Escolha? Do you expect a radical change to take place?

The current Brazilian downturn is a result of the inability of recent administrations to react in an appropriate manner to the global financial crisis and of an inappropriate vision with respect to domestic challenges. Economic recovery will not be brought about only by an expansion in public sector credit and stimuli aimed at promoting widespread consumption—it also requires public and private investment. At the same time, budgetary responsibility is not a 'rightist' policy as the Rousseff administration seemed to believe; rather it is a commonsensical requirement for a healthy economy. In the long run, endlessly increasing public debt cannot support people's well-being.

Is it convenient for Brazil to be seen as one of the BRICS? Measured in terms of purchasing power parity (PPP), China has already overtaken the United States. Should Brazil maintain an equal distance from the two hegemonic poles?

BRICS—as a label—was created by someone from Goldman Sachs in the late nineties. At that point, in a moment of financial crisis, it was important to

differentiate a small group of developing countries. The label refers to a grouping of highly populated countries, each with a gross domestic product (GDP) of considerable size (in spite of low per capita income) and with growth potential. Those conditions mean that the BRICS nations are in a position to play the international power game. What else do Brazil, Russia, India, China and South Africa have in common? They have different political systems, economic bases and even opportunities to exert power at the global level. China is nowadays closer to the United States in terms of trade relevance, GDP and power influence. Brazil is a regional power, aiming to be accepted as a participant in the world's political game; and it has the opportunity to be successful in certain areas (the environment, for instance). In our national interest, it is better to behave like a 'Western nation' in terms of human rights, and to keep our distance from the West with regard to other issues—trade or intellectual property rights in medicine, for instance.

Is Latin America contributing ideas, strategies and development policies at the global level? What are the priorities if the region is to achieve the Sustainable Development Goals?

Latin America is a 'peace area', far away from atomic weapons. Historically, the region was—as was the United States—a land of immigrants and thus multicultural (however, basically 'Christian'). Our main problems are domestic: social inequalities, violence, a lack of respect for the rule of law, etc. Now, with democracy more vigorous in the region and in some countries more consolidated, our contribution should lie in the enhancement of what you refer to as Sustainable Development Goals. Culturally, our diversity and our ability to share our experiences in reducing racism and promoting social inclusiveness are key 'weapons' that we can use as elements of soft power. In the future, Latin America's leaders will be judged on their ability, or lack thereof, to fulfil these potentialities.

Some economists argue that the globalisation process has gone too far, which could explain voters' support for free trade critics such as Bernie Sanders and Donald Trump, and the recent Brexit vote in the UK. Do you see a similar trend in Latin America, and how might the challenges of globalisation in the North impact Latin America?

The current form of global economic development, maintaining a high growth of productivity through technology, and maximising production factors on a planetary level, undoubtedly causes unemployment which breeds unease in certain areas. This feeling, which is so characteristic not only Europe and

especially in the United States, has an echo in Latin America—and it adds to the anti-globalisation movements.

China has proposed several initiatives within the China-ECLAC context, including large infrastructure investments (e.g. a train connection between the Atlantic and the Pacific). How should Latin American leaders address the China–Latin America relationship? Do you think that Latin America should present a unified platform in order to develop its collaboration with China?

The relative peace, which has been achieved after World War II, is the result of the fall of the Soviet regime and of the tacit understanding, since Nixon/Kissinger, between the United States and China. This seems to be coming to an end, and China is showing an interest in a growth of its influence in Africa and Latin America. To our region, the collective negotiation with China, although difficult, is seen as a protective shield in a time when, especially in the Middle East, Russia's actions seem to find an echo with China, which could lead to a joint action by these two superpowers, worrying Americans. Latin America must become aware of these emerging possibilities at the same time that it takes advantage of Chinese willingness to invest in its infrastructure, but reassuring the West that it does so pragmatically, and not for ideology.

CHAPTER 3

Deconstruction and Genealogy of Latin American Good Living (*Buen Vivir*). The (Triune) Good Living and Its Diverse Intellectual Wellsprings

Antonio Luis Hidalgo-Capitán and Ana Patricia Cubillo-Guevara

Abstract

The purpose of this chapter is to identify the different meanings of Latin American Good Living (*buen vivir*) and its diverse intellectual wellsprings, with a focus on the political economy of development. The authors try to answer the following questions: What different types of Good Living lie behind the overall concept? What intellectual wellsprings have the authors drunk from? The authors use the methodological strategies of deconstruction and conceptual genealogy, based on a broad bibliographic review. They conclude that three different types of Latin American Good Living exist: 'indigenist' and 'pachamamist', socialist and statist, and 'ecologist' and 'post-developmentalist'. Moreover, they argue that synthesised notions of the concept exist. These versions are associated with different intellectual influences, such as *sumak kawsay*, *suma qamaña* and *allin kawsay*; the Andean world view; development with identity; the theory of reciprocity; post-development; liberation theology; dependency theory; the theory of 'coloniality'; sustainable development; world-system theory; human development; endogenous development; eco-socialism; twenty-first century socialism; social justice; the economics of happiness; eudaemony; the economic theory of relational goods; the social and solidarity economy; intercultural feminism; the feminism of care; eco-feminism; the self-sufficient economy; community economy; barefoot economics and human scale development theory; the Buddhist economy; 'post-extractivism'; 'de-growth'; deep ecology and the theory of conviviality.

1 Introduction

At the beginning of the twenty-first century, Latin American Good Living[1] became a most innovative concept and offered great potential for the political

1 *Buen Vivir* in Spanish. In Bolivia, the preferred expression is Living Well (*Vivir Bien*).

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economy of development (Hidalgo-Capitán, 2011). Its relevance is considered equivalent to that of the Latin American dependence concept of the 1970s and 1980s. Yet the concept—as was the case with its predecessor, 'dependence'—is far from universally understood[2] despite its frequent use in both political and academic milieu. It is possible that the very frequency of its use has led to many diverging definitions and its interpretation depends on the ideological position of authors and their intellectual influences.

We have formulated the following questions on this point: What are the different types of Good Livings[3] behind the concept? From which intellectual wellsprings have the different authors who have made significant contributions to Latin American Good Living drunk? In our attempt to identify these Latin Americans and their intellectual wellsprings, and based on a broad bibliographic review, we will use two methodological strategies: concept deconstruction (Derrida, 1967) and concept genealogy or archaeology (Foucault, 1969).[4] As such, this chapter is divided into two main sections, one on deconstructing Good Living and the other on the genealogy of this concept, which is derived from the concept itself.

2 The Trinity of Good Living

Good Living can be defined as a way of living in harmony with oneself (identity), with society (equity) and with nature (sustainability) (Hidalgo-Capitán and Cubillo-Guevara, 2015). This definition is commonly accepted by the majority of intellectuals and politicians who use the term and, in addition,

2 The concept of Good Living is not part of the international agenda for development, currently embodied in the Sustainable Development Goals. Nevertheless, far from being a limitation for discursive enrichment, this can be considered an advantage given that its absence from the agenda has sparked an intense intellectual debate which would not have come about if the concept had been subjected to 'operational simplification', which typically occurs in the case of concepts that are accepted by international institutions.

3 Here the expression Good Livings is used differently than by Acosta (2013). We are referring to the fact that there are various definitions, which stem from the application of different schools of thought; this is not an indication that this concept has different meanings in each global community.

4 Previous work with a somewhat similar focus includes that on the genealogy of Good Living in the Ecuadorian constitution (Cortez, 2009), the identification of three schools of thought on Good Living (Le Quang and Vercoutère, 2013; Cubillo-Guevara, Hidalgo-Capitán and Domínguez-Gómez, 2014; Hidalgo-Capitán and Cubillo-Guevara, 2015) or the maze of discourse on Good Living (Vanhults, 2015).

convert Good Living into a concept of universal acceptance.[5] But the consensus ends here, given that this way of living in harmony takes on very different meanings according to the ideological position of each intellectual or politician that uses the concept. As such, from a 'de-constructivist' perspective (Derrida, 1967), we contend that there are at least three ways of understanding Good Living—one 'indigenist' and 'pachamamist' (which prioritises identity as an objective), one which is socialist and statist (which prioritises equity) and another which is 'ecologist' and 'post-developmentalist' (which prioritises sustainability) (Figure 3.1). Each of these versions corresponds to an ideological

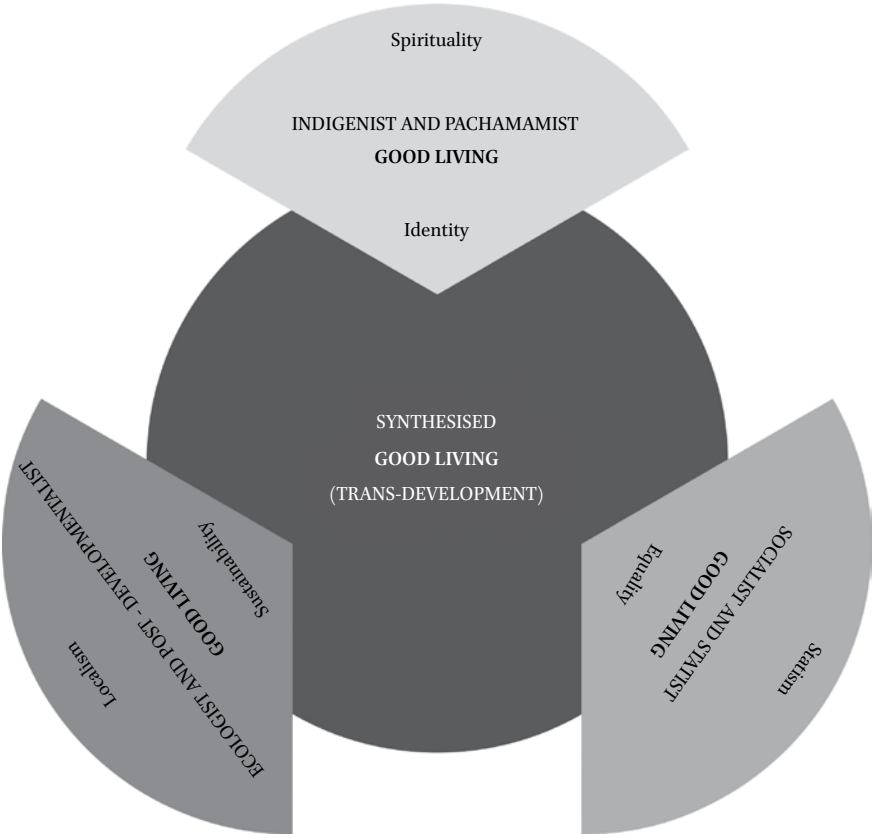


FIGURE 3.1 *The trinity of Latin American Good Living.*
SOURCE: AUTHORS.

5 The acceptance of the discourse of Good Living goes beyond the existence of revolutionary governments, or the greater or lesser degree of importance of the same in indigenous communities or in the populations of different countries.

school of thought that attempts to use the concept of Good Living for political purposes[6] in a context in which the Latin American Left is jockeying to establish hegemony in a post-neo-liberal era.[7]

Although there are currently three conceptions of Good Living that are discursively opposed, these schools of thought flowed together during the constitutional processes in Ecuador and Bolivia and it is reasonable to hope that the same will occur again, in these cases, through a synthesised concept that is more academic than political and that considers identity, equity and sustainability as of equal weight. This would contribute to transforming Latin American societies into pluri-national, post-capitalist and bio-centric societies under a trans-modern and trans-development conception that transcends the paradigms of well-being, such as pre-modern subsistence, modern development and postmodern development (Cubillo-Guevara and Hidalgo-Capitán, 2015b). All of this converts Good Living into a trinity, a triune concept, a concept that is at the same time one and triune—three different conceptions and only one true Good Living (supposedly).

2.1 *Good Living* (*'Indigenist' and 'Pachamamist'*)

The 'indigenist' and 'pachamamist'[8] version of Good Living is part of the school of thought of indigenous and 'indigenist' intellectuals, many of whom are associated with Latin American indigenous movements. Particularly noteworthy individuals in this regard have come from Ecuador (Viteri, 2000, 2003; Macas, 2010; Maldonado, 2010a, 2010b; Oviedo, 2011; Dávalos, 2008a, 2008b, 2011; Simbaña, 2011; Pacari, 2013), Bolivia (Yampara, 2001; Medina, 2001, 2002, 2006, 2011; Albó, 2009, 2010; Huanacuni, 2010; Choquehuanca, 2010a, 2010b; Bautista,

6 With the exception of genuine *sumak kawsay* (Cubillo-Guevara and Hidalgo-Capitán, 2015a), the emergence of which could be considered a bottom-up phenomenon, the rest of the discursive emergences of Good Living can be considered top-down phenomena that extend from the intellectual elites in Latin American societies to the bases of social movements in the region and, in some cases, from revolutionary-style governments (Ecuador, Bolivia, Nicaragua …) to the population sets of their respective countries.

7 This is a fight that sometimes leads to a truce, like in the case of the government of Bolivia, where noteworthy socialist intellectual leaders (e.g., García-Linera) and 'indigenist' intellectual leaders (e.g., Choquehuanca) coexist.

8 'Pachamamism' has been critically defined as a rhetorical defence of Mother Earth with abundant moral and metaphysical appeals that are ancestral (supposedly) and that impede real reflection regarding the way to conduct an authentic process of mental, economic and cultural decolonization (Rodríguez, 2011). This term tends to be used as a pejorative synonym for 'indigenism'. We advocate the use of the term 'pachamamist' as an appreciative synonym for an 'indigenist' that recognises the richness of indigenous ancestral knowledge, which adds the concept of transcendence to reason as a source of deep knowledge.

2010; Prada, 2011; Estermann, 2012; Torrez, 2012) and Peru (Rengifo, 2002, 2010; Lajo, 2011). All of these individuals understand Good Living as living to the fullest (*sumak kawsay* in Kichwa, *suma qamaña* in Aymara or *allin kawsay* in Quechua) and reject the idea that modern development constitutes social aspiration (Viteri, 2003), countering that, in fact, it is merely another form of colonisation (Quijano, 2011; Prada, 2014).

These intellectuals propose recreating, in the twenty-first century, the harmonious living conditions of the indigenous peoples of Abya Yala (Latin America) (Dávalos, 2011) and propose doing so by making the so-called Andean world view (Estermann, 1998) (and other indigenous world views) the main cultural reference of Latin American societies in order to recover the ancestral identity that has been lost, and propitiate civilised change (Prada, 2011; Estermann, 2012). This conception does not prioritise achieving equity and sustainability and its influence has extended from the indigenous movements of Ecuador, Bolivia and Peru to the rest of the indigenous movements of Abya Yala, the majority of which have incorporated the concept of Good Living within their political battle cries.

This focus concedes great relevance to the self-determination of indigenous peoples by converting Latin American nation states into pluri-national states (Simbaña, 2011); there is no doubt that pluri-nationality is the ultimate purpose for which Good Living is used. Additionally, significant importance is assigned to recovering the ancestral traditions of these communities and special attention is paid to the spiritual elements of Good Living (for example, the *Pachamama*) (Huanacuni, 2010; Maldonado, 2010a). The majority of these tenets correspond to a pre-modern conception of the world and of the ancestral nature of the Andes and the Amazon (Hidalgo-Capitán and Cubillo-Guevara, 2014).

The intellectuals that defend this conception of Good Living are pejoratively catalogued by some intellectuals from other schools of thought as 'pachamamist' intellectuals (Stefanoni, 2010) who are trapped in an infantile discourse on 'indigenism' (Correa, 2008) and, as such, are unable to implement Good Living.

2.2 *Good Living* (*Socialist and Statist*)

The socialist and statist version of Good Living is derived from the neo-Marxist thinking of intellectuals linked to or close to the governments of Ecuador and Bolivia (Coraggio, 2007; MPD, 2007; SENPLADES, 2009 and 2011; García-Linera, 2010; Ramírez, 2010; Páez, 2010; Patiño, 2010; Harnecker, 2010; Borón, 2010; Santos, 2010; Pomar, 2010; Houtart, 2010; Feliz, 2011; Escandell, 2011; Cárdenas, 2012; Prada-Tejada, 2012), who understand Good Living as socialism of the *sumak kawsay* (Ramírez, 2010) variety, Andean community socialism (García-Linera, 2010) or as an Ecuadorian or Bolivian variant of

twenty-first century socialism and associate it with modern development in its neo-Marxist form.

These intellectuals propose implementing, through the revolutionary process known as 'the citizen revolution' in Ecuador and the 'democratic and cultural revolution' in Bolivia, a new development model that essentially aims to improve equity (Ramírez, 2010; Patiño, 2010; Harnecker, 2010)—a model that would be supported, for the moment, by 'extractivism' while a transformation is generated in the productive matrixes of Latin American countries (SENPLADES, 2012). In this scenario, the intellectuals in question relegate identity and sustainability goals to the back burner. This conception of Good Living has extended from the intellectual circles of the governments of Ecuador and Bolivia to the intellectual circles of other Left-leaning Latin American governments, which may follow Bolivarian thought or social democratic thought. The majority of these nations have included socialist and statist notions of Good Living in their political discourse.

This approach assigns great relevance to the role that the state should play in implementing Good Living (SENPLADES, 2011). In this context, the state becomes that main political agent and sole interpreter of the population's will. This has led to a scenario in which different social movements (for example, the indigenous movement and the 'ecologist' movement) that contributed to situating the concept of Good Living at the forefront of the political debate, and in the case of Ecuador and Bolivia within the constitutions, have been excluded from political activity. Proponents of this school of thought also aspire to transform Latin American socio-economic systems into post-capitalist socio-economic systems, where market economies are non-market and entities from the social and solidarity economy (Coraggio, 2007) play a leading role; in fact, post-capitalism is the final objective of this version of Good Living. The majority of these tenets correspond to a modern conception of the Western and socialist world of nature (Hidalgo-Capitán and Cubillo-Guevara, 2014).

The intellectuals who defend this conception of Good Living are seen by some intellectuals from the other two schools of thought as practitioners of senile 'developmentalism' (Martínez-Alier, 2010; Svampa, 2011) and are accused of having replaced the term 'development' in their discourse with the term Good Living, placing both concepts on the same plane, which removes Good Living from the majority of the dimensions that have been incorporated in constitutional processes (Acosta, 2015).

2.3 *Good Living* (*'Ecologist' and 'Post-developmentalist'*)

The 'ecologist' and 'post-developmentalist' version of Good Living has adopted the 'ecologist' and 'post-developmentalist' thought of intellectuals associated

with critics of development and with Latin American social movements (León-Trujillo, 2008, 2009; Acosta and Martinez, 2009, 2011; Tortosa, 2009, 2011; Escobar, 2009; Esteva, 2009; Carpio, 2009; Quintero, 2009; Quirola, 2009; Gudynas, 2009b, 2011a; Boff, 2009; Acosta, 2010a, 2010b, 2012; Lander, 2010; Gudynas and Acosta, 2011a, 2011b; Quijano, 2011; Svampa, 2011; Aguinaga et al., 2011; Vega, 2011, 2012), who contend that Good Living is a utopia that must be (re)built (Acosta, 2010a) or see it as the territorial manifestation of the concept of Good Living while rejecting the notion that modern development is a social aspiration, given that they consider modern development as a form of domination (Acosta, 2015).

These intellectuals propose creating local processes for social participation so that each community can define its own concept of Good Living or good co-existing by making environmental sustainability an indispensable requirement to building the said 'Good (Co)Living' (Gudynas and Acosta, 2011b). In this scenario, the need to fulfil objectives relative to equity and identity is subordinate to the need to maintain harmonious relations with nature (sustainability), which is achieved by respecting the rights of nature (Acosta and Martínez, 2011). This concept is embodied, for example, in the constitution of Ecuador, which implicitly presumes that Latin American economies will be transformed into 'post-extractivist' economies (Gudynas, 2011c). This conception of Good Living has clearly expanded among the Latin American and European ecological movements that believe that Good Living is the Latin American variation of 'de-growth', and constitutes one of many possible strategies for a socio-ecological transition (Unceta, 2014).

This approach assigns great relevance to the role that civil society, and social movements in particular (indigenous, 'ecologist', feminist, worker, peasant, pacifist, solidarity-based), should play in defining and implementing Good Living and considers these movements main political agents that should be heard and respected by Latin American governments regardless of the degree of representation that they achieve at the parliamentary level. These movements aspire to build a 'bio-centric' society where nature is at the centre of the concerns of citizens, who should be considered inseparable from the same (nature) (Gudynas, 2009b). Biocentrism is, without a doubt, the final objective of those that use Good Living in this way. The majority of these tenets correspond to a postmodern conception of the Western world (Hidalgo-Capitán and Cubillo-Guevara, 2014).

The intellectuals that defend this conception of Good Living are accused by some intellectuals from the other two schools of thought of lacking political pragmatism, being submerged in nihilism, being trapped in a discourse of romantic ecology (Correa, 2007), and of twisting the original meaning of Good Living by filling it with Western concepts that are foreign to the Andean world view (Oviedo, 2011).

3 The Intellectual Wellsprings of Good Living

These three conceptions of Latin American Good Living did not form in a vacuum and are instead the result of the processes of reflection of numerous Latin American intellectuals, who have received many and diverse influences from other intellectuals, both from the region and from other parts of the world. Without a doubt, the adherence of each intellectual to one of these three schools of thought is directly related to the intellectual wellsprings from which they have drunk and to the amount of knowledge and number of ideas that they have absorbed from each given that some of these wellsprings are shared by two and even three of the schools of thought.

These wellsprings are very diverse. Some of the most noteworthy include *sumak kawsay*, *suma qamaña* and *allin kawsay*; the Andean world view; development with identity; the theory of reciprocity; post-development; the theology of liberation; the theory of dependence; the theory of 'coloniality'; sustainable development; world-system theory; human development; endogenous development; eco-socialism; twenty-first century socialism; social justice; happiness economics; the economic theory of relational goods; the social and solidarity economy; intercultural feminism; subsistence feminism; eco-feminism; the self-sufficiency economy; community economics; barefoot and human scale economics; Buddhist economics; 'post-extractivism'; 'de-growth'; deep ecology; and the theory of conviviality (Figure 3.2).

These reflections are far from unknown to the struggles of the Latin American Left for hegemony in the post-liberal era, where the main actors are indigenous movements, ecological movements and revolutionary movements with Bolivarian[9] influences. These actors from the Latin American Left were at one point united against neo-liberalism and in favour of constitutional processes. It was this union that drove efforts to include Good Living as a constitutional precept in Ecuador and Bolivia. Nevertheless, since that point in time, each of the actors has tried to reinterpret the concept of Good Living to reflect its own intellectual references and political priorities. Using a genealogical perspective (Foucault, 1969), we will attempt to identify the intellectual wellsprings of each of the schools of thought of Good Living.

3.1 *The Wellsprings of 'Indigenist' and 'Pachamamist' Good Living*

The concept of Good Living, known as *sumak kawsay*, emerged hand in hand with indigenous intellectuals in the Amazon of Ecuador (Cubillo-Guevara and Hidalgo-Capitán, 2015a) in a context in which the notion of development held

9 Referred to the Venezuelan revolutionary thought of Hugo Chavez.

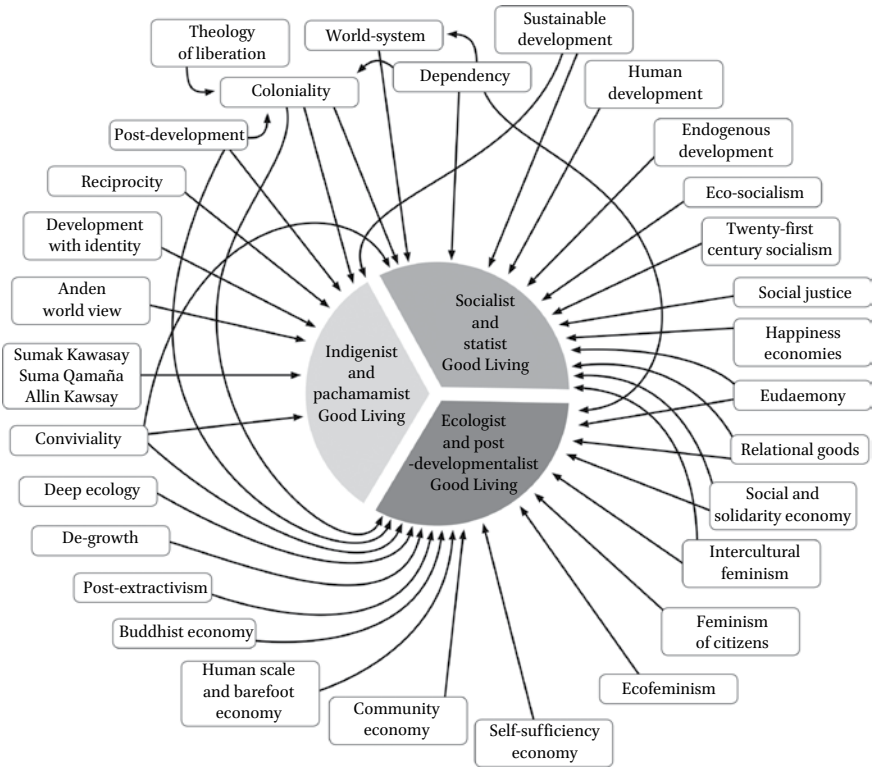


FIGURE 3.2 *The intellectual wellsprings of Latin American Good Living.* SOURCE: AUTHORS.

by indigenous communities in Ecuador was guided by concepts of sustainable development and development with identity. Both of these concepts were disseminated among the indigenous peoples of the Abya Yala at the end of the 1980s by agents of international cooperation, including the World Bank, the Inter-American Development Bank (IDB) and—since 1992—by the Fund for the Development of Indigenous Peoples of Latin America and the Caribbean (FILAC) (Fondo Indígena).

Although both concepts have significant capacity to transform and are aligned with the traditional requirements of indigenous peoples, when they are reinterpreted and operationalised by cooperation agents (and in particular by the World Bank) they lose their capacity to transform and they only qualify development based on economic growth with environmental and cultural elements, in ways that lose sight of indigenous concerns. These concepts undoubtedly failed to satisfy many Latin American indigenous intellectuals, who preferred to use expressions such as 'comprehensive development'

or 'sustainable development with identity' (Tibán, 2000). Dissatisfaction was more evident, however, with the concept of sustainable development, which included a reified conception of nature, when—for the indigenous peoples of Abya Yala—nature is a living being of which all humans are part (Silva, 2002).

Some 'indigenist' intellectuals from the Amazon began to reject all forms of adjective use ('sustainable', 'with identity', 'comprehensive'…) and proposed seeking an alternative to development rather than pursuing alternative development (Viteri, 2003). And this alternative to development emerged in 1992, the year in which—with the help of the Italian NGO Terra Nuova and the Danish NGO IBIS—the Amazanga Plan of the Organisation of Indigenous Peoples of Pastaza (OPIP) was written (Viteri et al., 1992). This constituted the first written document to include the concept of *sumak kawsay,* which translates as 'limpid and harmonious life'. Other documents were to follow, further exploring the concepts presented in this plan.

Without a doubt, this focus on Good Living (as a translation of *sumak kawsay*) was adopted by the IDB beginning in 2004 when the Kichwa anthropologist from the Amazon, Carlos Viteri, was an officer of this international body. By this date, Fondo Indígena had begun to discuss development with identity for Good Living. The emergence of *sumak kawsay,* and moreover its subsequent systematisation (Viteri, 2003), was clearly influenced by the foreign and native anthropologists that worked in the Amazon of Ecuador in the 1980s and 1990s, including Philippe Descola (1986), Elka Mader (1999) and Carlos Viteri (2000), who introduced the notion of post-development to this territory. The studies conducted by the Latin American Institute of Social Research (ILDIS), which is associated with the Friedrich Ebert Foundation, also played a key role in the emergence and dissemination of this concept (Acosta et al., 2000).

The indigenous intellectuals of the Amazon became aware of the fact that the modern, universalising and supposedly scientific story of development was a discursive invention of a series of Western intellectuals who used it as an instrument to exercise economic, social, political and cultural domination. This alienated the communities of countries that were considered underdeveloped (including indigenous populations) and led to a theorisation of resistance to development, and the search for alternatives, in the identity of these peoples. These intellectuals began to develop a local discourse of social transformation to achieve a future based on their day-to-day way of life, their past and their conception of the world, or world view, which they named, in accordance with their philosophy of desirable living, *sumak kawsay*, or a life in harmony, or Good Living. Consequently, the development of the original discourse of *sumak kawsay* was based on the specific world view of peoples of the Amazon. This concept represented a break from conceptions of Western

modernity and proponents required a cultural reference point for the non-modern alternative to development.

The genuine discourse of *sumak kawsay* from the Amazon was quickly assimilated by intellectuals in the Andean worlds of Ecuador, Peru and Bolivia (*Kichwas*, *Quechuas*, and *Aymaras*) thanks to connections between the main organisations of the indigenous movements of Ecuador (Confederation of Indigenous Nationalities of Ecuador—CONAIE), of Bolivia (Confederation of Indigenous Peoples of Bolivia—CIDOB), of Peru (Confederation of Indigenous Nationalities of Peru—CONAIP) and the Andean world in general (Andean Coordinator of Indigenous Organizations—CAOI). These organisations were very active during the 1990s, when the concept of *sumak kawsay* transcended the Amazon of Ecuador (Cubillo-Guevara and Hidalgo-Capitán, 2015a).

Nevertheless, there were two obstacles on the path to incorporating *sumak kawsay*—which translates into Quechua as *allin kawsay* and into Aymara as *suma qamaña*—into the Andean world. The first was that the Andean people's way of living in harmony had practically disappeared after five centuries of western acculturation and only a few ancestral institutions remained (*minga*, *ayni*, *randi-randi* ...), and the term *sumak kawsay*, which was void of content, was like a name stripped of meaning (Cubillo-Guevara and Hidalgo-Capitán, 2015a). The second obstacle was that the referential world view required for genuine *sumak kawsay* came from the Amazon, which, although subject to significant Andean influences, had some major differences (such as no references to the *Pachamama*). Undoubtedly, the incorporation of the Andean world view into the discourse of *sumak kawsay*, *allin kawsay* and *suma qamaña* provides a strong spiritual dimension that allows them to be positively qualified as *'pachamamist'* (Cubillo-Guevara, Hidalgo-Capitán and Domínguez-Gómez, 2014).

This prompted Andean intellectuals to recreate ancestral conceptions of *sumak kawsay*, *allin kawsay* and *suma qamaña* based on the surviving institutions of acculturation and, moreover, on the Andean world view and Andean philosophy, or 'pachasophy'. Most definitely, the influence of the Andean world view on the 'indigenist' and 'pachamamist' conception of Good Living is felt in the 'Indianist' wing of the government of Bolivia, led by Chancellor David Choquehuanca (2010a), and in the work of Bolivian indigenous philosophers such as Simón Yampara (2001), Mario Torrez (2012) and Fernando Huanacuni (2010); also in the work of Ecuadorians indigenous philosophers such as Luis Maldonado (2010a) and Nina Pacari (2013) or Peruvians, such as Javier Lajo (2011). This conception is also reflected in the work of Bolivian 'indigenist' authors such as Javier Medina (2001, 2006, 2011), Xabier Albó (2009, 2010), Rafael Bautista (2010), Joseph Estermann (2012) or Raúl Prada (2014), or of Ecuadorians such as Atawallpa Oviedo (2011).

To this we can add the influence of the theory of reciprocity of Dominique Temple (2003), which provided theoretical backing for the daily practices of Good Living implemented by many indigenous peoples, including those of the Andes and the Amazon. This theory explains how the Andean institutions of *don*—as the *minga*, *ayni* or *randi-randi*—contributed to creating strong bonds of community that increased the group's resilience. And with these elements, Andean indigenous and 'indigenist' intellectuals have tried to recreate the conception of desirable life that supposedly existed in the past (*suma kawsay*, *allin kawsay* or *suma qamaña*), which provided authentic content to what they believed to be, at first glance, a name stripped of meaning. The theory of conviviality can also be considered an important influence through which civil society, armed with ethical values, must build social living (Medina, 2006; Dávalos, 2008a).

But, in addition to these influences, we should not forget that the 'indigenist' and 'pachamamist' focus on Good Living is also based on the theory of the 'coloniality' of power, knowledge and being of the Modernity/Coloniality group. This theory contends that, given their colonial origins, both political structures and systems of knowledge, as well as the very identity of Latin American societies, prioritise the white, elite minority—descendants of the colonisers—over the groups of ethnic plurality that make up these societies and that are marginalised. As such, it is necessary to decolonise or decolonise power, knowledge and being to build intercultural and pluri-national societies. The aforementioned Modernity/Coloniality group includes intellectuals from the Latin American Left, such as Aníbal Quijano (previously associated with the theory of dependence), Enrique Dussel (previously linked with the theory of liberation) or Arturo Escobar (associated with the theory of post-development). These authors have been reference points for many 'indigenist' intellectuals who have contributed to *sumak kawsay*, *allin kawsay* or *suma qamaña*, as is the case of Javier Medina (2001, 2006, 2011), Pablo Dávalos (2008a, 2008b, 2011), Luis Maldonado (2010b), Xabier Albó (2009, 2010), Rafael Bautista (2010), Floresmilo Simbaña (2011) or Raul Prada (2014).

It is also important to highlight the role that European agents of international cooperation have played, who have absorbed post-development ideas and financed various studies to identify the conception of well-being (and not of development) of peoples of the Andes and the Amazon. Together with the aforementioned studies from ILDIS, some of the first studies of Good Living, such as those published by Javier Medina (2001, 2002) on *suma qamaña* and on *nande reko* Guaraní, were also financed by German cooperative efforts (specifically by the German government organisation GTZ), as was the publication of the works of Dominique Temple (2003) on the theory of reciprocity. Three important 'indigenist' think tanks also deserve credit. First, the Amazanga

Institute of the Organisation of Indigenous Peoples in Pastaza in Ecuador (OPIP), which promoted the concept of *sumak kawsay* (Viteri et al., 1992; Viteri, 2000) and was financed by the Italian NGO Terra Nuova and the Danish entity IBIS at the beginning of the 1990s and by the European Commission at the end of the same decade. Also, the Andean Project of Peasant Technologies in Peru (PRATEC), through which Grimaldo Rengifo (2002, 2010) published his work on *allin kawsay* with funds from the Belgian foundation Broederlijk Delen and the Swiss foundation Tradition for Tomorrow. Lastly, there is the Andean Center for Agricultural Development in Bolivia (CADA), through which Simón Yampara (2001) and Mario Torrez (2001) published their initial work on *suma qamaña.* And we must not forget here the role played by many intellectuals associated with the Catholic Church (such as Joseph Estermann, Xabier Albó or Enrique Dussel), who contributed to the emergence, substantiation and dissemination of *sumak kawsay*, *allin kawsay* and *suma qamaña*, and the work conducted by educational institutions of the Church to train indigenous intellectuals from Ecuador, Bolivia and Peru.

3.2 *The Wellsprings of Socialist and Statist Good Living*

The socialist and statist version of Good Living originated after the emergence of the Movement Toward Socialism (MAS) of Evo Morales in Bolivia and of the Alliance PAIS of Rafael Correa in Ecuador, and in particular once the constitutions of each of these countries had been approved. Despite the fact that Good Living is a concept derived from the indigenous terms *sumak kawsay* and *suma qamaña*, which were promoted by the indigenous movements in Ecuador and Bolivia, the socialist governments of each country appropriated the terms, which they believed had been stripped of meaning and could be filled with content and used in the citizen revolution of Ecuador and the democratic and cultural revolution of Bolivia, respectively.

These revolutionary processes were being pushed by the Venezuelan government, in an attempt to export the model of the Bolivarian revolution led by Hugo Chávez. This model was welcomed by Rafael Correa in Ecuador and by Evo Morales (and particularly by Alvaro García-Linera) in Bolivia. In fact, the Latin American countries with governments from the revolutionary Left are grouped together in the Bolivarian Alliance for Peoples of Our America (ALBA) and include Venezuela, Cuba, Bolivia, Saint Vincent and the Grenadines, Nicaragua, Dominica, Ecuador, Antigua and Barbuda, Surinam, Saint Lucia, Granada and Saint Kitts and Nevis.

The political leaders of the Latin American revolutionary Left (such as Hugo Chávez, Evo Morales, Rafael Correa or Daniel Ortega), and the intellectuals close to them, are heirs to the neo-Marxist version of the theory of dependence and its thesis of 'stagnationism', which states that development is not possible

under capitalism and can only be achieved by means of a national-popular revolution that allows one to initiate a transition towards socialism as a form of resistance to capitalist globalisation and as method through which to disconnect from the capitalist world-system.

These individuals do not reject the concept of development, as the 'indigenist' and the 'post-developmentalist' intellectuals do; rather, they seek alternative development. In this context, and before the constitutions were approved in Bolivia and Ecuador, Evo Morales and Rafael Correa, during their first terms, followed neo-Marxist, 'structuralist' and dependency influences to focus their development policies on concepts of human development, sustainable development, endogenous development (this had also been advocated by the government of Hugo Chávez in Venezuela) and development with identity, as a way to achieve Good Living (MPD, 2007; SENPLADES, 2007). These individuals assume that alternative development is at the service of Good Living rather than positing that Good Living is an alternative to development. For this reason, the proposals of these governments, with regard to Good Living, are seen by critics as being developmentalist.

Nevertheless, to endow Good Living with contents that are better aligned with the revolutionary processes of both countries and inspired by the Venezuelan Bolivarian revolution, some well-known intellectuals and politicians of both governments began to develop Ecuadorian and Bolivian variations of twenty-first century socialism. This proposal, which originated in Latin America and was appropriated to act as the theoretical basis for Hugo Chávez's policies, is based on the idea that socialism should be built by grassroots organisations, which should drive a participative democracy that seeks to achieve development through an economy in which a product's value is determined by production time rather than the market.

This proposal was adapted to the Ecuadorian reality by the National Secretary of Planning in Ecuador, René Ramírez (2010), under the name 'socialism of *sumak kawsay*' (or 'republican bio-socialism') and by the vice president of Bolivia, Alvaro García-Linera (2010), under the name 'Andean community socialism' (or 'community socialism for Good Living'). These adaptations were influenced by the theory of 'coloniality' in that the theory advocates the 'de-coloniality' of power so that the indigenous populations of Ecuador and Bolivia, as oppressed peasants, can gain access to national spaces of power and representation and to ensure that the cultural peculiarities of the indigenous peoples of each country are taken into consideration.

These governments also set up meetings and promoted publications that studied the relation between Good Living and socialism. Various well-known intellectuals of the Latin American Left participated in these efforts, including

the Ecuadorians René Ramírez (2010) and Ricardo Patiño (2010), the Bolivians Felix Cárdenas (2012) and María Nela Prada-Tejada (2012), the Chilean Marta Harnecker (2010, 2011), the Argentinians José Luis Coraggio (2007), Atilio Borón (2010 and 2012) and Mariano Feliz (2011), the Cuban Vicente Escandell (2011), and members of the European Left such as Francois Houtart (2010), the Portuguese Boaventura de Sousa Santos (2010)[10] or the (Spanish) Basque Katu Arkonada (2012). Some of these intellectuals have been linked with one of the most important academic networks of the Latin American Left—the Latin American Council of Social Sciences (CLACSO), noteworthy members of which include Atilio Borón, René Ramírez and Alvaro García-Linera.

Eco-socialism has also influenced the socialist and statist version of Good Living. This school of thought contends that capitalism is as dangerous for society as it is for nature and advocates a socio-ecological transition to a biocentric and post-capitalist society. This would fit very well with the republican bio-socialist proposal for Good Living (Ramírez, 2010) or the work on the dialogue between eco-socialism and Good Living that was published by the Institute of National Higher Education (IAEN) in Ecuador (Le Quang and Vercoutere, 2013).

In the quest to build a post-capitalist society it is also important to highlight, along with the influences of different schools of neo-Marxist socialist thought, the school of thought relative to the social and solidarity (or popular and solidarity) economy, with its maxim of 'an economy with a market, not a market economy', which although compatible with twenty-first century socialism is also aligned with an economy that is neither capitalist nor socialist, meaning an economy in which private national companies and transnational companies (for profit), national public companies and grand-nationals companies[11] (with public service purposes), cooperatives companies, social integration companies and family businesses (with socio-economic ends) and foundations and volunteer associations (with social and solidarity ends) co-exist (Coraggio, 2007; Ramírez, 2010).

Nevertheless, in praxis, different versions of Good Living and variations of twenty-first century socialism, particularly in a socialist economy, can be categorised as variations of twenty-first century capitalism or of authoritarian or 'developmentalist' state capitalism. At the praxis level, these versions have also distanced themselves from the theory of 'coloniality' given that although

10 Boaventura de Sousa Santos and François Houtart have made noteworthy contributions to both 'post-developmentalist' Good Living and socialist Good Living.

11 A grand-national company is a transnational company whose social capital is the property of several governments.

they have attempted to integrate indigenous peoples and afro-descendants into the spheres of national policy ('de-coloniality' of power) and—to a certain extent—have brought the contribution of indigenous peoples to the national identity to the forefront, they have been reticent to accept an authentic 'de-coloniality' of knowledge and, as such, continue to impose a conception of the world that is based on modernity with a socialist or neo-Marxist orientation. And, of course, these versions have also distanced themselves from bio-centrism and the search for harmony with nature, by implementing 'extractivist' policies for development in the pursuit of equity that were supposedly temporary and in place only until the transformation of the national productive matrix was complete. The conception of the social and solidarity economy has been somewhat more successful.

The following have more than likely influenced this school of thought of Good Living: the Rawlsiana school of social justice, which is based on ideas of justice and equity (Ramírez, 2010); the theory of conviviality, which posits that civil society, armed with ethical values, should build social living (Le Quang and Vercoutere, 2013); Aristotelian eudaemony, where happiness can only be achieved through ethical behaviour (Ramírez, 2010); intercultural feminism, with its concepts of 'de-coloniality' and the 'de-patriarchalisation' of power (Romero and Lanza, 2012; Mamani, 2012); or relational goods economics, which seeks to 'de-mercantalise' and 'de-materialise' consumption (Ramírez, 2010).

In an attempt to operationalise socialist and statist Good Living, some authors are promoting the search for indicators that can measure the level of national Good Living, for which they turn to progress in the field of happiness economics and, in particular, to subjective measurements of well-being (Ramírez, 2009; León-Guzmán, 2015).

3.3 *The Wellsprings of 'Ecologist' and 'Post-developmentalist' Good Living*

The influence of post-development is a key to understanding the ecologicalist and post-developmentalist conception of Good Living. This influence was highly evident in the configuration of the concept of Good Living that was included in the constitution of Ecuador of 2008; in fact, this school of thought originated in the constitutional debates that took place in Ecuador in the years 2007 and 2008.[12]

12 In the case of the constituent process in Bolivia, there was also a high level of citizen participation in debates regarding Good Living; these discussions were fundamentally influenced by two schools of thought —'indianism' and socialism.

When some assembly members linked with the 'indigenist' party Pachakutik proposed incorporating *sumak kawsay* in the Ecuadorian constitution (Cubillo-Guevara and Hidalgo-Capitán, 2015a), the members of the ruling party, Alliance PAIS, led by the president of the assembly, Alberto Acosta, accepted the term, translated as Good Living, given that as a term stripped of meaning, it could be filled with content via a participatory process. As such, the Constitutional Assembly of Ecuador, under the presidency of Alberto Acosta, became a forum for reflection on Good Living.[13]

This assembly was advised by local intellectuals (such as the 'indigenists' Pablo Dávalos, Pablo Ortiz and Nina Pacari, the feminist Magdalena León, the 'ecologists' Esperanza Martínez and Dania Quirola, the 'post-developmentalist' Patricio Carpio and the 'de-colonialist' Edward Vargas) and foreign intellectuals (such as the 'de-colonialists' Aníbal Quijano, Boaventura de Sousa Santos and Edgardo Lander, the 'ecologists' Eduardo Gudynas and Antonio Elizalde and the socialists François Houtart and Vicente Martínez-Dalmau), while other noteworthy Ecuadorian intellectuals (such as the 'indigenists' Pedro Morales, Mónica Chuji, the socialists Norman Wray and Virgilio Hernández, the 'ecologist' and socialist Alberto Acosta and the theologian Fernando Vega), participated as assembly members and were linked with different schools of thought. All of this generated a collage concept of Good Living in the Ecuadorian constitution that was a hybrid of very different conceptions.[14]

Undoubtedly, the fact that Good Living is frequently referred to as a 'utopia to be built' reflects its status as a collage construct, although the post-development influence is also manifest both in direct references to Good Living as a concept that is on the path of post-development, which entails dissolving the idea of progress that goes beyond development, or as an alternative to development, and in its negation of Good Living, as a universal concept and in its defence of 'Good Coexistences' (*Buenos Convivires*), which is borne of a community construction that will vary from one territory to the next. In addition, noteworthy post-development authors, such as Arturo Escobar (2009) and Gustavo Esteva (2009), have written about Good Living.

Here the links between the political and intellectual leaders of the Ecuadorian Constituent Assembly (including Alberto Acosta, Fernando Vega, Virgilio Hernández, Norman Wray, Pedro Morales and Mónica Chuji), with alternative social movements in Ecuador (particularly 'ecologist', indigenous, worker,

13 Something similar occurred during the Bolivian constituent process but the international impact was less significant.

14 Including, although to a lesser degree, the Bolivian constitutional concept of *Vivir Bien*/Living Well.

peasant, feminist, and theology of liberation groups) and Latin America (most notably the Global Social Forum, whose ranks include a number of intellectuals with clear tendencies in this regard—such as François Houtart, Arturo Escobar, Gustavo Esteva, Edgardo Lander, Boaventura de Sousa Santos, Catherine Walsh, Leonardo Boff and Aníbal Quijano), have been crucial. In fact, the maxim of alter-globalisation—that 'another world is possible'— has led to the idea that 'other development is possible', which is defended by the Latin American Alliance of Critical Studies on Development (ALECD), whose coordinating committee is comprised of well-known intellectuals from the Global Social Forum and noteworthy authors writing on the subject of ecological and post-development Good Living (Alberto Acosta, Arturo Escobar, Gustavo Esteva, Eduardo Gudynas, Edgardo Lander, Enrique Leff, Koldo Unceta and Maristella Svampa).

But in the 'ecologist' and 'post-developmentalist' conception of Good Living, influences from the theory of 'coloniality' (with its denouncement of structural racism in Latin American societies and its proposals to 'de-colonialise' power, knowledge and being), the theory of dependence (with its denouncement of the social inequalities stemming from the international insertion of Latin American economies), and liberation theology (with its preferential option for the poor) have been fundamental. A number of noteworthy authors have written about Good Living, including intellectuals that have studied the theory of dependence, such as Aníbal Quijano (2011); liberation theology, such as Leonardo Boff (2009), François Houtart (2011) and Fernando Vega (2012); and, most importantly, those associated with the theory of 'coloniality', such as Boaventura de Sousa Santos (2009), Edgardo Lander (2010), Catherine Walsh (2009 and 2010) and Aníbal Quijano (2011). In addition to these individuals, among the assembly's members, there were some Ecuadorian intellectuals who were clearly influenced by liberation theology, including Pedro Morales and Fernando Vega, and there were other intellectuals influenced by the theory of 'coloniality', such as Virgilio Hernández and Alberto Acosta. The vast majority of the assembly members from the ruling party, Alliance PAIS, were influenced by dependency theory.

Of the three versions of Good Living, the ecologist and post-developmentalist perspective has enjoyed the most international exposure, clearly transcending Andean and Latin American ambits with noteworthy contributions from European authors such as the Spaniards Jose María Tortosa (2009, 2011) and Koldo Unceta (2014), the Portuguese Boaventura de Sousa Santos (2009) and the Belgian François Houtart (2013), particularly from the ambit of academia. This has provided a high degree of intellectual legitimacy, which has even led to a twinning between Latin American Good Living and European 'degrowth' (Unceta, 2014; Cubillo-Guevara and Hidalgo-Capitán, 2015b). In the

Andean context, one of the main financers of publications on 'ecologist' and 'post-developmentalist' Good Living has been the German Rosa Luxemburg Foundation, whose Andean headquarters has links to, among others, Alberto Acosta, Eduardo Gudynas, Maristella Svampa, Esperanza Martínez, Edgardo Lander, Margarita Aguinaga and Koldo Unceta.

But this version of Good Living has been mainly influenced by the ecologist movement. Authors of works on Good Living include well-known Latin American 'ecologists', such as Eduardo Gudynas, Alberto Acosta o Esperanza Martínez. In addition, one of the main intellectual forces of 'ecologism' in Latin America, in terms of Good Living, has been the Latin American Center for Social Ecology (CLAES), an 'ecologist' think tank headquartered in Uruguay (and directed by Eduardo Gudynas) and directly linked with ALECD; in the Ecuadorian case, the main 'ecologist' body linked to this conception of Good Living is Ecological Action, presided over by Esperanza Martínez.

The main influence of the 'ecologist' version of Good Living is without doubt deep ecology, from which the concept of 'bio-centrism' is derived, and which is an element of the 'ecologist' version of Good Living (Gudynas, 2009b). This concept refers to a conception of the world in which nature is the sum of all things and possesses an intrinsic value that is independent of the utility that things have for human beings; accordingly, rights of nature should be recognised. The Gaia hypothesis, which posits that life creates and maintains the conditions adequate for its existence, is also closely related to deep ecology. Under this hypothesis, Earth is a system that is capable of self-regulation and 'autopoiesis'. This conception is very similar to that of the *Pachamama*, or Mother Earth, from the Andean world view, which is also used by some authors that adhere to the ecological version of Good Living (Boff, 2009; Martínez, 2010).

The second major ecological influence of Good Living is the 'post-extractivist' proposal, which was developed by CLAES. 'Post-extractivism' criticises 'extractivism' as a development model and proposes initiating processes to transition towards models of development that imply the lowest environmental impact possible[15] and that are geared towards ensuring that the smallest amounts of natural resources possible are extracted, thus guaranteeing the harmonious subsistence of the human race within nature, which fits very well with the ecological and post-development conception of Good Living (Gudynas, 2009a, 2011b, 2013; Acosta, Martínez and Sacher, 2013).

The third major influence on Good Living has been 'de-growth', which is based on the idea that we do not need to produce and consume more to live better. This idea has been fundamental to the 'ecologists' Good Living argument that, for development's sake, the exploitation of natural resources (oil,

15 Including the impact on the climate (Honty and Gudynas, 2014).

water, wood, biodiversity) should be renounced, and that we should move towards prioritising resource conservation over the generation of economic benefit (Acosta et al., 2009; López-Flores, 2014).

As a collage of diverse intellectual contributions, ecologist and post-developmentalist Good Living has also been influenced by the Latin American feminist movement, which was articulated in the framework of the Latin American and Caribbean Feminist Encounters (1981–2014). This movement has helped channel the influences of eco-feminism, intercultural feminism and subsistence feminism into Good Living. In this context, some of the ideas of eco-feminism, such as the belief that women have a more intimate relationship with nature given that they are responsible for economic activities relative to subsistence, fit very well with the concept of harmony with nature as proposed in Good Living (Aguinaga, 2010). The same can be said for some of the ideas of intercultural feminism, such as 'de-coloniality' and the 'de-patriarchalisation' of power, knowledge and being (Vega, 2011); subsistence feminism (or subsistence economics); or the social and economic recognition of productive and reproductive work and that both must be done in under equal conditions (León-Trujillo, 2009).

Within the ambit of economics, and with regard to a strategy for creating a post-capitalist society, the concept of the social and solidarity economy—the maxim of which is 'economics with a market, not market economics'—exercises an even more relevant influence than does subsistence economics on the concept of Good Living, serving to inspire the concept's economic dimension. The Latin American movement for the social and solidarity economy, which is comprised primarily of cooperatives, family businesses and private volunteer organisations, comes together in the Latin American and Caribbean section of the Inter-Continental Network for the Promotion of Social Solidarity Economy. Without a doubt, the social and solidarity economy has become the main economic rationale for ecological and post-development Good Living, given that it contributes to achieving equity, is participative in nature, and due to its smaller scale, tends to generate negative environmental impacts (Acosta, 2010b; Razeto, 2012; Unceta, 2014).

Along these lines, it is important to consider indigenous community economics among the references for ecologist and post-developmentalist Good Living. The concept is based on the maxims of self-sufficiency and solidarity, which means obtaining from nature that which is necessary to subsist, and sharing these resources in a community fashion (Mutuberria and Solano, 2011). This resonates with Gandhian self-sufficiency, which rejects importing goods that can be produced locally, thus generating a considerable positive impact on local sectors, employment and consumption (Acosta, 2010b); with Buddhist economics, which, in accordance with its maxim 'small is beautiful', defends

the quest to establish harmony, a simple life and small-scale economic activities (Tortosa, 2011); with barefoot and human-scale economics, which focus on satisfying human needs rather than human anxieties (Acosta, 2015); with the economic theory of relational goods, which advocates the 'de-mercantilisation' and 'de-materialisation' of consumption (Unceta, 2014); with the theory of conviviality, under which civil society, armed with ethical values, must build a social living (Acosta, 2010b); and with Aristotelian eudaemony, which rejects the notion that a full life or happiness can be achieved through riches, fame or pleasure and defends only that which can be achieved through virtue, meaning that virtue is coherent with ethical values (Acosta, 2015).

4 Conclusions

In this chapter we have established, through a deconstruction of the concept, that Latin American Good Living—as a way of living in harmony with oneself (identity), with society (equity) and with nature (sustainability)— has three different versions: one that is 'indigenist' and 'pachamamist', which prioritises identity to build a pluri-national society; another that is socialist and statist, which prioritises equity to build a post-capitalist society; and the last, which is 'ecologist' and 'post-developmentalist', which prioritises sustainability to build a 'bio-centric' society. This has led us to the conclusion that each of these versions can be identified within discourses on development with identity, development with equity and sustainable development. Nonetheless, this conclusion is questionable given that some of these conceptions deny the validity of any kind of development. But, if we understand Good Living in a comprehensive and synthesised manner, we find that the concept is embodied in a new discourse that is different from its predecessors and is trans-developmental and trans-modern in nature.

We have also found that Good Living has different intellectual origins, such as *sumak kawsay*, *suma qamaña* and *allin kawsay*; the Andean world view; development with identify; the theory of reciprocity; post-development; the theology of liberation; the theory of dependence; the theory of 'coloniality'; sustainable development; world-system theory; human development; endogenous development; eco-socialism; twenty-first century socialism; social justice; happiness economics; eudaemony; the economic theory of relational goods; the social and solidarity economy; intercultural feminism; subsistence feminism; eco-feminism; the self-sufficiency economy; community economics; barefoot and human scale economics; Buddhist economics; 'post-extractivism'; 'de-growth'; deep ecology; and the theory of conviviality. And this allows us to conclude that if Good Living emerged from the dissatisfaction of 'indigenist'

intellectuals with different versions of development, this concept would not have achieved the relevance it currently boasts if agents of international co-operation, the governments of Ecuador and Bolivia and their constitutional assemblies, Latin American social movements and Latin American (and European) academics had not adopted it and contributed to expanding its content beyond the parameters established in the original indigenous version. As such, the trinity of Good Living has become the most innovative and high-potential concept in the field of political economy of development.

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CHAPTER 4

Commodity-led Development in Latin America

José Antonio Ocampo

Abstract

This chapter looks at the historical evolution of commodity dependence in Latin America, showing that dependence on natural resource-intensive exports increased during the 2003–13 commodity price boom after a period of export diversification that began in the mid-1960s. It then analyses price dynamics, showing that commodity prices experienced both long-term trends, which were generally adverse for non-oil commodities through the twentieth century, and super-cycles of 30–40 years. Based on that pattern, the author argues that the recent price collapse may be the beginning of a long period of weak commodity prices. Finally, the chapter demonstrates that the region has been unable to take full advantage of the benefits of its natural resource specialisation and has faced, in contrast, some negative Dutch Disease effects due to the aforementioned dependence. Latin America has, furthermore, been a victim of the macroeconomic vulnerabilities generated by commodity cycles, largely because it has failed to develop appropriate countercyclical macroeconomic policies.

1 Introduction

Commodities are at the heart of Latin America's economic development. Until the 1920s they were the main engine of modern economic growth, and continued to make up an overwhelming proportion of the export basket until the 1960s. The export diversification that has taken place since then, and that sped up with market reforms in the late twentieth century, did not fully replace this feature, except in a few countries. The recent commodity boom, which started in 2003–04 and lasted for a decade, generated what the UN Economic Commission for Latin America and the Caribbean has called a 're-primarisation' (or 're-commoditisation'), understood as a renewed growing share of natural resource goods in the export basket. Because of this, the collapse of the boom or 'super-cycle' of commodity prices, as it has been widely known, has generated major macroeconomic challenges in recent years, particularly for South America.

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The links between commodity dependence and development have been the subject of heated debate in Latin America, as well as in the global development literature. This relates to the capacity of commodity-led development to generate dynamic growth and, in that regard, whether such development benefits or harms the development of manufacturing and modern services. It also relates to how to manage the macroeconomic challenges associated with commodity price fluctuations, including the effects of the dependence of government revenues on taxes on commodity sectors and profits from state-owned enterprises active in those sectors (generally oil and minerals). The development advantages and disadvantages of commodities along with the macroeconomic challenges relate, in turn, to the dynamics of commodity prices, again a subject of heated debate since the formulation of what came to be known as the Prebisch–Singer hypothesis, according to which real commodity prices (relative to manufactures[1]) experience not only volatility but also an adverse long-term trend.

This chapter analyses these issues from the perspective of Latin America. It is divided into five sections, the first of which is this Introduction. The second takes a historical look at the evolution of commodity dependence in the region. The third analyses the dynamics of commodity prices. The fourth reviews the relevance of the debate on the macroeconomic effects of commodity dependence in Latin America. The last draws some brief conclusions.

2 Changing Patterns of Commodity Dependence

Commodity dependence has been an essential feature of Latin America's integration into the world economy since colonial times. When modern economic development took off, it was associated with the commodity expansion that took place in the late nineteenth and early twentieth centuries, which was brought to an end by the major shocks generated by the two world wars and the Great Depression of the 1930s.[2] The collapse of commodity markets that accompanied this process led the region to a new stage of development, characterised by Cárdenas *et al.* (2000) and Bértola and Ocampo (2012) as 'state-led industrialisation', a term that captures this new phase in a better way than the traditional term 'import-substituting industrialisation', as the phase involved much more than import substitution.

1 In this chapter, the term *manufacture*(*s*) refers to manufactured goods.

2 See Bértola and Ocampo (2012, Chapter 3) and Bulmer-Thomas (2014, Chapters 3–6).

Commodity interests were never totally replaced, however. The basic reason for this is that commodity exports continued to make up the largest share of the export basket and the industrialisation process thus continued to rely heavily on the foreign exchange generated by these export sectors. Furthermore, the industrialisation of small economies did not go very far, and their export diversification since the 1950s focused essentially on new commodities. The discovery of new resources had similar effects on larger economies, notably the major oil discoveries made in Mexico in the 1970s. Larger economies were, of course, more successful in their industrialisation drives and came to share in the growing world markets for developing country manufacturing exports since the mid-1960s, and large and small economies started to benefit from growing intraregional trade in manufactures as a result of the integration processes launched during that same decade (the Latin American Free Trade Association, the Central American Common Market and the Andean Group).

State-led industrialisation was characterised by a significant dependence on domestic markets, high levels of protection, and a fall in Latin America's share in world trade, to slightly more than 4 per cent in the early 1970s, about half the level reached in the period 1925–29. The region's falling share in world commodity markets was the main reason for this decline (Ffrench-Davis et al., 1998; Bértola and Ocampo, 2012, Table 4.10), and was associated with both external and domestic factors. Among the external factors, the most important was the boom in Middle East oil production from the early 1960s to the early 1970s, which led to a fall in Latin America's (particularly Venezuela's) share in world oil exports. Agricultural exports were also hurt by protectionism in developed countries, which hit Argentina, Cuba and Uruguay particularly badly. Among the domestic factors, the most important was explicit or implicit (via differential exchange rates) economic policy discrimination against traditional agricultural export products, especially coffee and sugar, though it must be underscored that policies also protected agricultural production that competed with imports.[3]

An additional feature of state-led industrialisation was restrictions on foreign direct investment (FDI) in the natural resource and infrastructure sectors of several countries, and the growing role played by state-owned enterprises in those sectors. This included the nationalisation of oil in Mexico in 1938, which would be followed in later decades by that of tin in Bolivia, copper in Chile and

3 This is a more appropriate interpretation of the information provided by Anderson and Valdés (2008) than the reading that points to a widespread anti-agricultural bias. See, for example, figure 1.3 of that study, which shows that almost all products that competed with imports were protected.

oil in Venezuela, but also by the creation of state-owned enterprises active in the oil and mining sectors in many other countries. International regulation of commodity markets was also an important feature—particularly after the collapse of commodity prices in the second half of the 1950s—with the regulation of coffee markets by both producing and consuming nations being perhaps the best example, starting with the first International Coffee Agreement in 1962. In turn, Venezuela became the driving force behind the creation of the Organization of the Petroleum Exporting Countries (OPEC), which took place in 1960.

The last two decades of the twentieth century were characterised by the effects of a major collapse of commodity prices (see Section 3 of this chapter), the Latin American debt crisis of the 1980s, which was in part fed by that price collapse, and by the market reforms introduced in a pioneering manner by Southern Cone countries (notably Chile) in the second half of the 1970s and on a broader regional basis since the mid-1980s. Market reforms tended to reinforce comparative advantage in natural resource sectors, and included the opening up of oil and mineral sectors to private investors in countries that had nationalised these sectors, and the abandonment of commodity price-stabilisation schemes. Mexico, until the recent reforms, was the exception with regard to the opening up of its oil sector. Bolivia strengthened the control of its hydrocarbon sector in the hands of state-controlled firms in 2006, as did Argentina in 2012,[4] and state-owned enterprises continued to play an important role in the oil and mineral sectors in several countries (notably in the copper sector in Chile). In relation to commodity agreements, the collapse of the International Coffee Agreement in 1989 was perhaps the most important event, but also significant was the growing incapacity of OPEC to regulate oil prices from the early 1980s on, which ended with the collapse of those prices in 1986.

Despite the reinforcement of the traditional comparative advantages generated by market reforms, the diversification of Latin American exports away from commodities, which had started in the mid-1960s, continued during the last two decades of the twentieth century (Figure 4.1). A major reason for this diversification trend was the collapse of commodity prices that took place during this period (see next section). The signing of the North American Free Trade Agreement (NAFTA), was an essential part of this process, as Mexico led the transformation away from primary goods and natural resource-based manufactures. The revitalisation of regional integration processes in the late 1980s/early 1990s, which included the creation of MERCOSUR (Southern

4 In the case of both Bolivia and Argentina, earlier privatisations were reversed in the years indicated. Although in both cases these policy reversals were called 'nationalisation' they really involved majority control by the state rather than full nationalisation.

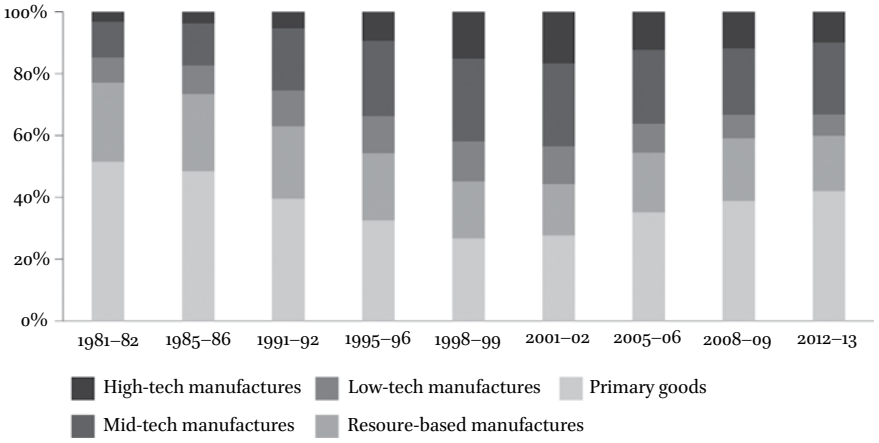


FIGURE 4.1 *Natural resource and technological contents of Latin American exports.* SOURCE: ECLAC (2015b).

Common Market) in 1991, tended to support diversification, given the high manufacturing intensity of intraregional trade. The exports of intermediate- and high-technology manufactures grew quite rapidly during the 1990–97 expansion, and at a somewhat slower rate at the turn of the century as intra-regional trade was hit hard by the significant crisis that the region was facing once again, and Mexican exports were hurt by the US slowdown in the early years of the new millennium.

This process was followed by a significant re-primarisation of the structure of exports, particularly as a result of the commodity price boom that started in 2003–04 and lasted for about a decade. This re-primarisation was enhanced by growing trade with China,[5] which became a major trading partner of Latin America in the first decade of the twenty-first century, particularly after the 2007–09 North Atlantic financial crisis.[6] As Figure 4.2 indicates, aside from intraregional trade and exports to the US (though not if Mexico is excluded[7]), Latin American exports are highly natural resource dependent, those to China being the most dependent of all, representing over 90 per cent of

5 See, in this regard, several contributions by Kevin Gallagher—including his recent book (Gallagher, 2016)—and ECLAC (2015a).

6 This is the term I will use here instead of 'global financial crisis', because although it had global effects the crisis was concentrated in the US and Western Europe.

7 Indeed, according to ECLAC, if we exclude Mexico, primary goods and natural resource-based manufactures represented 68.3 per cent of exports to the US in 2014 vs. 29.9 per cent if Mexico is included.

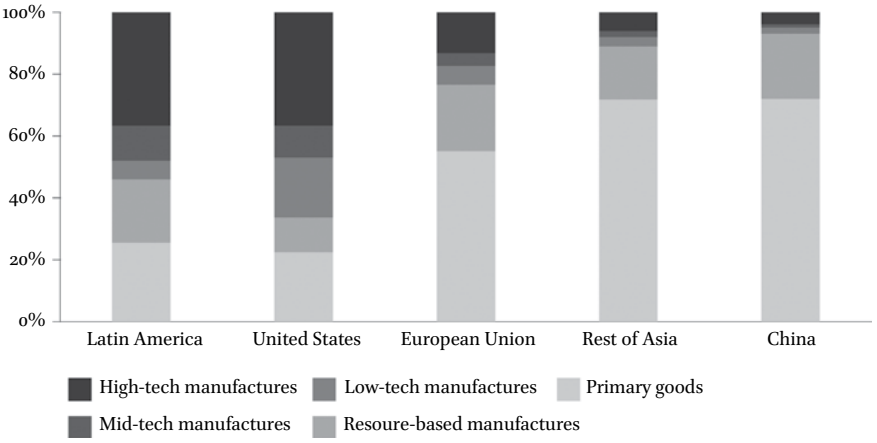


FIGURE 4.2 *Latin American natural resource exports by destination, 2013.* SOURCE: ECLAC (2015a).

sales to the Asian giant in 2013. Booming Chinese imports also supported the re-primarization process by weakening manufacturing sectors in several (or most) countries.

The impact of market reforms and other factors affecting export structures was diverse across the region. Two basic specialisation patterns have evolved since the 1990s, which broadly follow a 'North–South' divide (ECLAC, 2001; Bértola and Ocampo, 2012, Chapter 5). The 'Northern' pattern is characterised by a bigger share of manufacturing exports, a large part of them containing a significant number of imported inputs and exhibiting limited domestic value-added (in its most extreme form, *maquila*—i.e., assembling of imported parts) and destined for the US market. The 'Southern' pattern has changed less, and is made up of a combination of extra-regional export of commodities, natural-resource-based manufactures and a much more diversified range of products (including many with greater technological content) that are traded within the region. Brazil is positioned somewhere between the two groups, since it already had a much more diversified export structure (including some technology-intensive manufactures) than other South American countries prior to the liberalisation processes.[8] There is also a third specialisation pattern, exhibited by a few smaller economies and characterised by a large share of service exports, which prevails in Panama (transport and financial services), Cuba and the Dominican Republic (tourism in both cases).

8 In fact, in 1990 Brazil's and Mexico's export structures were not very different in terms of this classification (see Bértola and Ocampo, 2012, Table 5.5).

Among South American countries, there is also a significant difference between the specialisation pattern of the Andean economies, from Venezuela to Chile, which depend on oil, gas and minerals,[9] and that of the rest of South America, which is agriculture-based (Table 4.1). In any case, agricultural exports make up an important share of total exports in some Andean countries (particularly Ecuador and Chile, but also others, with the exception of Venezuela) and Brazil also has important mineral exports, particularly iron ore. In the 'Northern' pattern, Mexico is an important oil exporter, and Cuba and the Dominican Republic have mining exports, but the majority of commodity exports are made up of agricultural goods, particularly in the case of Central American countries.

TABLE 4.1 *Natural resource dependence of Latin American exports*

	Fuels			**Minerals**			**Agriculture**			**Total**		
	1995	**2003**	**2013**	**1995**	**2003**	**2013**	**1995**	**2003**	**2013**	**1995**	**2003**	**2013**
Argentina	10.3%	17.1%	4.6%	1.7%	3.4%	5.6%	54.1%	50.5%	54.8%	66.2%	71.0%	65.0%
Bolivia	10.9%	33.3%	53.8%	40.1%	16.7%	23.8%	33.4%	33.1%	18.3%	84.3%	83.1%	95.9%
Brazil	0.9%	5.2%	7.4%	11.3%	9.1%	18.1%	33.7%	33.1%	37.4%	45.9%	47.4%	62.9%
Chile	0.2%	2.7%	0.9%	49.5%	42.3%	59.0%	37.2%	36.7%	27.1%	86.9%	81.7%	87.0%
Colombia	27.2%	37.2%	66.8%	6.8%	6.2%	5.1%	36.2%	22.9%	11.4%	70.2%	66.3%	83.3%
Ecuador	35.1%	43.2%	56.5%	2.5%	0.4%	2.7%	54.8%	46.3%	34.5%	92.4%	89.9%	93.8%
Paraguay	2.7%	6.8%	15.4%	0.3%	0.4%	1.4%	80.3%	82.2%	74.4%	83.3%	89.4%	91.2%
Peru	4.9%	7.4%	13.0%	50.2%	53.7%	58.1%	31.3%	22.3%	17.1%	86.4%	83.4%	88.2%
Uruguay	1.0%	1.6%	0.5%	0.9%	1.5%	1.6%	59.1%	63.7%	74.9%	61.0%	66.8%	77.0%
Venezuela	73.6%	78.9%	91.4%	7.5%	5.5%	1.0%	3.2%	1.7%	0.3%	84.2%	86.2%	92.7%
Costa Rica	0.4%	0.3%	0.1%	1.2%	0.7%	1.0%	61.5%	30.4%	22.3%	63.1%	31.4%	23.4%
Cuba	0.3%	1.1%	9.4%	15.5%	35.0%	19.7%	76.8%	46.0%	30.6%	92.6%	82.1%	59.8%
Dominican Republic	0.0%	0.1%	3.3%	2.2%	1.8%	16.1%	16.4%	14.8%	22.6%	18.6%	16.6%	42.0%
El Salvador	0.2%	1.7%	1.9%	1.9%	1.6%	2.0%	45.3%	19.3%	22.8%	47.5%	22.5%	26.7%

9 This pattern developed relatively late in Colombia. Although oil and minerals (coal, nickel and gold) increased since the 1980s, they only surpassed the share of agriculture in the second half of the 1990s and came to represent more than half of exports only after 2008.

TABLE 4.1 *Natural resource dependence of Latin American exports* (cont.)

	Fuels			Minerals			Agriculture			Total		
	1995	2003	2013	1995	2003	2013	1995	2003	2013	1995	2003	2013
Guatemala	1.6%	6.1%	4.0%	0.4%	0.4%	5.8%	61.3%	43.0%	50.1%	63.4%	49.4%	59.9%
Honduras	0.2%	0.1%	3.9%	0.7%	3.5%	7.8%	55.7%	32.4%	42.3%	56.6%	36.0%	54.0%
Mexico	10.3%	11.2%	12.8%	3.1%	1.3%	4.6%	9.0%	6.0%	6.6%	22.4%	18.5%	24.0%
Nicaragua	0.6%	0.7%	0.5%	2.8%	4.4%	10.4%	74.6%	56.5%	42.7%	78.0%	61.6%	53.5%
Panama	3.0%	8.1%	21.9%	1.9%	2.0%	4.7%	33.5%	32.3%	15.8%	38.4%	42.4%	42.5%
Latin America	13.3%	15.2%	20.5%	9.8%	7.3%	13.6%	26.7%	20.7%	21.8%	49.8%	43.1%	55.9%
Memo: Developing economies	15.0%	17.9%	23.1%	5.3%	4.4%	6.7%	12.7%	8.8%	8.0%	33.1%	31.1%	37.8%

SOURCE: UNCTAD.

Notes: Fuels, SITC 3; Minerals, SITC 27 + 28 + 68 + 667 + 971; Agriculture (includes fishing and forestry), SITC 0 + 1 + 2 − 27 − 28 + 4.

3 The Dynamics of Commodity Prices

There has been significant debate regarding commodity prices since the formulation of the Prebisch–Singer hypothesis in 1950, according to which commodity prices tend to deteriorate in the long term relative to those of manufactures (Prebisch, 1973; Singer, 1950). This was, of course, a major break with the classical view of David Ricardo, according to which relative commodity prices tend to rise as economies are forced to exploit less productive resources and land rents are pushed up. The Prebisch–Singer hypothesis involved two complementary ideas (Ocampo, 1986). The first was that the lower income and price elasticities of demand for primary goods would tend to depress their relative prices as the world economy expanded (or, alternatively, constrain the growth rate of natural resource-intensive economies). The second was that of asymmetries in the labour markets of advanced versus developing countries, which implied that technological progress in manufactures would tend to be reflected in increasing real wages in developed countries, whereas it would tend to depress the price of commodities in the developing world, given the pool of unskilled labour available in developing countries. This

second hypothesis was also supported by Lewis' (1969) analysis of the pressure on commodity prices generated by surplus labour in developing countries. The Prebisch–Singer hypothesis was the subject of heated debate following its initial formulation and was largely discarded both on empirical and analytical grounds. Interestingly, the original hypothesis was revived by the work of Grilli and Yang (1988) at the World Bank, who showed that real commodity prices had actually declined through the twentieth century. These findings triggered a significant flow of empirical contributions to the revived and continuing debate.

An older set of hypotheses relates to the existence of long-term cycles of economic activity, foreign trade and prices, related to the works of Nikolai Kondratiev and Joseph Schumpeter. Schumpeter associated them with clusters of technological innovation that come, in his view, in waves (see, for example, Schumpeter, 1939). In empirical terms, the tendency of the price of commodities relative to manufactures to follow long waves was later highlighted by Lewis (1978), but received only limited attention.[10]

As we shall see, the factors underlying such long-term trends and cycles vary through time, giving rise to specific features in different periods. In recent times, the dominant factor has been, of course, the rising Chinese demand for commodities, but also the effect of a slowdown of world economic growth since the North Atlantic financial crisis, particularly in developed countries.

The dynamics of commodity prices can be analysed using several alternative methodologies. A first approach studies whether long-term dynamics should be understood as the result of a steady trend or of structural breaks in the price series. Using this methodology, Ocampo and Parra-Lancourt (2010) conclude that the fall in real non-oil commodity prices through the twentieth century that Grilli and Yang had identified was essentially the result of two strong adverse shocks: a sudden one in the early 1920s and a second more gradual one in the 1980s. A second methodology involves the decomposition of price dynamics into a trend of long- and short-term cycles. This is the methodology used by Erten and Ocampo (2013), on which I will focus here. A third one analyses the links between commodity and other asset prices, which is particularly important given the recent 'financialisation' of commodity markets. This approach has been the subject of an extensive literature; however, since its focus is on the very short-term dynamics of commodity prices, I shall not analyse it here.

The decomposition of commodity price trends into their different components is summarised in Figure 4.3. As the figure indicates, real non-oil

10 See a review of the literature in Erten and Ocampo (2013).

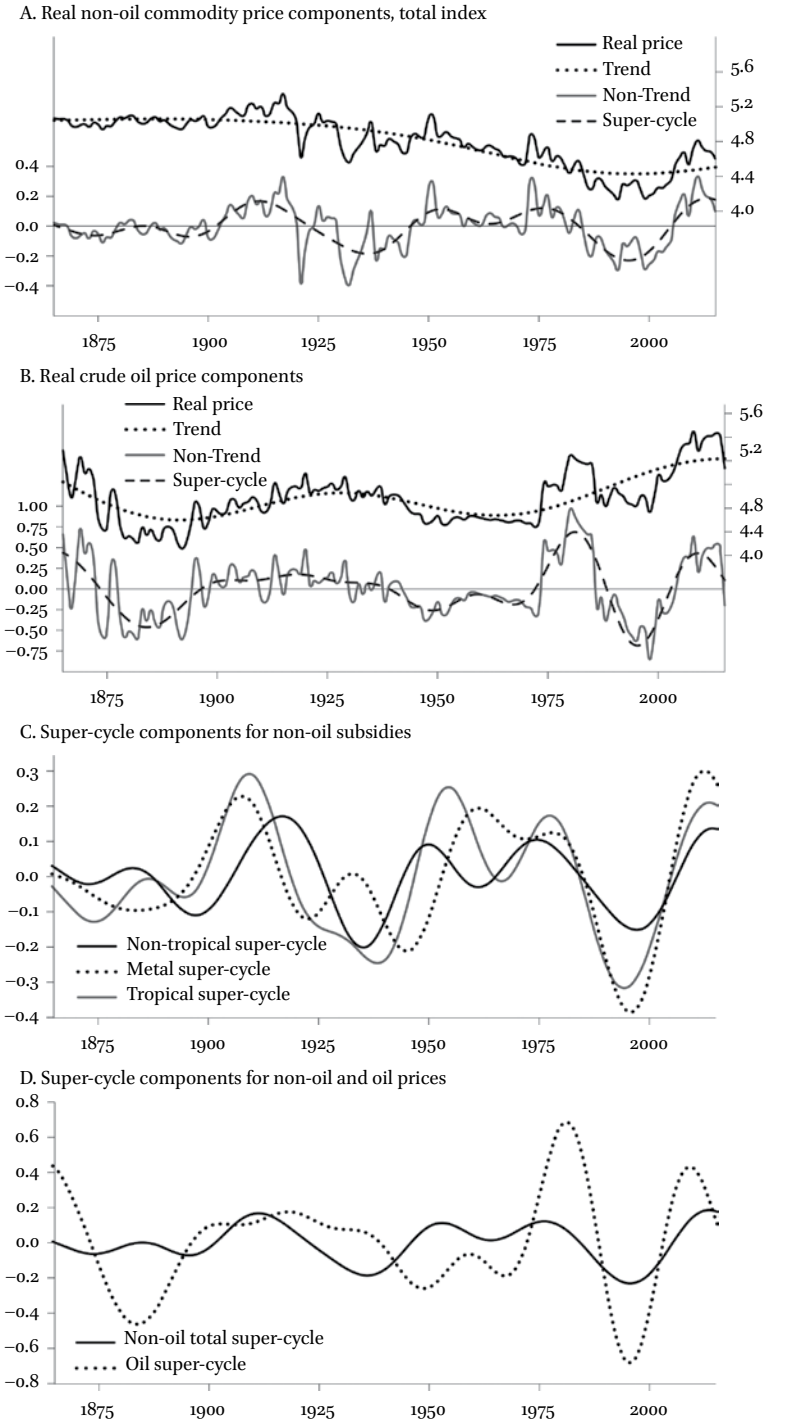


FIGURE 4.3 *Long-term trends and super-cycles of commodity prices.*
SOURCE: UPDATED EXERCISES FROM ERTEN AND OCAMPO (2013).

commodity prices (deflated by the manufacturing unit value in international trade) experienced a downward trend through most of the twentieth century and a slight upward trend in the early twenty-first century (Figure 4.3A). An analysis of these trends by commodity groups shows that the downward trend was longer and stronger for tropical agricultural goods (114 years with an accumulated fall of 67 per cent) than for non-tropical agriculture (62 years with a total fall of 47 per cent) and metals (93 years and 48 per cent). This downward trend was followed by a long-term rise in metal prices since the mid-1970s and by a stagnation of the adverse trend of agricultural prices since around the turn of the century (Erten and Ocampo, 2013, Table 1).

In turn, non-oil commodities have experienced four long-term cycles (which I will call super-cycles in the rest of this chapter) of 30–40 years since the late nineteenth century—with the last still ongoing—with a large overlap among different commodity groups (Figure 4.3C). The overlap of these super-cycles is related to the fact that they are largely determined by trends in world GDP. The effects of trends in world demand are also reflected in the fact that super-cycles show fairly similar peaks but that the downward trend is stronger in periods where world demand has been weak (1920s–30s and 1980s–90s) than when it has been stronger (second half of the 1950s and 1960s). Finally, the volatility of the short-term cycles was particularly intense in the interwar years of the twentieth century.

Long-term trends of non-oil prices through the twentieth century provide, therefore, some support to the Prebisch–Singer hypothesis. This is also reflected in the fact that the means and peaks during the different super-cycles also show a downward trend. However, the trends in the late nineteenth and early twentieth centuries, as well as that of the early twenty-first century, indicate that this is not an inevitable outcome. More generally, as Erten and Ocampo (2013) argue, the tendency for primary commodity prices to deteriorate relative to manufactured goods is not a persistent effect, but rather an evolving dynamic dependent on global demand trends and the effects of technological innovations, both of which are behind the dynamics of the different super-cycles.

Oil prices did not show a similar pattern to that of non-oil prices until the 1960s. The long-term downward trend was shorter and weaker (37 years, from 1925 to 1962, with a 33 per cent accumulated reduction) and there has been a strong upward trend since the 1970s (Figure 4.3.B). However, what is interesting is both the strong coincidence of the last two super-cycles of oil and non-oil commodities—again, with the last one still ongoing—and the stronger intensity of the oil super-cycle (Figure 4.3.D).

Indeed, if we look at the last two super-cycles, that for oil has been more intense (a coefficient of variation of 41 per cent in the period 1970–2003 and 26 per cent in 2003–15[11]) than that for non-oil commodities (21 per cent and 16 per cent, respectively). And within the super-cycle for non-oil commodities, the most intense was that for tropical agricultural goods in the period 1970–2003 (35 per cent vs. 20 per cent for non-tropical agricultural goods and 17 per cent for metals) and metals in the period 2003–15 (25 per cent vs. 22 per cent for tropical agricultural goods and 15 per cent for non-tropical agricultural goods). Viewed as a whole, oil prices have been the most unstable, whereas non-tropical agricultural prices have been the most stable.

This also implies that, as measured by the peak price reached, the recent commodity boom (2003–13) was more intense for oil and metals than for agricultural goods, and stronger for non-tropical than for tropical agricultural goods; indeed, only in 2011 did real tropical agricultural prices reach a level close to that of the 1970s (Figure 4.4). The boom of all commodity prices was interrupted during the worst phase of the North Atlantic financial crisis—the months following the collapse of the investment bank Lehman Brothers in September 2008—but soon resumed. Strong Chinese demand was the essential element of both the long commodity boom and the rapid recovery after the

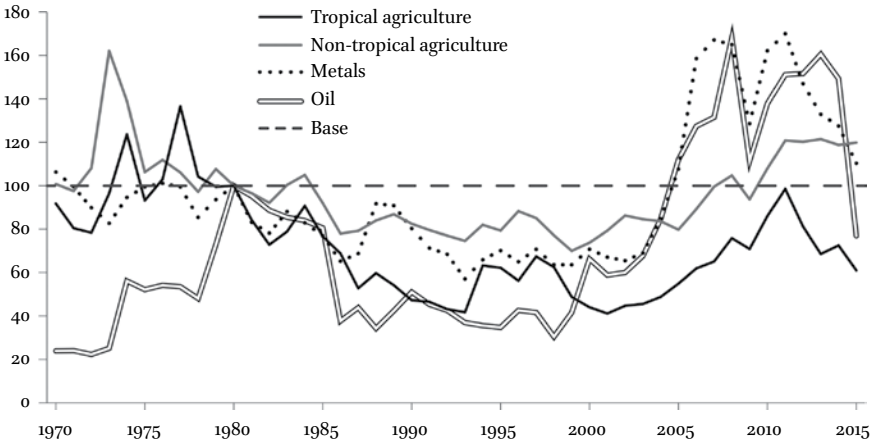


FIGURE 4.4 *Real non-oil commodity price (1980 = 100).*
SOURCE: UPDATED SERIES FROM OCAMPO AND PARRA (2010) WITH THE SAME SOURCES AND METHODOLOGY. COMMODITY PRICES ARE DEFLATED BY THE MANUFACTURING UNIT VALUE ESTIMATED BY THE WORLD BANK.

11 I take a common 1970–2003 period as a reference, though the super-cycle of oil prices started somewhat later. And, again, the most recent period corresponds to an as-yet-incomplete cycle.

North Atlantic crisis. The peaks for oil and metal prices prior to and after that crisis were quite similar, whereas they were stronger after the boom for the two agricultural commodity groups. The downward trend has been visible for non-oil commodities since 2012 but was a gradual process,[12] whereas that for oil came late and abruptly in mid-2014.

The performance of the different commodity groups was reflected in the patterns of the terms of trade for different Latin American countries. The improvement in the terms of trade from 2003 to either 2008 or 2013 was strongest for the oil and mineral exporting economies, which, as indicated above, are the Andean countries (Figure 4.5). These were followed by the two major agricultural exporters, Brazil and Argentina. Other South American countries (Paraguay and Uruguay) and Mexico were in a fairly neutral position, whereas all the small economies of Central America, and the Dominican Republic, were clear losers, as the rise in oil prices dominated any positive effect they experienced as agricultural exporters. It can be added that the recent collapse in commodity prices has had exactly the opposite effect on

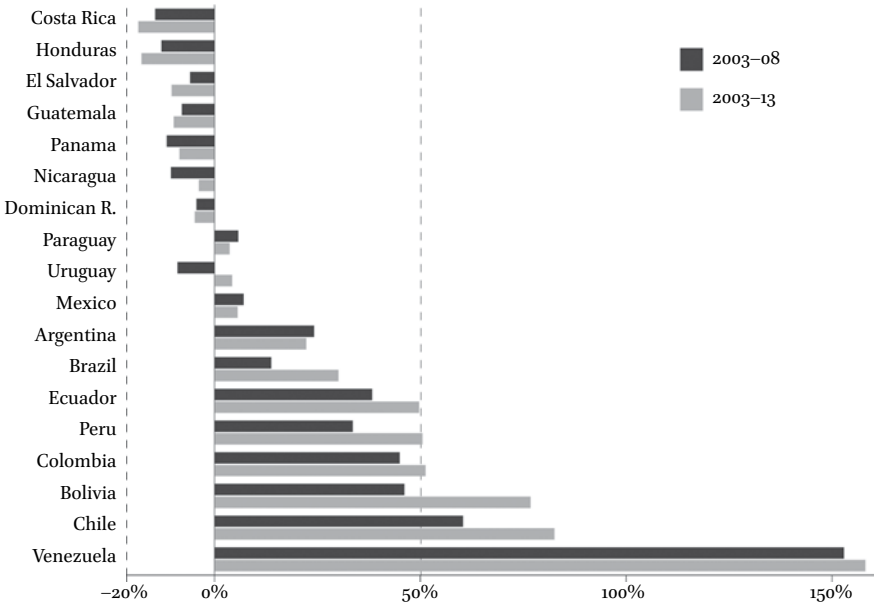


FIGURE 4.5 *Terms of trade gains and losses during the 2003–13 commodity boom.* SOURCE: AUTHOR'S ESTIMATES BASED ON ECLAC DATA.

12 A partial exception is non-tropical agricultural goods, but that case reflects the diverging prices of individual commodities.

the terms of trade of different countries (ECLAC, 2015b, Table A-7). Interestingly, in the case of commodity exporters who are also oil importers, the stronger fall in oil prices has ended up mitigating the fall of other commodity prices (Chile) or even generating an improvement in the terms of trade (Paraguay and Uruguay).

A major implication of the dynamics of commodity prices is that the positive expectations that were built up during the boom were defeated by recent trends. These expectations were based on the view that the mix of strong Chinese demand, the gradual exhaustion of new oil and mineral resources, and the effects of climate change were bound to be reflected in a Ricardian era of rising natural resource scarcity and high commodity prices. Long-term trends since the late twentieth century do give some support to the idea of positive patterns of commodity prices, and certainly show that the Prebisch–Singer hypothesis is not an inevitable trend. However, through the prism of the last few years, the predictions of persistently high commodity prices have turned out to be wrong and, particularly, the strong cyclical pattern has been shown to be an essential characteristic of commodity prices. Indeed, given the slowdown of global economic growth since the North Atlantic financial crisis, a slowdown that is likely to last, if the pattern of past super-cycles prevails, we may be at the beginning of a long period of weak prices.

4 Macroeconomic Effects of Commodity Dependence

4.1 *The Basic Relationships*

The macroeconomic effects of commodity dependence should be analysed from both a short- and a long-term perspective. The short-term dimensions are closely associated with the cyclical patterns of commodity prices, which generate fluctuations of income levels that would tend to be transmitted and multiplied through their effects on aggregate domestic demand. The procyclical patterns of investment are generally strong, and those of consumption have become more important in recent decades, reflecting the strong volatility of economic growth that has characterised Latin America since the 1980s. In turn, the cyclical patterns of commodity prices are enhanced by those of both external and domestic finance. In the case of external finance, emerging and developing countries tend to experience a strong procyclical pattern, both in terms of the availability of finance and of risk margins and thus the cost of financing (higher costs of financing during downswings). In commodity-exporting countries, these cycles tend to follow those of commodity prices.

The cyclical behaviour of real exchange rates generated by these external cycles tends to enhance the fluctuations of aggregate demand in economies

with net liabilities in foreign currency, as real exchange rate appreciation during booms generates wealth windfall gains that enhance spending; whereas depreciation during crises generates a wealth loss that accentuates the contraction of spending. The distributive effects go in the same direction: if the appreciation benefits workers and the depreciation hurts them, there will also be procyclical effects, given the higher propensity to spend out of wages. The effects of real exchange rate fluctuations on the current account (non-primary exports decreasing and imports rising during commodity booms, and the opposite evolution occurring during crises) can be countercyclical. However, if there is an initial surplus during the boom (the situation in the period 2003–04) or an initial deficit during the crisis (conditions in the period 2013–14), the initial effect is also procyclical and the countercyclical effects come with a lag.

In terms of cyclical behaviour, it is critical whether authorities adopt a countercyclical stance, as macroeconomic policy would recommend (particularly its Keynesian variants), or prefer a procyclical pattern, associated with either economic or political economy pressures, or both. In this regard, the procyclical effects of finance may be difficult to counteract through monetary policy if there is free movement of capital, reflecting the known 'trilemma' of open economic macroeconomics; but even if countries actively manage the capital account with macro-prudential policies, it may be difficult for them to isolate themselves from those procyclical external financial pressures. In turn, the dependence of public sector finance on revenues generated by commodity sectors generates a procyclical pattern of fiscal revenues that may be transmitted to public sector spending.

The long-term effects are associated, in turn, with whether the commodity sectors generate strong or weak linkages with other economic activities, and whether commodity dependence is associated with strong or weak productivity growth. In the classical analyses of commodity dependence, associated with Singer and Prebisch, among others, the basic arguments were that manufacturing both generates stronger linkages and is a stronger mechanism of transmission of technical progress. In the more recent literature, this is confirmed by the fact that rapid economic growth in emerging and developing countries continues to be associated with industrialisation drives, an area in which Latin America's performance (a few countries aside) has been dismal for several decades.[13] In favour of commodity dependence, it can be said that the opportunities for technical progress and linkages with both manufacturing and service sectors were behind commodity-dependent developed countries'

13 See Rodrik (2014) at the global level, Hausmann (2011) in relation to Latin America, and Palma (2011) for a comparative perspective. An excellent macroeconomic perspective on these issues is provided by Bresser-Pereira et al. (2015).

capacity to prosper.[14] In recent years, perhaps the best defence of the development opportunities provided to Latin America by its natural resources is that of Pérez (2010). She argues that today there are ample technological opportunities associated with biotechnology, nanotechnology and environmentally friendly products—opportunities to exploit the whole value chain of natural resource-intensive sectors, and strong complementarities with Asia (although now with lower prices). In contrast, her (correct) evaluation is that Latin America is too far behind in other technology sectors and is no longer a low-wage region, and so can compete neither in the high-technology sectors associated with information and communication technologies nor in low-skilled manufactures.

The long-term effects are not independent of the cyclical effects of commodity dependence. This implies that the structural vulnerabilities that are associated with commodity dependence are mixed with macroeconomic vulnerabilities.[15] The basic reason for this is that the procyclical performance of macroeconomic variables induced by commodity price cycles may affect other economic activities. The cyclical patterns of spending associated with commodity booms generate positive effects, particularly on non-tradable sectors, and of course the opposite impact during crises. In contrast, the cyclical patterns of exchange rates that commodity prices generate—real appreciation during commodity booms, depreciation during crises—would tend to have negative effects on non-commodity tradable sectors (exporting and import-competing manufacturing and some service activities) during booms and may increase the volatility in the profitability of investment in those sectors more generally. Firms in non-resource tradable sectors may actually go bankrupt during commodity booms, generating permanent effects on economic structures and productivity losses if productivity is associated with production experience (Krugman, 1990). These effects of commodity booms have been favourite topics of the 'Dutch Disease' literature.

It can be added that, beyond the structural and macroeconomic vulnerabilities mentioned, which are strictly economic pressures, there might be other vulnerabilities of a more political economy or institutional character. In this regard, the literature on the Dutch Disease as well as historical discussion in Latin America has focused on the institutional effects of the 'rentierism' associated with natural resources. There may also be important distributive effects,

14 One interesting analysis is the comparative history of Scandinavian vs. Latin American historical development, in the essays collected in Blomström and Meller (1991).

15 Ocampo and Parra-Lancourt (2007) indicate that the poor long-term growth performance of countries specialising in natural resources and natural resource-based manufactures may be associated with long periods of low commodity prices.

associated with land concentration in the case of agriculture and high industrial concentration in the cases of hydrocarbons and mining. However, I would like to concentrate on strictly macroeconomic issues here.

4.2 *The Manifestation of Macroeconomic Dynamics in Latin America*

To analyse cyclical effects in the region, it may be useful to look at the Latin American business cycles over the past quarter century. Figure 4.6.A shows the tendency of aggregate private demand to move in a strong procyclical fashion, generating cycles that are stronger than those experienced by GDP—that is to say, stronger expansion during booms, stronger contraction during crises.

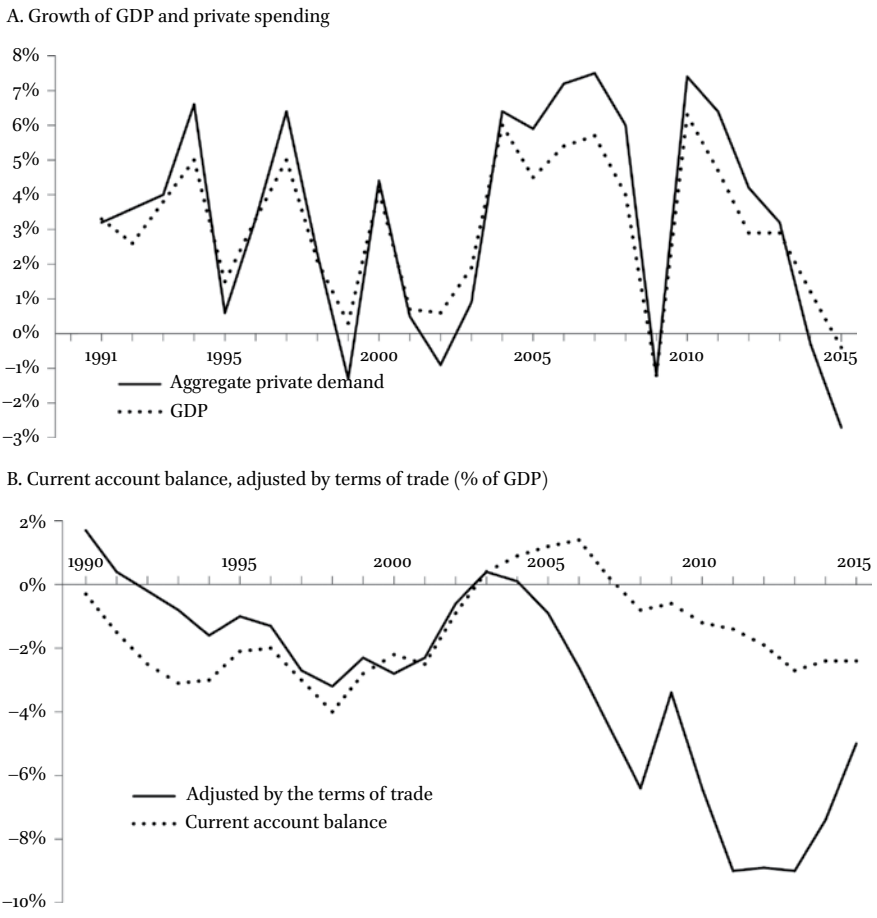


FIGURE 4.6 *Macroeconomic cycles during the past quarter century.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ECLAC DATA.

These cycles were sharper during the long commodity boom of the early twenty-first century, as improvements in the terms of trade enhanced income growth, leading to a stronger expansion in aggregate demand. The recent contraction of demand has also been harsher.

Since the current account of the balance of payments is the difference between gross national income and aggregate spending, the relative movement between these two variables will be reflected in a tendency for that balance to deteriorate during expansions and to improve during crises (Figure 4.6.B). This is, therefore, the best evidence of the strong procyclical patterns of aggregate demand that characterise Latin America. The only exception to this was the early part of the commodity boom that started in 2004, which was reflected (by Latin American standards) in a very unusual current account surplus in the period 2003–07. This reflects, however, the rise in export values and gross national income generated by the improvement in the terms of trade. When export values are re-estimated using 2003 terms of trade, as indicated by the current account balance adjusted by the terms of trade in Figure 4.6.B, there was a clear deterioration even during those years. This was even worse after the North Atlantic financial crisis since, despite the massive gains from terms of trade—the difference between the normal and adjusted current account balance—Latin America ran current account deficits at current prices. What this implies is that Latin America not only spent the gains generated by the improvement of the terms of trade—a massive 51 per cent of GDP in the period 2004–14—but actually overspent the commodity boom. This conclusion is also reached by the IMF (2013) using a different methodology for calculating the gains from improvements in the terms of trade, which actually estimates even stronger gains.

Procyclical spending patterns are the basic reason why adjustment was so severe in the period 2014–16, as reflected in the very strong contraction of private demand and the adjustment of the current account adjusted by the terms of trade, particularly through the reduction in imports. In this regard, there is an essential difference between the conditions that prevailed before the North Atlantic financial crisis and those that were in place prior to the recent commodity crisis. Indeed, in the context of the former crisis, although aggregate demand was growing fast, the region had gone through five consecutive years of current account surpluses (2003–07), which were reflected in turn in falling debt ratios and an accumulation of large foreign exchange reserves. In contrast, the region faced the recent commodity crisis after five consecutive years of current account deficits (2008–13, again despite the terms of trade gains). This is, above all, a reflection of the incapacity of central banks and governments to smooth out the aggregate demand cycle.

The fiscal balance had similar effects. So, as the ECLAC data show, the region faced the North Atlantic crisis after five years of primary fiscal surpluses (in this case, 2004–08) but faced the commodity crisis after several years of primary deficits (the only exception being the year 2011) and, of course, larger overall fiscal deficits. This relates, of course, to the question of whether fiscal policy is procyclical or countercyclical, a topic that has been the subject of extensive debate in recent years. Procyclical fiscal patterns tend to be the rule in emerging and developing countries, and certainly in Latin America. They are associated with procyclical patterns in the availability of finance but also with the political economy pressures to spend rising public sector revenues during booms. It is important to underscore that political economy pressures are more difficult to handle if austerity policies have been in place during the previous crisis: procyclical austerity policies during crises will tend to induce procyclical spending policies when fiscal balances are restored and public sector revenues recover.

These effects are enhanced in commodity-dependent countries by the reliance on fiscal revenues originating in natural resource-intensive sectors, both from corporate income taxes and royalties, but also from the profits of state-owned activities in these sectors. Table 4.2 summarises the fiscal dependence of different Latin American countries on revenues from natural resources. As is clear, the Andean economies have the highest fiscal dependence on hydrocarbon revenues (Venezuela, Ecuador, Bolivia and, to a lesser extent, Colombia),

TABLE 4.2 *Fiscal dependence on natural resource revenues* (*% of total government revenues*)

	Hydrocarbon revenues			**Mining revenues**		
	2000–03	**2005–08**	**2010–13**	**2000–03**	**2005–08**	**2010–13**
Argentina	10.5	10.9	7.3	0.0	0.4	0.5
Bolivia	20.6	35.7	34.4	0.3	2.1	3.2
Brazil	8.4	9.2	7.2	0.1	0.5	0.7
Chile				4.0	27.7	15.3
Colombia	6.7	8.2	12.6	0.6	1.6	1.3
Ecuador	29.3	35.3	40.3			
Mexico	30.2	33.9	29.3	0.3	0.8	1.0
Peru	12.0	10.0	9.7	1.0	10.6	7.4
Venezuela	50.0	51.2	45.5			

SOURCE: ECLAC (2015A), CHAPTER 2.

mining revenues (Chile) or a mix of the two (Peru). Mexico is also highly fiscally dependent on hydrocarbon revenues; Argentina's and Brazil's hydrocarbon dependence is only moderate.

The discussion on whether Latin American countries have 'graduated' from procyclical fiscal policies has been extensive in recent years.[16] There has certainly been progress. It includes the expansionary fiscal policies adopted by several countries to mitigate the effects of the North Atlantic financial crisis, and the design of fiscal rules that take into account both the cyclical performance of tax revenues in general and the fiscal effects of commodity price fluctuations. Chile introduced rules of this sort in 2000 and Colombia did so in 2011.[17] However, leaving aside the countercyclical response of several countries to the North Atlantic crisis, a look at the full cycle that preceded and ended with that crisis shows that the number of countries following countercyclical fiscal policies was relatively small (Ocampo, 2012). And the fact that most commodity-dependent countries adopted contractionary fiscal policies during the recent commodity downswing indicates that advances in this area have been limited.

Long-term effects are better seen in terms of GDP growth patterns, including a comparison with the period of state-led industrialisation as well as division by subregions, which take into account the greater recent commodity dependence of South America. Table 4.3 provides a simple comparison.[18] Taken generally, growth slowed during the market reform period (1990–2015) in relation to the levels observed during state-led industrialisation (1950–80). This is particularly true of the two largest Latin American economies. If we exclude these two countries, the slowdown was less marked. In the case of South America, the more moderate slowdown was closely associated with the weak growth of the Southern Cone countries (Argentina, Chile and Uruguay), which

16 A positive view of their advance into countercyclical fiscal policy is that presented by Végh and Vuletin (2014) and, to a lesser extent, Céspedes and Velasco (2014). In contrast, Klemm (2014) finds that fiscal policy has been procyclical on average in Latin American countries once the effect of commodity prices is included in the fiscal balance, with the IMF (2013) and Celasun et al. (2015) reinforcing the view of limited, if any, advance.

17 In the past, Colombia also successfully managed the National Coffee Fund, created in 1940, in a countercyclical way. However, with the collapse of the International Coffee Agreement in 1989 the country's capacity to use this instrument weakened considerably, and in any case coffee does not represent the share of the economy that it once did.

18 Given the demographic 'bonus' of recent years and what may be called the demographic 'tax' experienced in the 1950s and 1960s, comparisons of total GDP growth outperform those of GDP per capita. An alternative is to use GDP per worker, which tends to reinforce the preference for overall GDP comparisons.

TABLE 4.3 *GDP growth* (*in percentage*), *Latin America and its sub-regions*

	1950–80	1990–15	2003–13	2003–08	2008–13	2013–15
Latin America	5.5%	3.1%	4.1%	5.2%	2.9%	0.7%
South America	5.1%	3.1%	4.6%	6.0%	3.3%	–0.3%
Brazil	7.0%	2.6%	3.7%	4.7%	2.6%	–1.7%
Excluding Brazil	4.0%	3.6%	5.5%	7.2%	3.9%	0.9%
Mexico and Central America	6.4%	3.0%	2.9%	3.7%	2.2%	2.7%
Mexico	6.6%	2.7%	2.6%	3.4%	1.9%	2.3%
Excluding Mexico	5.1%	4.5%	4.7%	5.7%	3.7%	4.6%

SOURCE: AUTHOR'S ESTIMATES BASED ON ECLAC DATA.

were the poorest performers (together with Bolivia) during the period of state-led industrialisation. In the case of Central America, the political conflicts experienced by certain countries at the end of that period also tended to reduce growth.

As expected, the benefits from the 2003–13 commodity boom were captured by South America, which on average grew 1.5 percentage points faster than in the post-reform period as a whole (1.9 points if we exclude Brazil). Stronger growth was a feature of the first part of the boom (2003–08), rather than of the second part (2008–13); in fact, growth in the period 2008–13 was not much different from the post-reform average. In any case, the correlation between commodity prices and growth must be taken with a grain of salt, as Figure 4.7 indicates.[19] Although the correlation is positive, country-specific experiences have been extremely diverse, indicating that domestic policies and national structural factors (notably those affecting the largest economies of the region) may have been more important. So, among the South American economies, the good overall performance of Argentina, Peru and Uruguay in the period 2003–13 and the poor performance of Brazil cannot be explained by the intensity of the commodity boom. In turn, there is an ever larger divergence in experience among the small economies, which generally experienced adverse terms of trade shocks.

19 The correlation would be further weakened if we take into account the fact that the apparently good performance of Venezuela in the period 2003–13 was enhanced by a strong recession in that country in the period 2002–03, associated to a large extent with a strike at the state-owned oil company.

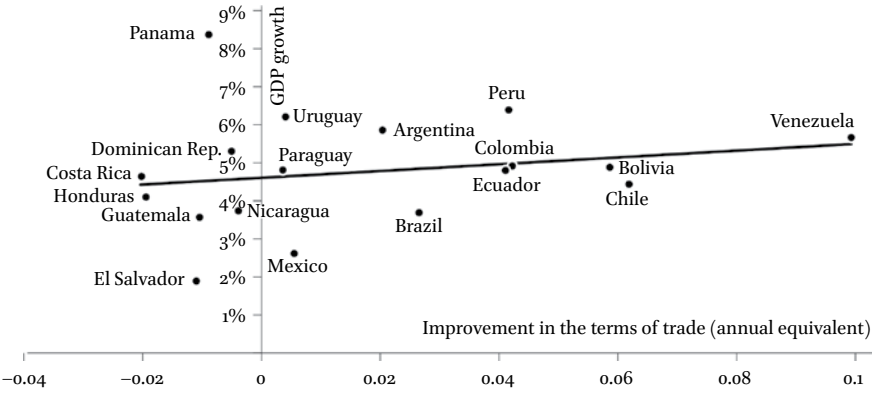


FIGURE 4.7 *Correlation between GDP growth and improvements in the terms of trade, 2003–2013.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ECLAC DATA.



FIGURE 4.8 *Share of manufacturing in GDP, 1950–2013.*
SOURCE: ECLAC.

Trends in industrialisation are part of the explanation for performance in different periods (Figure 4.8). The increasing share of manufacturing production in GDP (industrialisation coefficient, as we will call it here) was a strong and continuous process during state-led industrialisation, reinforced in different ways through the commodity cycle: by demand-cum-protection and foreign exchange availability during upswings, and by import substitution and export promotion policies during the downswing of the second half of the 1950s and the 1960s (Bértola and Ocampo, 2012, Chapter 4). The rise in the share of manufacturing came to an end in the mid-1970s, in the midst of a commodity and debt boom, indicating some (though still weak) Dutch Disease effects. The

collapse of the industrialisation coefficient took place partly as a result of the debt crisis of the 1980s, but particularly as a result of market reforms.

With regard to the 2003–13 commodity boom, better performance during its early phase (2003–08) may be associated with the stronger growth of manufacturing production, which contrasts with the collapse of the industrialisation coefficient during the second phase of the boom (2008–13). In fact, the early phase of the boom is a rare exception to the downward trend of the industrialisation coefficient since the 1980s, no doubt associated with a relatively competitive real exchange rate.[20] In contrast, the second phase of the boom was characterised by renewed and rapid deindustrialisation, associated in turn with fairly strong Dutch Disease effects generated by strong and fairly broadly spread exchange rate overvaluation, as well as by massive imports from China (Gallagher, 2016). This is on top of the negative technological gap that the region increasingly suffers from, not only in relation to East Asian economies but also to natural resource-dependent developed countries (see, among many others, ECLAC, 2012). What this also implies is that, in contrast to Pérez's (2010) analysis, and a few successful experiences aside, the region has failed to appropriate the full technological benefits of the exploitation of its natural resources.

5 Conclusions

Overall, Latin America—and, particularly, South America—has been unable to fully capture the benefits of its natural resource specialisation and has faced, in contrast, some negative structural effects of such dependence, notably deindustrialisation. Even more importantly, it has been a notable victim of the macroeconomic vulnerabilities generated by commodity cycles, largely because it has failed to develop the appropriate countercyclical macroeconomic policies. The lack of countercyclical policies was prominently reflected in the slowdown of South American countries' economies in the period 2008–13, which occurred despite the continuing commodity boom and was associated to a large extent with exchange rate overvaluation and renewed deindustrialisation trends. Furthermore, procyclical policies during the boom generated strong vulnerability to the collapse of commodity prices that has taken place in recent years.

20 According to the rates estimated by ECLAC, real exchange rates in South American countries were more competitive in the period 2003–08 than in the period 1990–2013 as a whole, except in Ecuador and Venezuela. They then experienced a strong appreciation in most countries between 2009–13.

This implies that the way forward, in the context of the negative phase currently being experienced by commodity prices, requires a very active strategy for the production sector, with technological development at its centre. This strategy must, at its core, blend an active search for production diversification with an explicit policy of reindustrialisation, but also with a commitment to fully exploiting the linkages and technological opportunities provided by the region's natural resource wealth.

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CHAPTER 5

Post-extractivism: From Discourse to Practice—Reflections for Action

Alberto Acosta

Abstract

The predominant school of thought leads us to believe that an economy without growth is an impossibility and that the only means of achieving development is through economic growth. In turn, this growth requires ever-larger amounts of natural resources to sustain increasing global demand, while generating revenue for the global South to overcome its 'underdevelopment'. Reality nevertheless tells us that moving beyond this vision is the most pressing challenge of our time: to overcome 'the religion of economic growth' and make room for new approaches that will enable us to escape the extractivism 'trap'. This chapter proposes to move towards a non-capitalist society inspired by the visions, values, experiences and practices of the different forms of *buen vivir* that can be found among diverse indigenous populations across our planet.

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> We must recover, maintain and transmit the historical memory because what begins as forgetting ends up as indifference.
>
> JOSE SARAMAGO

• •
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1 Introduction

The dominant school of thought leads us to believe that there is no economy without growth. To achieve progress, we are conditioned to believe that

* This chapter is a compilation of reflections that have been proposed and published elsewhere on an ongoing basis. The development of any alternative requires continuous re-examination and should be the object of broad and sustained debate.

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the only avenue is economic growth. And to ensure this growth, there must be increasingly large volumes of natural resources to sustain ever-growing global demand. At the same time, this effort, increasingly leveraged by extractivism, can ensure revenues for the global South—which generally supplies these resources—so that it might overcome its 'underdevelopment'. The reality, however, tells us that moving beyond these visions is now our greatest challenge.

The limits of nature, overwhelmed by the expansion imposed by capitalistic modernity and its process of accumulation, are increasingly evident and their transgression unsustainable. Simultaneously (inherent to capitalism and a civilisation based on inequality), there are multiple and growing ruptures that lead to complex and painful processes: for example, growing levels of migration from countries in the South to the USA and the European Union. Unhinged extractivism generates extreme violence such as that caused by the interventions of Western powers in Iraq or Syria, their real objective being to control oil deposits. And this violence feeds the migratory flow by increasing the number of refugees affected by war. To complicate this perverse scenario even further, we know, to the point of saturation, that economic growth does not necessary imply happiness, even in 'developed' countries. Additionally, this growth almost always increases gaps in societies: the riches of a few are often sustained by the exploitation of the many and of nature. Without a doubt, it is important to initiate a discussion that recognises that the capitalist system—according to the contentions of the Ecuadorian philosopher Bolivar Echeverria (2010)—lives to suffocate life and drain the living world, by which he refers to both labour and nature.

2 'De-growth' in the North and Post-extractivism in the South

From this perspective, it becomes indispensable to stop the maelstrom of economic growth and even 'de-grow', particularly in the global North. In a finite world, there is no place for permanent economic growth given that it could lead to an increasingly unsustainable situation in environmental terms, and create a more explosive situation in social terms. This challenge, as we will see later in this chapter, should go hand in hand with post-extractivism.

The interconnections underpinning this process in a global context are easy to foresee: for example, if economies in the North stop growing or shrink, the demand for raw materials will diminish; in this scenario, the countries of the South would be ill-advised to continue sustaining their economies with exports of raw materials. Furthermore, economic growth is hardly synonymous with 'development'; it is akin to chasing a ghost.

It is thus indispensable for poor countries to responsibly address the subject of growth and rethink 'development'. Freeing ourselves from the shackles of 'development' could strengthen our capacities to find other avenues that allow us to build societies and guarantee a dignified life for all citizens, based on the visions and proposals of each society, and not on an unviable copy and caricature of other realities.

This requires putting—from the outset—economic growth in its place and, at the very least, differentiating 'good' growth from 'bad' growth. Manfred Max-Neef, the Chilean economist (and Alternative Nobel Prize winner), is categorical in this respect: 'If I dedicate my time, for example, to totally plundering a natural resource, my economy will grow but at the cost of ending up poorer. In reality, people do not perceive the abhorrent nature of the conventional macroeconomy, which calculates the loss of patrimony as an increase in income. Behind every figure of growth, there is a human story and a natural story. If these stories are positive, growth is welcome; in any case, growing little but well is preferable to growing a lot but poorly'.[1] (Our transl.) This line of questioning does not in any way imply sustaining current inequalities and social inequalities that permit the opulent groups in the North and South to maintain their privileged ways of life.

It has been proven that economic growth, provoked by the voracity of capital (which accumulates by producing and speculating), leads to an increase in inequalities. Social inequality is a global issue that also affects 'successful' economies, which are posting increasingly higher levels of frustration and unhappiness. We need only look at some figures on the unequal distribution of wealth across the globe, which is also seen in 'developed' countries,[2] to see that this scenario has worsened over the past few years: while in 2010, 388 people had accumulated the same amount of wealth as more than half of the global population (ca. 3.500 million people), by 2015 this number had fallen to 62 people according to an Oxfam (2016) report. According to this same source, the riches in the hands of these 62 richest people had increased by 44 per cent; in only five years, the wealth in the hands of the poorest half of the population fell by more than a billion dollars, plummeting by 41 per cent.

As such, to begin any post-extractivist and post-growth option, it is important to focus on building societies that are anchored in equality and equities (in the plural) that allow us to create an ecological and social balance.

1 See the open letter of Max-Neef to the Chilean Minister of Economy, December 4, 2001.

2 As an example, we can review the figures for inequity in Germany, the country of the 'inventors' of the highly promoted concept of the social market economy, and where the results are rather sobering: in 2008, the richest 10 per cent of the population held 53 per cent of the assets while one half of the population owned one per cent of the assets (Amann et al., 2014).

3 A Complex and Hopeful Global Process

It is important to find a way to exit the current capitalistic civilisation but we must remember that this will not happen overnight. We have to be open to transitions that entail thousands of diverse alternative practices—many of which are not capitalist—across the planet; practices that are oriented towards utopic horizons that propose a life among human beings and between human beings and nature. This entails patiently and confidently building and rebuilding, which also entails dismantling various fetishes of capitalist society. An excellent example of global action[3] was—and continues to be—the proposal to leave crude oil in the subsoil of the Ecuadorian Amazon: the initiative Yasuni-ITT. This proposal contends that the richest countries, which are largely responsible for grave environmental problems, must assume their responsibility to stop and reverse these imbalances. This initiative has not succeeded because rich countries have failed to assume their responsibilities and the Ecuadorian government has been incapable of handling the revolutionary challenge posed by civil society. This is a key point. Alternative values, experiences and civilisation practices are available, and include those offered by *buen vivir* (or *sumak kawsay* in indigeneous language) from indigenous communities of the Andes and the Amazon. Better yet, we can speak of 'good coexistences', in the plural, to avoid implying that there is only one homogenous form of *buen vivir* that would be impossible to build. These visions require a world in which other 'worlds' can enter without risk of being marginalised or exploited, and which calls for another economy based on the harmony, solidarity and reciprocity proposed by *buen vivir*.

All of this opens the door to a new type of civilisation in line with the visions and experiences that reflect the praxis of the full, harmonious life that is proposed in different corners of the world. In fact, there are many experiences and contributions from different latitudes that can come together to build alternatives to move away from extractivism.

This is evident given that the challenge entails building strategic transition in various ambits but without establishing universally valid recipes. In this chapter, we will look at just a few of the main ideas of the debate. A pending task will be to look at these ideas within the context of concrete cases, but this is beyond the scope of this chapter. In any case, it is important to keep in mind the need to propose joint solutions given that the challenges, such as the serious challenges derived from changes to the global climate, cannot be

3 Certainly, it is necessary to rescue and strengthen all the proposals that tend towards propagating global change, and to build many more (in this regard, see Acosta and Cajas, 2015).

resolved by each of the countries in an isolated manner. Coordinated responses that cross the spectrum and are global in reach are required.[4]

4 From Colonial Extractivism to Neocolonial Extractivism

Let us start with an understandable definition: extractivism makes reference to activities that remove large volumes of non-processed natural resources (or resources that are limited in quantity), particularly for export, to cover the demand in central countries. Extractivism is not limited to minerals or petroleum. Agricultural, forest, fishing and touristic extractivism exist. As such, and in line with Eduardo Gudynas—who proposes this definition—it is better to speak of extractivisms.

Extractivism is a concept that helps explain plundering, accumulation, concentration and colonial and neocolonial devastation, as well as the evolution of modern capitalism and ideas of 'development' and 'sub-development'. Extractivism began more than 500 years ago; neither extractivism nor colonisation (which is tied to extractivism) ended after European domination of America came to an end. Conquest and colonisation, hand-in-hand with extractivism, continue to be present throughout the region of Latin America, in both neoliberal and 'progressivist' countries.

The structuring of the world-economy, the capitalist system, began with the conquest and colonisation of America, Africa and Asia. The modality of commodity-export (or extractive) accumulation was a foundational element of this system, and has been defined by demands that are generated in capitalist centres. Some regions specialised in extracting and producing raw materials and primary goods while others became manufacturing areas, which frequently used the natural resources of impoverished nations. In summary, the majority of 'developed' countries are net importers of nature and the 'underdeveloped' are net exporters of nature. This has led to the entrenchment of primary-export accumulation, and of extractivism, which is one of its manifestations.

As such, and despite the current emancipating discourse some progressivist governments on the subcontinent have articulated, the region continues to be a strategic territory for global capitalism. This is evident in the fact that

4 The proposals formulated by Gerardo Honty and Eduardo Gudynas (2014) in the framework of the meetings of civil society during the conference for signatories of the United Nations Framework Convenion on Climate Change in Lima (COP20) in December 2014 constitute, in conjunction with other contributions along these lines, a very rich starting point from which to make the leap from criticism to guiding proposals.

the potential of these countries to act as suppliers of natural resources to central countries has increased with China and India joining the fray. This also has an impact on area infrastructure, where large investments are being made primarily to reduce the costs and times of the extraction or transportation of raw materials. Take, for example, large hydroelectric dams, whose energy is used mainly to meet the demand of extractivist projects in the mining and oil sectors in particular.

5 The Main Pathologies of Extractivism

To propose post-extractivist responses, it is necessary to identify the problems that must be resolved and determine the capacities available to address them. We are aware of the pathologies that affect economies where authorities and the dominant elite bet primarily on extractivism. Here we would like to mention as critical points several pathologies that generate this scheme of accumulation, which is fed by increasingly pernicious vicious circles:

- Is it normal that these economies experience various 'diseases', particularly the 'Dutch Disease'?[5] An abrupt and massive flow of currencies causes an overvaluation of the exchange rate and competitiveness is lost, which has an adverse effect on the manufacturing and agricultural export sectors. Given that the real exchange rate appreciates, resources migrate from the secondary sector to non-tradable segments and to those where booming primary-export activity either exists or exerts an influence. This distorts the economy by cutting investment funds that could be destined for the very sectors that produce greater added value, more employment, and improvements in the incorporation of technological advances and productive chains.
- Specialising in primary exports—in the long term—has often been a negative strategy due to the trend towards a downturn in the terms of trade. This process favours imported industrial goods but adversely affects exports of primary goods given that these products have low elasticity-income, can be replaced by synthetics, and do not possess monopoly power given that their technological contributions and innovative development capacities are low (they are commodities, meaning that their prices are set primarily by the

5 Other income exists that can provoke similar effects, including remittances, foreign investment, assistance for development, and even massive inflows of private capital (Schuldt, 1994).

logic of market competition), and that raw material content is becoming increasingly less significant in the manufacturing process. This impedes countries that specialise in exporting highly homogenous merchandise, meaning raw materials, from fully participating in gains in terms of economic growth and global technical progress.

– The high rate of sustained gains on differential, or Ricardian rents (derived from natural resources and the fruit of human effort) that contain primary goods, leads to their overproduction. Additionally, these rents—more so when no royalties or corresponding taxes are collected—create surplus gains that distort a country's resource allotment. This makes it important to 'nationalise natural resources' (such as oil) to at least drive efforts to better distribute the extraordinary gains and revenues obtained by companies.
– The volatility in the price of raw materials on the global market has led primary-export economies to suffer recurring problems in their balance of payments and fiscal accounts, causing severe dependence on external financing and subjecting national economic and sociopolitical activity to erratic fluctuations. This is exacerbated when prices fall in international markets, consolidating the crisis in the balance of payments. The situation is worsened by major capital flight during boom cycles, alongside tenuous local capital, which heightens external constraints and problems of indebtedness during the boom periods.
– Dependence on foreign markets, although paradoxical, is even more marked in times of crisis, especially in the event of generalised government blockades. Most economies dependent on primary resource exports fall into the trap of forcing up extraction rates when prices drop. They seek to sustain, by any means possible, the revenues generated by primary exports. This can prove beneficial: a larger supply of raw materials—oil, minerals or food—in times of depressed prices creates a surplus, which reduces prices even further, thus generating 'impoverishing growth' (Bhagwati, 1958).
– The boom in primary exports also attracts the watchful international banking sector, which disburses loans abundantly during boom times, as if this were a sustainable approach. This financing is received with open arms by governments and business people who believe in permanent miracles. This provokes overproduction of primary resources still further (through oil subsidies), which increases distortions in the sector. As historical experience shows, the future of the economy is mortgaged early on in a crisis when the inevitable time comes to service the sizeable external debt that was contracted during the period of export euphoria. And the ability to service this debt becomes particularly burdensome as export prices fall and interest rates in metropolitan economies increase.

- The abundance of external resources, fed by exports of oil or minerals (as has been the case in the last few years) creates a consumption boom, which leads to the aforementioned consequences. In this context, resources are wasted given that national products are substituted by external products, a process that is stoked by the overvaluation of the exchange rate due to the massive capital inflow. More investment and public expenditure, without due provisions, encourage imports and not necessarily domestic production.
- This experience also illustrates and confirms that extractivism does not generate dynamic productive chains. Nor does it ensure integration or synergistically productive links in terms of consumption and fiscal ties. Extractivism also fails—to an even greater degree—to facilitate or guarantee technological transfer and the generation of externalities in favour of other sectors. From this, we can derive one of the classic characteristics of primary-export economies, present since colonial times: enclaves where extraction is generally isolated from the rest of the economy, such as the case of oil, mining or monocrops.
- Closely related is the fact that companies controlling the exploitation of non-renewable natural resources in the form of enclaves, due to the location and form of exploitation, frequently become powerful business entities (or para-states) within relatively weak national states. This weakens the logic of the nation-state and gives way to the 'deterritorialisation' of the state, leaving the responsibility for attending to social needs, for example, to extractivist companies. This leads to disorganised and unplanned management of these regions, which often operate outside national laws. All of this creates an atmosphere of violence and increasingly higher levels of marginality, which leads to repressive, myopic and clumsy responses from certain states that fail to fulfil social and economic obligations.
- In these economies, there is low absorption of the labour force (and the labour force that is absorbed tends to be overexploited). Along the same lines, the unequal distribution of income and assets leads to a dead end on both sides: the marginal sectors, with higher capital productivity than the modern segments, do not accumulate given that they lack resources to save and invest, while the modern sectors, with higher manual labour productivity, do not invest given that they lack internal markets that ensure attractive returns. This in turn adversely affects the availability of technical resources, a qualified work force, infrastructure and currencies, which discourages investment and subsequent activity. This means that these productive apparatuses are defined by structural heterogeneity (Pinto, 1970).

- In addition to the above mentioned points, there is the argument that, unlike other sectors, extractivist activities (particularly mining and oil) take on limited direct or indirect labour, even if it is well-paid. The sector hires highly qualified managers and specialised workers who are often foreigners. It is a sector that is capital and import intensive and which uses almost exclusively foreign inputs and technology. All of this contributes to the derisory 'internal return' (equivalent to the added value that is maintained in the country) of primary-export activity.
- This generates new social tensions in the regions where these natural resources are extracted given that very few people in these areas are on the payroll of mining or oil companies, nor do they benefit indirectly from the revenues derived from their activities. In terms of monocrops, which require a high concentration of manual labour, labour relations are precarious and include practices of semi-slavery. We need only mention in this regard the banana plantations of Ecuador.
- Derivatives of exports of primary goods consolidate and deepen the concentration and centralisation of income, revenues and political power. Transnational companies are the major beneficiaries in this scenario—seen as promoters of modernity—and are recognised as having 'meritoriously' taken risks to conduct exploration and exploit the natural resources. No one speaks about how this leads to more 'denationalisation' in the economy, partially due to the volume of financing necessary to exploit resources and to the lack of a consolidated national business community, and—to no lesser extent—the lack of government willingness to form strategic alliances with local business people. Additionally, and quite unfortunately, some transnationals have taken advantage of their contribution to the balance of trade to influence power in the country and permanently threaten governments that dare to swim against the tide.
- In these enclave economies, the political structure and dynamic are characterised by 'rentierism' and by the voracity and authoritarianism with which they make decisions. This voracity causes public expenditure to leap way out of bounds and leads to a scenario in which fiscal management lacks adequate planning. This 'voracity effect' consists of a desperate search for and abusive appropriation of a large segment of surpluses in the primary export sector. The politically powerful squeeze the surpluses, sometimes with corrupt mechanisms, to perpetuate power or simply to profit from it.
- Extractivism causes the natural and social environments in which it takes place to deteriorate. This takes place despite some companies' efforts to minimise contamination and to take social action to establish 'friendly' relations with communities. For this reason, there are more and more

defensive responses from affected communities, which are increasingly repressed by governments and extractivist companies. In this scenario, moves to criminalise social protest become key tools in initiatives to deepen extractivism.

Despite the heavy weight of arguments against primary-export accumulation that gave rise to the theory of the 'resource curse' (Acosta, 2009), it remains undisputed in countries that are predominantly extractivist economies, to such an extent that it seems the real curse is actually their inability to face the challenge of constructing alternatives to the continuation of primary-export accumulation and its undeniable failures.

Once these pathologies have been recognised, we can present concrete recommendations to address them. But this isn't sufficient. There is a fundamental issue at stake. The massive appropriation of extracted natural resources brings with it violence that tramples human rights and the rights of nature; 'this is not the result of one type of extraction but instead is a necessary condition to engage in the appropriation of natural resources', as Eduardo Gudynas (2014) wisely indicates.

In synthesis, there is no good extractivism[6] or bad extractivism. Extractivism is what it is: a set of activities to massively extract primary resources for export, which, within capitalism, becomes a fundamental element of the modality of primary-export accumulation. In this sense, extractivism is essentially predatory, like capitalism. 'The capitalist way lives to suffocate life and the world of life; this process has been taken to such an extreme that the reproduction of capital can only take place if it destroys human beings to the same extent as nature. The revolution implies transforming and subverting capitalism rather than learning to live within this system' (Echeverria, 2010, our transl.).

All aspects described above with regard to extractivism interrelate with typical elements of 'underdevelopment':

– A weak internal market driven primarily by low income and enormous inequalities in the distribution of wealth.
– The growing poverty of the masses contrasts with the concentration of income and assets in only a few hands.
– The presence of outdated productive systems that characterise the structural heterogeneity of the productive apparatus.

6 Except in the case of the use of the term in Portugese, when referring to sustainable extraction of natural resources of the forest, such as chestnuts or wood, which does not affect the existence of the forest and all of its rich diversity.

- Scarce productive and sector chains, in particular in terms of the ties between export activities and the rest of the economy.
- The productive concentration of non-elaborated goods to serve the external market despite the ups and downs of international prices in the primary sectors, which are also capital intensive and require limited manual labour.
- The lack of adequate integration among the diverse regions of each country, particularly in terms of infrastructure and productive exchange.
- The tendency for wealthy countries to absorb the savings of the poorest regions, which creates 'circular accumulative causation' (Myrdal, 1957), which in turn generates increasingly higher levels of impoverishment while others reap more and more benefits.
- The absence of a modern system of science and technology, based on the development of comparative dynamic advantages.
- Poor management by the state and significant levels of arbitrary behaviour in the bureaucratic apparatus.
- Consistently low expenditure on social policies, particularly in health and education; investment in these sectors is often poorly implemented.
- Massive inefficiencies in the private sector.
- Widespread corruption at the societal level, in both the public and private sectors.

Despite the fact that this reality and its pathologies are well known, after so many decades of dependence on these types of extractivist activities, there are very few effective responses. In the last few years, the most noteworthy response entailed efforts to build stabilisation funds (with some exceptions), whose efficacy depends on the duration of low prices for raw materials in the global market. What is, however, absolutely clear is that dependency on extractivism has increased both in countries with neo-liberal governments and in those that are considered 'progressive'. All of these governments, hand in hand with extractivism, have begun a new developmentalist crusade.

6 Basic Elements to Avoiding the Extractivism Trap

Someone—whether due to bad faith or to ignorance—may be entranced by the following hallucinatory idea: if the primary-export economy generates and perpetuates 'underdevelopment', the solution would consist of halting natural resource exploitation. Obviously, this is a fallacy. In the words of Joseph Stiglitz: 'the natural resource curse is not a matter of fate but a matter of choice' (2006, 198). This should be, at the very least, a democratic choice that establishes the

bases to drive transition processes that free us from the ties of extractivism without risking life, whatever the reason.

Evidently, there are powerful interests that keep us on this dead-end path and prevent a democratic determination of the economy's course.[7] There are countries or transnational groups (for example, current Chinese companies) that, taking advantage of the 'naivety' of authorities and the dominant elite, throw out 'lifebelts' by providing some financial resources—many times under conditions that are openly contrary to the interests of the global South—in exchange for keeping the country on the primary-export path.

The goal is to opt for new paths with concrete solutions that are not a mere copy of other situations. To achieve this, we need alliances and consensus that provide answers from the inside out, taking greater advantage of local and national capacities, including those that offer regional integration based on a vision that is inspired by autonomous regionalism and not by the open regionalism proposed by neo-liberals.

Along these lines, the potential of another form of integration comes to the forefront: autonomous integration, which is not just a platform for insertion into the global value chains of transnational capital. And in the meantime, there is a need to propose another civilising horizon, given that, as we know too well—and based on the thought of Ana Esther Ceceña (2008, 11)— 'within capitalism there is no solution for life; outside of capitalism there is uncertainty but everything is a possibility. Nothing can be worse than the certainty of extinction. It is the moment to invent, the moment to be free, the moment to *vivir bien*' (our transl.).

It is important to understand that we cannot overcome extractivism overnight. It is certain that while dragging the chains of capitalism, we must overcome capitalism, for example by strategically using revenues from raw material exports. Here, we propose some basic ideas that are still based, to a large extent, on conventional economics, which is the point from which we will need to build post-extractivist transitions as a basis for a new economy that we can define as the economy of *buen vivir*.

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7 This 'new corporate class' has captured not only the state—doing so, moreover, with little heavy-hitting opposition—but also important communication outlets, pollsters, business consultants, universities, foundations and law firms. In this way, it has become a 'privileged political actor', given that its members possess 'levels of access and influence that no other interest group, strata or social class can match', which, once again, allows them to 'push for the reconfiguration of the rest of the social pyramid'. This 'is about an invisible hand in the State that offers favours and privileges and that later, once obtained, tries to maintain them at any cost', interpreting them as 'acquired rights' (Durand, 2006, our transl.).

To achieve this, we need to roll out transition strategies while extraction—but on an increasingly less significant scale—of natural resources that are in some way carriers of the 'abundance curse' continues. On this journey, the latent risks of depending on extractivism will remain and maintain the colonial characteristic of raw material exporters. The success of the effort to exit this reality will depend on the coherence of the alternative strategy and, moreover, on the social backing in place. This consideration, nevertheless, cannot be interpreted as a call to 'exit extractivism with more extractivism'.

The task is not simply a matter of extracting more natural resources to obtain revenues to overcome extractivism, nor of optimising extraction by repairing and restoring the environmental and social damage caused by these activities. It is increasingly important to actively include environmental demands, for example a moratorium on oil activity in areas with high biodiversity in the Amazon, which would be in the interests of society in the mid and long term. And even more importantly, we need to transition from an anthropocentric civilisation to a biocentric civilisation; in this regard 'perhaps there is no greater cause since the Universal Declaration of Human Rights than fighting for the Rights of Nature', as the Argentinean senator Fernando Pino Solanas posited in his intervention in the Ethical Tribunal for Natural Rights, in Paris in December 2015.

The first step is very concrete: it is necessary to obtain the maximum social benefit possible from each ton of mineral or each barrel of oil extracted instead of maximising extraction. Along these lines, it will be necessary to revise various contracts that have been proven to adversely affect national interests.

Keeping in mind each of the general proposals that have been outlined above, and without professing to have addressed all of the points that must be considered, in the text below we propose some relevant aspects that seek to fuel the debate on a democratic construction of responses that transform the existence of important natural resources into a lever for well-being in order to overcome the 'abundance curse' that replicates, time and time again, 'underdevelopment'.[8]

6.1 *Elements for a Productive Transformation*

Among the requirements for achieving post-extractivism, we find the need to overcome low productivity in the productive segments for goods that serve the needs of the majority of the population and that account for the majority of

8 There are various proposals in this regard; see the ideas proposed by Schuldt (1994) and Schuldt and Acosta (2000).

manual labour jobs. To achieve this, we need to make massive investments, but financing cannot come from the investments themselves given that they do not generate surpluses (nor do they take advantage of differential or Ricardian rents). This obliges us to transfer surpluses to productive segments, particularly those that exploit natural resources (fundamentally for the external market, for example oil or minerals) and also the modern urban segments (which produce luxury goods).

Since traditional segments do not generate substantial gains, producers of primary goods (primarily exporters of natural resources) must fulfil a central role: providing resources—particularly currencies—to ensure that the system will be reproduced and transfer part of the surpluses to traditional segments with elevated capital productivity, which are more intensive in term of imports and employment, they are in charge of satisfying the demand for food and services in the internal market, and in the majority of cases they are less predatory in terms of the environment.

The system of accumulation, in terms of the state's management activities, economic policy and legal–administrative as well as structural–institutional reforms, should concentrate on specific segments during the 'transition phase', with special emphasis on those that produce mass goods (traditional urban and rural segments and, to a lesser extent, some branches of the modern urban segment). Exports with higher internal rates of return, which imply lower socio-environmental impact, must be promoted. And gradually, we will free ourselves of dependence on extractivism.

This inter-segmental transfer should take place in the sociopolitical and cultural organisation of population groups to ensure that they become social subjects. This will allow these groups to develop their own productive forces and become dynamic players in the sociopolitical process. The dispute over a new modality of accumulation is not the only thing at stake; power itself and the move to build a new society, with different consumption patterns and other expectations, are also on the table.

It is important to note, among many other actions that are not mentioned here due to lack of space, that measures that transform and drive agriculture, including food sovereignty, modifying consumption patterns and using productive capacities should be adopted. All of this requires redistributing income and riches. This means transforming the structure for land and water holding and facilitating access to credit and markets (a real and deep agricultural reform).

It is also important to develop a large, qualified labour force to ensure that people lead a dignified life and not simply to favour the accumulation

of capital. This requires an integral and committed education reform whose conceptualisation is tied to human rights and the rights of nature.

6.2 *New Social and Political Demands*

Different and differentiating economic management also requires social changes that do not depend solely on offering economic rationality for social policies. Its reformulation and orientation must be based on principles of efficiency and solidarity that strengthen the cultural identities of local populations by promoting interaction and integration between popular movements and the economic and social inclusion of the differentiated masses, which will go from playing a passive role in the use of collective goods and services to being autonomous drivers of health, education and transportation initiatives at the local–territorial level.

In political terms, this process would contribute to establishing and strengthening institutions in local and municipal spaces that are representative of the majority by expanding through concentric circles until the national level is covered, and confronting the domination of financial capital and state bureaucracies, which are the most resistant to change.

It will also be necessary to ensure the efficient use of revenues from natural resource extraction and export. This will require fiscal discipline and tax measures that facilitate state expenditure and investment, with sustainable criteria, in a framework of structural policies with long-term horizons. More democracy is required for the design of these norms and policies, given that they would provide the overarching framework for the adequate use of non-renewable resources. We also need to reflect on how to create a savings and stabilisation fund that transforms temporary revenues into longer-term revenues—which will eliminate, or at least reduce, the effect of price volatility—but without using these funds for perverse ends, such as to guarantee the payment of external debts.

This implies managing, at the local and community levels, spaces of real power—real counter-powers of democratic action in the political, economic and cultural realms. From these points, we can develop the embryos of new state institutions, a renewed logic for the market, and a new social coexistence. These counter-powers will be sustained by a collective strategy to build a new image of coexistence: *buen vivir* or *sumak kawsay*, which cannot be an abstract vision that casts aside the actors and relations that are present, but rather one that focuses instead on a concrete vision that recognises the actors and their relations as they are now and not as we would like them to be tomorrow.

7 Configuration of a Domestic Market for the Masses

The transformation of the productive apparatus must stimulate internal savings (given the growing limitations of the external market and foreign financial flows with regard to feeding productive activities), balanced investment and the development of productive forces.

External capital will not be (nor has it been) a determining factor; extractivist investments even less so. Efforts to generate domestic savings, to promote the suitable use of resources and available capacities, and to develop institutions that are aligned with the objectives that are proposed are far more important.

A fundamental role falls to internal markets, which must strengthen in order to engage internationally in such a way that patterns of domestic consumption are modified and the export basket is diversified thereby adding value. For this reason, policies should align the demand for supplies of final and intermediate goods and their means of production. And these supplies must be based on using internal resources and technologies that are adequate in social and ecological terms.

This transformation does not imply translating the axis of action from the outside—imports and exports—to the inside, meaning basing it on local production that will be projected to the global market. This is not enough. Additionally, this effort is not aligned with the civilising change that is needed. Domestic markets should be supplied with local and national production, and also gradually assume new patterns that are inspired by sustainability, solidarity, reciprocity and sufficiency.

8 Integration of the Export Sector with the Rest of the Economy

As the domestic market expands, producers and current exporters will have a growing interest in selling within their own country, either final goods or inputs, and industry will be oriented towards satisfying the demand of the vast majority of the population. In addition, the growing purchasing power of the people will create more incentives for local producers to develop products targeted at the domestic market. In the long run—and this could be another central goal of the alternative strategy—the export sector will be fully integrated into the national economy and, once the domestic market has been exploited, alongside its expansion, the export sector will be able to increase its international competitiveness. Moreover, this integration will need to be linked to a

new form that coexists with nature as an axis of an economic scheme that is in harmony with *Madre Tierra* (Mother Earth).

By strengthening the internal market and increasing the quality and quantity of products, these goods can be gradually introduced into the global market, in neighbouring countries in particular, and in accordance with a process of autonomous integration that is more symmetrical, sustainable and equitable. What should be clear is that the global market cannot be the main objective of economic policy. This demands developing competitive capacities internally to perform better in the international sphere. And the unavoidable prerequisite to this consists of developing a modern complex of science and technology that is constantly seeking new knowledge, while—of course—respecting ancestral knowledge and wisdom.

By losing its character as an enclave, the export sector will generate—with productive chains, demand and fiscal components that move from the outside to the inside—more income and employment in other economic sectors and segments in order to break the vicious circle.

At this point, it would be good to remember the recommendation of John Maynard Keynes (2003 [1933]): 'I sympathize, therefore, with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel—these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national'. Past strategies and those that are currently in vogue, and which are directed almost exclusively at exports, tend to drown local business capacities (which are usually not taken advantage of) and production for the internal market. To accomplish this, real salaries are contained and even reduced, giving rise to systems of increasingly predatory flexibilisation of labour relations to maintain or expand spurious international competitiveness for exports.

Here it is important to mention the other avenue to improve competitiveness—which is also wrong and, to a large extent, complementary to the approach already mentioned—the plundering of the environment due to a detrimental scheme that places greater importance on short-term returns than on any other long-term considerations.

In all successful cases where primary goods are leveraged, it is crucial to adapt innovation and technology (cutting-edge, intermediate or traditional) to local conditions. But we need to be careful when we use this technique. We are well aware that this approach is not neutral. This is not meant as a conservative view of technological progress but instead reflects a concern about

the direction that this process takes. Modern techniques are submitted to a process of capital valuation, which is toxic in many respects. Frequently, techniques are developed based on demand for capital accumulation. We should not forget that all techniques are endowed with a 'social form', which entails ways that we relate to each other and build our identities; just look at the society that 'produced' the automobile, and the type of energy it requires. So this is another point that we need to consider during transition processes.

If we return to our reflections, if we expand the export sector and its associated sectors at the same time as we increase salaries, this will drive a strong internal demand for mass consumption and simple goods that, over time—with the increase in the average income of the majority—can become more sophisticated. This will increase the returns on investment, which will be attracted to producing processed foods, clothing and durable goods to replace imports and stimulate consumption chains. Little by little, to supply the industries that produce consumer goods, new segments of equipment production, machinery and inputs will emerge to cover the demands and needs of productive infrastructure (investment chains). All of this has been reported in other cases.

The idea is to achieve—over time—maturity and adequate levels of complexity, which include diversification and higher levels of inter–intra-sectorial interaction to take advantage of greater economies of scale and develop dynamic comparative advantages. Export enclaves will acquire internal coherence; the dual economy will give way to an integrated national and local economy, whose dynamic development will be driven by internal momentum that will be endogenous to the development of its own productive forces and of the expansion of internal mass markets, which will be a counterweight to the plantation or monocrop economies, as well as those based on increasingly higher levels of oil exploitation and mining.

In line with this thinking, the expansion of domestic employment (and consequent wage rises) is not conceived as a later stage, to be achieved only after encouraging exports in the long run. The logic of the global market is not expected to generate virtuous chains spontaneously, particularly in terms of capitalist globalisation. Historic experiences show that with extensive and intensive exploitation of internal markets, little by little we will access the international market to develop authentic competitiveness for processed goods. But this is not the ultimate objective of these transitions, which is rather to build dignified and sustainable lives for all inhabitants.

In synthesis, the idea is to gradually transfer the surpluses of extractivism to strengthen non-extractivist productive activities that will ultimately replace extractivism. As other productive activities are strengthened, it will

be possible to gradually suspend primary exports, which have caused grave socio-environmental problems.

9 An Indispensable Strategic Conception of Autonomous Integration and 'International Insertion'

The integrationist effort has focused mainly, up to this point in time, on trade relations, and has failed to drive complementarity and, to an even lesser extent, ensure regional sovereignty. Perhaps these limitations were due to the rent seeking practices that feed extractivism: another pathology to carefully consider. To achieve regional sovereignty, it is necessary to transform the integration between peoples in the region by creating a different type of integration than that which currently predominates.

In extractivist economies—with a high demand for capital and technology—that work as enclaves (without integrating primary-export activities within the rest of the economy and society), the productive apparatus is subject to the vicissitudes of the global market. In particular, it is vulnerable to competition for other countries in similar positions, which seek to sustain their income without paying sufficient attention to adequately managing prices. Opportunities for regional integration, which are indispensable if domestic markets are to be expanded, disappear if neighbouring countries produce similar raw materials, compete with one another, and hold down their export prices instead of working together in regional blocks that expand their markets and increase the complexity of their productive apparatuses.

At all times, it is necessary to consider the international environment, which is charged with uncertainty and instability and is, quite often, contrary to the interests of countries that produce natural resources. This causes strategies that are simply directed at openness to lose their viability and runs the risk of creating only 'islets of modernity', which are, in other words, enclaves that are detached from the economy. And we cannot generate exports that leave the internal market without supply. It is thus necessary to overcome fashionable trends and to propose strategies that reflect an understanding of the fact that the internal market must be prioritised. This requires taking advantage of and developing internal potential based on local demand.

All of this implies a new way of operating internationally, which must run alongside the development of a new profile for internally sustainable productive specialisation. The idea is to define—in dynamic terms—the lines of production in each country (based on the logic of economic blocs), concentrating efforts on increasing competitiveness and productivity but from a systemic

and sustainable perspective. It is necessary to increase levels of quality employment and income by making capital, rather than work, more flexible. Otherwise, the workforce risks being exploited. To accomplish this, it is necessary to apply structural policies to redistribute wealth and income.

This entails, as we should expect, a deliberated and planned process for productive reorganisation that begins with building consensus among the state, social sectors and different economic agents—public and private, but in particular among cooperatives, associations and communities in the framework of a long-term democratic process.[9]

In addition, we understand the need to make the internal market and the domestic productive apparatus more robust. This would be a prerequisite of sorts for establishing a productive system that is competitive with the system outside the country without overdetermining the national productive structure and patterns of consumption. Here it is necessary, among other things, to implement measures that encourage the transformation and dynamism of agriculture based on the demands of food sovereignty, and to recognise the need to adopt different patterns of consumption (in truth, it is necessary to dismantle consumerism, improve the distribution of income and wealth, provide large-scale jobs training, undertake education reform and absorb as well as generate technical progress).

We need an economy that generates surpluses for productive accumulation instead of feeding productivism, especially if the latter is sustained by imports. A society that is committed to this change will be in a position to strengthen all of its capacities and will be stronger in the face of adversity. And among the many environments in which transitions are urgent, we have the energy sector, which requires local, national, regional and even global action.[10]

10 Initial Conclusions

The initial goal is to raise questions about extractivism (Acosta, 2014) and economic growth within the debate. This is the only way that these issues will gain the necessary weight. There is still little willingness at the government level,

9 Perhaps under these conditions, with economic blocs of countries that generate complementary production, and where these blocs achieve self-sufficiency, particularly technological, it is possible that Ricardian comparative advantages will benefit all the participants in international trade, as opposed to the situation now, where international trade definitely creates winners and losers.

10 See, among other topics, the contribution of Acosta et al. (2013b).

and even among citizens, to initiate this debate, given that both have assumed that the extractivist route, and moreover economic growth, are indisputable.

Many people continue to believe that we are nations of scroungers, sitting on a pot of gold, and that the solution lies solely and simply in the (efficient) extraction of natural resources. We need to understand that we truly have the capacity to free ourselves from the yoke of economic exploitation (local and external) and that, with our own work and without ceding abundant surpluses to central countries, we can overcome the extractivist model and perhaps even reconsider the conception of economic growth without assuming that it is some kind of indisputable religion.

It must be clear that the extractivist economy (meaning mainly primary-export) perpetuates our underdevelopment and makes it impossible for us to build *buen vivir*, or *sumak kawsay*. We can experience periods of economic boom, which are driven by high prices in the global market, but sooner or later, new crises will appear on the scene. And during these periods of scarcity, the curses generated by extractivism will worsen.

It is thus vital to overcome extractivist dependence. But to do this, we will need to develop and execute precise strategies that are flexible enough to address the challenges that this transition will imply.

In synthesis, to provide a structural solution to inequity and inequality, we must change the modality of accumulation, which implies giving way to visions and actions that move towards post-extractivism. But this, although important, is not the only consideration. We need changes based on strategic horizons other than capitalism. If we remain within capitalism, economic inequality and environmental degradation will never be overcome.

Hence, the reflections made under previous points should be aligned with referential elements of *buen vivir*, meaning 'this is the most attractive alternative to capitalistic modernity' (Giraldo, 2014). This conception of life, where relationality plays a preponderant role, will require an incessant and complex flow of interactions and exchanges. Giving and receiving, through a never-ending process of reciprocities, complementarities and solidarities, constitutes the basis for *buen vivir*. This means we must assume an ethical stance that should govern human lives: take care of yourself and other living beings. In this world of harmonies, life takes precedence over any other consideration. We would say, in terms of political confrontation, that *buen vivir* is concerned with reproducing life and not capital.

The concepts of *buen vivir* need to be understood from different perspectives. It is important to avoid homogenising conceptions, which restrict the visions and understanding of alternative approaches. Despite this, at the core of the debate is the holistic view of life in a community and of the *Pacha Mama*

(Mother Earth), where each has a relation to and complementarity with the other. These two elements—community and nature—set the bases upon which to build the proposals of *buen vivir*. But something else is needed. The spiritual world of the indigenous cultures is essential to *buen vivir*—their *sumak kawsay*.

Now that this point has been made, to learn lessons that allow us to build the economy of *buen vivir*, we must recognise the limitations of the conventional economy by using, as a key reference, the foundational elements of the indigenous world view. In particular, we need to value and understand what represents social justice and ecological justices, which are intimately interrelated given that one does not exist without the other.

The challenge that we have proposed—to rethink the economy from the perspective of *buen vivi*r—will not be met overnight. And there is no recipe to set us on the path. We need to give way to transitions based on the thousands and thousands of alternative practices that exist all over the planet; practices that are guided by visions that propose a life of harmony among human beings and between human beings and nature. This requires, as discussed above, moving towards a new civilisation: moving, at the very least, from anthropocentrism to biocentrism and leaving behind utilitarianism. This new civilisation will not arise spontaneously, and will instead be the result of patient and decided construction and reconstruction, which will begin with dismantling various fetishes (such as the fetish for money and earnings) and trigger radical changes, whether based on existing experiences or on other options in the search for new worlds.

This is the crux of the matter. We have alternative values, experiences and practices such as *buen vivir* or the *sumak kawsay* or *suma qamaña* of the indigenous communities of the Andes or Amazon.[11] In addition, in the visions of our America, there are many other approximations of thoughts that are in some way linked to the search for a harmonious life through inclusive philosophical visions across continents. *Buen vivir*, as a way of life, with different names and varieties, is known and practiced in different regions of *Madre Tierra*, including as part of *ubuntu* in Africa or *swaraj* in India. And there are many, many more experiences across the planet that are immersed in a marvellous and complex process of re-enchanting the world.[12]

11 See Gudynas (2014), Estermann (2014), Omar Felipe Giraldo (2014), Atawallpa Oviedo (2011), and Acosta (2013), among others.

12 As proposed by Morris Berman (1987), whose contribution will serve to rectify the dominant epistemology and build a new paradigm that understands, in practice, that human beings are an integral part of the life of Mother Earth and of the Universe.

Buen vivir, without forgetting and even less without manipulating its ancestral origins, can serve as a platform to discuss, agree upon and apply answers to the devastating effects of climate change across the planet and growing instances of exclusion and social violence in the world. We can even propose a change in paradigm amid the crisis that central countries are experiencing. In this regard, building *buen vivir*, as part of profoundly democratic processes, can be useful to finding global answers to the challenges that humanity faces.

Buen vivir, which emerges from utopic visions, is present in different manners in the reality of the still existing capitalist system and feeds on the imperative need to promote harmonious living among human beings and between human beings and nature; this is a life that puts the self-sufficiency and self-management of human beings who live in communities at the core of its existence. Thus, it will be difficult to imagine building *buen vivir* solely through government policy that is driven by forces up above, given that it requires another kind of regional integration, where the community and not the state is the fundamental determinant.

This implies keeping in mind a change in era. It is necessary to move beyond postmodernity, which has generated discontent. We cannot continue to promote a model of devastating development, which contemplates unsustainable economic growth in its paradigm of modernity. Rather, we must overcome the idea of progress understood as the permanent accumulation of material goods.

To begin, we must reunite with the 'utopic dimension', as proposed by Alberto Flores Galindo. This implies strengthening the basic values of democracy—liberty, equality, solidarity and equities—by including diverse approximations and conceptual valuations of life in the community. In these new forms of life, and based on real tolerance, we will need to respect, for example, diverse sexual options and forms of organisation of families and communities.

Buen vivir—meaning the philosophy of life—opens the door to the building of an emancipating project. The fact that we do not have a predetermined path is not an issue. On the contrary, it frees us of dogmatic visions but demands more clarity in terms of our destination, and assuming the transition towards another civilisation as part of *buen vivir*.

In summary, with the diverse positive co-existences and multiple anti-system—or outside of the system—responses that exist in different corners of the world, it is up to us to build a world that can contain other worlds, in which there are no victims of isolation or exploitation, and where all human beings live with dignity and in harmony with nature.

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PART 2

Development Outcomes and External Influences



CHAPTER 6

Socialism in the Twenty-First Century and Neo-liberalism: Diverse Ideological Options Do Not Always Generate Different Effects

Fernando Eguren

Abstract

This chapter seeks to demonstrate that policies derived from different ideological options do not necessarily generate significantly different effects. In the Andean region, the governments of Rafael Correa, in Ecuador, and Evo Morales, in Bolivia, have been following a political line of 'twenty-first century socialism', while the governments of Colombia and Peru have directed their political orientations towards neo-liberalism and the 'Washington Consensus'. Nevertheless, two issues of importance—namely, the handling of the processes involved in the concentration of property land rights and the treatment of indigenous populations—demonstrate that the actions of these two groups of countries have not led to very different results. The fact that these countries have become part of the globalisation process has permitted variations in the relative radicalism of the governments' political discourses but has led to significantly less flexibility with regard to the degree of autonomy that these governments face for implementing policies. Additionally, domestic social conflicts have set limits on the states' abilities to manoeuvre when implementing their policies.

1 Introduction

In the last two decades of the twentieth century, several countries in the Latin American region adopted structural adjustment policies to tackle certain grave economic problems caused by high debt levels, which were in turn the result of easy access to loans due to the abundant liquidity brought about by high oil prices. A subsequent increase in interest rates meant that the aforementioned debts were basically unpayable. In many cases, these loans were used to finance fiscal debt. The financial institutions that oversee debt levels, particularly the International Monetary Fund and the World Bank, imposed rigid conditions and controls on national economies to secure debt payments. These events contributed to putting an end to a period, which began in the middle of

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the last century, during which governments directed their economic strategies, with varying degrees of conviction, at strengthening internal markets, developing manufacturing and substituting imports.

During the same period, globalisation forged closer links between national economies and international markets. The degree of intensity and speed with which these ties were established depended on the orientation of each government in terms of economic policy, which was in turn influenced by ideological options, by the strength of each state's institutions, by each government's sensitivity to social and environmental problems, and by the greater or lesser degree of social and political participation exercised by countries' respective civil societies.

These differences had a significant impact on the relations between the state and the market, on public and private institutions, on political and social organisations, and on the socio-economic structure of countries, while affecting the concentration or distribution of economic and political power. They were also expressed in leaders' political discourses, which may reflect or hide the real results of their respective policies, whether these results are desired or undesired, intentional or unforeseeable.

But none of this could neutralise the immense influence that globalisation was having on national economies and on the limits that this influence imposes on the autonomy and sovereignty of states. Thus, it should not be surprising that governments that differ in their ideological and economic tendencies eventually opt, in terms of issues that are structural and of great importance, for similar policies and results despite divergent discourses and intentions. This does not necessarily mean that leaders behave in ways that are inconsequential. Instead, it may actually reflect their lack of capacity to transform dimensions of reality that are driven by relations and dynamics that are beyond the influence of state intervention.

This brief essay compares the impact of this situation on important aspects of agricultural and rural issues in four Andean countries: Bolivia, Colombia, Ecuador and Peru. Two of these nations (Bolivia and Ecuador) adopted, after a succession of neo-liberal governments, 'twenty-first century socialism', a political ideology disseminated by the President of Venezuela, Hugo Chavez,[1] while the other two nations (Colombia and Peru) continued to apply the neo-liberal policies that were introduced in the 1980s and inspired by the 'Washington Consensus'.

1 The bases of this conception of socialism are, in simplified form, developmentalism, participative democracy, the central role of base organisations and the reduction of inequalities.

The first section of this chapter describes, in summary form, the precursors that eventually led the countries in question to align with one option or the other. The second section attempts to shed light on the impact that this alignment had on one of the most important components of agriculture: the concentration of land rights. The third section focuses on the particularities of the treatment of indigenous issues. The final section provides the chapter's main conclusions.

2 Background

In this section, we will discuss the processes that led the four countries to opt for either twenty-first century socialism or neo-liberalism. The starting point was the economic crisis that was unleashed by the excessively high external debt load that governments assumed in the 1970s and 1980s.

The way the Bolivian economic crisis was faced in the first few years of the 1980s did not escape the vicious circle 'inflation–package-of-measures–inflation', the positive effects of which were short lived. Morales (2008, 2), in his analysis of the Bolivian case, sets the beginning of the crisis during the tenure of Hernan Siles Suazo's government (1982–85), who was elected following a succession of military dictatorships. Bolivia suffered hyperinflation, which multiplied prices by 625 times between April 1984 and August 1985 in the midst of serious social uprisings and with a government that had limited capacity to control them (Morales, 2008). Victor Paz Estenssoro succeeded Siles Suazo and inaugurated a long period of neo-liberal policies, which quickly put the brakes on hyperinflation but also generated highly negative effects for the population. Social conflicts became highly intense at the beginning of the new century and submerged the country in an acute political crisis that lasted until the election of Evo Morales in 2005.

President Evo Morales drove a significant shift in economic policy. He forced a review of contracts with foreign extractive companies, particularly in the hydrocarbon sector, which increased fiscal revenues in a context marked by price increases in the international market for raw materials. This additional revenue facilitated the application of distributive policies that increased Morales's popularity. But just as importantly, perhaps even more importantly, he prioritised indigenous issues in his political discourse, a fact that has undoubtedly empowered these groups. This recognition was embodied in the new constitution approved in 2009. The first article of this document defines the 'Unitary Pluri-National State', while the second recognises the 'free determination' of indigenous peoples, which consists of 'their right to autonomy,

self-governance, their culture, recognition of their institutions and consolidation of their territorial bodies'. In a country in which 42 per cent of citizens are recognised as indigenous (census of 2012), it is not surprising that Morales has been re-elected twice by large margins.

Like Bolivia, Ecuador also experienced various governments that applied neo-liberal policies prior to Rafael Correa's election as president in 2006. These policies were initially adopted by President Osvaldo Hurtado (1981–84) and his team. One of the primary objectives at this point in time was to pay both public and private external debt (Acosta, 2006, 168). Subsequent governments—led by Leon Febres-Cordero (1984–88) and Rodrigo Borja (1988–92)—followed the same path, which was consistent with their conviction that, in the words of Alberto Acosta, 'the achievement of macroeconomic balance… [became] almost a substitute for economic and social development, which should have been subsequently achieved, practically spontaneously, according to neo-liberal arguments, as a product of stabilisation' (Acosta, 2006, 178, our transl.). It was during this period that, at the behest of the World Bank, the government implemented targeted social service programmes as compensation initiatives to favour the sectors of the population that were most affected by neo-liberal policies, policies that were also being applied in other countries in the region. During these years, the results of the application of neo-liberal policies could not have been more discouraging: from 1980 to 1989, the annual growth rate in Ecuador was –0.7 per cent (Acosta, 2006, 180). Subsequent governments fared no better. In 1999, Ecuador experienced its most severe economic recession and posted the fastest pace of impoverishment in Latin America (Acosta 2006: 196). These ongoing economic problems were accompanied by political and social upheaval: in just seven years—from 1996 to 2003—five different presidents took office.

It is not surprising that the citizens of Ecuador, after more than two decades of their country being poorly managed, were willing to elect someone who offered to break away from previous policies. In this context, Rafael Correa took office at the beginning of 2007 in alliance with leftist parties and indigenous organisations. Correa introduced major changes that led to his re-election on two occasions, in 2009 and 2013.

The direction that the new Ecuadorian government would take was inscribed in the new constitution approved in 2008. This document strengthened the role of the state in the economy; addressed ideas of increased equality, redistribution and economic and social rights in several articles; recognised the pluricultural and multi-ethnic nature of Ecuadorian society; institutionalised citizens' roles in the management of public issues; and strengthened the central state as well as the local and cantonal governments.

The ascent of Morales and Correa to office was preceded by a series of similar events in each country: recognition of the fact that neo-liberal policies had failed to end the economic crisis, and citizens' demands for a change in direction.

Colombia also experienced a long period of economic crisis due to the external debt assumed between the mid-1970s and the mid-1980s. The government found it difficult to make timely debt payments and, in 1973, implemented fiscal policies to balance the budget and establish strict monetary order (Parada Corrales and Baca Mejia, 2009, 19). Ten years later, in 1983, during the presidency of Belisario Betancur, the government instituted adjustments and made macroeconomic policy more open in order to correct the exchange rate lag, reduce the current account deficit in the balance of payments, cut the fiscal deficit and put the brakes on the inflationary spiral (Pineda Hoyos, 1996). Under President Virgilio Barco, this programme for economic openness in Colombia was expanded, and this expansion was even more marked during the term of his successor, Cesar Gaviria (1990–94). During his administration a new constitution was approved, which consecrated democratic principles and opted for an economy of openness to the market and foreign investment. Throughout the 1990s, Colombian macroeconomic policy remained aligned with the prescriptions of the Washington Consensus (Parada Corrales and Baca Mejia, 2009, 22). The government of President Uribe, which lasted eight years (2002–10), inherited a critical economic situation—for some the worst economic crisis in the country's history—which was reversed thanks in large part to major foreign investments, particularly in extractive, hydrocarbon and mineral activities. Nonetheless, this failed to reduce high rates of unemployment and social inequalities (Dinero, 2010). President Santos, elected in 2010, continued to apply the economic policies pursued by previous governments. Why did a socialist option not emerge despite the limited success of neo-liberal policies? For many, the Left was the main culprit in the protracted and cruel civil war that was racking the country, and thus voters were not willing to elect a Left-leaning government.

In Peru, agricultural reforms were the most important of the deep reforms led by the military government of the 1970s. These were financed to a large extent with external debt. In the second half of the decade, the debt figure became sufficiently problematic to warrant periodic adjustments, which were ineffective. In the 1980s, the return to democracy began. A series of prior reforms were rolled back and the economic crisis worsened. The country's political instability, which became manifest in the last few years of over a decade of military government, worsened with the appearance of the terrorist group known as the Shining Path, which initiated actions in poor rural areas populated

primarily by peasants. Under the government of Alan Garcia (1985–1990), the political and economic crisis reached levels that had no precedent in the twentieth century, due to an incompetent approach to economic policy management and the advance of the Shining Path.

The economic shock administered in the early days of Alberto Fujimori's rise to power (1990–95 and 1995–2000)[2] marked the beginning of a long period of neo-liberal economic orientation. During most of the first decade of the new millennium, and the few years that followed, the country posted the highest growth in its history as a republic. This was driven by high mineral prices and huge foreign investments in extractive industries. Ollanta Humala was elected president in 2011 on a moderately Leftist platform, but once in power his government decided to continue the economic direction set by previous governments, which had reaped good results in terms of gross domestic product (GDP) growth.

3 Concentration of Property Rights to Agricultural Lands

To what extent did the different orientations of these four countries' governments—on one hand, those of Ecuador and Bolivia and, on the other, those of Colombia and Peru—have an impact on the most relevant problem in the realm of agriculture: property rights?

In 2012, the regional office of the Food and Agriculture Organization of the United Nations (FAO) for Latin America and the Caribbean published the results of a study conducted in 17 countries in the region that aimed to discover if processes of concentrating property rights were in play and, if this were the case, to determine the modalities of these processes (Soto Baquero and Gómez, 2012). This study was spurred by concerns about the extent to which the region had been affected by the phenomenon of land grabbing, particularly prevalent in countries of Africa and Asia, which had captured the world's attention at the end of the first decade of the twenty-first century.

The case studies commissioned by FAO gave rise to a series of reflections that were later systematised and disseminated (Soto Baquero and Gomez, 2014). Some general considerations are pertinent to this essay given that the cases include Andean countries. These studies demonstrated that the concentration of agricultural land among foreign investors, and transfers of land property to

2 In a single day the currency was devalued by more than 200%, the price of gasoline was increased by 3,000% and all subsidies for public goods and services were eliminated and their prices were released.

foreign investors, had risen to significant levels in the region despite the fact that respective governments held different policy positions. But, unlike the situation in Africa and Asia, the largest purchasers of lands in Latin American were national or *trans-Latinas* (regional transnational) investors. The studies also show that concentration was particularly prevalent in export segments, particularly for soybean products and other grains, biofuels, traditional export products (bananas, coffee and tropical fruits), non-traditional products (fruit and vegetables) and forest products. Another feature of these processes was the fact that they set up strong value chains, which included monitoring both the inputs and production, and the sale and distribution of products, which left the door open to monopolistic practices.

In Bolivia, beginning in the middle of the last century, the government encouraged the occupation of lands in the eastern department of Santa Cruz, giving rise to *latifundia* (large landholdings) that were not affected by the agricultural reform of 1953. This led to the development of modern capitalistic agriculture in the eastern part of the country after it was decided that 'foreigners will have the same rights as Bolivians to no-cost lands provided by the State' (Urioste, 2012, 63). Between 1953 and 1992, 402 people received 7.7 million hectares from the Bolivian state through the National Council for Agricultural Reform.

By the end of the last century, the department of Santa Cruz had become a major producer and exporter of soybean. Over one million hectares were dedicated to this crop. The department was also the target of major investment in the tertiary sector linked to natural gas exploitation and export. Between 1990 and 2007, the cultivated area of the department of Santa Cruz increased from 413 thousand hectares to 1,822 thousand hectares, which constituted two-thirds of the total available cultivated hectares in the country (Urioste, 2012, 71). The subsequent incorporation of new farmland has consolidated a tenure structure polarised between large and small farming.

Thus, Santa Cruz became the country's most important department in terms of agricultural production and the principal driver of the national economy (UNDP, 2004, 36–37).

The concentration process in Bolivia was characterised by a particularity: it was driven, to a great extent, by Brazilian agricultural investments in the department of Santa Cruz. La Fundación Tierra estimated that in 2010 around 40 per cent of the soybean business was in Brazilian hands, while the Mennonites—who had begun migrating to Bolivia in the 1950s—possessed 20.2 per cent and domestic businesses held 28 per cent (Bolivia Rural, 2010).

Urioste (2012, 64–5) provides us with a summary of the evolution of land legislation. In 1996, the government of Sanchez de Lozada passed the National

Agrarian Reform Service Law, known as Ley INRA, which stipulated differentiated treatment for lands that were purchased by agricultural businesses, which could be transferred through purchase or sale, and land held by indigenous peoples and small businesses, which was protected by the state and excluded from the land market. The same law set a ten-year limit for regularising the situation of all the country's land. When the ten-year period came to its end whereas the objectives set by the law had not been reached yet, the government of Evo Morales passed a new law—the Communitarian Reorganisation of the Agrarian Reform Law (Reconducción Comunitaria de la Reforma Agraria), which expanded the power of the executive to provide territorial titles in favour of indigenous populations and return lands from unproductive latifundia. During the tenure of his first government, Morales issued titles for 16 million hectares; around two thirds of these lands were awarded to indigenous peoples and peasant communities as collective property, the majority of which were located in the east and in the Amazon. But the distribution of individual lands to peasants has been very limited and the latifundia have not been eliminated. Little progress has been made in regularising lands held by medium- and small-scale businessmen in the eastern region due to potential conflicts given that a significant portion of these lands were acquired illegally. Agribusinesses and livestock farmers in the east, who radically opposed Morales' government during its initial years, led political negotiations to achieve a temporary truce that continues to this day. Moreover, the political constitution approved in 2009 establishes limits on the size of property holdings—in theory, five thousand hectares—but a trading company can multiply this number by the number of its shareholders (article 315), which allows such companies to set up latifundia. The constitution also stipulates that 'foreigners [...] cannot acquire State land under any title' (art. 396, inc. II) but private or natural persons and companies may do so. As a matter of fact, it is common for Bolivians to acquire state-owned land and to later transfer it to foreign investors. In sum, the concentration of arable land in Bolivia has not changed.

The case was similar in Ecuador. The country passed legislation for agricultural reform but there was little enforcement and, as such, the impact on large property holdings was not significant. Traditional haciendas, which characterised the structure of agricultural lands until the seventies, were being 'metamorphosed' through a process in which the rentier model for land use was abandoned and replaced by agribusiness (Martinez Valle, 2014, 127).

Similar to the situation in other Andean countries, Ecuador also has significant land concentration, but in this case associated with exports of traditional products (bananas and sugar), which differs from Bolivia (soybean) and Peru (vegetables and fruit). Recently, the tie with the external market for

biofuels—which an increasing number of sugar and palm oil plantations seek to produce—has strengthened; by comparison, the ratio of concentration is lower in areas that produce crops destined for internal markets, as is the case in other countries in the region (Martinez Valle, 2012, 231).

The constitution of 2008, which was approved under Correa administration, explicitly prohibits latifundia and the concentration of landholdings (art. 282). Thus, some political rhetoric criticises concentration but no concrete measures have been applied to limit this practice, and even less effort has been dedicated to adopting some kind of agricultural reform. This despite the fact that the Organic Law of the Food Sovereignty Regime of 2009 contemplates restrictions on land grabbing but postponed the implementation to a future law 'that will establish procedures to eliminate this practice and to determine the mechanisms to ensure that [the land's] social and environmental objectives are fulfilled' (art. 6). In practice, efforts have been limited to forming a land fund that is controlled by the state; the fund has an undetermined area that encompasses from 120 thousand to 300 thousand hectares to be transferred to peasants under an associative format.

Martinez Valle underlines the contradictions of the government's agriculture policy. On one hand, the legal framework contemplates a high level of social content, such as the above-mentioned Organic Law of the Food Sovereignty Regime, and gives preference to small farming interests; yet on the other hand, other policies contribute to consolidating agribusinesses.

Efforts to promote 'inclusive businesses', which supposedly seek to benefit small farmers by linking them to agribusinesses, are actually a veiled form of land grabbing that condemns the small farmer to permanent self-exploitation. Furthermore, by driving a programme of biofuel support, the government consolidates the very crops that are associated with land concentration (Martinez Valle, 2014, 150–151).

At the end of 2015, a legislative debate turned to a new proposal for a law known as the 'Rural Land and Ancestral Territories Law'. According to its critics, including the Confederation of Indigenous Nationalities of Ecuador (Confederación de Nacionalidades Indígenas del Ecuador: CONAIE), the law favours agribusiness and does not contemplate structural issues such as defining limits for latifundia and land concentration.[3]

3 Source: Sistema de Investigación sobre la Problemática Agraria en el Ecuador (SIPAE), Corporación de Gestión y Derecho Ambiental (ECOLEX), Fondo Ecuatoriano Populorum Progressio (FEPP), *Monitoreo Agrario* (6/12/2015), URL: http://www.monitoreodelatierra.com (accessed on 11 November 2016).

Agricultural reform laws passed in Colombia in 1961, 1968, 1973 and 1980 also failed to modify the country's highly unequal agricultural structure. Additionally, the violence that reigned in the countryside led to a higher concentration of land in the hands of drug cartels or armed groups. In the best of cases, marginal agricultural reform was implemented, which resulted in no changes in the landholding structure and limited its scope to titling fallow land areas (Salinas Abdala, 2012, 181).

Land issues in Colombia cannot be understood or explained without reference to the violence that has consumed the country for decades. The lands of hundreds of thousands of peasants have been seized by armed groups linked to drug trafficking to build latifundia, the proceeds from which have, over time, been 'laundered'. By 2014, the rural population that had been displaced totalled 5.8 million. These individuals had been forced to abandon 6.6 million hectares, equivalent to 12 per cent of the country's farmland (Amaya et al., 2015, 34). The drivers of the agriculture sector are closely tied to the system of landholding and that for compensating victims of conflicts in rural areas (OECD, 2015, 6); both these issues have been centre stage in the successful negotiations between the Colombian government and the Revolutionary Armed Forces of Colombia (FARC).

The Colombian government's policy over the last decade has contributed to consolidating social and economic inequality. In the 1990s, and at the beginning of the new century, various programmes for small-scale agriculture were dismantled. The state's capacity for defining and executing policies to steer agricultural development in a more equitable direction was also weakened. The private sector has assumed the role of directing agricultural development (UNDP, 2011, 42), but in a way that benefits large producers thanks to direct subsidies and transfers (OECD, 2015, 13). The degree of inequality of land distribution in Colombia is one of the highest in the world (UNDP, 2011: 198). According to the Colombian Institute for Rural Development (Instituto Colombiano de Desarrollo Rural: INCODER), 52 per cent of the country's land belongs to 1.5 per cent of owners while 78 per cent of farmers are *minifundistas* (very small landholders) (Amaya Navas et al., 2015, 24). The highest concentration of property is evident in the areas most affected by population displacement and those located near extractive investments, which has further complicated conflicts over land use (Salinas Abdala, 2012, 186).

According to UNDP, the rural development model in Colombia fails to promote human development and makes the rural population more vulnerable. It is viewed as unequal and unfavourable to the convergence of rural and urban spaces in terms of socioeconomic development, and is believed to hide gender differences, discriminating against women. The model is considered to be

exclusionary and is seen as failing to promote sustainability; it is also thought to favour the concentration of rural property and to contribute to the conditions that drive conflict. In short, the model is basically undemocratic and fails to strengthen institutions at the rural level (UNDP, 2011, 34).

Unlike Ecuador and Colombia, Peru executed one of the most radical agriculture reforms in Latin America in the period 1969–75. The reform was led by the military government presided by General Juan Velasco Alvarado. All latifundia, whether modern or traditional, were expropriated. The landholding class was erased from the map. Many resituated to other economic sectors, some emigrated and others suffered a radical change to their household income and social status.

The expropriated haciendas were transformed into agriculture cooperatives, which maintained their original dimensions. But the cooperatives' economic and organisational failings led their members—who before worked on the haciendas—to liquidate holdings and distribute the land and other assets among families. Family agriculture dominated the rural space until Alberto Fujimori took office in 1990. A few months into his first term, Fujimori administered a radical economic shock as the first step towards adopting an openly neo-liberal policy. The constitution of 1993 and the subsequent reforms reduced the protection of lands held by peasant communities, facilitated the inclusion of these holdings in the land market, and set the bases upon which to eliminate all of the restrictions on property that had been in effect since 1969 (Eguren, 2004).

In just a few years, dozens of large companies were formed. The vast majority were dedicated to exporting fruit and vegetables. Around one-third of the arable land along the coast, which is the most fertile and best positioned for irrigation, belongs to fifty companies that hold more than one thousand hectares each. The value of agricultural exports grew eightfold in ten years, rising from USD 621 million in 1995 to USD 5,078 million in 2014 (Central Reserve Bank of Peru, 2016). State support for large agro-industry exporters was—and continues to be—conspicuous. These companies benefit from preferential income tax rate (15 per cent instead of the 30 per cent income tax rate to which non agro-industrial firms are subjected) and benefit from a labour regime that 'increases the flexibility' of mechanisms for hiring and firing wage-earning employees in order to reduce labour costs.

In Peru, many 'neo-latifundia' have been formed on state-owned lands, which is common feature to all Andean countries. These lands were carved out of the desert thanks to large and costly irrigation works that were financed with public resources. It is estimated that in the last two decades, the state has invested USD 6,321 million, 93 per cent of which was in the form of net

subsidies to the buyers of this new land. These buyers were, in every case, agro-industry exporters (Eguren, 2014). Since the 1990s, all administrations have maintained the same policy; without decisive and persistent government support, this phenomenon of concentration would not have occurred. The majority of the investments involve domestic capitalists despite the fact that there are no restrictions on foreign investment.

In addition, other elements have led to the concentration of land. These include the transfer of the large agro-industrial sugar cooperatives to private investors; the sale of unproductive state-owned land at rock-bottom prices; and, finally, land concessions for sugar cane and palm oil plantations for biofuels (Eguren, 2014, 178).

Four decades after the aforementioned radical agricultural reform, a bipolar agricultural system has once again taken shape on the coast, with a few owners holding a lot of land while small farmers have too little.

Two external factors have strongly influenced the fact that Andean countries have maintained, and even intensified, their concentration of landholdings. First, the increase in global demand for agricultural products, and second, the changes that have occurred in market structures, which have attracted large investments to countries with neo-liberal policies and to those with more nationalist and protectionist discourses.

4 The Indigenous Issue

A characteristic that defines the rural societies of the Andean region is the existence of a large indigenous rural population that maintain their own long-standing institutions, customs and behaviours, many of which are secular. Peasant or indigenous communities have communal landholdings, particularly in the Andean highlands, or exercise control over vast territories, which is the case of native populations of the Amazon. These lands are also important identity references for populations that are generally marginalised by society at large.

In the last few decades, important progress has been made in recognising indigenous populations and their rights. Perhaps the most important effort in this regard was Convention 169 of the International Labour Organization (ILO) on indigenous and tribal peoples, which was binding for dozens of states, including all the four Andean countries studied in this chapter.[4] In general, and

4 *Indigenous and Tribal Peoples Convention, 1989* (No. 169). Spanish-language text: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID,P12100_LANG_CODE:312314,es (accessed on 11 November 2016).

TABLE 6.1 *Indigenous populations in four Andean countries*

Country	Indigenous population	% of the indigenous population / total
Bolivia (2012)	4,032,014	40.2
Colombia	1,559,852	3.4
Ecuador	1,018,176	7
Peru	7,021,271	24

SOURCES: FOR BOLIVIA, NATIONAL INSTITUTE FOR STATISTICS OF BOLIVIA (2013). FOR THE OTHER COUNTRIES, CEPAL (2014a, 43).

beyond differences of political orientation, all countries in Latin America have made progress towards recognising these populations, including 'expanding the powers of autonomous institutions and transferring responsibilities from the central levels of States to said institutions' (CEPAL, 2014a, 20).

Indigenous populations' weight in the total populations of Andean countries varies significantly, as is shown in Table 6.1. Further, the criteria used to define an 'indigenous population' varies from country to country and also depends on the type of information that is available. Basically, there are two ways of defining *indigenous*: as determined by an external agent based on ad hoc criteria (for political purposes, to 'instrumentalise' specific programmes, or to determine which sectors of the population can have access to benefits and which will have no access) or by self-perception, as is the case of censuses that record information on ethnic belonging as determined by the person registered; the latter is the case for Bolivia.[5]

Bolivia is, without a doubt, the country that has elevated indigenous issues to higher official spheres. The revaluation of indigenous matters is a central element of the government's political ideology, which pits the Andean civilisation or 'Andean world' against Western civilisation or the 'western world'. Both are present in the country, but the former is clearly considered the superior of the two. The basis for this superiority is the harmonious relation that Andean civilisations have with nature, which is an intrinsic element of the Andean world,

5 It is very striking that in the 2001 census in Bolivia, 62 per cent of the population declared itself indigenous, and a decade later, in the 2012 census, only 40 per cent of those surveyed declared this status, and this was despite the broad acceptance that Evo Morales had among the indigenous population. Sources: For the 2001 census, see http://bit.ly/1YPf2tb; for the 2012 census, see http://bit.ly/1a2BqXD (accessed on 11 November 2016).

while the Western world is presented as utilitarian and destructive. The following citation explicitly expresses this ideological construction:

> In the Western world, man is superior to the earth. It is where the idea that man is separable from the earth is born. This is the reason why land can be sold, transferred, poisoned or killed; they don't care because they are not part of the earth. In the Andean world, man is not superior to the earth; man is part of the earth. He cannot sell the earth, rent it or kill it because the earth is his mother and we are the earth itself.
>
> In the Western world, the future is put forward. Forward and always forward, are science and technology, until the atomic bomb is achieved and the world is destroyed.
>
> In the Andean world, the future is not before us; the future is behind us; the future is in our history, our roots and our identity. A people without history is a people that does not exist.
>
> CHIVI VARGAS, 2010, 25, our transl.

The impact of this pro-indigenous discourse on the population is thought to be high and is surely one of the reasons—along with major redistributive programmes—why, after more than ten years of running the country, Evo Morales remains so popular. It is no minor fact that the indigenous populations, which had been treated symbolically, and in real terms, as inferior throughout colonial and republican history, found a government that sustains, both forcefully and persistently, a discourse that extols the virtues and values of these cultures—in particular their real or imagined harmonious relation with nature—and does so in a context in which it is evident that certain modes of production and consumerism pursued by developed and so-called emerging countries reflect an instrumental relationship with nature that is frequently aggressive and destructive.

Nevertheless, Bolivia, which is part of the globalised world, is not free of contradictions. To maintain its redistributive policies, it needs revenues from extractive exports, mainly gas and minerals, and from monocrop plantations such as soybean, all of which have strong negative impacts on natural resources, global warming and on indigenous populations.

The difficulties surrounding efforts to put the right to create indigenous autonomous territories into practice, as enshrined in the constitution, show the real limits of a political system that, at the end of the day, rides heavily on the back of a centralistic government and a charismatic leader. A meticulous study of the Bolivian situation contends that 'the national government cannot overcome its fear of the real possibility that indigenous, self-governing

territories will be formed, constituting a community-based democracy without political parties and with the right to be consulted before natural resources are exploited. While on paper the national government has recognised a broad range of indigenous rights, it has yet (or has chosen not) to communicate an explicit and comprehensible message about the importance of implementing indigenous autonomy to exercise and realise said rights' (Colque, 2015, our transl.). Colque contends that one of the underlying reasons for this situation is that 'the indigenous autonomies contemplated have clashed with economic interests arising from extractive activities. This change embodies the breaking point that has generated the greatest impact on the decline of indigenous autonomies' (Colque, 2015, our transl.).

At the beginning of 2012, the government of Evo Morales experienced one of the greatest challenges to its leadership of the indigenous movement when thousands of people marched to block the construction of the highway between Villa Tunari and San Ignacio de Moxos in the departments of Cochabamba and Beni—a highway that would have cut the Indigenous Territory and the Isiboro-Secure (Territorio Indígena y Parque Nacional Isiboro Sécure, TIPNIS) in half. The government finally ceded to the peasants' demands, issuing a law that declared the territory intangible and explicitly forbidding the construction of the road. At the origins of the conflict was the Bolivian government's need to continue increasing fiscal revenues by exploiting natural resources, specifically gas and minerals. In the words of Miguel Urioste, 'the conflict of TIPNIS is a glaring example of the contradiction between the indigenous–environmentalist discourse (the alternative model to capitalism) and the real option for a developmental–'extractivist' model (model of state capitalism)' (Ortiz Echazu, 2012, 191).

During his campaign for the Ecuadorian presidential elections, Rafael Correa referred to indigenous issues but he did not make them as central as in the discourse of Evo Morales. The United Pachakutik Plurinational Movement, which was involved in the indigenous issue, did nevertheless support Correa in the second round of presidential elections in 2006. This support was short-lived though. Indigenous groups, including CONAIE, one of the country's strongest social organisations, denounced Correa's support to investments in mining and in other megaprojects due to their negative impact on the environment. The environmental issue became the centre of conflict between the government and indigenous populations, which opposed Correa's extractivist policies.

In Peru, indigenous stances have not had significant political influence despite the large indigenous population. On the contrary, Peruvian president Alan Garcia (2006–11) published a celebrated and widely disseminated article

during his second term that clearly reflected his conception of indigenous and environmental issues. Garcia contended that the country's enormous natural resources cannot be exploited because they are in the hands of peasants and natives that use them inadequately because they are poor and uneducated, and thus these resources should be transferred to investors. The peasant communities that—he said—live in extreme poverty expecting 'the state to provide all the help necessary instead of putting their hills and lands to good economic use' should rent or transfer these lands, 'because if these lands are not productive for them, they would be productive with a high level of investment or knowledge that would be provided by a new buyer. [...] There are idle lands because the owner has no education or resources; thus his property lies dormant. The same land, sold in large lots, will bring technology that community members can also benefit from, but the ideological spider's web [communist, now transformed into environmentalist] of the nineteenth century subsists as an impediment' (Garcia, 2007, our transl.).

Despite Garcia's lack of sensitivity towards indigenous and environmental issues, his government was forced to create the Ministry of the Environment to comply with the commitments inherent in a free trade agreement signed with the United States government. The government that succeeded Garcia's, presided over by Ollanta Humala, passed the Law for the Right to Prior Consultation of Indigenous or Native Peoples in response to the demands of indigenous organisations. This set the stage for ILO Convention 169 to finally be put into practice, years after Peru had signed this agreement in 1994. This law was one of the commitments that the government assumed after negotiating with indigenous organisations in response to '*baguazo*', a conflict between police and natives in Bagua who were protesting river contamination due to oil exploitation. The incident ended in a massacre. In the Peruvian case, beyond the authorities' choice of neo-liberalism and their insensitivity to environmental issues and indigenous populations, it was necessary to adopt pro-environmental and pro-indigenous measures due to the international context—in this case the signing of a free trade agreement—and social pressures.

A comparative analysis of the cases of Correa in Ecuador, Morales in Bolivia and the situation in Peru was conducted by Anthony Bebbington, who outlines the great similarities between the first two countries—both of which are aligned with the ideals of 'twenty-first century socialism' and propose moving beyond extractivism—and the extractivist and neo-liberal orientation of successive Peruvian governments. 'Taken together, the politics and economics surrounding extraction in these three countries complicate distinctions between neo-liberalism and post-neoliberalism, raising questions as to what the pre-fix 'post' refers to. If it is supposed to refer to differences in macroeconomic policy,

then as far as the extractive economy is concerned these differences are not that great. If it merely refers to differences in political discourses and the ways in which nationalism, imperialism and capitalism are *talked* about, then the difference implied by being 'post' would seem to be more rhetorical that substantive. And if it refers to differences in political style and practice, distinguishing regimes that are brazenly sympathetic to extractive capital from those that are just actually sympathetic, then ironically the 'post'-neoliberal seems the less transparent of the two. To the extent, then, that Bolivia and Ecuador have been sources of inspiration for those who hope for a post-neoliberal agenda, the implication is that much more hard work has to be done to define the substance of this agenda' (Bebbington and Humphreys Bebbington, 2010).

In Colombia, the 'rebirth' of native peoples began at the end of the 1960s when the government of Carlos Lleras (1966–70) called on these groups to support the implementation of Law 135 of 1961 on agriculture reform. In alliance with other peasant organisations and unions for agricultural workers, the natives took their mobilisations to departmental capitals and to the country's capital. This was accomplished despite the fact that the road taken to present their claims was laden with internal divisions and considerable loss of life and property; regardless, 'they generated a positive effect in terms of recovering their lands' (Fajardo Montaña, 2014, 104).

5 Final Notes

Different political options do not always generate significantly different results on core issues. We have seen that beyond alignment with 'twenty-first century socialism' or 'neo-liberalism', the differences in terms of how property concentration is treated are not major, even though the governments of Colombia and Peru are more enthusiastic supporters of investment in large-scale farming for export than are the governments in Ecuador and Bolivia. This also reflects, to a large degree, a response to global processes, such as the increase in the demand for certain agriculture products (fruits, vegetables and feed for cattle) and for biofuels—sectors in which all four countries boast comparative advantages. In this context, all four are in a position to reap foreign exchange and increasing fiscal revenues. The governments of Morales and Correa could not sustain their major social programmes—and their support for large sectors of the population—without these income flows. Large differences exist, in practice, in how each of the four countries treats foreign investments.

Peru and Colombia have been able to execute important redistributive programmes in a context in which high prices for these countries' export

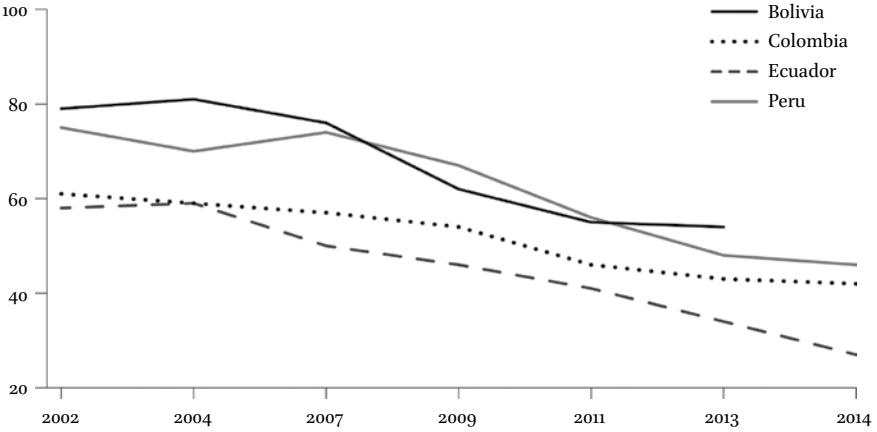


FIGURE 6.1 *Evolution of rural poverty in Bolivia, Colombia, Ecuador and Peru* (*in percentage, 2002–14*).
SOURCE: CEPAL (2014b).

products have generated a large pool of fiscal revenues. As is evident from Figure 6.1, rural poverty has fallen significantly in all four countries but the decrease was somewhat more significant in Ecuador and Peru than in Bolivia and Colombia.

In terms of the treatment of indigenous populations, differences may be more symbolic than concrete if we compare the two countries that opt for 'socialism of the 21st century' to the two that choose neo-liberalism. On the one hand, as we have seen above, the decrease in rural poverty that was evident in the four countries also benefited the indigenous population, which resides primarily in rural areas. On the other hand, an interesting indicator of the attention paid by each of the countries' governments to indigenous populations is the evolution of the impact of malnutrition on this sector of society in the countries in question. In all four countries, the gap between chronic (height/age) and global (weight/age) malnutrition among indigenous children as compared to non-indigenous children is marked, being doubled or almost doubled, in the majority of cases, for the former (Table 6.2).

Yet, this information is static. How does the impact on malnutrition in the indigenous populations in two countries with different political orientations evolve over time?

If we compare the situation in Bolivia and Peru (Table 6.3), we can see that in Peru the decrease (2003–08) was noteworthy, much more so than in Bolivia. Peru's starting point was highly unfavourable compared to that of Bolivia, but in twelve years the country reduced chronic malnutrition to less than half.

TABLE 6.2 *Prevalence (in percentage) of chronic and global malnutrition in children under the age of five*

Country (survey year)	Ethnic status	Malnutrition chronic	Malnutrition global
Bolivia (2008)	Indigenous	28.0	7.5
	Non-indigenous	12.4	3.6
Colombia (2010)	Indigenous	22.3	8.6
	Non-indigenous	8.5	4.6
Ecuador (2004)	Indigenous	47.6	16.5
	Non-indigenous	21.5	9.3
Peru (2012)	Indigenous	23.1	9.0
	Non-indigenous	11.2	4.5

SOURCE: CEPAL (2014a, 156).

TABLE 6.3 *Reduction in chronic malnutrition (in percentage)*

Survey year	Bolivia		Peru*	
	Indigenous	Non-indigenous	Indigenous	Non-indigenous
2003	31	20	49	22
2008	28	12	23	11

* For Peru, 2000 and 2012.
SOURCE: FAO (2014, 141).

The economies of the four countries grew during the years studied; thus, reductions in poverty and indigence were to be expected. But, Bolivia and Peru also instituted important redistributive and decentralised policies. These policies apparently had better results in Peru's case, where the reduction in indigence was very significant.

In this chapter, we have attempted to demonstrate that in terms of two issues—the process of land property concentration and the treatment of indigenous matters—the differences between the countries oriented towards 'twenty-first century socialism' (Ecuador and Bolivia) and those aligned with

neo-liberalism (Peru and Colombia) are not as marked as one might expect if we only examine political discourses.

Even though it is claimed that the economy and politics *lato sensu* are relatively autonomous spheres, the cases of Bolivia and Ecuador suggest that economic factors may represent considerable barriers to political change. In Bolivia and Ecuador, the governments' autonomy to define policies is limited by economic dependence on international markets and investments. Because these countries depend on revenues that derive, to a large extent, from natural resource exports, they have little room to implement radical sociopolitical change. Governments depend on extractivism to fund social programmes (which redistribute revenues) and to empower subordinate social sectors (redistribution of power). Hence, the sustainability of reformist efforts is strongly dependent on the international context. Variations in international demand and of market prices may seriously affect the local economy and the ability of governments to implement generous social policies.

In addition, the needs of extractive activities may result in public policies that go against the expectations, and deteriorate the living conditions (especially the degradation of the environment), of the social sectors that were intended to be the main beneficiaries of these policies, as illustrated by the case of TIPNIS in Bolivia and the support for mining in Ecuador. A significant proportion of these sectors end up manifesting their dissatisfaction to the governments that they had enthusiastically elected.

By comparison, liberal governments are better able to manage the tensions between their political discourse and economic options. In their discourse, they have to affirm their support to rural and indigenous populations but not as their core priority. Their core priority is economic improvement presented as results of economic growth made possible by neo-liberal measures. Whereas sociopolitical change occupies centre stage in the discourse of 'twenty-first century socialism', economic growth is prioritised in the discourse of governments aligned with neo-liberalism.

Finally, achieving real and sustainable social and political changes is a complex task that cannot be achieved without the restructuring of economies that are heavily dependent on primary activities with little added value, little autonomy, and which are contingent on the international economic situation. Otherwise, the crises in countries that at one time assumed the banner of the cause of real socialism, such as Venezuela; the changes in governments in other nearby countries, such as Argentina and Brazil; the discrediting of the government of Nicaragua; moves to bring Cuba and the United States closer together; and, finally, the fact that the current administrations in Bolivia and Ecuador are about to end and are not subject to re-election,

could indicate the end not of progressivist and Leftist policies, but of one of their particular variants, in the form of 'twenty-first century socialism' itself.

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CHAPTER 7

Implementing '*Vivir Bien*': Results and Lessons from the Biocultura Programme, Bolivia

Frédérique Weyer

Abstract

In Bolivia, an alternative vision of development has emerged that relies on the concepts of *Madre Tierra* (Mother Earth) and *Vivir Bien* (Living Well), and promotes balance and harmony between humans and nature. It aims to break away from the economic model previously adopted by Bolivia, a model that has made the country highly dependent on the export of raw materials. This chapter analyses the Biocultura programme, a project launched in 2008 by the Government of the Plurinational State of Bolivia and the Swiss Agency for Development and Cooperation (SDC), which aims to translate this alternative vision of development into concrete practices. Stemming from a participatory approach, this initiative shows that it is possible to reconcile the conservation of biodiversity with raising incomes and the promotion of local knowledge. It also contributes to the creation and strengthening of institutions and policies in line with *Vivir Bien*. This chapter is based on documents and ideas developed by the Biocultura programme and the SDC, as well as on fieldwork carried out between 2013 and 2015.

1 Introduction

Over the last ten years, various Latin American countries have developed alternative models to the classic conception of development rooted in a Western vision of social progress and of humans' relationship to the environment. Based on the world-view of the Amerindian peoples, the vision of development formulated and defended by Bolivia gives a central place to cultural identity and harmony between nature and human beings. It aims to break away from the economic model previously adopted by Bolivia, a model that has made the country highly dependent on the export of raw materials.

The emergence of a new vision of development based on the principles of *Vivir Bien* (Living Well) and *Madre Tierra* (Mother Earth) has led to the enactment of a law and the creation of an institution devoted to these principles.

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The latter lies at the heart of two important documents that define development priorities: the Agenda 2025 (Bolivia, 2013) and the Plan for Economic and Social Development 2016–20 (Bolivia, 2015).

This chapter is a study of the Biocultura programme (Programa Nacional Biocultura, PNB). The programme, which was launched in 2008, is a joint initiative by the Bolivian government and the SDC. It aims to translate the alternative vision of development into concrete practices by taking the rich culture and biodiversity of the Andes as the foundation for enduring economic and social development.

This chapter is based on fieldwork carried out between 2013 and 2015, on the analysis of documents produced for the programme, and on discussions held in the SDC's Latin America and Caribbean Division.

The first part discusses the main elements of the alternative vision of development formulated and promoted by Bolivia. It shows that, far from being an unambiguous concept, *Vivir Bien* is subject to many varied interpretations. It also highlights tensions between this vision of development and the constraints of the Bolivian economy that depends heavily on the extraction of raw materials. The second section highlights the achievements of Biocultura. It focuses on the initiatives put forward to translate *Vivir Bien* into practice, and on the participatory approach used to encourage communities to determine their own priorities and, thereby, to reconcile the improvement of their living conditions with the protection of biodiversity. The last part presents the prospects of this programme, taking into account recent developments in the Bolivian context.

2 'Living Well' and Economic and Social Development

The development model formulated and promoted by the Government of the Plurinational State of Bolivia is based on the notions of *Vivir Bien* and *Madre Tierra*. According to the Framework Law on *Madre Tierra* and Integral Development for *Vivir Bien* of 2012, '*Vivir Bien* […] means living in complementarity, in harmony and balance with *Madre Tierra* and different societies, living in equity and solidarity while eliminating inequality and the mechanisms of domination. It means *Vivir Bien* amongst ourselves, *Vivir Bien* in our environment and *Vivir Bien* with ourselves' (Bolivia, 2012, Article 5, second paragraph, our transl.).

Based on the traditional world-view of Amerindian peoples, *Vivir Bien* proposes itself as an alternative to the Western linear concept of Living Better. In contrast with the anthropocentrism of Western philosophy that views nature

as a set of exploitable resources, this model seeks balance and harmony between humans and nature. The latter is considered sacred and endowed with rights guaranteed by the Plurinational *Madre Tierra* Authority.

This vision of development breaks with the Bolivian economic model, dependent as it is on the export of raw materials, particularly oil and mining products. With the increase in the price of these commodities between 2005 and 2015 and the nationalisation policy pursued by the government during this period, the different strata of the Bolivian state benefited from a significant financial windfall. This windfall was largely redistributed through social programmes and funded an ambitious infrastructure programme. According to World Bank statistics, poverty affected 39 per cent of the population in 2013 against 63 per cent in 2002, and the rate of extreme poverty[1] fell from 37 per cent to 19 per cent over the same period. Beyond income indicators, the living conditions of the poorest and access to basic services have improved considerably with the Gini coefficient of the country dropping from 60 to 49 (World Bank, 2015). These results may explain the support enjoyed by President Evo Morales since he took office in 2006.

Tensions between this vision of harmonious development and the constraints of economic development based on the extraction of raw materials have become particularly apparent in two emblematic cases: the construction of the highway linking the departments of Cochabamba and Beni through the Indigenous Territory and Isiboro Sécure National Park (Territorio Indígena y Parque Nacional Isiboro Sécure: TIPNIS), and the more recent authorisation to make use of natural resources in protected areas and indigenous territories (Supreme Decree No. 2066, Bolivia, 2014). In both cases, the protests of concerned groups and conservationists did not deflect the government from its position, and there is every reason to believe that these facilities will indeed be built.

This apparent contradiction between economic development and *Vivir Bien* is partly due to the ambiguous nature of the concept of *Vivir Bien*. Hidalgo-Capitán and Cubillo-Guevara (Chapter 3, this volume) identify three main interpretations, each of which focuses on a specific aspect of the concept: an indigenous understanding based on identity, a socialist and statist conception based on equity and, finally, an environmental vision that emphasises sustainability. These three interpretations reflect competing ideological currents within the Latin American Left.

1 The World Bank defines 'extreme poverty' as living on less than USD 1.90 per person per day (World Bank (2017) *Poverty,* http://www.worldbank.org/en/topic/poverty/overview [accessed on 5 April 2017]).

Each of these interpretations gives a different place to the imperative of extraction. The socialist and statist interpretation of *Vivir Bien* gives priority to improving living conditions and is, therefore, compatible with the extraction of raw materials. According to the Bolivian Vice-President, 'we cannot […] be content with protecting the trees, while leaving our people in poverty—for there is nothing idyllic about the living conditions of indigenous peoples […]. Some of our companions in the Altiplano live in stone houses; they have a five-hour walk to get to the nearest school; they sleep all day for lack of enough to eat. Please enlighten me: what knowledge economy can be built under these conditions? Should we emerge from "extractivism"? Yes, definitely. But not by returning to the Stone Age. The transition involves making use of our natural resources to create the conditions—cultural, political and material—which will allow the population to move on to a different economic model' (García Linera, 2016, our transl.).

The coexistence of these interpretations, even within the Movement Towards Socialism (Movimiento al Socialismo: MAS), currently in power, has not resulted in any thoroughgoing political and ideological debate. This lack of public debate can be linked to the characteristics of this particular political party, which—according to Do Alto and Stefanoni (2008)—acts as a simple political instrument whose structuring element is the trade union. Trade union leaders individually defend their respective positions and agendas with the support of their respective followers but do not engage in controversies themselves.

3 Biocultura: Implementing *Vivir Bien*

How far is it possible to reconcile the improvement of living conditions and the balance between human beings and nature? What role can actors of international cooperation play in the realisation of the concept of *Vivir Bien*? These are the questions that drive the Biocultura programme.

The programme relies on the assumption that sustainable economic and social development requires making the most of the richness of culture and biodiversity in the Andean region. It aims to encourage the development of alternatives to the current model of development of Bolivia. According to the programme's guidelines: '… changing—at least partially—the extractive and rentier model that has characterised our country in recent years and moving towards an alternative, sustainable and fair model of development […] will be possible only if we implement innovative approaches to the management of Andean ecosystems, which will simultaneously make possible both

the sustainable use and the conservation of biodiversity' (MMAYA/VMABCC and SDC, 2009, our transl.).

Conceptually, Biocultura aims to foster the complementarity between the Western approach embodied in the ideas of development, progress and growth, and an Amerindian vision based on the concepts of balance, respect and benevolence (Programa Nacional Biocultura, 2015a). This approach 'solves the contradictions that characterise modern societies. The first main complementarity is that of Western civilisation and indigenous civilisation. This contribution can help overcome the Manichean dualism of "either/or" that drains the creative energy of societies. We have advocated a logic that enables us to use "both … and" and thus create a "win-win" situation' (Programa Nacional Biocultura, 2015a, 18, our transl.).

Biocultura is a joint programme of the SDC and the Bolivian Ministry of Environment and Water. It is one of the public policies that were initiated in 2007 by the Bolivian government to strengthen the local management of biodiversity. In 2009, the new constitution and the National Development Plan incorporated strategies and policies for conservation and sustainable use of biodiversity related to the rights of indigenous peoples.

The Biocultura programme also benefits from the many experiments conducted by the SDC in Bolivia and the Andean region, especially in the field of biodiversity management by peasant and indigenous communities, including the BioAndes programme for the sustainable management of biodiversity in Bolivia, Ecuador and Peru; the regional programmes Probona and Ecobona for the management of native forest ecosystems through forestry, forest protection, rural development and access to markets; and the Proinpa programme for the use and conservation of biodiversity. For the SDC, Biocultura is an opportunity to strengthen the impact of such programmes by incorporating them within a government policy framework.

The Biocultura programme has local, regional, national and international dimensions. However, its resources are applied mainly at the local level, as it is regarded as the level at which the public policy of *Vivir Bien* finds its best expression (Programa Nacional Biocultura, 2015a). Between 2009 and 2014, the Biocultura programme was implemented in 35 municipalities (out of 339), all located in the Altiplano and in the transverse valleys (Figure 7.1), and characterised by a high level of biodiversity and endemic poverty. Despite significant investments made by the government to improve the road network, these regions remain highly isolated because transport development plans prioritise connecting large cities and strategic corridors, rather than these remote villages.

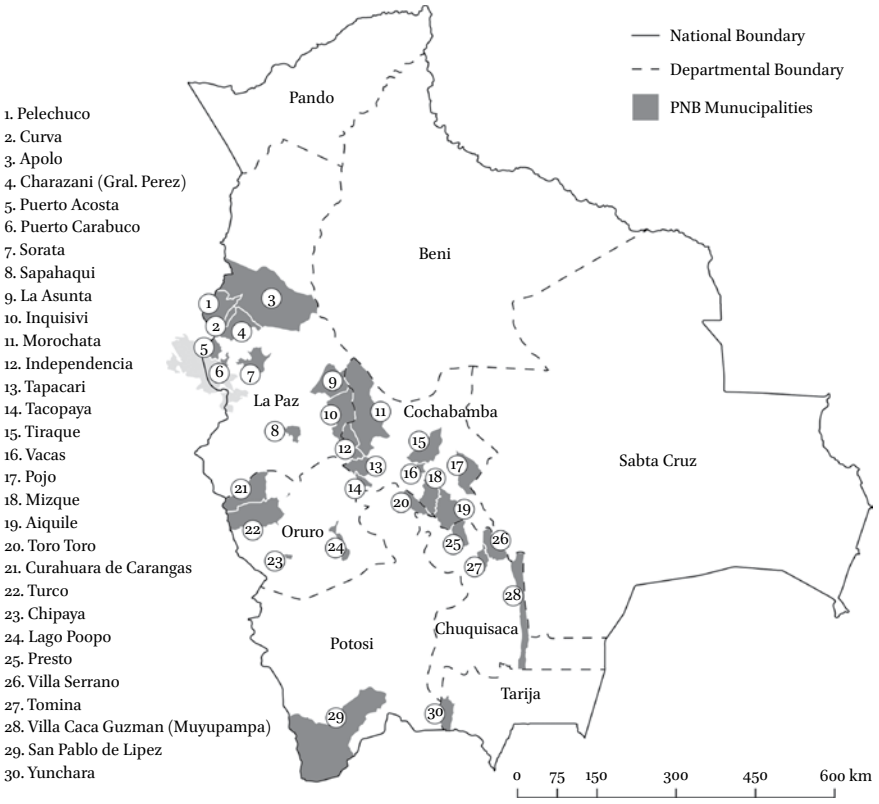


FIGURE 7.1 *Municipalities of intervention, Biocultura programme* (*PNB*). SOURCE: AUTHOR (PREPARED BY THE UNIDAD DE SERVICIOS Y FORTALECIMIENTO).

Over this period, the projects supported as part of Biocultura allowed over 11,000 families to increase their incomes by 17 per cent on average and to improve their diets (10 per cent more calories).[2] Efforts to preserve the ecosystems and biodiversity of the Andes focused on 9,873 hectares in four different ecoregions. In addition, the management of eight protected areas of national importance was enhanced.

At the local level, the projects incorporate four main components: local governance, productive development, ecosystem management and the

2 These results were established by the Development Research Centre of the Universidad Mayor de San Andrés through interviews with approximately 10 per cent of the programme's participants, at the beginning and end of the relevant phase.

management of cultural diversity. These components were identified through a participatory process at the time of the programme's launch.

With regard to local governance, the programme encourages participatory processes for developing strategic plans, so as to allow communities to set their own priorities. Funding (including municipalities' budgets) and external support are then allocated based on the strategic plan. In addition, Biocultura contributes to strengthening the capacity of local authorities and leaders in order to improve governance and the work of local organisations.

Moreover, Biocultura supports productive projects to raise household incomes and diversify the diet of the local population. These projects are intended to develop agricultural production and enable the creation of new sources of income. Some projects support the production of native and/or medicinal plants grown by local farmers, while others are aimed at the diffusion of organic farming techniques. In the municipality of Vacas, for example, Biocultura supported a project to prevent chemicals from degrading lagoon water quality; the lagoon being the main source of water supply for the population. Much of the production from this project is consumed at home or traded on local markets. At Rajaypampa, support from Biocultura has enabled the creation of a communal company producing biscuits from locally grown wheat. Part of the production is sold to schools, which provide children breakfast. The rest is sold in markets outside the village—through short distribution channels—and, more rarely, in the departmental capital—which is more difficult to access given the remoteness of the village.

This component of the programme emphasises local products and their virtues. The development of the road network, although it focuses largely on routes linking major cities rather than on the secondary network, creates new trading opportunities for local production, but it also facilitates the entry of goods produced elsewhere to the local markets, thereby undermining local production. By emphasising the quality, freshness and price of local goods, Biocultura-supported projects have raised awareness among local authorities and the population about the quality of their products, the benefits in terms of diet, and for the local economy. As a result, there has been a major increase in the proportion of local products—honey, fortified flour, cereals, etc.—used in meals served in schools.

Activities to preserve the biodiversity and ecosystems of the Andes include not only the development of local standards but also the protection of resources, water management, reforestation, soil conservation, and the repopulation of native grasslands. In the Altiplano, for example, the water supply is the most important issue, being essential for the breeding of camelids, which is the main productive activity in the area. However, water supply is threatened

by melting glaciers associated with climate change. In this context, Biocultura emphasises the maintenance of *bofedales*, wetlands used for grazing.

The main objective of the part of the programme dedicated to the management of cultural diversity is to enhance the value of knowledge, technology and cultural expression. It highlights the knowledge possessed by communities about nature and about various productive activities, and brings these into dialogue with scientific knowledge. Some schools have also taken the initiative to integrate local knowledge into their curricula. Specific cultural aspects have been integrated into the teaching of different disciplines, including the use of medicinal plants and local architecture. Children are asked to carry out research on these topics by interviewing the local population. They gain a better understanding of local knowledge, and a genuine ability to bring out its value.

Projects aimed at strengthening the capacity of local actors are the result of a collaboration between communities, municipalities and NGOs. Municipalities are committed to providing their own funds and also to ensuring the sustainability of these projects. In turn, the local NGOs, which are selected through a competitive process, provide the technical knowledge necessary for the project.

In addition to its support to local projects, Biocultura works to strengthen institutions and *Vivir Bien* policies, the protection and conservation of biodiversity, and to promote issues related to climate change. Local experiences are systematised and made available to higher administrative levels. In this context, the programme has provided support to the departments of Cochabamba, Tarija, and Potosi. At the national level, Biocultura participated in the consultations about the development of Law No. 300, the Framework Law on *Madre Tierra* and Integral Development for *Vivir Bien*. Furthermore, the programme has supported the creation of the Plurinational *Madre Tierra* Authority and the Plurinational Fund of *Madre Tierra*.

At the international level, Biocultura supported the Ministry of Foreign Affairs in developing the position of Bolivia—which incorporates the rights of *Madre Tierra* and the right to water and to *Vivir Bien*—in preparation for negotiations on the Sustainable Development Goals (SDGs) and climate change and in view of discussions within the G77 and China.

4 Conclusions and Prospects

Local projects supported by Biocultura show that it is possible to reconcile the protection of biodiversity and increased revenue. For Benecio Quispe, a former executive director of the Plurinational *Madre Tierra* Authority, 'Biocultura is

perhaps the first serious attempt to search for a development model other than the one that the West has imposed on us. Comprehensive interventions have been carried out to show the world that an integral, sustainable development in harmony and balance with *Madre Tierra* is possible' (Programa Nacional Biocultura 2015b, our transl.).

Biocultura has entered its final phase (2015–19) and is now operating as a project. As in previous phases, it will devote most of its resources to local projects. However, it is now more aligned with national policy in the field of climate change, insofar as Andean regions are particularly affected by this phenomenon. Rainfall is indeed more and more variable, flood and drought episodes are now recurrent problems, and melting glaciers pose a threat to biodiversity, soil productivity and potentially the food security of the population.

In the coming years, the Plurinational *Madre Tierra* Authority will benefit from Swiss funds to build its capacity for the management of the Plurinational Fund of *Madre Tierra*. The latter aims to bring together national and international resources—in particular from the Green Climate Fund—that will be devoted to mitigating the effects of climate change. In addition, the Economic and Social Development Plan 2016–20 requires each municipality to set out a Regional Development Plan that incorporates social development, economic development and adaptation to climate change (Bolivia, 2015). In this context, the local projects supported by Biocultura stand out as examples, as does the participatory approach that gave birth to them.

The country's economic model is currently suffering due to the fall in raw material prices since 2015. It is therefore imperative that the government finds alternative sources of income that will allow it to pursue the redistributive policy that has enabled it to improve the living conditions of the poorest and to continue to benefit from widespread support from the population. Provided that the current situation does not cause an intensification of the extraction of raw materials, the government could therefore take this opportunity to diversify the country's productive base and implement an economic model that combines economic development, social progress, the protection of biodiversity and the promotion of local cultures. Furthermore, recent developments in oil prices are increasing tensions between the vision of development put forward by Bolivia, the constraints of its economic model; and between the different interpretations of *Vivir Bien*. In this context, the lack of public debate on the various options for dealing with these developments is regrettable.

In a referendum in February 2016, the Bolivian people opposed the constitutional reform that would have allowed President Evo Morales to stand for a fourth term in 2019. This could encourage the emergence of new political figures, including those from within the MAS, whose influence on arbitration

and on the balance of power between the different interpretations of *Vivir Bien* would require further analysis.

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CHAPTER 8

Poverty and Economic Inequalities in Peru during the Boom in Growth: 2004–14

Javier Herrera

Abstract

In the first decade of the twenty-first century, Latin America experienced strong growth that was primarily attributable to high export prices and growing demand from China. Moreover, democratic transitions in the region brought to power governments with highly contrasting economic policies and different visions of the sectors that were driving growth. These governments also differed in terms of the social policies they implemented to combat poverty and inequality. Countries with 'heterodox' policies (Brazil, Ecuador, Bolivia, Argentina and Venezuela) that promoted efforts to better distribute the fruits of growth increased social expenditure and encouraged, to a greater or a lesser degree, productive diversification, particularly in the internal market. Countries with 'orthodox' policies (Chile, Colombia and Peru) promoted foreign investment in the primary export sector (mining, oil, fishing, soybean cultivation, etc.), which was considered the main driver of growth, and implemented conservative fiscal and monetary policies that created a climate of confidence for investors and led to stable exchange rates and prices.

This chapter attempts to assess the events of the last decade in terms of distributive aspects by comparing the cases of countries that applied heterodox policies with those that implemented orthodox policies. The study focuses primarily on Peru, where governments combined a 'leftist' ideology—which brought them to power—with economic policies that were close to the 'Washington Consensus'. The author examines the results of this phase of rapid growth in terms of poverty reduction and assesses to what extent these results have been accompanied by (and possibly have been achieved thanks to) a drop in inequality and the growth of the middle class. This phenomenon is seen by some as a guarantor of political stability and by others, as a cauldron of conflict. Finally, the degree to which social expenditure and taxation can play distributive roles in this new phase of slower growth is explored.

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1 Introduction

During the first decade of the new millennium, Latin America posted strong growth. This was due primarily to higher prices for exports coupled with growing demand from China. This led to surpluses in external accounts but also generated a significant reduction in the fiscal deficit and allowed public expenditure to be increased. Countries with 'heterodox' policies (Brazil, Argentina, Ecuador, Bolivia and Venezuela) promoted efforts to better distribute the fruits of growth by increasing social expenditure and encouraging, to a greater or lesser degree, productive diversification, particularly in the internal market. Countries with 'orthodox' policies (Chile, Colombia and Peru) promoted foreign investment in the primary export sector (mining, oil, fishing, soybean, etc.), which was considered the main driver of growth, and implemented conservative fiscal and monetary policies. This created a climate of confidence for investors and led to stable exchange rates and prices. A deterioration in the terms of trade and a downturn in exports to China, which began in 2010, has blocked expansion in the region, and growth levels are close to zero in some cases and negative in others.

After having experienced rapid growth throughout the expansion cycle that accompanied the boom in commodity prices, Latin American economies, and in particular those that are the most dependent on raw material exports (mainly oil, metals and soybean) to China, have suffered a brutal drop in their growth rates. After three years of weak growth, in 2015 growth in Latin America turned negative (–0.9 per cent). Some countries, including Brazil, Venezuela and Ecuador, have reported negative growth rates, while the downturn has—with a few exceptions—spread to the other countries of the region (World Bank, 2016). The perspectives for growth are not encouraging according to the forecasts published by both the World Bank (World Bank, 2016) and the International Monetary Fund (IMF) (IMF, 2016), and indicate that a growth phase characterised by relatively moderate growth is on the horizon.

During the decade of sustained growth, various countries implemented active policies to combat poverty (conditional cash transfers) and increased social expenditure, which widened access to education and health. In this period, Latin America was the region that posted the most significant reductions in poverty (Inchauste et al., 2014). Nevertheless, and despite macroeconomic performance (or perhaps thanks to it) and a drop in poverty, the highest rates of inequality in the region have fallen only moderately and continue to be among the highest in the world (de Ferranti et al. 2004; Gasparini et al., 2009).[1]

1 Diagnosing the evolution of inequality in Latin America in the last decade is subject to several methodological limitations linked to problems with household surveys in terms of

The drop in exports has led the currency position to fall, causing depreciation in the exchange rate and inflationary pressures. These inflationary pressures have, in turn, eaten away at household purchasing power, which has attenuated the pace of poverty reduction. Private investments have fallen and some countries have adopted restrictive fiscal policies, which has further exacerbated the economic downturn. In this new context, it is important to examine the impact that the downturn/recession has had on inequalities (de la Torre et al., 2014).

Although social expenditure targeting the poor also grew during the expansive phase, which to a certain extent reconciled growth with redistribution, during the current period of lower growth it is not feasible to expect that expansion alone will reduce poverty and inequality. Nevertheless, there is still a wide margin for redistributive policies given that social expenditure remains very low and progressive direct taxes, unlike in developed countries, play a much less important if not an insignificant role in reducing inequalities. This requires a great deal of political willingness, and a social consensus must be in place to back these policies.

The different governments that have set up shop in Peru since 1990 have chosen to implement neo-liberal policies, which include suppressing or reducing the role of state enterprise while making the job market more flexible. The primary-exporter model has not been questioned and on the contrary moves have been made to promote foreign investment in the mining and oil sectors, where profitability has risen due to high international prices. Weak productive diversification has focused on exporting non-traditional products, most of which are agricultural and generated by large, high-technology farming interests.

This chapter is divided into thirteen sections. Section 2 examines the contrasting evolutions of poverty, inequality and polarisation in countries that apply heterodox policies versus those that implement orthodox approaches by breaking down the main microeconomic factors that drive these evolutions in each context. In the third section, and in those that follow, we will examine the case of Peru, where macro orthodox policies are combined with micro 'heterodox' policies. Based on a first-hand analysis of household surveys for the last 12 years, we study the behaviour of poverty during the different stages of growth (Section 3) and answer the question of the extent to which growth was pro-poor by highlighting the contrasts between the period of rapid growth and the period of deceleration (Section 4). In Section 5 we examine how the national

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estimating non-labour income without bias and impediments to capturing information for the highest income percentiles (Bourguignon, 2015; Ravallion, 2016; Yamada et al., 2012).

macroeconomic situation (linked to exchange rate depreciation) and the situation on the international front (boom in raw material prices; strong demand) made their mark through price increases, for food in particular.

The reduction in poverty has lifted a large number of households from the throes of hardship, but the question is to what extent has this population become part of the 'new middle class' or has this group merely increased the numbers of vulnerable individuals who are on the verge of falling back into poverty? This point will be addressed from a dynamic perspective (poverty transitions) in Section 6, and from a static perspective through indicators of inequality and polarisation (Sections 8 and 9). In Section 7, we will examine the (direct) role played by public transfer policies in reducing poverty. In Section 10, we will examine the sources of income that account for changes in income inequality. The perception of inequality and the role of the state in redistribution leads to the formation of political coalitions that favour more state intervention through redistributive policies to reduce inequalities. This topic, which is particularly relevant in the current situation of a change of administration, will be discussed in Section 11 through an analysis of the opinion surveys from Latinobarómetro and the World Values Survey. Finally, in the last section we will explore the extent to which fiscal policy, through progressive direct taxes, can serve as a redistributive instrument to reduce income inequalities while generating resources for social policies that favour the poor.

2 Evolution of Poverty and Inequality in Latin America[2]

Judging by the noteworthy reduction in poverty levels, the last ten years have not been a 'lost decade' for the countries in the region. All of the countries studied, both those that apply 'heterodox' policies (Brazil, Argentina, Ecuador and Bolivia) and those that implement policies inspired by the Washington Consensus, saw their poverty levels fall by nearly half (Figure 8.1), with the notable exceptions of Chile and Argentina, which posted reductions of

2 In this section, we use poverty and inequality indicators from the SEDLAC database. The primary sources of data are as follows: Bolivia, 2003 is in fact 2002; Argentina, EPHC 2003–12 is the average of the first and second half years; Brazil, Nueva PNAD 2003, 2004–13 including the northern rural region; Peru, ENAHO; Colombia, ECH 2004–05, GEIH 2008–13; Ecuador, ENEMDU. This database was homogenised in the construction of the aggregate incomes as well as the values of the poverty lines (USD 4 in purchasing power parity (PPP) from 2005). We decided not to use ECLAC's indicators given the existence of a number of methodological problems and the lack of detailed information regarding imputations (Bourguignon, 2015).

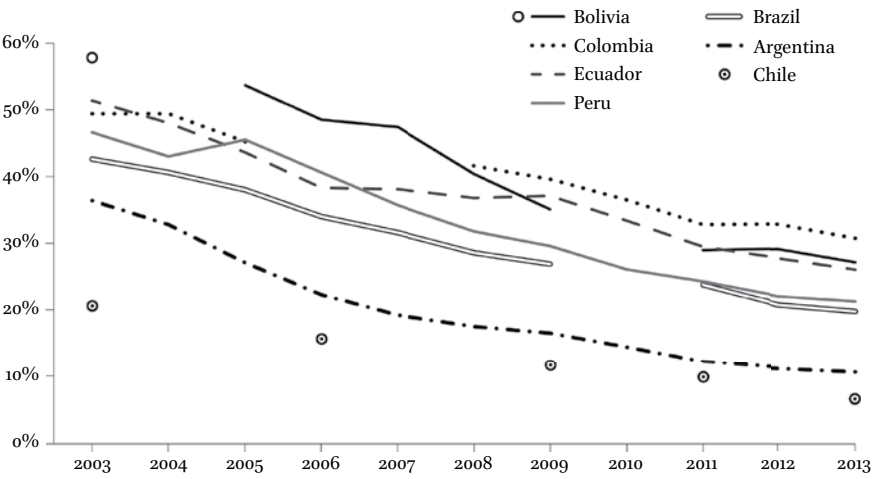


FIGURE 8.1 *Evolution of poverty (USD 4 purchasing power parity, 2005), 2003–13.*
SOURCE: SEDLAC DATABASE.

67 per cent and 70 per cent, respectively, despite having followed very different orientations with regard to economic policy. Brazil and Peru, despite differences in policy orientations, have posted a very similar evolution in their incidences of poverty. Regardless of the fact that we still do not have harmonised data from the last two years, the figures published by the national institutes of statistics, although not comparable in terms of poverty levels, lead us to believe that poverty levels basically stopped falling in 2013, although we have yet to see a reversal of the downward trend.[3] Looking beyond economic policies and the international context, the initial conditions of inequality affect the extent to which growth can reduce inequality. As such, social policies that combine poverty reduction and inequality reduction can be more successful than policies that seek simply to promote growth by creating favourable conditions for private investment.

Latin America, rightly, has the reputation for being the continent with the highest income inequality in the world (de Ferranti et al., 2004). Thanks to a decade of strong growth, different governments in the region have had the opportunity to implement redistributive policies to reduce inequalities (Lopez-Calva and Lustig, 2010). Reduction of the fiscal deficit, the availability of currency, an expansion in the supply of education, and—in the case of

3 For an analysis of growth and inequality reduction in the first decade of the twenty-first century, see Gasparini and Lustig, 2011; Székely and Mendoza, 2015. For national official poverty rates (2003–15) see Annex, Figure A.8.3.

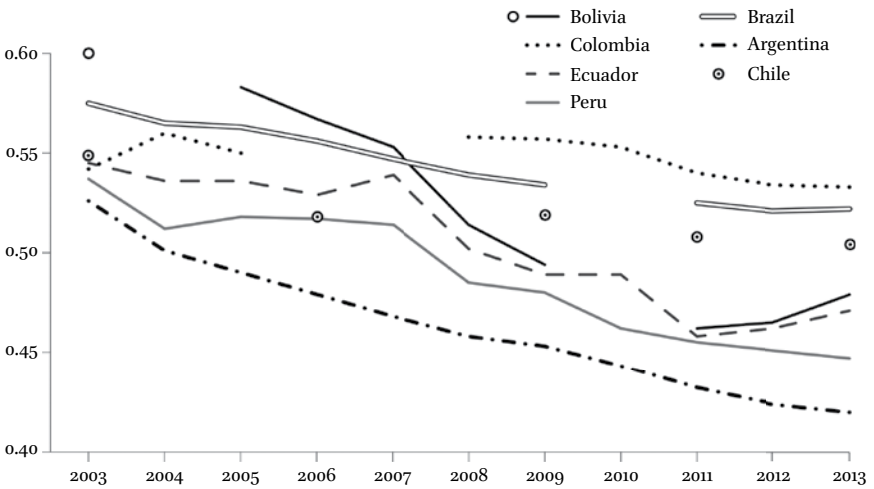


FIGURE 8.2 *Evolution of income inequality (Gini), 2003–13.*
SOURCE: SEDLAC DATABASE.

countries involved in mining or oil—the distribution of royalties to local governments have undoubtedly had differentiated effects.

A decrease in the Gini coefficient (which expresses total inequality when equal to 1 and perfect equality when close to 0) for total income has been widespread (Figure 8.2). In Brazil, Chile and Colombia inequality levels remain high and the decline has been less pronounced. Inversely, Argentina and Peru have posted ongoing decreases in income inequality throughout the period (Lustig et al., 2013a). Beyond these nuances, the convergence of trends means that growth, coupled with redistributive policies, has had a strong redistributive impact in both 'heterodox' and 'orthodox' countries. This fact encourages research to discover more about the implementation of universal social protection policies in various countries in the region.

In the context of the poverty and inequality reduction that transpired over the last decade, academics and international bodies have focused their attention on the expanding middle class, which is seen as platform for social cohesion and the consolidation of democracy. Growing internal markets, political stability, and demand for education, among other factors have allowed some emerging economies to escape the 'middle income trap'. Nevertheless, little is known about the real dimension of this expansion. In order to make an initial approximation, we present (Figure 8.3) the evolution of the polarisation posited by Foster and Wolfson (2010).

In general, the polarisation indexes in all of the countries diminish and converge to values between 0.40 and 0.45. The exception is Colombia, which

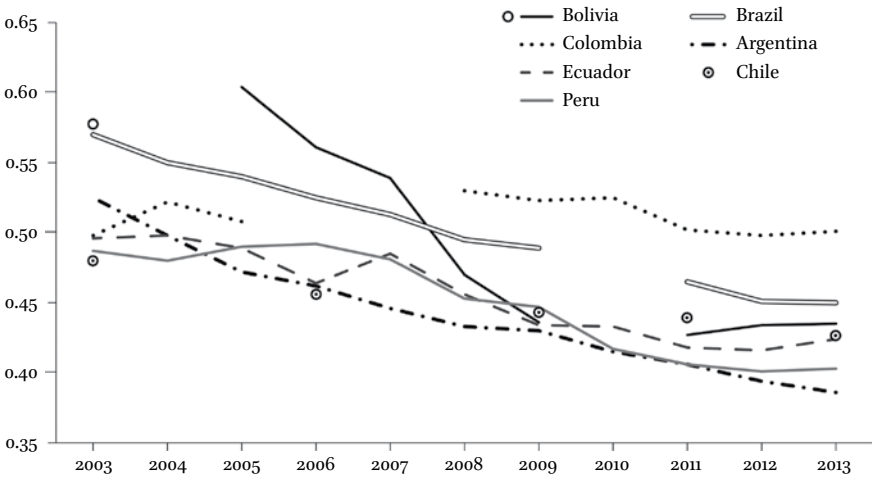


FIGURE 8.3 *Evolution of income polarisation, 2003–13.*
SOURCE: SEDLAC DATABASE.

showed no improvements in inequality or in the polarisation index. Brazil and Bolivia, which reported the highest levels of inequality and polarisation at the beginning of the decade of 2000, are also the countries that posted an increase in the population in the intermediate segments of distribution, which made them less polarised.

3 The Drop in Poverty in the Most Recent Decade of Growth

Peru has experienced one of the most significant drops in poverty in the region during the last decade (Figure 8.4). Between 2004 and 2014, during a period of strong and sustained macroeconomic growth, the incidence of poverty in the country fell 36 percentage points (a reduction of 61 per cent). The average poverty gap (the population mean of the relative distance of spending by the poor from the poverty line itself) also fell considerably, going from 22.1 per cent in 2004 to 5.8 per cent in 2014. Along the same lines, poverty severity, which measures heterogeneity in spending among the poor, also dropped significantly during the same period.

Figure 8.5 shows that the decrease in macroeconomic growth rates has been accompanied by a less significant decrease in poverty. Moreover, it is evident that the 'poverty elasticity' of growth in the period 2009–13 fell with respect to 2005–08 (the ratio of the relative variation in poverty to the relative variation

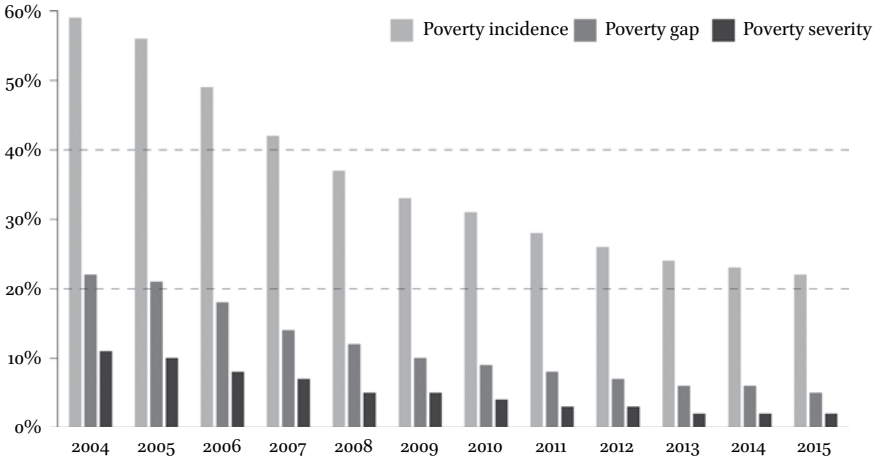


FIGURE 8.4 *Poverty incidence, poverty gap and poverty severity* (*Peru*).
SOURCE: AUTHOR'S ESTIMATIONS BASED ON THE NATIONAL HOUSEHOLD SURVEY (ENAHO), 2004—15.

of the gross domestic product (GDP) dropped, on average, from 1.33 to 1.23). It is indeed surprising that the drop in the poverty rate during the short period of the recession of 2009 and during the downturn of 2013 was proportionally more significant that the variation in GDP. This, to a large extent, may be due to the fact that the drop and downturn in GDP was concentrated in the 'export and investment component', which affected the 'consumer' component in the mid and long terms rather than in the short run. Another possible explanation could lie in the growing importance of social programmes and of monetary transfers to the poor in particular. We should put to rest the widely held belief that a decrease in the pace of poverty reduction can be explained as follows: as poverty levels fall, it becomes more difficult for the remaining poor to exit poverty given that those who remain poor represent the hard core of the poorest among the poor. The poverty gap (mean solely among the poor) fell from 37.7 per cent in 2004 to 25.6 per cent in 2014, although it is also true that little variation was reported in the last five years (it fell only 3.5 percentage points). An examination of the urban/rural divide, where poverty gaps have been historically high, shows that the relative risk of poverty (both total and extreme poverty) increases more in rural households than in their urban counterparts.[4]

4 The odds ratio of rural households went from 1.42 to 2.03 and from 2.53 to 3.42 for total poverty and extreme poverty, respectively.

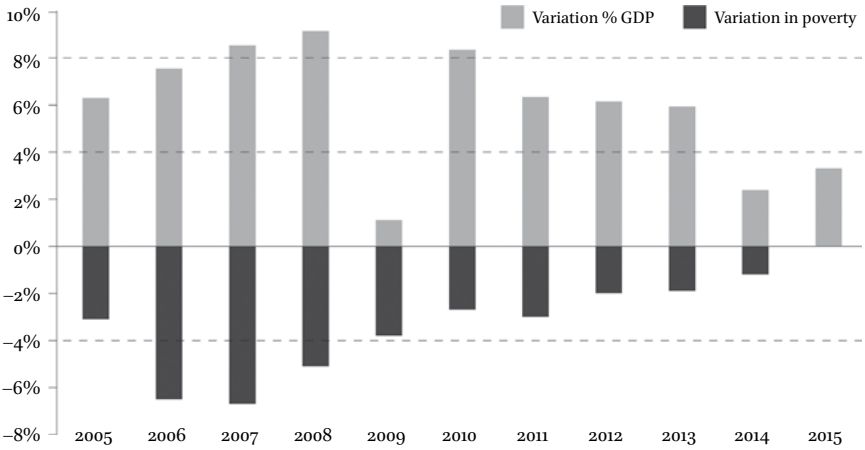


FIGURE 8.5 *Evolution of GDP and the poverty rate, 2005–15.*
SOURCE: INEI.
Note: Percentage difference of GDP in constant PEN (soles 2007); variation in the incidence of total poverty in percentage points.

4 How Pro-poor Has Growth Been?

One of the arguments in favour of maintaining the primacy of the primary-export model is that growth will eventually, like a tide that lifts all boats at the same pace, equally benefit the poorest households without the need for redistributive 'welfare' policies. Growth could be described as pro-poor when it favours the poor more than the non-poor, while neutral growth generates no bias either for or against the poor (homothetic growth of expenditure or income). On the other hand, growth can be termed anti-poor when household income or expenditure in the wealthiest segments grows more than those in the lower range of income distribution. Pro-poor growth reduces the gap between poor households and other households and can (although it does not necessarily) lead to a reduction in inequality as measured by the Gini coefficient.

Below (Box 8.1), we analyse the extent to which growth has been, or has not been, pro-poor by decomposing the variation in poverty into two parts: (1) variation due to 'pure' growth and (2) variation due to redistribution. It is important to note that redistribution can occur due to growth that is biased in favour of sectors that are intensive in terms of unskilled labour or if it is associated with a relative decline in the performance of higher education, transfers between households and public donations, among other factors.

The greater the gaps and the severity of poverty, the more difficult it will be to reduce poverty through neutral economic growth. In this way, inequality and poverty are intimately linked.

Box 8.1 Decomposition of poverty variations into the effects of growth and redistribution

In the decomposition of poverty variations in terms of the growth effect and the redistribution effect, three distributions are compared: the distribution observed in t-1, the simulated distribution that applies the average growth rate to all households, and the distribution observed in period t. The growth effect is the difference in the incidence of poverty divided by the simulated distribution and the distribution in t-1 (using expenditures at constant prices and the poverty line in t). The distribution effect is the difference of poverty incidences between the distribution in t and the simulated distribution in t. (See Figure A.8.1 in the Annex for details of the non-parametric decomposition.)

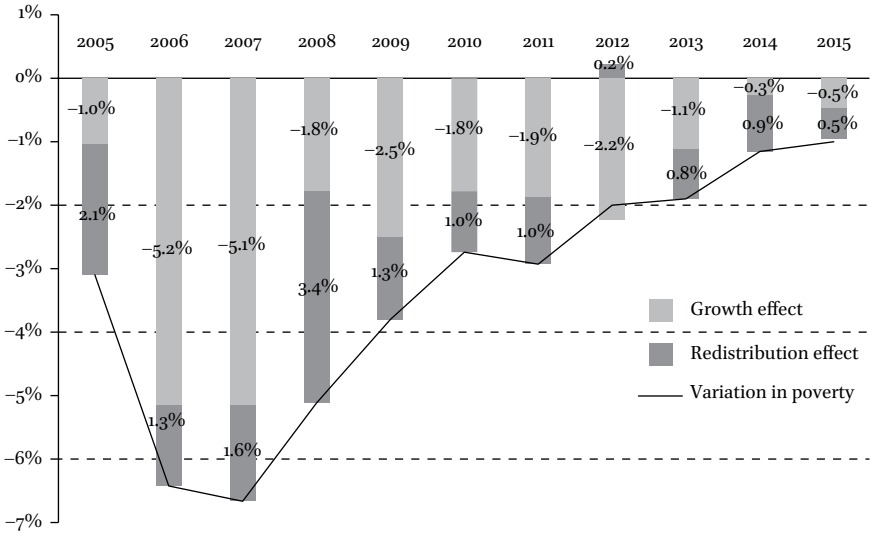


FIGURE 8.6 *Decomposition of annual variations in poverty* (*in percentage*).
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2004–15.

Figure 8.6 presents, year by year, the growth and redistribution components of annual poverty changes and annual percentage point poverty variation. With the exception of the first year, the years that posted strong growth were relatively neutral in terms of distribution and on one occasion the result was slightly anti-poor (2012). The last three years of moderate growth were proportionally pro-poor. In 2015, the reduction in poverty was due, primarily and for the second consecutive year, to the redistribution effect, which outpaced the growth effect.

TABLE 8.1 *Growth and redistribution components of poverty changes*

		Incidence of poverty	Decrease in the incidence of poverty	Growth effect	Redistribution effect	% Growth	% Redistribution
2004–2006	2004	58.7%					
	2006	49.1%	−9.5	6.3	3.3	65.5%	34.5%
2006–2011	2006	49.1%					
	2011	27.8%	−21.3	−12.9	−8.4	60.4%	39.6%
2011–2015	2011	27.8%					
	2015	21.8%	−6.1	−4.5	1.6	74.1%	25.9%
2004–2015	2004	58.7%					
	2015	21.8%	−36.9	25.3	11.6	68.5%	31.5%

SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2004–15.

In the years 2004 to 2015, the total variation in the incidence of poverty was 36.9 percentage points; the growth effect was 25.3 points and the distribution effect 11.6 points. Consequently, less than a third of the significant decrease in poverty was due to the redistributive component of growth, which, as we have already mentioned, includes not only the effect of social policy but also structural and situational changes in the economy. Growth driven by exports from the primary sector that is not accompanied by comparable development in production for the internal market, coupled with still moderate social expenditure, foreshadows a situation in which the decrease in poverty during the low growth period will be relatively modest. Additionally, the redistributive component of growth posted for the period 2011–15 accounted for only 25.9 per cent of the reduction in poverty (Table 8.1).

5 Distributive Effects of Price Increases

One of the channels through which macroeconomic factors affect the distribution of income is by way of the differentiated effects generated by absolute and relative price variations. Price increases primarily affect those who are not able to index their income, while changes in relative prices can lead to a larger loss of buying power in the poorest homes if said variation is stronger in terms of food than non-food items. In the case of Peru and other developing countries,

the effects also depend on whether or not households are net producers or consumers, in this case, of food.

In 2004–15, the general price level (measured through the Consumer Price Index—CPIo) increased by an average annual rate of 3.9 per cent with a peak of 7.6 per cent during the 2008 crisis (meaning an accumulated increase of 43.1 per cent between 2004 and 2015). Total poverty and extreme poverty lines increased in similar proportions (from 42.9 per cent and 58.5 per cent, respectively). The food price index increased by an average rate of 5.3 per cent. To what extent did these variations affected inequality and poverty?

In the calculation of these effects, we must consider, on one hand, the fact that consumption structures differ according to spending levels and, on the other, the spatial difference in price levels. As such, the deflation of nominal expenditure considers the specific weighting of the different groups of expenditure per household. In terms of the disparities of price levels, we deflated expenditure with the spatial deflator of multilateral prices calculated by the Peruvian National Institute of Statistics (Instituto Nacional de Estadistica e Informatica: INEI). Figure 8.7 shows the differences between the evolution of nominal expenditure and of real expenditure for each of the expenditure deciles between 2004 and 2015. It is evident that losses due to inflation were higher for the poorest deciles while the richest deciles suffered no losses due to inflation.

This differentiated effect of inflation by decile is also correlated with poverty reduction. The incidence of poverty is found by comparing the nominal expenditure of the current year with the poverty line of the previous year

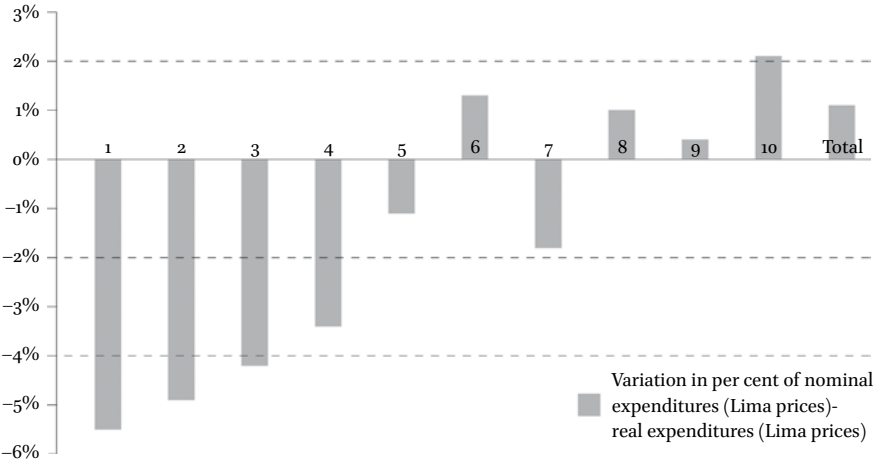


FIGURE 8.7 *Changes in expenditure levels due to inflation by deciles, 2004–15.* SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2004–15.

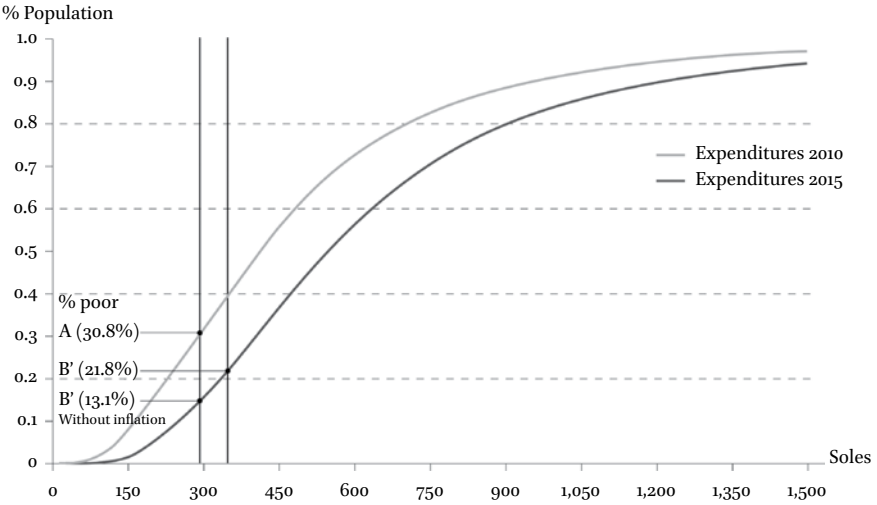


FIGURE 8.8 *Direct effect of inflation on poverty reduction.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2010 AND 2015.
Notes: If there had been no inflation in 2010–15, the poverty line in 2015 would have been the same as in 2010 (= B' = 13.1%).
Observed variation of poverty (30.8%-21.8%) B-A = –9 points.
Without inflation, poverty would have fallen from B'-A = –17.7 points = (30.8%-13.1%).
The effect of inflation is equal to: (A- B') - (A-B) = (B'-B)–8.7 points = (21.8%-13.1%).

considering the current year's prices. The direct effect of the increase in prices is, as such, the difference between the incidence using the line at last year's prices and the nominal expenditures of the current period with regard to the variation of the incidence with lines at prices that have been indexed to inflation (Figure 8.8). If we look at the period 2010–15, poverty fell by 9 points but if no inflation had been in play, the reduction would have been 17.7 points. The net effect is that inflation has offset the drop in poverty by 8.7 points (or 11.6 points if we consider the period 2004–15).

6 Vulnerability of Households

The decrease in poverty observed over the last decade, measured through static indicators (of incidence, gap and severity), does not reveal the dynamic of poverty, particularly in terms of the incoming and outgoing flows of poverty. The same poverty rate is compatible with very different sizes of flows of population that enter and exit poverty—which would, in this case, give the same net balance. It is important to note that economic insecurity and vulnerability

to poverty (measured as a risk of falling into poverty) should be considered dimensions of well-being.

To approximate the measurement of vulnerability, we consider the individual trajectories of households using longitudinal data (household panel) and identify, for two successive periods, the proportion of households that remain in poverty, those that fall into poverty, those that exit poverty and those that have never been poor.

Figure 8.9 shows that the reduction in poverty measured was due primarily to a decrease in the number of households that have always been poor while the proportion of vulnerable households remains practically constant, at around 10 per cent of total households.

Seen from another angle, we can consider the population that has not been poor every year, but which experienced at least one episode of poverty of at least one year during the period, as part of the vulnerable population. The Peruvian National Household Survey (Encuesta Nacional de Hogares, ENAHO) uses a subsample panel that follows the same households every year. Table 8.2 shows the results of the household panel (2007–11). Slightly more than one household out of ten (12.4 per cent) was poor in each and every one of the five years considered while a little less than half (47.2 per cent) experienced no episodes of poverty in the period 2007–11. The most surprising result is the

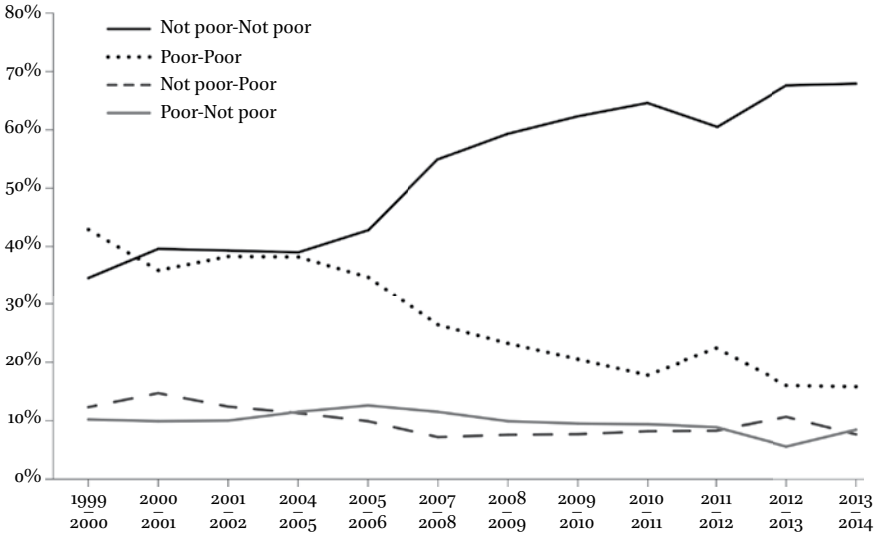


FIGURE 8.9 *Poverty transitions, 1999–2014.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 1997–2014.
Note: The period considered covers distinct designs of the total sample and the panel.

TABLE 8.2 *Chronic and transitory poverty, 2007–11*

	Poverty in 2011			
Episodes of poverty 2007–11	**Non-poor**	**Poor**	**Total**	**Households**
0	47.2	0.0	47.2	4,237,301
1	10.9	2.1	13.0	1,167,393
2	7.3	2.6	9.9	886,717
3	5.2	3.9	9.2	823,325
4	3.5	4.8	8.4	751,394
5	0.0	12.4	12.4	1,113,331
Total	74.1	25.9	100	8,979,461

SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2007–11.

very high proportion of the population living in households that are vulnerable to poverty (transitory poor), given that four out of ten experienced at least one episode of poverty. This proportion contrasts strongly with the proportion of poor in 2011, the last year of the period. In other words, in 2011, the poverty 'halo' comprised 66.3 per cent of the population and not only the 25.9 per cent that lived in poverty in that year.

7 Social Programmes and Poverty Reduction

We have seen that part of the reduction in poverty is due to growth that is moderately pro-poor. In this section, we will examine the extent to which targeted public transfers explain this pro-poor bias in growth. To accomplish this, we will examine different components of real expenditure based on forms of acquisition. Total expenditure includes both purchases and goods and services acquired through self-consumption, self-supply, in-kind payments, transfers from other households and public transfers. We will focus primarily on the last component, public transfers.

Public transfers include different transfer programmes (for example, the programmes *Juntos, Pension 65, Beca 18*, etc.) that have a direct impact (through the transfer amount) and an indirect impact (through induced behaviours) on the well-being of households.

In 2014, public transfers represented 3.4 per cent of average total household expenditure; this percentage does not differ significantly from one year to the next (minimum variations, limited within the range of 3.1 per cent to 3.6 per cent). The 'efforts' made by the various governments in the fight against poverty has not led them to allot larger transfer amounts to households in proportion to average household expenditure. Given that these are targeted transfer programmes, we should examine the relative importance of these public transfers in different segments of expenditure distribution. Figure 8.10 also presents these proportions for the five poorest deciles and for the national average. For decile 1, the poorest, public transfers reached a peak in 2006 (11.8 per cent of total expenditure) and fell during three successive years to 7.2 per cent in 2009. Transfers then rebounded in 2010 only to fall again in 2012; growth reported in the final two years brought the transfer amount back to levels comparable to those seen in 2007 (8.4 per cent of total expenditure in 2014). The profile of the evolution observed for the second and third poorest deciles is very similar to that of the five poorest deciles but the proportion of public transfers represents an average of 2.2 and 3.6 percentage points less, respectively. In the period 2004–14, public transfers represented, on average, 8.5 per cent of the expenditure of the extremely poor. These proportions remained relatively stable over that decade.

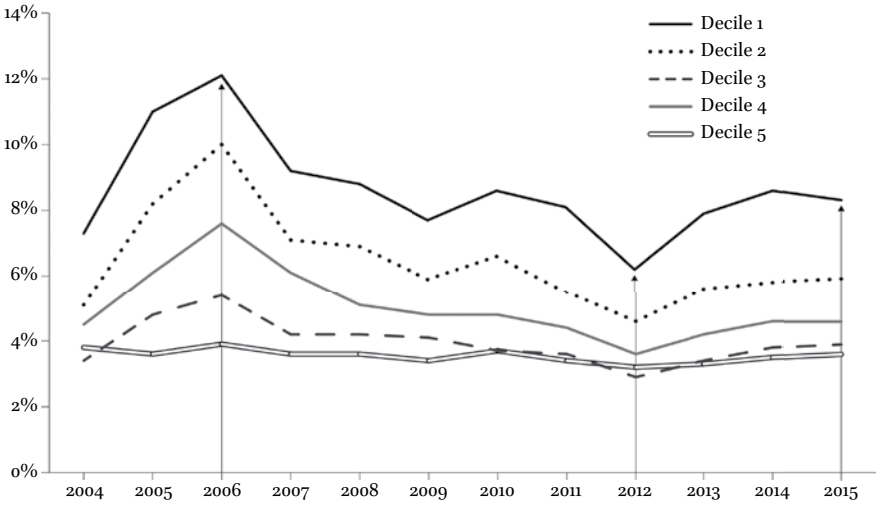


FIGURE 8.10 *Relative importance of public transfers by deciles, 2004–15.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2004–15.

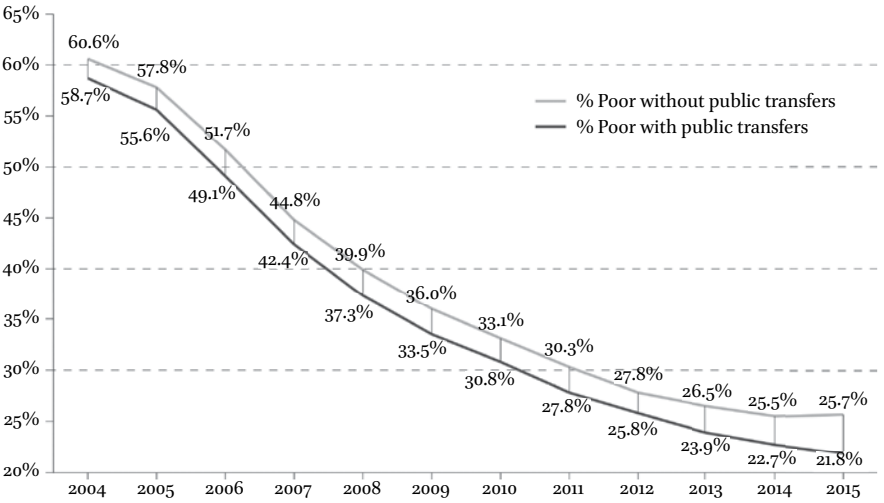


FIGURE 8.11 *Direct impact of public transfers on the incidence of poverty.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2004–15.

What would the poverty level have been without public transfers? If we consider only the direct impact of such transfers, in Figure 8.11 we see that the impact would have increased over time. In 2004, the absence of transfers would have increased poverty by 1.9 supplementary points while in 2014 poverty would have increased by 3.9 points. Two sub-periods can be identified: the first comprises the years 2004–08, during which the absence of public transfers would have meant a 2.6 point increase in the incidence of poverty, which is lower than the amount found in the second period, which encompasses the years 2009–14 (1.3 points of supplementary poverty.)

What amount would the non-poor have to transfer, as a proportion of their total household expenditure, to allow poor households to cover the cost of a basic food basket? This would give us an idea of the dimensions that policies with regard to taxation and to transfers to households must contemplate in order to eradicate poverty.

It is important to note that the strong reduction in poverty was accompanied by a drop in the amount associated with the redistributive effort over the course of the period examined. Although 'eliminating' total poverty would have involved, in 2004, mobilising the equivalent of about 24 per cent of the expenditure of non-poor households, in 2015 this percentage fell to only 3 per cent (Figure 8.12). If the objective were more modest and consisted solely of eliminating extreme poverty rather than total poverty (extreme and non-extreme), then the redistributive effort would have represented about

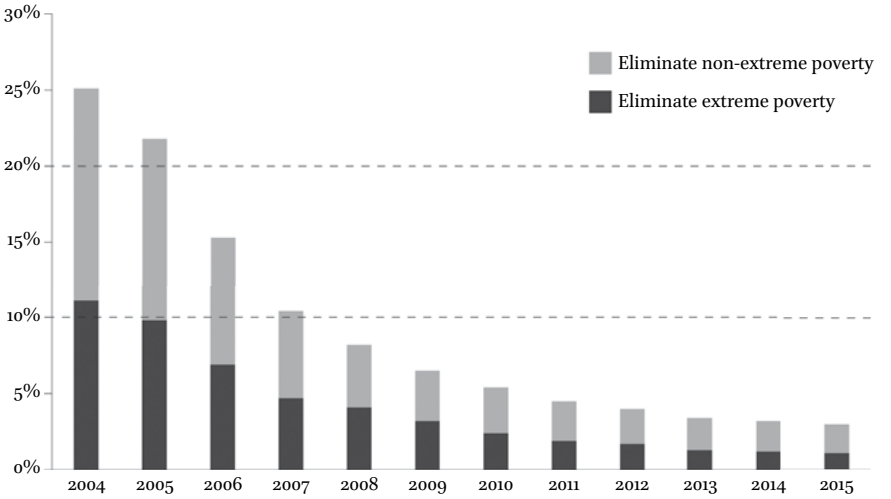


FIGURE 8.12 *Per cent of total expenditure of non-poor households needed to eliminate the poverty gap.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2004–15.

10 per cent of the expenditure of the non-poor in 2004 and only 1 per cent in 2015. In other words, given fiscal reserves and the fact that fiscal pressure is low in Peru (around 16 per cent) in comparison to countries with comparable GDP levels, suppressing poverty through transfers to poor households is an attainable goal.

8 The Evolution of Inequality

The levels of income inequality, measured with the Gini coefficient, are relatively high and show a slight downward trend beginning in 2008 (Figure 8.13). The same trend is observed in the case of real per capita expenditure inequality. The income Gini coefficients fluctuate between 0.51 and 0.44 and those relative to expenditure, between 0.41 and 0.35 (Annex, Figure A.8.2).

Despite the important gaps in income and expenditures between households in urban and rural areas, the levels of inequality within each of these ambits are high and very similar.

Another way of examining changes in inequality is by comparing the relative shares of total expenditure of each of the quintiles of distribution for two different periods (Figure 8.14). If we consider total expenditure and its distribution in quintiles, in 2004 and 2015 we can see that the decrease in

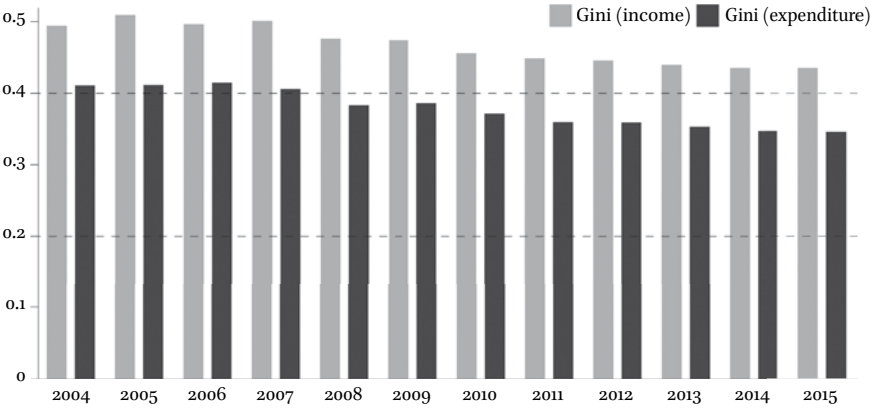


FIGURE 8.13 *Evolution of the inequality of household income and expenditure, 2004–15.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2004–15.

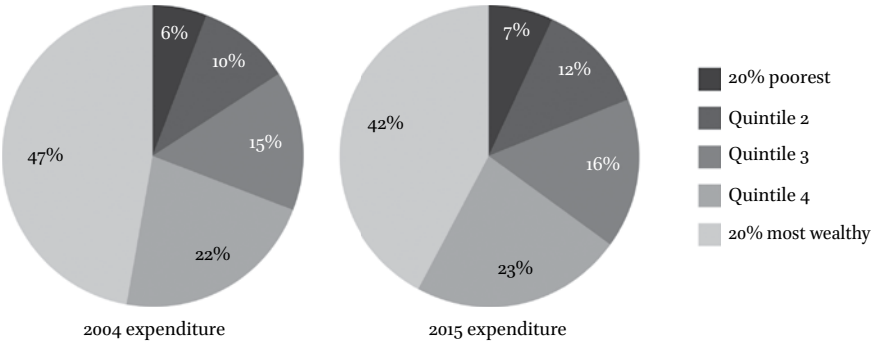


FIGURE 8.14 *Distribution of expenditure by quintiles, 2004 and 2015.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2004 AND 2015.

inequality led to the fifth richest quintile losing 5 percentage points, redistributing one percentage point to each of the remaining quintiles with the exception of the second poorest quintile, which received two percentage points of expenditure.

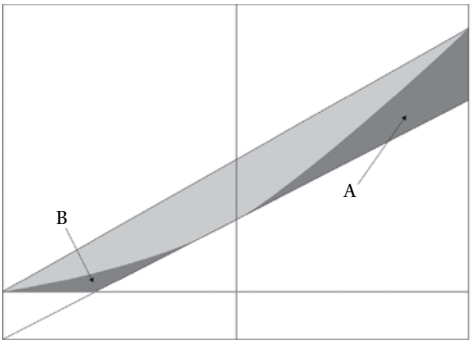
The ratio of average expenditures for the richest quintile to those of the poorest quintile reached a peak in 2007 and declined progressively and regularly until 2011. From that point on, gap reduction is basically imperceptible. There are no significant changes in other portions of the distribution if we compare the ratios of the 75th percentile with those of the 25th and 50th percentiles given that these percentiles remain basically constant throughout 2004–15.

9 The Polarisation of the Distribution of Income

The level and evolution of inequality, as measured by the Gini coefficient, tell us little about expansion or the lack thereof in the middle segments' share of total income (often considered as equivalent to the expansion of the middle class) or if, on the contrary, we are facing a growing polarisation in income. Polarisation can lead to a loss of social cohesion and to higher levels of social conflict whereas the expansion of the middle class drives more citizen participation to monitor the political class and public policies.

To measure polarisation, we will use the index proposed by Wolfson, which is directly related to the Gini index. The Gini index measures the area between the diagonal and the curve of Lorenz in relation to the lower area of the diagonal; the polarisation index examines the relative importance of both extremes of the distribution (Figure 8.15).

Our estimates for the polarisation index for both income and real per capita expenditures show a downward trend, which is more pronounced in the case of income than in that of expenditures (Figure 8.16). We cannot discard the possibility that there is an underestimation of the degree of inequality that stems from the fact that it is difficult for surveys to capture certain sources of income in the richest households. Rejection rates (unwillingness to participate in surveys), under-declaring and sampling problems also impede an acceptable estimate of very high income. Comparing income aggregates estimated by national accounts and by household surveys has led several authors to attempt to correct the Gini coefficients. Nevertheless, very often the hypotheses made concerning the distribution of discrepancies are, by direct consequence, responsible for the observed results although there is no way of corroborating



The area shown by A+B indicates the degree of polarisation. Foster and Wolfson (2010) derive the following formula to calculate this area:
P = 2(2T-Gini)/mtan

mtan = the median tangent = median/average

T = 0.5 - L(0.5), which is the difference between 50% and the proportion of expenditures of the other half of households.

FIGURE 8.15 *Inequality and polarisation: a graphical representation.*
SOURCE: FOSTER AND WOLFSON (2010, 264).

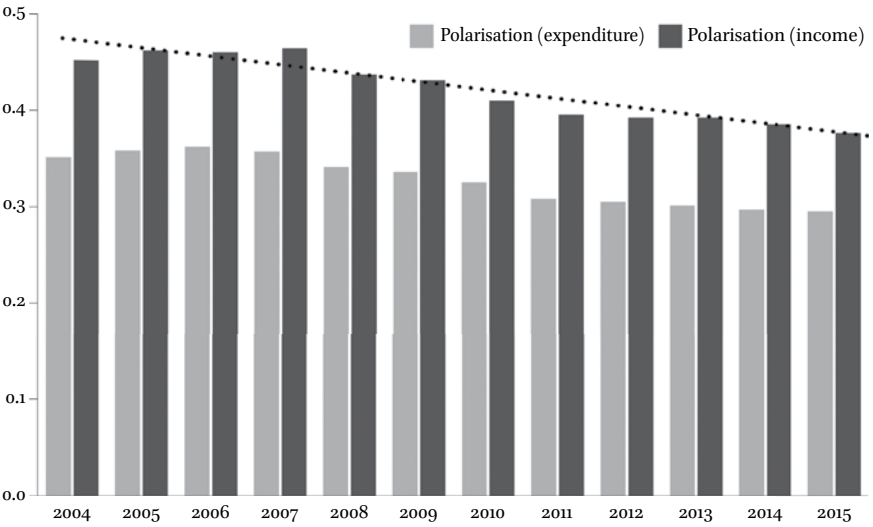


FIGURE 8.16 *Evolution of the polarisation of income and household expenditure.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO SURVEYS, 2004–15.

these hypotheses. Combining the information from household surveys with tax records is a promising but still pending task in Peru.

10 The Contributions of the Job Market and Social Policies to Variations in Poverty and Inequality: A Shapley Decomposition

A reduction in poverty or in inequality may be associated with the behaviour of labour income, remittances or private transfers, extraordinary income or even public transfers through different social programmes. As seen earlier in this chapter, despite differences in political orientations, the countries in the region experienced a strong reduction in poverty and inequality. It is valid to question if this reduction was achieved through the same channels: the market, for those with policies inspired by the Washington Consensus, or public transfers, in the case of countries with heterodox policies.

In an attempt to answer this question, we will use the decomposition method proposed initially by Barros et al. (2006) and subsequently applied by Kakwani et al. (2009) in Brazil and the approach used to analyse Chile, Brazil and Mexico proposed by Zepeda et al. (2009), and later extended by Azevedo et al. (2013a). This method is based on the additive nature of different components of income and on the construction of a counterfactual distribution

that removes one component of income at a time and then recalculates the indicators to identify their contribution to changes in poverty and inequality. The algorithm developed by Azevedo et al. (2012) resolves issues regarding the sensitivity of results to the order in which each component of income is considered. To avoid this problem, all possible combinations are calculated and the average of their respective contributions is used as a measure of its contribution (Azevedo et al., 2012).

In Figure 8.17, each quadrant represents the relative contribution of each income component (grouped into five main categories) to variations in poverty and inequality between 2004 and 2015. The importance of public transfers, which mainly correspond to diverse social programmes, is particularly noteworthy in that they account for 16 per cent and 26 per cent of the reduction in the incidence of poverty and of the poverty gap, respectively. These transfers have also played a significant role in the observed reduction in inequalities, contributing 40 per cent to the observed drop in the Gini coefficient.

The contrast between the 2004–10 period and that of 2010–15 reveals an important shift in the sources of changes in poverty and inequality. On the one hand, the contribution of labour income to poverty reduction fell (from 80 per cent to 52 per cent). This was, without a doubt, linked to the downturn and in some cases to a recession in productive activities for the internal market, activities that absorb the majority of qualified workers. On the other hand, this significantly increased the contribution of public transfers to both poverty

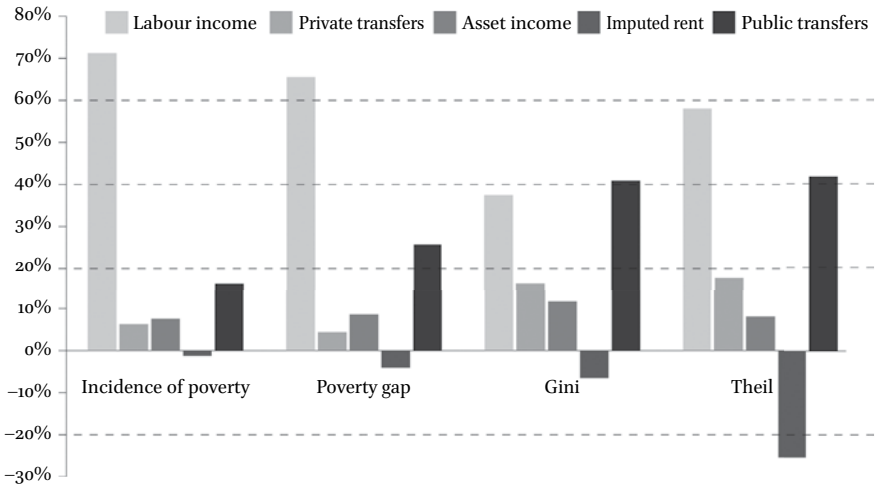


FIGURE 8.17 *Decomposition of the variations in poverty and inequality between 2004 and 2015, according to household income components.*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO SURVEYS, 2004–15.

reduction and inequality reduction (see Table A-1 in the Annex). In the period 2004–10, transfers accounted for only one-third of the reduction in inequality (Gini), while in 2010–15 this same component represented half of the reduction in inequality.

A similar exercise, conducted by Azevedo et al. (2013b) for 14 Latin American countries for the period 2000–10, allows us to compare the case of countries with orthodox policies with that of those countries that opted not to change the patterns of growth based on primary exports and prudent approaches to fiscal and monetary policy management. This also matches the analyses by country presented by Lopez-Calva and Lustig (2010). Nevertheless, the relative contribution of pensions, non-labour income, and changes in the workforce in households compared to changes in inequality differs among countries. In countries with more highly developed institutions and better living conditions (Argentina, Brazil and Chile and to a lesser extent Colombia), income from pensions and transfers plays a more important role than it does in other countries. Peru and Ecuador share similar characteristics in terms of the preponderance of the contribution of labour income. Peru is unique in that it is the only country in the study that registers a negative contribution (which increases inequality) for non-labour income (–14 per cent). This result matches our estimates (a negative contribution of –11 per cent to Gini and –19 per cent to the Theil index, Table A-1). Our estimates for the most recent period (2010–15) show that this contribution ceases to be significant in the case of Gini but remains negative in the Theil case.

11 The Perception of Inequality and the Role of the State in Redistribution

The consequences of higher or lower degrees of economic inequality and social pressure that seeks to drive redistributive policies depend on the population's perception of distributive justice, a preference for more income equality, the factors that have an impact on disparities in quality of life, and what role is devoted to the state with regard to reducing inequalities. To explore these issues, we analyse the Latinobarómetro opinion surveys and the World Values Surveys, which help us situate Peru's case in the Latin American context (Figure 8.18).

A persistent and surprising fact is that a high percentage of the population of Peru perceives the inequality level to be very unjust. In fact, this figure exceeds those posted by countries whose inequality levels (measured by the Gini index) are actually higher. Panama, Ecuador, Bolivia and the Dominican

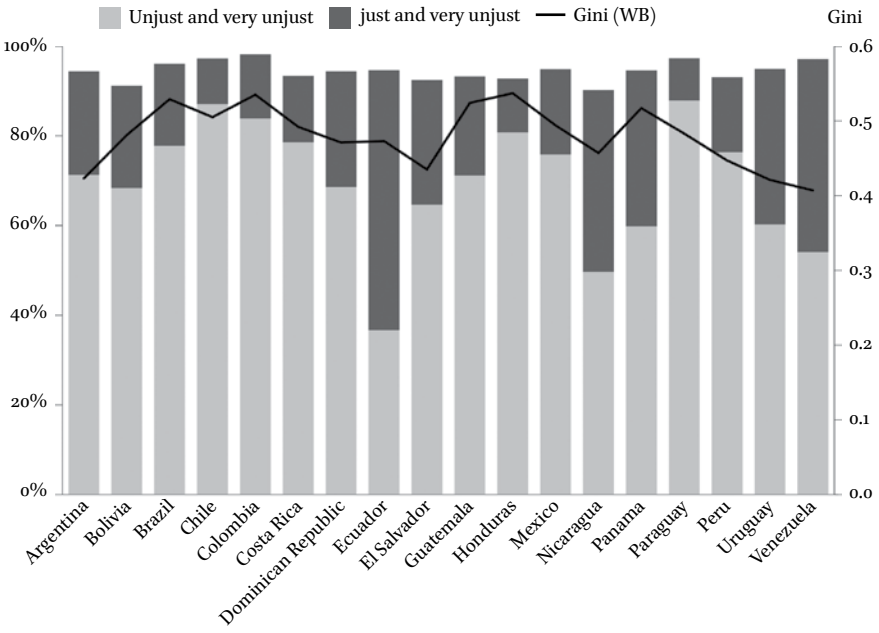


FIGURE 8.18 *Perception of distributive justice and the inequality index, 2013.*
SOURCES: AUTHOR'S ESTIMATES BASED ON LATINOBARÓMETRO, 2013; GINI COEFFICIENT—WORLD BANK.

Republic have levels of inequality that are higher than those in Peru. Nevertheless, a smaller proportion of the population of these countries is of the opinion that such a distribution is unfair or very unfair. In Peru, the origin of inequalities is considered, to a certain extent, less 'legitimate' than in some of the other countries in the region that have comparable or higher levels of inequality.

An analysis of the nine latest Latinobarómetro surveys sheds light on how perceptions of distributive justice evolved over time during the period of economic growth (Figure 8.19). In the period of crisis (1997–2001), the percentage of the population that considered distribution fair or very fair was just 5.2 per cent. In the initial phase of expansion, this proportion fluctuated between 8.4 per cent and 12.8 per cent. Tolerance of inequality seems to have increased moderately during the last five-year period, when the proportion of the population that believed that distributive justice was fair or very fair was equivalent to 16.5 per cent of the total.

The perception that the distribution is unfair or very unfair does not mean, in a mechanical sense, that the population believes that incomes should be levelled. The World Values Survey did not reveal that the population adhered consistently over time to a meritocratic conception of distribution that in

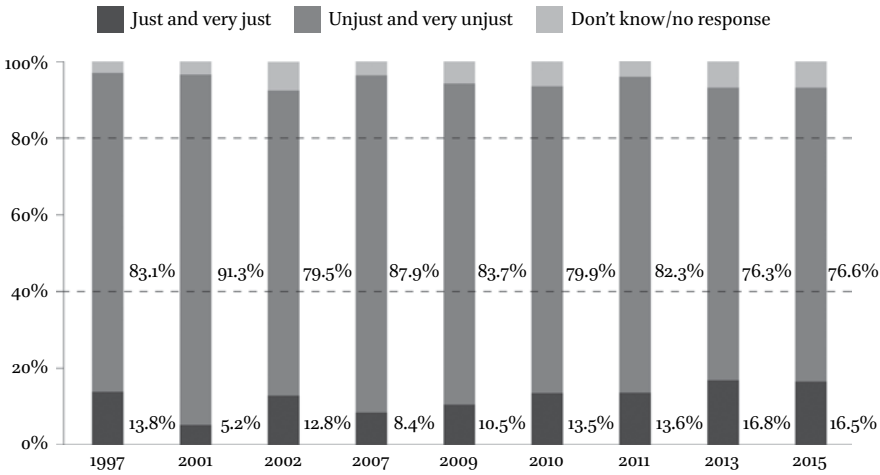


FIGURE 8.19 *Evolution of the perception of distributive justice, 1997–2015 (Peru).* SOURCE: AUTHOR'S ESTIMATES BASED ON *LATINOBARÓMETRO* DATA, 1997–2015.

general posits that he or she who tries harder should be paid more. Distributive injustice could be more related to the obstacles (discrimination, inequality of opportunities and inequality of wealth) that generate a scenario in which the rules of the game are not the same for all. A plausible explanation of the preference for a meritocratic conception of distribution is linked to the very high percentage of independent, informal workers in the country, who—as their own 'bosses'—have an income that is not part of a salary mediation scheme and instead comes directly from the market, which rewards greater or lesser effort. This may lead some to lose sight of the fact that these individuals compete with other informal workers to obtain a 'piece of the pie', since the demand for their products/services does not change with alterations in the number of informal workers. In sectors with low entry costs, it will be necessary to spend more hours working in order to maintain income levels. The absence of a potentially conflictual capital/work relationship means that the relations of subordination in which independent workers are embedded—independent workers who profess that they are in favour of meritocratic rules for income generation—remain invisible.

A comparison of countries in the region that have a lower proportion of independent workers than Peru demonstrates even more clearly the specificity of meritocratic and non-redistributive preferences for income equality. This meritocratic conception was found in less than half of the opinions registered in Argentina, Brazil, Chile, Colombia and Uruguay, while in Peru approximately 8 out of 10 adhere to this belief (Table 8.3).

TABLE 8.3 *Preferences in the region for more income equality* (*in percentage*)

	Argentina	Brazil	Chile	Colombia	Peru	Uruguay
Income should be more equal(1 to 5)	53.6	49.1	61.4	52.4	**21.1**	52.9
He or she who works harder should be paid more (6 to 10)	46.4	50.9	38.6	47.6	78.9	47.1
Total	100	100	100	100	100	100

SOURCE: AUTHOR'S ESTIMATES BASED ON THE WORLD VALUES SURVEY—1996, 2001 AND 2008.

The preponderant idea that wealth is expandable, and can increase in a way that is sufficient for all, runs counter to the idea that wealth is fixed and only a few will enrich themselves at the expense of others, and is consistent with the meritocratic conception of income distribution. At the same time, not seeing wealth as fixed attenuates potential distributive conflicts, particularly when this vision is shared by the upper class and the middle and working classes. If we compare (Table 8.4) the year 2008, which posted a peak in growth, with the year 1996, which marked the end of a deep economic crisis, we see a progression in the proportion of individuals whose perception leans towards the idea that wealth is expandable and does not give rise to distributive conflicts. This progression is situated at around 10 percentage points for the middle class, the working class and the lower class, as well as for the upper and upper-middle classes.

The opinion that an individual's income should be aligned with his or her efforts, coupled with the conception that wealth is expandable and the belief that wealth can be obtained by some without compromising the wealth of others, is consistent with the majority opinion that the government should have less of a stake in regulating income obtainment, which is best left to individuals. Here, nonetheless, we observe some differences between the middle and working classes and the upper and upper-middle classes (Table 8.5). After having assigned a more important role to the government with regard to the distribution of income in 1996 and 2001 (a period of a drop in income), in 2008 a lower proportion of the lower classes assigned a preponderant role to the government with regard to efforts to distribute income.

TABLE 8.4 *Perception of wealth as fixed or expandable* (*in percentage*)

	Middle class, working class and lower class		Upper class, upper-middle class	
	1996	**2008**	**1996**	**2008**
One can become rich only at the expense of others (1 to 5)	33.8	22.8	29.9	18.9
Wealth can be increased and be sufficient for all (6 to 10)	66.2	77.3	70.1	81.3
Total	100	100	100	100

SOURCE: AUTHOR'S ESTIMATES BASED ON THE WORLD VALUES SURVEY, 1996 AND 2008.

TABLE 8.5 *The market versus state intervention* (*in percentage*)

	Middle class, working class and lower class		Upper class, upper-middle class	
	1996	**2008**	**1996**	**2008**
People should have more responsibility	47.8	54.5	55.9	57.1
The government should have more responsibility	52.2	45.5	44.1	42.9
Total	100	100	100	100

SOURCE: AUTHOR'S ESTIMATES BASED ON THE WORLD VALUES SURVEY, 1996 AND 2008.

12 Fiscal Policy as a Redistributive Instrument

The downturn in Chinese growth, which had been one of the main drivers of growth in various countries in the region, has also implied the end of the cycle of high prices for raw materials and as such a significant drop in fiscal resources that will inevitably have repercussions that may lead to a contraction in public expenditure. It is in this new context of slower growth that it is likely

that questions will be raised about the possible ways through which poverty and inequality could be reduced.

Latin America has often been characterised as the region with the world's highest level of income inequality. Nevertheless, it is important to note that the distribution of primary income or market income in the member countries of the Organisation for Co-operation and Economic Development (OECD) is as—if not more—unequal than that seen in many Latin American countries. It is also important to remember that fiscal policies and social expenditure are the mechanisms that offset, to a large extent, market disparities. In the case of Latin American countries, fiscal policy plays a very marginal role in attenuating income inequalities given that indirect taxes (on added value) predominate and are regressive by nature (Lustig et al., 2013b). Social expenditure has a redistributive impact on poor households but, as we have seen, its reach is very limited in Peru's case (Figure 8.20).

If we compare the situation in Peru with that of other countries in the region, it is evident that income taxes play a less important role than social expenditure, and than education and health expenditure in particular (Figure 8.21). Cash transfers are more important in Chile, Mexico, Uruguay and Brazil.

The margin for implementing policies via which to fulfil the dual objectives of reducing poverty and inequalities is very broad (Goñi et al., 2011; Blofield, 2011). Nevertheless, this option will hit a wall when it comes to generating



FIGURE 8.20 *Effects of fiscal policy and social expenditure on health and education on income inequality (Gini coefficient) around 2011 (Latin America 16 countries, OECD-30 countries excluding Chile and Mexico, European Union-15 countries).*
SOURCE: ECLAC, IEF (2014, 47, FIGURE 13).

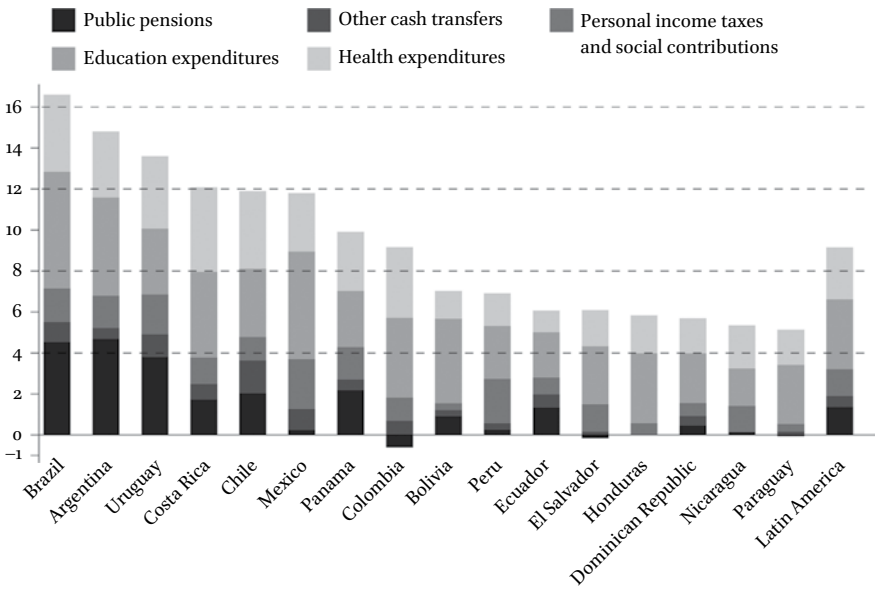


FIGURE 8.21 *Reduction in the Gini coefficient according to fiscal policy instruments (in percentage points).*
SOURCE: ECLAC, IEF (2014, 49, FIGURE 14).

social consensus with regard to its timeliness and appropriateness. The findings regarding the perception of distributive justice and the role assigned to the market and that assigned to the state allows us to predict that redistributive fiscal policies have a long way to go before they can be institutionalised as policies that combat poverty and inequality.

13 Conclusion

In the new context of low growth, poverty reduction must be accompanied by policies that aim to reduce inequality—policies that must, on one hand, drive growth in productive activities for the internal market and, on the other, propitiate a demand shock through an increase in social expenditure. This will offer the additional benefit of contributing to reducing gaps in access to quality public goods, which will, in turn, reduce inequality of opportunities. The viability of an alternative strategy for development in this new context requires a different vision of tax policies, which—unlike the frameworks in place in neighbouring countries—have not been used as a policy instrument for achieving more redistributive justice. The amounts needed to close the poverty

gap represented barely 2.9 per cent of the expenditure of non-poor households in 2015. It is commonly believed that after the spectacular reduction in poverty posted in the last decade, it may be more difficult to reduce poverty and inequality further given that the households that have yet to exit poverty fall very far below the poverty line. Nevertheless, this idea does not hold up if we test the data: the aforementioned reduction in poverty was accompanied by a reduction in poverty gaps. The low level of indebtedness and the reserves accumulated during high-growth phases (in terms both of currencies and of fiscal reserves) provide a wide margin for applying distribution policies via more social expenditure, improving quality coverage for education and health and universalising social programmes (*Pension 65* and *Cuna Mas*, among others). The redistributive effect of both types of interventions in the countries of the region falls significantly short of that observed in OECD countries.

The Peruvian case combines a strong dependency on raw materials with direct distributive policies (conditional transfer programmes) and indirect distributive policies (distribution of the canon[5] and mining and oil royalties to local authorities). The vulnerability of this social model will become manifest in the new phase of weak or moderate growth and will simultaneously affect fiscal income and its distributive capacity as well as household incomes. In this context, where the tax rate and the fiscal base are low and social expenditures barely increase, the fragility of the growth model will not be remediated without a social pact in favour of better distribution of income, which entails increasing fiscal pressure on income to finance social expenditure in favour of the poorest homes. The current political context in Peru, and the population's preferences, are unlikely to favour this option. Nevertheless, problems of public safety, which are without a doubt associated with an unequal distribution of the fruits of growth, have become a top priority among the population and may pressure the Peruvian state into practicing more redistribution or more repression. The new government will have to resolve this dilemma.

Annex

*Non-parametric Decomposition of the Variations of Poverty: Growth and Redistribution**

This method is based on the link that exists between the Lorenz curve and the cumulative density function (cdf). As pointed out by Maasoumi and

5 The government transfers half of the taxes collected from the mining industry to the regions and municipalities where the minerals are extracted. This is what is called the 'canon'.

Mahmoudi (2013), the cdf function can be used to highlight the redistribution effect given that the Lorenz curve (normalised for the average value) is nothing more than the inverse of the distribution function:

$$L(p) = 1/\mu \quad cdf^{-1}(\pi)d\pi.$$

Given that it is postulated that cdf1 and cdf2 have the same average value, Maasoumi and Mahmoudi (2013) show that

The portion of the change in the incidence of poverty that can be attributed to growth is summarised, according to the authors cited, with the following expression:

The variation in the poverty rate is equal to

$$\Delta P = P(F_2;z) - P(F_1;z).$$

The intersection between the vertical line (of poverty) and the F_1 curve gives us (on the axis of the coordinates) the incidence of poverty (H_1).

A new curve is constructed (F_1^*) of accumulated frequency (cdf), multiplying the expenditures of all of the households (F_1) by the average rate of expenditure growth.

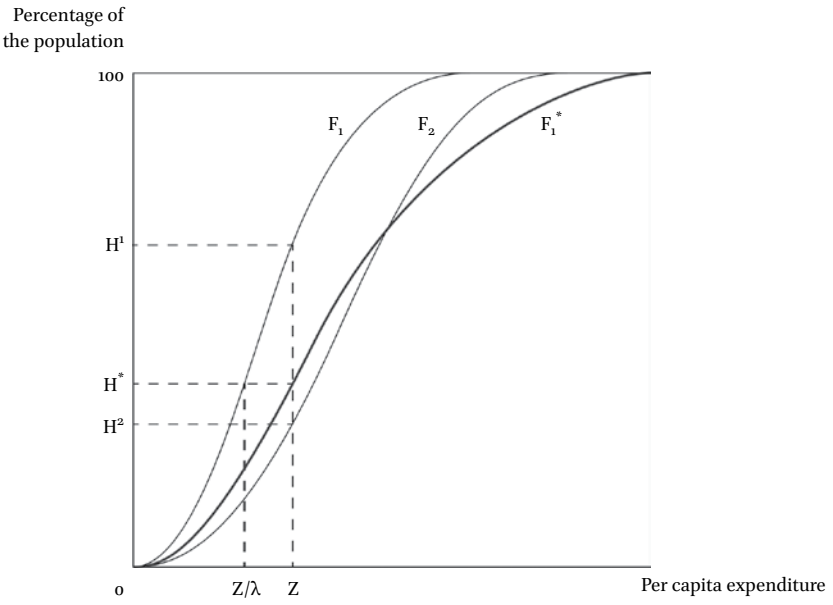


FIGURE A.8.1 *Growth and redistribution decomposition of poverty change.*
SOURCE: MASSOUMI AND MAHMOUDI (2013, 268–276).
*Note: To prevent the index number problem, the 'average' effect is calculated after averaging the decomposition obtained after increasing the initial distribution and that obtained by reducing the final distribution.

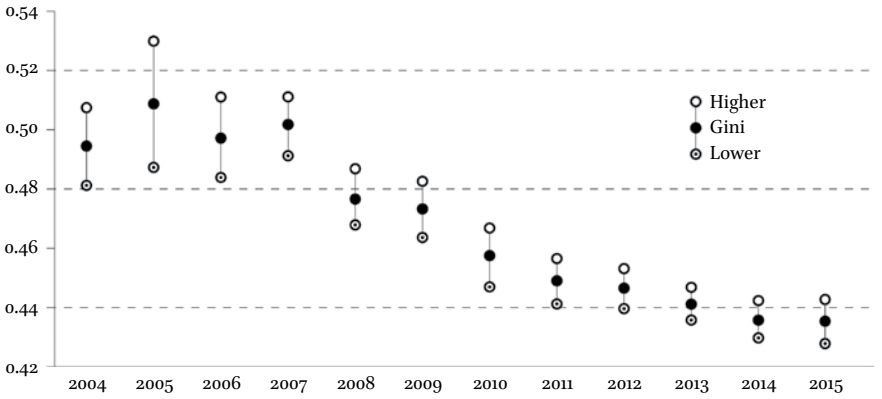


FIGURE A.8.2 *Gini coefficient of income and its confidence intervals (at 95%), 2004–15 (Peru).*
SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO, 2004–15.
Note: Income at prices in Metropolitan Lima.
Confidence intervals calculated using the bootstrapping method.

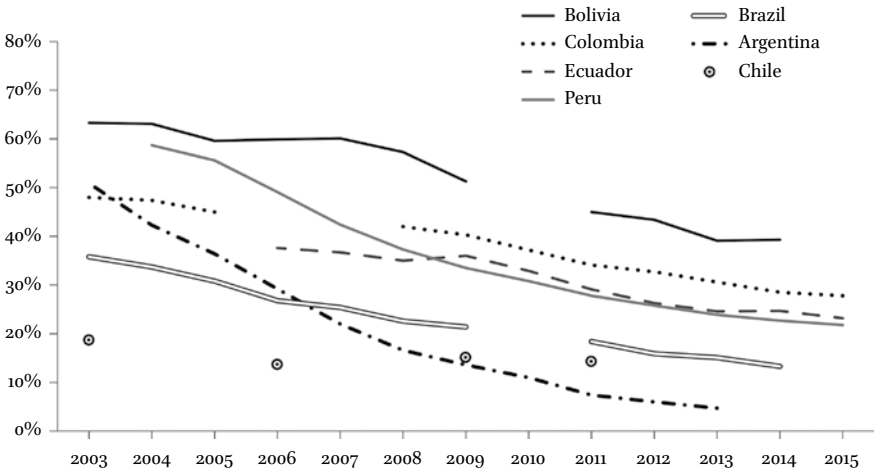


FIGURE A.8.3 *Evolution of poverty (national poverty lines), 2003–15*
SOURCE: SEDLAC DATABASE.

TABLE A-1 *Decomposition of poverty and inequality indicators according to income source (relative contribution)*

PERU, 2004, 2010, 2015

	FGT(0)	FGT(1)	Gini	Theil
2004	39.3%	14.6%	0.491	0.469
2010	21.4%	6.8%	0.457	0.398
2015	15.1%	4.5%	0.435	0.352
Variations				
2004–2010	−17.9	−7.8	−0.034	−0.071
2010–2015	−6.3	−2.3	−0.022	−0.046
2004–2015	−24.2	−10.1	−0.056	−0.117
RELATIVE CONTRIBUTION				
2004–2010	FGT(0)	FGT(1)	Gini	Theil
Labour income	80%	78%	40%	43%
Remittances and private donations	9%	8%	20%	31%
Imputed rent	4%	5%	20%	19%
Extraordinary earnings	−1%	−7%	−11%	−19%
Transfers and public donations	9%	16%	31%	26%
Total variation	100%	100%	100%	100%
2010–2015				
Labour income	52%	37%	32%	73%
Remittances and private donations	0%	−2%	9%	2%
Imputed rent	14%	15%	0%	0%
Extraordinary earnings	0%	5%	9%	−23%
Transfers and public donations	33%	46%	50%	48%
Total variation	100%	100%	100%	100%
2004–2015				
Labour income	71%	65%	37%	58%
Remittances and private donations	6%	4%	16%	17%
Imputed rent	8%	9%	12%	8%
Extraordinary earnings	−1%	−4%	−7%	−25%
Transfers and public donations	16%	26%	40%	41%
Total variation	100%	100%	100%	100%

SOURCE: AUTHOR'S ESTIMATES BASED ON ENAHO SURVEYS 2004, 2010, AND 2015.
Note: All of the indicators have been calculated with real per capita income at Lima prices. In the calculation of the incidence of poverty (FGT0) and the poverty gap (FGT1), the poverty lines for 2015 have been used.
For the Shapley decomposition, the ADECOMP algorithm developed by Azevedo for the STATA package was used.

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CHAPTER 9

Skirting or Courting Controversy? Chinese FDI in Latin American Extractive Industries

Adriana Erthal Abdenur

Abstract

China has become a key player in the development sector in Latin America and the Caribbean (LAC), not only due to trade but also because of the growing scope and visibility of its foreign direct investments (FDI). However, Chinese investments in the region are far from homogeneous, not only oscillating over time and space, but also varying across modes of incorporation into LAC economies. In the extractive industries, Chinese actors rely on a wide gamut of strategies to open up markets and to help ensure access to oil and minerals. This chapter breaks down the concept of FDI into three umbrella categories—greenfield projects, mergers and acquisitions, and joint ventures—to analyse how Chinese capital enters LAC extractive sectors. The chapter argues that, faced with a relatively unfamiliar landscape and new sources of uncertainty, Chinese companies tend to 'test the water' through mergers and acquisitions, as well as joint ventures, before delving into greenfield activities like direct mining or drilling. This cautious approach signals a degree of institutional learning on the part of Chinese stakeholders, as well as the desire to avoid charges of neo-colonialism, imposed dependency, and lax adherence to formal regulations.

1 Introduction

In January 2015, during the first meeting between China and the Community of Latin American and Caribbean States (CELAC), held in Beijing, President Xi Jinping made headlines when he announced that Chinese investments in the region would reach USD 250 billion within a decade (China, 2015). Considering that the stock of investments at that point had been estimated at

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USD 99 billion, Xi's statement appeared to foreshadow a dramatic surge in Chinese foreign direct investments (FDI) in Latin America and the Caribbean (LAC) (The Economist, 2015). The cooperation agreements that followed—many focusing on oil, gas and mining—provoked new discussions within LAC countries about the relationship between extractive industries, sustainable development and dependence on external actors, including South–South cooperation providers such as the BRICS countries (Brazil, Russia, India, China and South Africa), but China in particular.

Interpretations of the surge in Chinese investments in LAC have ranged from charges of Chinese neo-colonialism to rose-tinted views of China as an economic saviour during times of crisis. One critic called the proposed expansion in investments by China 'a poisoned chalice', noting that some of the large infrastructure projects being planned for the region may leave a massive environmental footprint and exacerbate social exclusion (Salazar, 2015). A US-based analysis has added to the alarm by warning that China has been 'gobbling up' minerals and 'locking up natural resource supplies, gaining preferential access to available output, extending control over the world's extractive industries' (Kotschwar et al., 2012). At the opposite end of the spectrum, Xi's announcement has been hailed by others as a silver bullet solution to the region's economic woes, especially given the gap in development financing and the significant economic slowdown that some of LAC's key economies, including Brazil and Argentina, have been experiencing since 2015.

However, sweeping statements about China's role in LAC tend to overlook the highly variable forms and effects of China's investments in the region—not to mention the fact that many, if not most, major projects announced never see the light of day.[1] Among the initiatives that do get implemented, Chinese investments have been concentrated heavily in the region's major commodities exporters, especially Venezuela and Brazil, and extractive nodes like Chile and Peru. This concentration is also reflected in Chinese loans to Latin American countries (Table 9.1).

Nevertheless, investment levels only tell part of the story; different modes of insertion also shape China's role in fomenting (or preventing) sustainable development in LAC, and Chinese firms adopt different strategies depending on the local context. How have Chinese investments in the Latin American extractive sector changed over the past decade? This chapter analyses three categories of Chinese investments: mergers and acquisitions, joint ventures, and greenfield projects. The main argument is that, faced with a variety of institutional barriers to entry and new sources of uncertainty, Chinese

1 Interviews with Brazilian economists in Rio de Janeiro and São Paulo, May 2016.

TABLE 9.1 *Chinese loans to Latin America (up to December 2015)*

	Number of loans	Amount (in USD billions)
Argentina	8	15.3
Bahamas	2	0.99
Barbados	1	0.17
Bolivia	6	1.6
Brazil	8	21.8
Costa Rica	1	0.39
Ecuador	11	15.2
Guyana	1	0.1
Jamaica	9	1.5
Mexico	1	1.0
Peru	1	0.05
Trinidad	2	2.68
Venezuela	17	65.0
TOTAL	68	125.78

SOURCE: *CHINA-LATIN AMERICA FINANCE DATABASE* (WASHINGTON, D.C.: THE INTER-AMERICAN DIALOGUE), HTTP://WWW.THEDIALOGUE.ORG/MAP_LIST/ (ACCESSED ON 13 JANUARY 2016).

companies tend to 'test the water' through mergers and acquisitions, as well as joint ventures, before delving into direct mining or drilling. This cautious approach—driven not only by profit-seeking but also by a more immediate desire to skirt political controversy—sometimes makes China less salient in Latin American public debates as compared to debates in other regions. When Chinese firms do invest in greenfield projects, especially large-scale initiatives with considerable environmental footprints and social impact, they are subject to broader contestation, especially on the part of local civil society groups, and risk becoming the subject of negative coverage by Latin American as well as external media outlets.

The chapter is structured in the following manner. The first section provides an overview of the political economy of Latin American extractive industries, especially in light of the significant changes in the range of actors involved in the sector and the intensifying debate over how mineral extraction relates to sustainable development. Next, the chapter compares different modes

of Chinese investment in Latin American extractive industries, drawing on examples from around the region. The conclusion examines some of the key implications of these modes of insertion for the broader study of the role of China in Latin America's sustainable development and notes a few directions for future research.

2 FDI and Sustainable Development

The role of extractive industries in promoting economic growth and development has long been debated, including within the Latin American context. During the Cold War, modernisation theorists saw the expanding extraction of oil, gas and other minerals as part of an intermediary development stage in Latin American economies' progression from predominantly agrarian, traditional societies to modern industrial economies—particularly when extraction created savings that could be invested in infrastructure (Germani, 1969). In contrast, dependency theorists—including the Latin American structuralists—saw natural resources as being siphoned away from the periphery to a core of wealthy countries, further enriching the latter at the expense of the former (see Prebisch, 1950; Furtado, 1974; Cardoso and Faletto, 1979). In this second perspective, Latin American extractive industries were viewed as a central nexus in the creation and maintenance of the region's ties of dependent development in relation to the centres of the world economy. The Marxist variant of dependency theory included the idea of a 'new dependency', in which the internal and external relations of peripheral states, including those in LAC, contributed towards the reproduction of power and wealth asymmetries, both within and across countries (Santos, 1970).

The debate between modernisation and dependency theorists peaked in the 1960s and early 70s before running out of steam—partly due to the newly industrialised countries (NICs) in East Asia, whose rise seemed to contradict the idea of a rigidly hierarchical and inflexible world economy. However, in the new millennium, the links between the extractive industries and socioeconomic development in LAC have once again become the subject of sharp debates, primarily because of China's rapid economic expansion and its quest to secure reliable sources of oil, gas and other minerals abroad. The concept of dependency, which had long gone out of fashion in development and policy circles, resurfaced as LAC experienced another commodities boom, with some economies specialising more narrowly in extractive industries and especially after China overtook the United States as the top destination for these commodities exports. From 2009 to 2013, extractive products comprised four out

of the top five LAC exports to China (the exception being soybeans and other oilseeds) (Ray and Gallagher, 2015).

Although these exports helped to increase Latin American government revenues, some critics began sounding alarms over the growing focus on a few commodities and heavy reliance on a single or few trade partners. Gallagher and Porzecanski (2010), for instance, expressed concern about the volatility of commodity prices and its long-term impact on LAC economies. Yet the concern that commerce with China could lead to excessive specialisation in commodities by LAC countries has not borne out; for Brazil, for instance, while commodities exports have risen, so have other, higher-value-added sectors. At the same time, some observers called attention to the particular dynamics surrounding this 'second wave' of dependency, including the intensification of globalisation and growing concerns over sustainable development, which were not nearly as pronounced when the original debate on dependency took place. Another novel aspect concerns the salience of the concept of the resource curse, in reference to situations in which rents from extraction are easily captured, poorly distributed among the population, and/or siphoned abroad, exacerbating social inequality and undermining democratisation. Some analysts have argued that, rather than succumbing to the resource curse, LAC has in fact experienced a 'resource blessing' with windfalls from the extractive industries generating positive externalities for a broader swath of the population and helping to boost democratisation (Dunning, 2008). On the other hand, within the debate on the 'Dutch Disease,' recent research has shown that Chinese exports of manufactured goods have had both direct and indirect effects that contribute towards deindustrialisation in some of the region's countries, although the impact seems to be highly variable according to country and sector (see, for instance, Jenkins, 2015).

Another difference between the original dependency debates and the current scenario in LAC is that, at a global level, the extractive industries have undergone 'tectonic' shifts over the past fifteen years. Until the turn of the millennium, the sector grew more or less along with global GDP, but demand for these commodities then began outpacing global GDP. The primary driver of this surge was the expansion of the Chinese economy, with its heavy reliance on infrastructure and manufacturing and its inadequate national supply of key minerals, including iron ore (needed for steel production). By 2015, an estimated 40–60 per cent of the world's mineral production ended up in China (some of it to be exported again in manufactured form) (Lichtenstein, 2013). One of the results of this growing demand was a steep rise in the prices of those commodities; from 2000 to 2012 alone, for example, the price of iron ore increased by around 1,000 per cent.

LAC's wealth in minerals and ore reserves was one of the major reasons China began to deepen its ties to states within the region, starting in the 1990s. This rapprochement had political and strategic dimensions, but it manifested itself most visibly in the economic arena. China quickly overtook the United States and European countries as the top trade partner of many LAC countries. With respect to FDI in LAC, by 2010 China had become LAC's third largest investor, second only to the US and the Netherlands. However, there are clear patterns across modes of investment and the role that oil and other mineral extraction plays in each. Among greenfield projects, the vast majority of major Chinese investments are not in the extractive sector but rather in manufacturing, agriculture, logistics, communications, and finance and real estate. In contrast, Chinese mergers and acquisitions in LAC during the same period concentrated heavily in oil and the extractive sector (Ray and Gallagher, 2015). These patterns suggest a much greater reluctance and/or lesser capacity of Chinese companies to engage in greenfield projects in the extractive sector.

The Chinese government has played a significant role in opening up new opportunities and facilitating new trade and investment deals for Chinese companies; in the smaller economies of Central America and the Caribbean, most large deals are struck between governments. Elsewhere, Chinese companies—whether state-owned enterprises (SOEs) or private firms—increasingly favour joint ventures and direct takeovers of private companies, yet the Chinese state is often involved in umbrella negotiations. This means that, in addition to seeking profits, companies try to align with the priorities established by the Chinese government, for instance as laid out in the Five-Year Plans, white papers, and other planning and policy instruments, especially as they relate to energy security. Spurred on by the government's Go Out Policy, which has encouraged Chinese companies to seek investment opportunities abroad as a way of channelling some of the country's large foreign exchange reserves, of securing natural resource supplies (especially where upstream investments are concerned) and of diversifying away from US dollar transactions, SOEs in oil, gas and mining have looked for mineral producers with considerable production potential, and these include LAC countries. However, China's enthusiasm for LAC minerals has also elicited some scepticism; González-Vicente (2011), for instance, worries that China's mining-related activities abroad tend to reproduce some of the negative domestic context, such as lax environmental standards and poor compliance, predatory profit-making, corruption, and lack of democracy. It remains unclear, however, how and to what extent different modes of investment may impact local governance in LAC countries along these dimensions, if at all, and especially in comparison to other sources of FDI.

3 Modes of Insertion of Chinese FDI in Latin America and the Caribbean

Although Chinese companies began investing abroad heavily around the turn of the millennium and these flows increased steadily over the next decade, the 2008 onset of the global economic crisis provided new impetus for Chinese FDI. By 2014, Chinese outbound investment was set to eclipse inbound investment—what a World Economic Forum report has referred to as 'the new chapter of Chinese-outward mercantilism', aimed at securing a higher rate of return on foreign assets (Aizenman, 2015). This surge in outbound investment began taking a new form, one that hinted at how influential the Chinese government remains in shaping outward investment flows: FDI bundled together with bilateral trade and credit (including renminbi swap lines), applied especially to emerging economies and commodity exporting countries, including some with a recent history of default, such as Argentina and Venezuela. In some instances, such as Venezuela, much Chinese lending (estimated at around USD 50 billion over the past decade) is secured by 'in kind' long-run payments in the form of oil supplies.

In pursuing investment opportunities abroad, Chinese firms (much like transnational corporations based in other countries) adopt a variety of FDI strategies, in the sense of acquiring a controlling ownership in a business enterprise in another country. From the perspective of host countries, these flows are not guaranteed to produce positive development outcomes; policy makers and social scientists alike have long debated the capacity of FDI in oil, gas and minerals to foster economic growth and socio-economic development. Its proponents defend the practice, arguing that FDI in extractive industries promotes growth and productivity within the host country, for instance by stimulating domestic investment and total investment in the country (adding to the capital stock) and by producing externalities in the form of technology transfer and spillovers that enhance efficiency (see, for instance, Carkovic and Levine, 2002). Critics, on the other hand, note that gains are far from automatic—for instance, FDI is far more likely to have a positive effect in more open economies and those that already have developed financial systems; others note that FDI can entail significant risks for local actors, including the destruction of local capabilities and inadequate compensation for extractive activities (see Te Velde, 2006 for a broad discussion).

Moreover, it is not only the amount of FDI but also the form that it takes that shapes the impact of such flows. FDI strategies vary widely, but can be grouped into three broad categories: mergers and acquisitions, joint ventures, and greenfield investments. In mergers and acquisitions, companies purchase

existing operations, in part or in whole, in the host country. This can entail an equity stake in either an established (typically large) locally operating company, or an up-and-coming firm, sometimes with a view to establishing a 'special relationship' with a particular firm (Moran, 2010). Chinese companies have engaged in mergers and acquisitions abroad since the 1990s, but recently have turned en masse to this strategy as a way of entering overseas markets during economic slowdown and falling currency.

In joint ventures, a foreign-based company establishes a formal partnership with another firm through contracts designed to create a business unit; the participating firms both contribute towards costs and share the profits. This mode can entail loans—either granted in return for a purchase agreement to service the loan, or to finance an up-and-coming producer in return for a purchase agreement to service the loan. According to Li (2009), many Chinese companies view joint ventures as opportunities to generate a series of advantages, including knowledge flows, technology transfer, and increases in innovation capabilities (Li, 2009). For Latin American actors, joint ventures may be viewed as necessary for making specific projects feasible from cost and risk-management perspectives, since many of these projects are too costly for a single company to take on alone. This is particularly the case for multi-billion dollar oil and gas projects, especially in deep water, where risk-sharing is seen as desirable. In less liberalised countries, joint ventures are also a way of ensuring a level of local political control over inbound investments.

Finally, greenfield investments involve a foreign-based company setting up its own installations and operations in the host country, whether through development 'from scratch' or the expansion of existing sites (brownfield projects). In the extractive sector, this strategy is often pursued in places with untapped mineral resources, and/or where local companies lack the necessary capital to undertake major exploration and development. Greenfield projects are generally considered to incur a higher level of 'liabilities of foreignness'—social and economic costs incurred when operating in foreign markets—when compared to mergers and acquisitions and joint ventures, because the first of these can entail significant capital expenditure on new mining projects and tend to involve higher uncertainty and risk (Huang and Zhu, 2016).

The decision to pursue each of these modes of investment (or a combination thereof) is determined by factors not only within the investing firm itself, but also within the host country, such as the regulatory framework, corporate tax rates, pre-existing competitors or collaborators, and labour costs—all of which affect the relative cost of each mode (Raff et al., 2004). In turn, each type of investment entails a particular mix of regulatory frameworks, social relations, and institutional partnerships with local stakeholders.

Over the past decade, the extractive industries have become dramatically more important for several LAC countries, not only for economic reasons, but also due to the social and political issues that can emerge from exploration for, and the production and refining of, minerals. Given the growing global demand for these commodities, many governments within LAC have begun viewing mineral exploration as a promising driver of growth and development. Even for left-leaning regimes, the revenue from extractive industries became essential to the poverty reduction strategies implemented over the past decade and even began featuring prominently in political campaigns (in Brazil, for instance, Dilma Rousseff promised to channel windfalls from future pre-salt oil exploration to finance public education). Yet, even as productive investments in the sector have made many LAC governments eager to attract more Chinese FDI, they have also made more local stakeholders sensitive to the potentially negative political, socio-economic and environmental impacts of those investments. Some governments have encountered difficulties in balancing the purported benefits of this extractive boom (not only Chinese FDI, but also from Northern actors such as the United States) with its costs, such as environmental degradation, community displacement and enhanced socio-economic inequalities (see, for example, Irwin and Gallagher, 2013).

The ambiguous relationship between the extractive industries and socio-economic development contributes to a highly variable landscape in LAC. Some governments, eager for additional revenue sources, work to create a stable investment climate (World Bank, 2015). They also compete in the hope that FDI will bring in more technology and capital, for instance by placing greater or new limits on taxes and royalties that apply to private companies, or by reducing legal and regulatory constraints on the establishment and operations of extractive industries. At the same time, transnational corporations often condition their investments on the loosening of environmental controls, the reduction of price controls, and the freedom to control foreign exchange earnings and to remit profits overseas. Other governments, fearing disruptive investments and the siphoning of wealth abroad, have doubled down on barriers to entry or expansion (World Bank et al., 2013).

Policies are crucial in shaping the impact of FDI on sustainable development, here defined as positive socio-economic change based on growth that not only minimises environmental damage but that is also as socially inclusive as possible (Sachs, 2014). Over the past decade, international organisations such as the World Bank and the Inter-American Development Bank, along with civil society entities, have contributed to a 'sustainable mining' discourse around LAC's extractive sector, calling for greater safeguards and standards for mitigating environmental degradation and social conflicts (World Bank, 2016).

Despite these efforts, some analysts believe that, overall, LAC governments are generally moving away from the implementation of environmental and social protections in the extractive sector.

Within LAC, a country's general approach to FDI in the extractive sector depends in part on its government's economic orientation. Over the past decade, governments with relatively heterodox preferences emerged in parts of LAC, including in Bolivia, Ecuador, Argentina (during the Kirchner governments, 2003–15), Brazil (2003–16), Uruguay, Peru and Venezuela. Domestically, these governments focused heavily on poverty alleviation and inequality reduction, while abroad they sought greater policy autonomy from the global powers, particularly the United States. There are important differences between the previous wave of developmentalism and the current landscape. For instance, whereas during the import substitution industrialisation (ISI) period LAC states worked to protect domestic firms against foreign competition, using tariffs, price controls and FDI regulation, in the contemporary context there is near consensus within the region regarding the need to foster innovation and technological progress as part of a broader strategy of insertion into global markets.

As a result, there has been some continuity in relation to the Washington Consensus era in that even the more heterodox among LAC governments tend to view multinational companies as venues for international insertion, and to look upon FDI as a source of capital, technology and employment. This view helps explain why these governments have actively sought out FDI, for instance by creating high-profile government agencies dedicated to the attraction of inbound FDI or working with international organisations to streamline their investment promotion strategies, both bilaterally and through multilateral arrangements like the Pacific Alliance and Asia-Pacific Economic Cooperation (APEC) (see, for example, OECD, 2015). At the same time, LAC governments have paid greater attention not only to the size of investment flows but also to the 'quality' of these inflows, for instance the extent to which investments are accompanied by technology transfer and/or positively affect the trade balance.

Among LAC states labelled the 'New Left,' the governments of Bolivia, Ecuador and Venezuela—all of which have actively promoted the idea of a break with the past and the arrival of 'socialism of the 21st century'—have tried to renegotiate contracts with transnational corporations in the extractive sector. More orthodox governments in LAC have also sought out FDI, but have tried to create more incentives for investments through a greater reliance on reducing the operating costs of firms and limiting the role of the state (Trubek et al., 2014). Thus, despite the emergence of some broad trends, the region's political landscape cannot be reduced to a clear-cut orthodox/heterodox dichotomy.

4 Dig, Join or Buy? Three Modes of Insertion

Although Chinese investments in LAC have become more visible in development debates in the region, it is important to note that China is far from the only source of FDI in LAC; in fact, Chinese investments pale in comparison to those from the Netherlands, which remains the region's biggest source of FDI (ECLAC, 2015). However, since 2012 a sharp increase in announced Chinese investments has prompted broader debates about the scope of China's impact on the political economy of LAC, as well as questions about whether Chinese investors operate differently as compared to Northern players.

Throughout LAC, Chinese companies have pursued a broad range of investment strategies, especially in soy, oil and iron (Ellis, 2009). Variation exists within single countries. For instance, in a survey of Chinese companies investing in Brazil from 2007 to June 2012, Frischtak et al. (2013, 13) found that 57 per cent of all Chinese investments were in greenfield projects (a total of 34 projects), 35 per cent were in mergers and acquisitions (21 projects) and 8 per cent were in joint ventures (5 projects). In addition, individual Chinese companies—many of which have accumulated three or four decades of experience investing abroad—seldom specialise in one mode of investment, instead tailoring their approach in accordance with local barriers and incentives to entry and their own familiarity (or lack thereof) with the dynamics of the sector concerned.

In LAC's extractive sectors, Chinese investment strategies have also been influenced by companies' previous experiences in other regions, especially in parts of Africa where Chinese investments in mining and other extractive activities have a longer history (Gonzalez-Vicente, 2011). The oil and gas SOE Sinopec, for instance, has encountered a variety of reactions to its upstream and downstream investments in African states, ranging from a warm welcome to increased local tensions and resistance. Sinopec has also learned to compete with other companies and has even used Chinese government loans to outcompete Western-based international organisations such as the International Monetary Fund (IMF), as in the case of Angolan oil block leases (Alden and Davies, 2006). Thus, by the time Chinese companies enter LAC markets, they have undergone some degree of institutional learning, albeit in contexts that are politically, economically and institutionally quite different from those encountered in LAC.

4.1 *Greenfield Projects: From Infrastructure to Opencast Mining*

China's greenfield project investments in LAC countries range widely in how directly they are related to the actual exploration for, and production of, oil, gas

and minerals—from building roads to facilitate access and transport, to open-cast mining. At one end of the spectrum, Chinese companies have invested in infrastructure meant to facilitate these activities, especially in countries where the legal, bureaucratic or financial barriers to entry are relatively high, as in the case of Brazil. For instance, although Sinopec now invests in Brazil through multiple modes of insertion, around a decade ago it began entering the Brazilian market by participating in major gas-related infrastructure projects. In its first greenfield project in the country, Sinopec was contracted by Brazil's state-affiliated oil company, Petrobras, to build two stretches of the Southeast Northeast Interconnection Gas Pipeline, known as GASENE. Despite the size of the pipeline—meant to create a common gas market in Brazil and facilitate gas imports through the state of Bahia—the project's environmental and social impact has not been the object of widespread contestation, either in domestic or international debates.[2]

Investment in extraction-related infrastructure like the GASENE project holds two advantages from the perspective of Chinese firms. First, improving infrastructure can help create new extractive opportunities and ensure gains in the mid to long term, especially when production potential is high. Second, this mode of entry can allow Chinese firms to become better acquainted with local conditions and practices before engaging more directly and committing more of their non-capital resources to extractive activities. The infrastructure route is thus regarded as a way to 'test the water': a somewhat discrete way for Chinese firms (by now, wary of negative publicity) to become involved in projects that are viewed by local stakeholders as being relatively risk-free in terms of environmental and social impacts. The GASENE project illustrates this logic: the initiative acquired greater strategic significance for both Sinopec and the Chinese government because, starting in 2007, discoveries of major reserves of oil and gas within the pre-salt layers off the Brazilian coast generated high expectations about the country's long-term potential as a supplier of both commodities. Over the next few years, as will be explored later in this chapter, Brazil and China signed a series of official cooperation agreements paving the way for firms like Sinaco to both expand and diversify their presence in Brazil beyond extraction-related infrastructure.

However, not all greenfield investments imply a cautious or gradual approach. At the other end of the spectrum, a number of Chinese SOEs have invested directly in mining activities in Peru—LAC's top producer of several minerals, including gold, lead, silver, tellurium, tin and zinc, as well as the region's second-largest regional producer of copper. Peru has a relatively open

2 Interview with an environmental engineer, Rio de Janeiro, November 2015.

foreign investment regime and is therefore host to a number of foreign mining companies, including from several member countries of the Organization for Economic Co-operation and Development (OECD). In one high-profile case, Chinalco (the Aluminum Corporation of China) became the operator of the largest copper and molybdenum plants in the world, the USD 3.4 billion Toromocho mine, located in central Peru (Jamasmie, 2014). In 2014, just months into operations and before the mine had reached full production, Chinalco had to suspend part of its activities after inspections were carried out. Peru's recently created public environmental watchdog, the Agency for Environmental Assessment and Enforcement (Organismo de Evaluación y Fiscalización Ambiental, OEFA) had expressed concerns over the company's environmental practices, especially the dumping of waste in nearby lakes (OEFA, 2014). Chinalco relocated and resettled a community that had been affected by its mining activities, but the operation has nonetheless been the target of strikes and union disputes.

Also in Peru, Minmetals, which is controlled by China Minmetals, has encountered a different yet equally forceful form of opposition to its major greenfield investments. The company leads a consortium implementing a construction megaproject in Las Bambas, a copper mine in Peru's central highlands. The site employs some 16,000 workers and began producing in late 2015, becoming one of the world's largest copper mines. To help avoid controversy, the Australian–Chinese company MMG, whose majority owner is China Minmetals, agreed to honour a previously established commitment to provide at least one job per family within the local community. However, the mining project has faced repeated environmental protests, including one on September 30, 2015 that left four dead and fifteen injured (*Peruvian Times*, 2016). In August 2016, residents of several Andean communities blocked a key road to the mine, arguing that it passes through their lands and that the company should pay them for using it; the blockade forced Minmetals to use alternative roads (*Reuters*, 2016). In the case of Las Bambas, both the greenfield site itself and its related infrastructure have become focal points for community activism, with growing visibility in both Peruvian and overseas media.

Even in these instances of direct engagement in greenfield mining investments, there is a degree of institutional learning, either by individual firms or through collaboration with local actors. Some Chinese firms have actively sought assistance in complying with local standards. For instance, after the Chinalco controversy, the Association of Chinese Companies in Peru requested help from the Peruvian Ministry of the Environment with training on local environmental regulations (Sanborn and Chonn, 2015). However, the degree of institutional learning and the scope and effectiveness of related initiatives also

depends on the reaction of government institutions and civil society entities. In the case of Peru, prior mobilisation by local organisations had led to the creation and institutionalisation of OEFA, which has worked to ensure that government oversight is accompanied by civil society monitoring of greenfield investments in natural resource extraction. Although this arrangement has not precluded legal disputes—in 2015, four mining companies fined by the agency proceeded to file claims against OEFA in an attempt to have their fines quashed—these disputes so far have not included Chinese firms operating in the country (SPDA, 2015).

4.2 *Mergers and Acquisitions: Entering Ongoing Projects*

In comparison to greenfield projects, mergers and acquisition initiatives do not necessarily require firms to commit significant resources beyond capital. Mergers and acquisitions may also be a way for Chinese companies to participate in 'fringe' or 'frontier' initiatives, in which Chinese firms are willing to assume project roles that bring relatively high short-term financial risks if they entail the long-term potential of returns (Kotschwar et al., 2012). Mergers and acquisitions are often favoured as a way of entering ongoing projects rather than starting new ones from scratch. Yet, as with other modes of investment, the choice of acquiring pre-existing companies in LAC is also shaped by the particular regulations and dynamics of each country.

In Brazil, the existence of relatively high barriers to entry has made mergers and acquisitions more common in the extractive sector than in any other LAC country, in large part because in Brazil mining and oil feature particularly heavy state involvement. In addition, recent legal changes have reinforced this trend. Although the sector had undergone some liberalisation in the late 1990s and into the early years of the twenty-first century, in 2010, after the pre-salt discoveries had been announced, new legislation was introduced setting rules for offshore block auctions (Brazil, 2010). In practice, these legal changes expanded government control of the oil sector, in both production and revenue sharing, short of establishing national monopolies. These changes imposed new constraints on foreign firms entering the sector, leading Chinese companies to opt for mergers and acquisition strategies as a way of participating in the bidding process.

In order to enter the Brazilian oil sector, Sinopec acquired a minority (40 per cent) stake in Repsol in 2010 at a cost of USD 71 billion. The acquisition seems to have an explorative dimension: it allowed Sinopec to acquaint itself with the Brazilian context and to gradually enter other parts of the extractive chain. The company was among the first to try to invest in oil refining in Brazil after the sector was opened, through an attempt to negotiate a deal with the

country's only private oil refinery, Refinaria Manguinhos in Rio de Janeiro. However, the Manguinhos firm was expropriated by the state government in 2012, leading to the suspension of talks. The refinery resumed production only in 2014, without Chinese participation—an illustration of how, even in the absence of contentious public debates about foreign investments in extraction, volatile local conditions can undermine Chinese companies' M&A strategies.

In late 2013, Sinopec (as part of a consortium that also includes Norway's Statoil and Brazil's Petrobras) was given the go-ahead from the Brazilian Institute of Environment and Renewable Natural Resources (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis—IBAMA) to explore oil in the pre-salt layer of the BM-C-33 block of the Campos Basin, Brazil's largest known oil field (currently the source of approximately 80 per cent of Brazil's oil production). The IBAMA permit is valid until 2017 and gives the company the right to explore for oil as long as certain environmental conditions are met, including prohibitions on burning residues in the open air and perforating in environmentally sensitive areas. The permit also requires the company to submit an environmental report no later than 60 days after the start of maritime perforation (Menezes, 2013). Yet the robustness of these safeguards has not gone uncontested: local and international environmental groups have drawn attention to the potential environmental risks of drilling for oil and gas in deep layers of the seabed[3] (Greenpeace, 2012). Thus, in entering the pre-salt business, Sinopec became part of a more direct environmental debate, albeit one that has been subdued in part by the delays in pre-salt exploration caused by falling oil prices and domestic turmoil in Brazil.

In 2015, Chinese companies expanded their M&A strategies in Brazil, once again in the infrastructure sector. The move shows that M&A, far from 'providing cover for' Chinese companies, can sometimes place them at the heart of debates about what direction, in terms of development, the country as a whole should take. The government of Dilma Rousseff, mired in deep political crisis and facing an economic recession, held the largest auction of public assets in 17 years, primarily in key infrastructure areas such as transportation and hydroelectric plants. Chinese companies scooped up assets worth billions of dollars, with some economic nationalists decrying the manoeuvre as part of a broad and undesirable privatisation scheme that, in addition to setting back development, would hurt national sovereignty (Hermes, 2015). Dependency was invoked as part of the argument for curtailing the role of Chinese companies in the country's extractive sector and, more broadly, as a way of defending greater national control over pre-salt reserve exploration.

3 Greenpeace, for instance, has drawn attention to the potential risks of a pre-salt oil spill and contamination of fragile ecosystems along the Brazilian coast and in the South Atlantic.

4.3 *Joint Ventures and the (Vague) Promise of Technology Transfer*

Like greenfield projects and M&As, the dynamics of Chinese joint ventures in LAC extractive industries depend heavily on the national regulations around such initiatives. When such projects are announced, they tend to be promoted using discourses that stress the role of technology transfer, and indeed, in some places, joint ventures between Chinese and LAC companies in different energy markets have been shown to lead to the transfer of certain important technologies (Husar and Best, 2013), although such transfers vary in scope and level of innovation.

The joint-venture strategy seems to be particularly common in the oil sector, in part because of local requirements (especially in countries where there is a strong push to maintain 'national' majority control of exploration) and the scale of resources needed to explore for, produce and refine crude oil. In Venezuela, where foreign oil firms by law can only have a maximum stake of 40 per cent in joint ventures, the bulk of Chinese investments in the extractive industries are structured through joint ventures; in fact, a fund has been set up by the Venezuelan government specifically for joint oil investments. China's largest oil and gas producer and supplier, the China National Petroleum Corporation (CNPC), has an arrangement with Venezuela's national oil company, PDVSA, in which Venezuela's loans from China are repaid in oil—a situation unique in LAC. And the recent decline in oil prices has further indebted Venezuela to China, with PDVSA announcing that it will increasingly rely on joint ventures—including with CNPC—to manage USD 6 billion in loans designed to reverse oil output declines (Crooks and Pons, 2013). While China has continued to bolster the Venezuelan economy, announcing USD 20 billion of new investments in 2015 to help offset the effects of plunging oil prices, the country's growing instability has led some analysts to interpret the move as a sign that China is treating the country as an experiment in political risk analysis within the region (Ferchen, 2013).

Yet Chinese joint ventures in LAC have not been limited to the oil sector. In 2012, subsidiaries of the China Railway Construction Corporation (CRCC) and Tongguan Nonferrous Metals Group Holding Company paid USD 100 million to the Ecuadorean government for the rights to the Mirador Copper Mine, committing to invest USD 1.4 bn over the next five years. This large-scale mining project in the Amazon has been heavily criticised by civil society groups who allege that the investment violates China's Green Credit Directive, a government policy requiring banks to take into account the social and environmental impacts of projects and to conform to 'international norms' and 'good international practices' in overseas lending (Hill, 2015). In Chile, China Minmetals Nonferrous Metals Co. set up a joint venture with the Corporación Nacional del Cobre de Chile (CODELCO), the world's largest producer of copper, to secure

supplies of the metal and to carry out joint exploration and develop projects together. Negotiations for these initiatives are typically launched under a discourse of win–win relationships, with vague promises of technology transfer stressed by all parties. Negotiators also tend to underscore the possibility of accessing funding from Chinese state-affiliated banks, such as the China Development Bank (CDB), for large-scale projects.

However, even 50–50 joint ventures are not devoid of asymmetries benefiting China. In the Ecuadorean case, for instance, there are steep interest payments, along with the requirement that Ecuador use mostly Chinese companies and technologies on related projects (Krauss and Bradsher, 2015). Although such clauses are far from the kind of political and cross-sectoral conditionalities that are sometimes imposed by Northern donors and established international organisations like the IMF, their inclusion in joint-venture contracts indicates that, despite the official discourse of win–win relationships, Chinese investments are also marked by power asymmetries that may become steeper over time if LAC economies encounter economic hurdles such as those currently generated by the drop in oil prices.

As with other modalities of investment, most Chinese announcements of major joint ventures in LAC have not come to fruition. A planned USD 5 billion steel mill joint venture between Wuhan Iron and Steel Company (WISCO) and the Brazilian company MMX, a USD 1.4 billion Baosteel–CVRD joint venture steel mill in the north-eastern state of Maranhão, and a joint venture between Baosteel and Brazil's Gerdau, discussed in 2006, are examples of major initiatives that were announced yet have not been implemented (Ellis, 2014, 15). Likewise, in 2009, the China National Offshore Oil Corporation (CNOOC) announced a USD 3.1 billion investment in a joint venture with the Argentine oil and gas holding company Bridas, meant to increase reserves of crude oil (CNOOC Ltd., 2010), but by 2014 the Chinese state-owned company was seeking to sell its stake to free up money for other projects. Whether due to regulatory issues, changing investment contexts, or political resistance, a large number of proposed joint ventures have either gone unimplemented or have led to frustrated expectations, including with respect to technology transfer.

5 New Sources of Uncertainty, Upstream and Downstream

Just as Chinese investments in LAC extractive industries vary considerably in shape and size, encompassing everything from opencast mining megaprojects and major mergers and acquisitions to modest joint ventures, so have they varied over time. Over the past two years, both China and LAC have been

experiencing some dramatic changes. The Chinese economy has been undergoing a relative slowdown, with GDP growth at around 7 per cent in 2015, even as the leadership works to transform the economy from a model that is driven primarily by infrastructure investment and manufacturing towards one in which domestic consumption and the services sector play a bigger role. More broadly, some Chinese companies have responded to steep drops in many commodity prices, including that of iron ore, by being choosier about their investments abroad, especially by being more conservative in their risk calculations. In turn, some partner countries have also become more wary about Chinese investments as the behaviour of companies adapts to new sources of uncertainty and as major announcements fail to come to fruition (Ricciardi, 2015).

In addition, Beijing's pursuit of new geopolitical alignments, as well as its emerging or re-emerging tensions with neighbouring states, especially within the South China Sea, have implications for Chinese investments in LAC. Territorial claims that are disputed by Japan and other Pacific states are particularly prone to lead to escalating tensions, and these tensions have exacerbated rivalries between China and the United States. At the same time, the Chinese government is planning a broad scheme, the One Belt, One Road (OBOR) initiative, that is designed to extend China's reach and influence across a broad swatch stretching from East Asia to Europe. These concerns and interests mean that Chinese investments in LAC, although underpinned by a long-term interest in securing reliable access to natural resources, exist within a geographical region that is at best secondary among Chinese foreign policy and defence priorities, although the BRICS New Development Bank has announced that one of its first loans will be allocated to Brazil (the other three are in China, South Africa, and India) (NDB, 2016).

At the same time, there are also significant changes afoot in LAC that have implications for incoming FDI from China. Several of the region's economies have been experiencing deceleration; LAC's GDP growth slowdown deepened and was expected to be negative in 2015, for the second consecutive year falling behind the average growth of OECD countries after one decade of convergence with advanced economies (OECD/CAF/ECLAC 2015). The region's largest economy, Brazil, officially entered recession mode amidst political turmoil, including a presidential impeachment process and a far-reaching anti-corruption drive that affects not only major companies but also major political parties and government institutions. This scenario generates deep uncertainty for foreign investors, including those in the extractive sector. Plans for the extraction of pre-salt oil off the Brazilian coast, once heralded as the beacon of a new development era for Brazil, have been affected not only by

the crisis, but also by price drops in oil and gas, creating new pressures to open up exploration of the reserves to foreign investors (Garcia, 2016). While some local stakeholders look to China as a source of emergency funding, especially through trade and investments in energy and infrastructure (Schreiber, 2015), the challenging scenario in Brazil (added to the turbulence in Venezuela) has also made Chinese investors more cautious towards LAC economies (*Valor Econômico*, 2015).

Elsewhere in LAC, the political winds of change have also cast doubt over the policies being implemented in the countries that some of the largest recipients of Chinese investments. In November 2015, for instance, the Peronist-inspired government of Cristina Fernández de Kirchner gave way to the government of Mauricio Macri, who has stressed a break with the policies of the previous Argentine administration. In Venezuela, the socialist-inspired government of Nicolás Maduro, successor to Hugo Chávez, suffered a major defeat in the 2015 congressional elections, with the opposition claiming a legislative majority that is set to considerably modify the political balance in Venezuela. These changes sometimes have a direct effect on China's role in the extractive sector in the region. Instability in Venezuela, whose top oil customer (and investor) is China, prompted Caracas to renegotiate its oil-for-loans deal ahead of heavy debt payments (Ulmer and Pons, 2016). Combined with the uncertainty stemming from China's economic deceleration, these shifts have created greater caution on the part of Chinese investors, as well as a willingness to redirect flows within the region and beyond it.

6 Conclusion

Research on Chinese economic cooperation with Latin American partners has noted a sharp increase in announcements of major investments in LAC, but new attention must be paid to how this capital enters Latin American markets, and to how stakeholders respond to fast-changing circumstances. The adoption of multiple strategies by Chinese companies, and their increasing bets on mergers and acquisitions rather than greenfield projects or joint ventures, suggest a degree of institutional learning on the part of Chinese companies and their financing institutions, and hint at a more cautious stance being adopted in light of the growing instability and uncertainty in key Latin American partner states.

The choice to invest through a particular modality is shaped not only by local regulations and the associated costs and advantages, but also by the perception that certain types of investment may generate political debates that

Chinese stakeholders would rather avoid. As cases in Peru, Chile and Ecuador have shown, greenfield projects can become particularly contentious when operations are perceived by local actors to have negative environmental, social and economic consequences. Such debates sometimes entail charges of Chinese neo-colonialism, imposed dependency, and lax adherence to formal regulations—accusations that Chinese companies (often having accumulated considerable experience in Africa before entering Latin American markets) work to avoid in planning a long-term strategy in LAC. This helps to explain the growing salience of mergers and acquisitions. A large greenfield project involving opencast mining or oil extraction in an environmentally sensitive area is more likely to generate debate (and, therefore, a political backlash) than is an acquisition in which a Chinese company becomes part of a larger entity, and in which the Chinese presence is rendered more discreet through its 'dilution' by broader corporate associations.

The political risks that major greenfield investments can generate for Chinese actors may help to explain why, in some contexts, Chinese mining firms enter the market more indirectly, in particular by building infrastructure designed to facilitate extractive activities, especially in storage and transportation. Chinese companies may use this type of low-key entry into LAC markets as a way of learning about the country's conditions, institutions and regulatory frameworks—in general, assessing economic and political risks—rather than 'diving headlong' into prospection and extraction. In sum, they work to skirt rather than court political controversy over investments in natural resource extraction.

Although joint ventures make up a small minority of such investments and appear mostly where local regulations dictate majority ownership by national actors, this modality of investment has become especially salient in the discourse of South–South cooperation between China and LAC because it suggests equal or complementary participation by Chinese and local counterparts, and because (in theory, at least) such arrangements facilitate information sharing and technology transfer. In practice, however, and despite lacking political conditionalities, joint ventures tend to come with many Chinese strings attached, such as requirements about the use of Chinese firms and personnel, which creates new power asymmetries.

Further research on Chinese investments in LAC's extractive industries should seek to shed light on at least two themes explored in this chapter. First, the megaprojects that have been announced during the past five years should be studied more closely, particularly those that are implemented, and with special attention to potential impacts on local socio-economic, political and environmental dynamics. In addition, there is a need for a more fine-grained

examination of how different local non-state actors, such as NGOs and unions, perceive and engage with these different modalities of investment. Finally, future research should closely monitor any LAC investments financed through the BRICS New Development Bank and other new multilateral development initiatives in which China plays a role of dominant or shared leadership.

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CHAPTER 10

The Influence of Multilateral Development Institutions on Latin American Development Strategies

Guillermo Perry and Eduardo Garcia

Abstract

This chapter discusses the changing relations between Multilateral Development Institutions (MDIs) and Latin America from the 1980s to the present day. The chapter first depicts how the influence of MDIs on Latin America has changed over time and across countries, depending on their access to international private capital markets, the development of long-term markets for domestic currency government bonds and the significant reduction of macro-financial vulnerabilities in the region. It then illustrates how the view of MDIs on macroeconomic and development policies has evolved, influenced by academic developments and also by Latin American governments. Finally, the chapter shows how most governments in the region, whether left-wing or center-right oriented, have increasingly converged with MDIs' recommendations on macro-financial policies while historically many actors, from both ends of the political spectrum, applied both macro and micro policies that differ from MDIs' views.

1 Introduction

Multilateral development institutions—especially the International Monetary Fund (IMF) and the World Bank—are frequently seen in Latin America as agencies that have imposed their 'neo-liberal' or 'pro-market' views on countries in the region, working in the interests of Northern countries and multinationals

* We are grateful for comments received on an initial draft from participants in the authors' workshop at Geneva in January 2016 and, later on, from an anonymous peer reviewer. The authors take full responsibility for the content of the chapter. The chapter is based both on a review of the available literature and on personal experience, as its principle author has had significant experience of multilateral development institutions (MDIs) as Minister of Finance (1994–96) and of Energy (1986–88) in Colombia, and later on as Chief Economist for Latin America and the Caribbean at the World Bank (1996–2007).

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and contributing to persistent underdevelopment, poverty and inequality. On the other hand, some Latin American governments and technocrats have often seen MDIs as useful allies in their pursuit of modernising reforms and sensible policies and in their efforts to combat powerful, rent seeking, domestic lobbies. As with most stereotyped narratives, the true story lies somewhere between these extreme positions. Further, it has considerably evolved over time.

As we show in Section 2, MDIs' influence in Latin America has varied significantly over time and across countries, depending on the institutions' access to international and domestic private capital markets. Their influence has also depended on the economic importance and political sway of individual countries.

In Section 3 of this chapter, we show how MDIs' views on macroeconomic and development policy have changed over time, influenced mostly by evolving views in the international academic community, but also on occasion by Latin American policy makers' own views and innovations. MDIs have thus recognised some of their past mistakes and consequently changed their paradigms and policies. In addition, Section 3 reveals that there has often been significant divergence among MDIs' views and policies with regard to important development issues; a situation that has permitted individual countries to shop around for financial support, avoiding unwanted conditionality.

Finally, Section 4 of this chapter illustrates how there has been—with a few exceptions—a significant convergence of views on macro-financial policies in the region, over time and across governments with widely different political inclinations, while major differences remain around microeconomic policy issues. We also discuss cases (in both Section 3 and 4) of Latin American governments from each end of the political spectrum that applied policies that were clearly at odds with views currently held in the MDI community. Some of these policies proved to be successful and were later on embraced by MDIs' official positions, while others were clearly not successful. Section 5 concludes.

2 The Changing Degree of Influence of MDIs Over Time

The degree of influence of MDIs on Latin American countries' policies (as has been the case in other developing regions) has varied substantially across countries and over time, depending on the scarcity value of foreign exchange resources for individual beneficiary countries at any point in time. Governments of countries with good access to international capital markets, and/or deep domestic financial markets, have not needed to accept MDIs' advice in order to finance their developmental needs. At the other extreme, governments

facing currency and fiscal crises, and/or without access to either international or domestic private capital markets, whether as a consequence of bad policies or bad luck (e.g. sharp drops in the terms of trade or sudden stops of capital flows due to financial contagion), have desperately needed MDIs' financial resources in order to avoid sharp recessionary adjustments, and thus have had scarce bargaining power vis-à-vis unwanted conditionality.

Thus, both long-term trends and cyclical variations in international capital markets, and in domestic financial systems, have been important determinants of the degree of influence of MDIs on Latin American countries. Such trends and cyclical variations have also determined both MDIs' and recipient countries' attitudes with respect to conditionality.

Figure 10.1 shows the sharp increase in the relative weight of IMF and multilateral development banks (MDBs)[1] gross disbursements for the seven largest Latin American economies during the 1980s, an increase that occurred as a consequence of the interruption and reversal of capital inflows that took place after the US Federal Reserve interest rate hike of 1982 (Végh et al., 1994). This episode led to a series of public debt defaults and many countries in the region remained without access, or with only precarious access, to international financial markets during most of the decade. Regional growth rates were very low during this so-called lost decade. This period coincides with the height of MDI influence in the region (on trade and foreign direct investment (FDI) opening, privatisations, fiscal and monetary adjustments, etc.) through generalised IMF programmes and World Bank structural adjustment programmes.

Fiscal adjustment and the restructuring of public debt through Brady bonds[2] during the second half of the 1980s, coupled with the rapid growth of international capital markets in the 1990s (Figures 10.2 and 10.3), gave rise to a vibrant market for international placements of Latin American bonds. Consequently, MDI flows' participation in total gross capital inflows to Latin America decreased sharply, from a peak of 55 per cent during the period 1990–91 to less than 10 per cent during 2011–13, with temporary increases during regional or global crisis episodes, such as in 1995, 1999/2003 and 2009.

In particular, the number of active IMF programmes in the region peaked during the 1980s at 22, and diminished from the early 1990s on, falling to eight in 2013–14 (Figure 10.4). The IMF disbursements were dominated by the large

1 The term MDBs includes the World Bank and Regional Banks.

2 Remaining Latin American debt to international banks was exchanged for long-term sovereign bonds backed by US Treasury bills (which bore the name of the then US Treasurer, Nicholas Brady) at the end of the 1980s. This automatically created a secondary market for Latin American sovereign bonds and facilitated new primary issues (See Calvo, 2008).

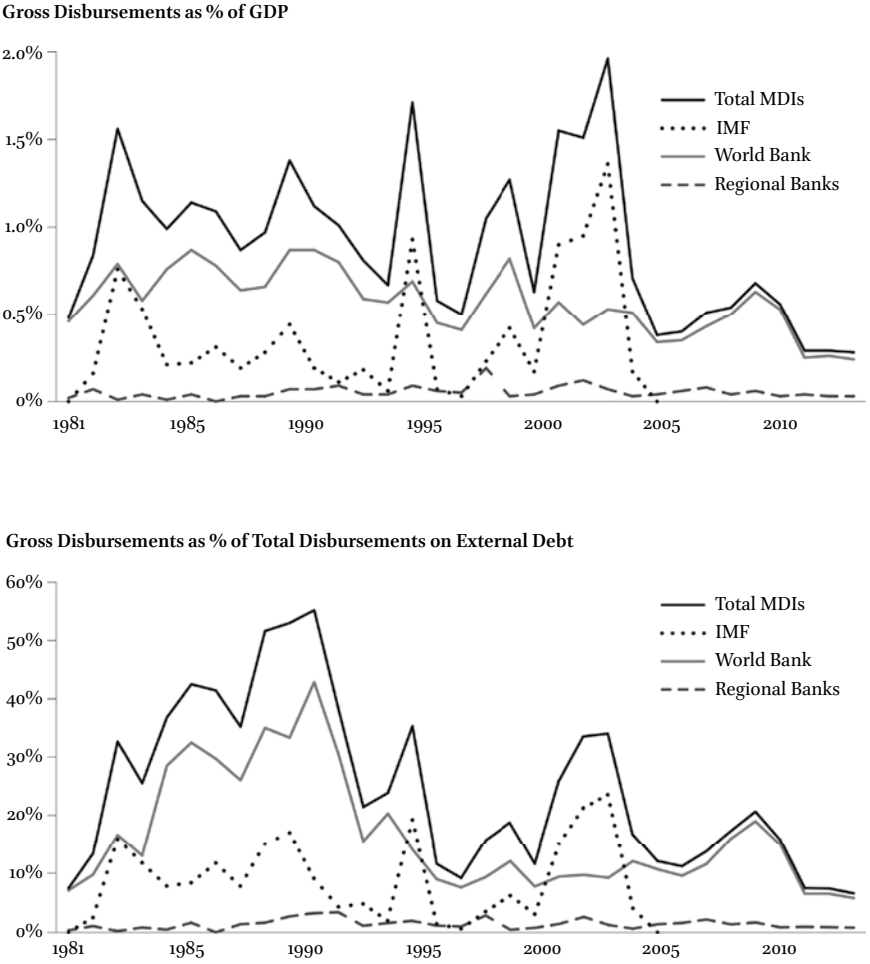


FIGURE 10.1 *Gross flows from MDIs to LAC7* as percentage of GDP and total capital inflows (1980–2015).*
SOURCES: *WORLD DEVELOPMENT INDICATORS*, CAF, IDB, IMF DEBT DATABASE.
Note: *LAC7 refers to the seven largest Latin American economies, namely, Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

programmes in Mexico in 1995, following the 'Tequila' debt crisis of 1994, and in Brazil and Argentina from 1998 to 2003, when these two countries faced currency crises and sharp capital flow reversals following the 1998 Russian crisis. Similarly, MDB's gross disbursements to the seven largest Latin American countries' economies (LAC7), as percentage of total capital inflows, peaked in 1992 (at 45 per cent) and then dropped sharply to around 12 per cent since 1996, with a rebound to 20 per cent during the 2009 crisis, and a temporary rebound

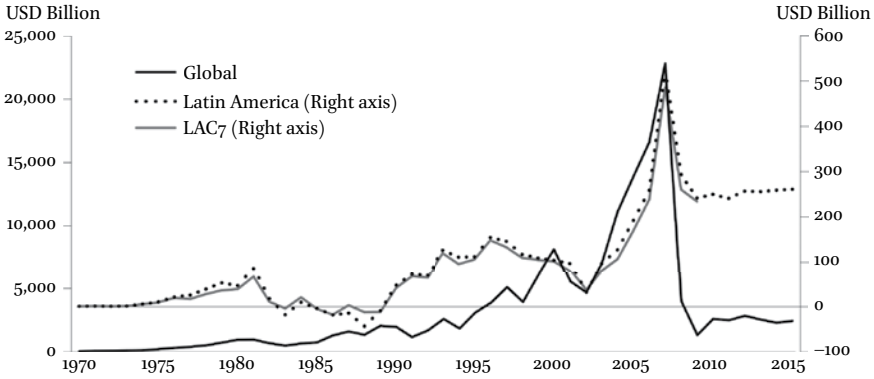


FIGURE 10.2 *Gross Capital flows (global and to LAC7)—1970–2015.*
SOURCES: WORLD BANK, BIS, ECLAC, BRONER ET AL. (2013).

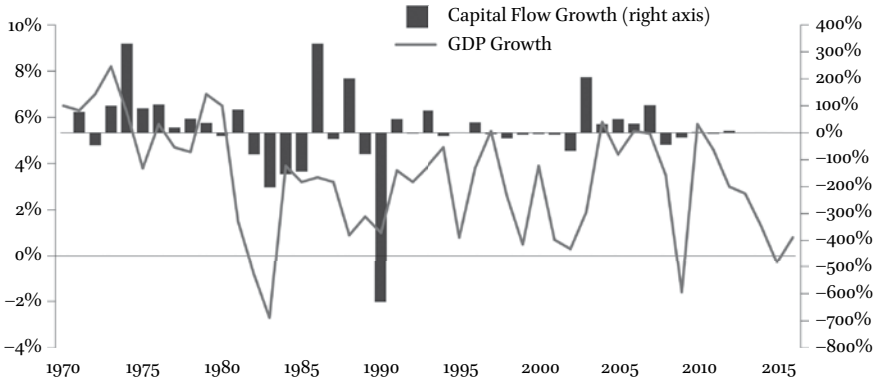


FIGURE 10.3 *Latin America and Caribbean (LAC) Gross domestic product (GDP) and Capital Flows Annual Growth (1970–2015).*
SOURCES: *WORLD DEVELOPMENT INDICATORS*, CAF, IDB, IMF DEBT DATABASE.

during the global crisis of 2009 (Figure 10.1). These disbursements had local peaks around periods of crisis in the largest countries (Mexico and Argentina, 1995; Brazil and Argentina, 1998–2001) and the global crisis of 2009 (Brazil, Mexico, Argentina and Colombia) (Figure 10.5).

The IMF gross flows have been clearly countercyclical with respect to either private capital inflows or GDP growth.[3] This is consistent with the Fund's objective of providing support to countries experiencing balance of payments

3 See estimates in Table 1 of working paper, https://economia.uniandes.edu.co/components/com_booklibrary/ebooks/dcede2016-16.pdf (accessed on 12 April 2017).

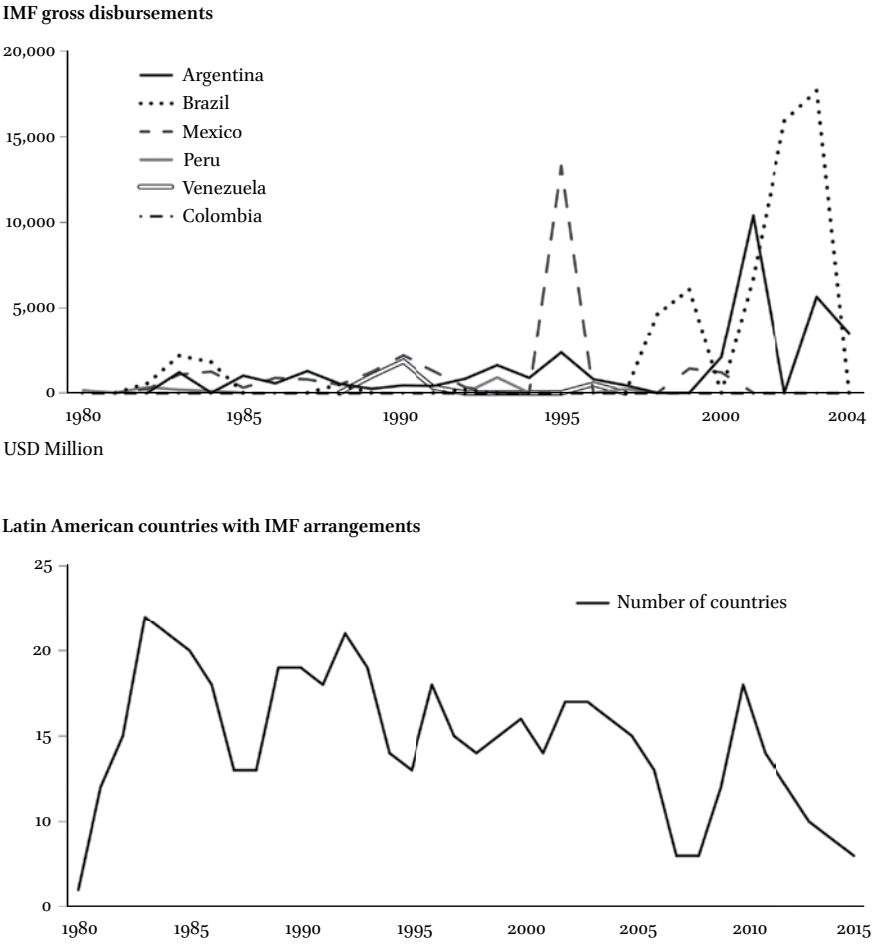


FIGURE 10.4 *IMF disbursements and number of countries with active programmes.* SOURCES: *WORLD DEVELOPMENT INDICATORS*, IMF.

crises. MDBs' flows, on the contrary, do not show a consistent pattern in this regard. They should also behave counter-cyclically (Perry, 2011), or at least a-cyclically, given MDBs' long-term development objectives. But they have often been procyclical because MDBs frequently behave more as private banks than as development institutions (see, for example, Perry, 2009).

In parallel to these developments, several Latin American countries have been developing deep long-term markets for government and corporate bonds, in their respective domestic currencies. This has reduced the dependence of government finance on external sources, including MDBs (Figure 10.6), with the additional advantage of reducing exposures to currency risk for governments and corporates in non-tradable activities.

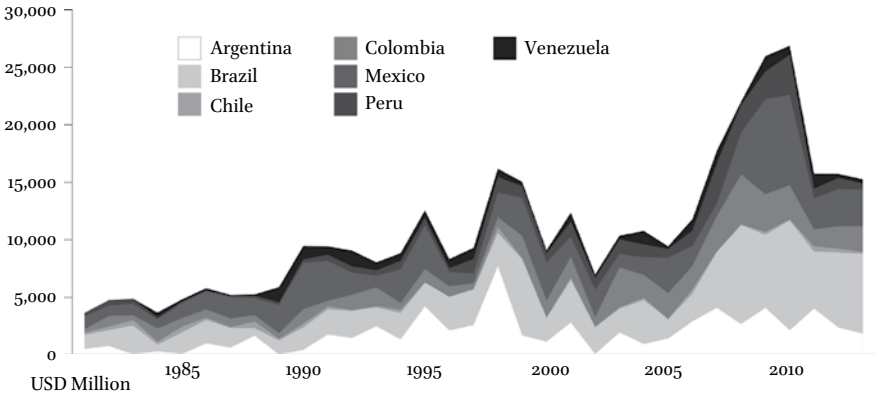


FIGURE 10.5 *Total MDBs disbursements by country.*
SOURCES: *WORLD DEVELOPMENT INDICATORS*, CAF, IDB, IMF DEBT DATABASE.

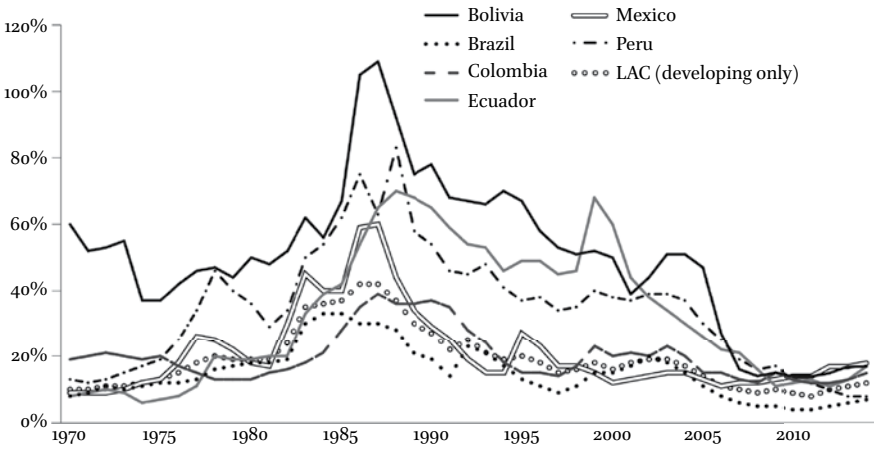


FIGURE 10.6 *External public and publicly guaranteed debt stocks (percentage of GDP).*
SOURCES: *WORLD DEVELOPMENT INDICATORS*, IMF. EXTERNAL DEBT IS DEFINED AS ALL DEBT OWED TO NON-RESIDENTS IN FOREIGN CURRENCY.

It is thus not surprising that the height of MDI influence and conditionality occurred during the Latin American debt crisis of the 1980s, when most countries in the region requested IMF rescue packages and accepted the highly criticised 'structural adjustment loans' of the World Bank (this period is discussed further in Sections 3 and 4 of this chapter). In contrast, influence and conditionality were at an all-time low during the 2003–08 and 2010–14 periods, during which most Latin American countries were blessed with high and increasing terms of trade (due to high and increasing real commodity

prices)—especially in South America—and an explosion of private capital inflows, as a consequence of both high international liquidity and good regional growth prospects. Thus, very few countries in the region needed access to IMF funds in the 2003–2014 period and many of them sharply reduced their borrowing from MDBs.

Also not surprisingly, since the late 1990s, but especially in the early years of the new millennium, the IMF entered a period of 'soul-searching', trying to redefine its role and redesign its financial instruments ('flexibilising' access to its credit lines, e.g. the Contingent Credit Line) in order to maintain relevance in fast-growing developing countries. During this period, MDBs, and to a lesser extent the IMF, began to talk about 'partnerships' and 'country ownership' of countries' own development strategies and adjustment programmes. Consequently, the term 'conditionality' faded away significantly from official documents.

Further, worried about their business prospects, MDBs were busily designing 'MIC strategies', intended to lure middle income countries that had achieved easier access to cheaper and longer term private financial resources into maintaining some lending and technical assistance relationships with MDBs (Perry, 2011). For the same reason, most MDBs have ever since been actively increasing their lending to the private sector and to public enterprises or subnational governments without sovereign guarantees (Perry, 2009) (Figure 10.7).

The 2009 global crisis, with its sharp reduction in private capital flows, constituted a temporary reversal of these trends and was a stark reminder to middle income countries that they may still, on occasion, need to access IMF and

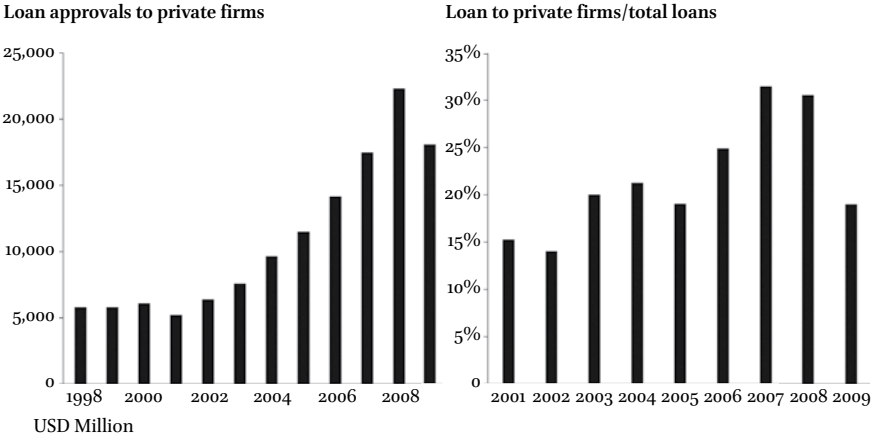


FIGURE 10.7 *MDI lending to private sector.*
SOURCE: PERRY, 2011.

MDBs resources, and thus should keep reasonable working relations with these organisations. Something similar, though less marked, has happened following the sharp reduction in commodity prices that has taken place since 2013. However, most Latin American countries have avoided major currency, fiscal and financial crises since 2009 (exceptions include the deep currency and fiscal crisis in Venezuela and, to a lesser degree, the currency crisis in Argentina) as macro-financial vulnerabilities have been significantly reduced in comparison to the past (Perry and Forero, 2014).[4] There is a discussion of the post-2013 period in Section 4 of this chapter.

As a consequence, it is unlikely, at present, that the relative importance of MDI lending and influence return to anywhere near their level of the 1980s.

Size matters—a complement to this story is that MDIs' influence has always been greater in countries with comparatively underdeveloped domestic financial markets and scant access to international financial markets, especially if, at the same time, these are small countries with little political sway. It is well known within the international community that large countries such as China, or—in Latin America—Brazil and Mexico, and previously Argentina, have usually received VIP treatment (conditionality has been lower and countries' views have been more respected) compared to small countries such as Bolivia, Ecuador or Nicaragua. Medium-sized countries with good access to private markets, such as Chile and Colombia, have also been the darlings of MDIs. To be fair, it is also true that countries such as Brazil, Chile, Colombia and Mexico (and Argentina in the 1990s) have had stronger technical teams, more able to design good programmes and persuade MDB technocracies of the relevance of their own views, than other countries in the region.

In summary, the degree of MDI influence has been a function of both the relative value of MDI resources for individual countries at any point in time (being greater in periods of private capital flow retrenchment and macroeconomic crisis) and the relative lack of technical capacities and political sway of beneficiary countries.

3 MDI Policies and 'Paradigms': A Moving Target with Latin American Inputs

3.1 *Changing Views at Multilateral Development Banks*

Easterly (2001) shows eloquently how the World Bank's views on development have significantly evolved over time. Initially, in the 1950s and 1960s, the World

4 There are, of course, exceptions that may eventually require major IMF and MDB financing.

Bank seemed to believe that building adequate public infrastructure was the key to development and, consequently, had a lending portfolio highly concentrated in infrastructure investment projects.[5] It should be remembered that the World Bank was created to help finance the reconstruction of European Infrastructure after the Second World War. Increasingly, building human capital was seen as a complementary development approach, thus broadening the investment portfolio to the social sectors. Further, poverty reduction became a complementary objective to growth since Mc Namara's presidency.

However, by the early 1980s, the World Bank had adopted the view that what mattered most for development (and for 'aid effectiveness') were so-called pro-market policies (the opening up of trade, prudent macro-financial policies, a reduction of the size of the state, and the promotion of private investment), thus broadening again the portfolio with wholesale policy-based lending through Structural and Sectoral Adjustment Programs. This was the period (the 1980s and early 1990s) associated with the so-called 'Washington Consensus'. It coincided with the height of MDI influence in Latin America due to the region's currency and financial crisis, as discussed in the previous section.

The changing views held by MDBs were often influenced by academic research on development, as well as by Latin American policy makers' opinions. Thus, during the 1950s and 1960s World Bank views were heavily influenced, among other sources,[6] by Albert Hirschman's views based on his Latin American experience (Hirschman, 1995). On the other hand, the contents of the Washington Consensus, and its very name, were drawn by John Williamson from the proceedings of a Washington-based conference attended by several high-level Latin American policy makers (Williamson, 2004). Indeed, a new generation of highly influential Latin American technocrats and politicians had become convinced, following the debt crisis of the 1980s, of the need to open up their economies, reducing the scope and intensity of government intervention and adopting prudent macro-financial policies. Thus, they were autonomously pushing for them in their own countries.

5 A view influenced by growth and development theories in vogue in the 1950s and 1960s (Harrod–Domar, Rosenstein-Rodan, and Hirschman) and by the initial experience of the World Bank in the reconstruction of Europe after Second World War—reconstruction that mostly took the form of a huge infrastructure (restoration) investment programme.

6 Most so-called development economics, from Harrod–Domar growth models to Rosenstein-Rodan's 'big push', saw increases in investment rates as the cornerstone of increasing growth rates; in particular in public infrastructure, which was seen as crucial to the integration of internal markets and the development of modern industry. See, for example, Domar (1946) and Harrod (1939).

As a consequence, the conventional view that the reforms that took place in many Latin American countries during the 1980s and early 1990s were simply imposed by the IMF and the World Bank is exaggerated in many cases—there was, rather, a concurrence of a significant need of resources and shared views—or plainly incorrect in others.

Thus, for example, there was very little IMF or World Bank influence in the pioneering Chilean reforms of the mid-1970s (which were associated, rather, with the local so-called 'Chicago boys' in charge of economic policy making during the authoritarian regime of Pinochet) or in their deepening and development during the centre-left 'Concertación' governments of the 1990s. On the contrary, Chile often adopted reforms that only later on were promoted by MDIs in other countries and latitudes, such as the pension reforms of the 1980s (based on individual savings and capitalisation funds, mostly privately administered) or the fiscal rule[7] of the late 1990s.

And though there *was* MDI influence, there were also significant domestic initiatives in the reforms enacted in the late 1980s or early 1990s by the governments of Salinas in Mexico, Menem in Argentina (the 'convertibility' regime was not only home grown, it was not enthusiastically regarded by certain of the MDIs—see below), Fujimori in Peru, Gaviria in Colombia and Cardoso in Brazil (maintained and deepened by the Lula government), among others.

Colombia, for example, had easy access to private international capital markets and did not have an IMF programme when Washington Consensus-type reforms were enacted. Moreover, in the previous 25 years it had only had a monitoring IMF programme (without IMF financial resources), and only required access to IMF funds during its 1999 crisis, almost a decade after enacting Washington Consensus-type reforms (Edwards and Steiner, 2008; Junguito, 2015).

Later on, since the mid-1990s, the World Bank (and the Inter-American Development Bank: IDB) evolved towards a more holistic view of development, in which other factors acquired a role at least as important as the core Washington Consensus tenets. In particular, a series of World Bank analytical reports began to emphasise, from the mid-1990s on, the critical importance of institutions for growth and development (see, for example, Burki and Perry, 1998). This led to a new portfolio of loans related to institutional reform in

7 The Chilean fiscal rule requires the government to keep a 'structural' balance in surplus, thus making it compulsory to save in periods of high copper prices and fast economic growth. The rule has led to the significant stability of real government expenditures along economic cycles, removing the procyclical patterns of expenditures characteristic of Chile's past history and of most of Latin American countries even today.

a wide variety of fields and the development of a set of measurements of institutional quality (the Kaufmann-Kraay Worldwide Governance Indicators, see Kaufmann et al., 2010), which have become benchmarks.

The re-emergence of this key concern, virtually absent during the Washington Consensus period, occurred due both to the growing influence of the 'new institutional economics' of North (1990), Coase (1960) and others,[8] and to the stark evidence of the initial failure of market-oriented reforms (supported by MDIs after the fall of the Berlin wall) in Russia and other ex-Soviet Union states and areas of influence, where there was a significant lack of market-supportive institutions (Stiglitz, 2002).

Similarly, MDIs' enthusiasm for 'structural adjustment' through Big Bang-style reforms became more subdued when it became evident that such reforms might as easily be undone in countries in which they were adopted through emergency powers, such as in Argentina during the Menem period, without wide domestic political support. Indeed, most of the 1990 reforms in Argentina were overturned in the early 2000s. In contrast, MDIs began to appreciate formerly despised 'slow-reformers', such as Costa Rica and Uruguay, where both the slow pace and the resilience of reforms, and their ultimate success, were intimately connected to the deeper democratic and political processes involved.

Correspondingly, MDBs undertook a significant re-evaluation of their views on the role of the state. Thus, at the World Bank, the intellectual debate about too large vs. small states, that had characterised the era of the Washington Consensus, shifted towards a discussion about strong and competent vs. fragile and failed states (World Bank, 1995).

Similarly, public investment in infrastructure, which had fallen into benign neglect during the Washington Consensus years, alongside a naive faith in private participation, was re-evaluated. A more balanced view with regard to the importance of these matters, and to the complexity of public–private partnerships, emerged thanks to pressure from the academic community and Latin American governments. Latin American countries access to a growing self-managed regional development bank, the Development Bank of Latin America (Corporacion Andina de Formento: CAF), that engaged heavily in substituting World Bank and IDB lending to public infrastructure, played a major role in this revival of interest, as discussed below.

8 Institutionalist views on development had been popular among many schools (including the Austrian School) before the dominance of neoclassical economics.

Similarly, during Wolfhenson's mandate, poverty reduction became the main explicit objective of World Bank support[9] and the share of anti-poverty programmes increased sharply within the Bank's portfolio. The World Bank has since been associated with most conditional cash transfer programmes (as was the case in Brazil, Colombia and Peru), though it had had nothing to do with the enactment of the most famous and pioneering of these programmes ('Progresa', afterwards renamed 'Oportunidades', in Mexico).[10]

Also, since the 1990s, the World Bank Group has been a pioneer of environmental sustainability and climate change concerns. So-called environmental and social 'safeguards' (which the IDB and the CAF have also implemented) have affected the approval, design and operation of public and private projects in infrastructure and other areas, contributing to heightened standards in the region. In addition, there has been a substantial body of research into these areas at the Bank and an important portfolio, financed by the Global Environmental Fund.

A more recent development relates to innovation and industrial policies. From the 1950s to the 1970s, the World Bank supported many public industrial projects, as well as private manufacturing, through lines of credit to central banks and local development banks. Such operations were, however, suspended in the 1980s and 1990s as part of the Washington Consensus era, which favoured free trade and the reduction of government intervention in industry. However, critiques from academia (Hausmann and Rodrik, 2003) and the growing evidence and belief in Latin America and other regions that opening to trade is, by itself, not enough to promote export-led growth, as suggested by early proponents of such a strategy, led to an intellectual revival of 'industrial policies' (more precisely, sectoral policies), oriented towards providing specific sectoral public goods and overcoming coordination failures. These views are beginning to make inroads within the development banks,[11] though they are not yet an important part of these banks' 'official' doctrines or lending portfolios.

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9 'A World without poverty' became the Bank's official vision, embodied in its mission statement. Poverty reduction programmes had existed since McNamara's times, but had not achieved prominence in World Bank operations.

10 As importantly, the concept of equality of opportunity as a basis for higher and more equitable growth was introduced in a series of reports, most notably in the *Equity and Development: World Development Report* of 2006. However, it is not clear to what extent this concept has permeated actual Bank operations.

11 See, for example the reports published by IDB (2015) and the World Bank (De Ferranti et al., 2003).

Simultaneously, there has been some reconsideration of the role of national development banks, which, ironically, were seen as superfluous or inconvenient by the multilateral development banks during the Washington Consensus era. Successful initiatives, including the Chilean Economic Development Agency (Corporación de Fomento de la Producción de Chile, CORFO), the Nacional Financiera (NAFIN) in Mexico, the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social: BNDES), the Bank of Foreign Trade (Banco de Comercio Exterior: BANCOLDEX) in Colombia, and the Development Finance Corporation S.A. (Corporación Financiera de Desarrollo: COFIDES) in Peru, have exerted a significant influence over this revision of MDBs' doctrine. Further, the International Finance Corporation (IFC) and CAF have even become minority shareholders in COFIDES, in Peru, and in the newly created National Finance Development institution (Financiera de Desarrollo Nacional, FDN) in Colombia.

As a final example, there is an emerging discussion within MDBs about the need for, or convenience of, approaching basic service delivery (education, health…) from the perspective of citizens' rights, and not just from the standpoint of traditional 'social policy'. This initiative is still in its infancy within the MDB community, but it is probable that, as is the case for other aspects just mentioned, it may eventually become part of the official doctrine.

3.2 *Changing Views at the IMF*

IMF 'orthodoxy' has also undergone an important evolution over time, on diverse topics central to the Fund's core business. These changes have usually been influenced by academic research, but also by policy debates with MDBs and with Latin American (and other developing countries') authorities, as discussed below.

The IMF was created to support the Bretton Woods system of fixed exchange rates and capital controls by providing financial support during periods of balance of payments crisis. However, Latin American and other developing countries' attempts to maintain fixed parities resulted in frequent currency crises, followed by massive devaluations towards a new fixed parity, and, as a consequence, in very high output and inflation volatility. The effects of adverse external (or domestic) shocks were exacerbated by procyclical monetary policies that attempted to defend fixed parities and contain the erosion of reserves, until it proved necessary to enact or permit massive devaluations when it became obvious that the former parity could not be maintained. IMF advice and programmes were important factors behind these highly inconvenient 'stop-and-go' policy cycles, which exacerbated volatility in countries subject to frequent terms-of-trade shocks and capital flows reversals. There were major

confrontations between the IMF and some countries with regard to these policies, the most notable being when Colombia adopted a crawling exchange rate system and generalised capital controls in 1966 (Espinosa, 1970; Junguito, 2015).

After the demise of the Bretton Woods system, IMF advice evolved towards a position that increasingly supported exchange rate flexibility. In particular, during the following decades, the IMF supported the managed crawling pegs instituted by Colombia, Brazil and Chile. However, due to rising concerns that such regimes contributed to price and wage indexation and persistent moderate inflation, these countries' policies eventually shifted (at the end of the 1980s or beginning of the 1990s) towards 'crawling exchange rate bands', within which the currency was allowed to float. Later on, as high volatility of capital inflows made it difficult, or very costly, to defend such bands, IMF advice and these countries' policies increasingly turned to favour full exchange rate flexibility. There was a parallel evolution of views regarding monetary regimes, progressively leaning towards support of inflation-targeting regimes, which are consistent with exchange rate flexibility and permit the deployment of countercyclical monetary policies.[12]

However, it should be noted that even until recently IMF programmes supported—on several occasions—unsustainable, overvalued fixed-exchange rate systems (such as the Argentinean currency board from 1997 until 2001) or bands (as in Brazil in 1998/99). Evaluations delivered by the IMF's Independent Evaluation Office have been especially critical of the fact that the IMF failed to point out the high degree of vulnerability of the Argentinean currency board, did not promote an early, ordered exit, and continued to support the regime in 2000–01 when it was clearly unsustainable (Independent Evaluation Office, 2004; Perry and Servén, 2003). These cases highlight the fact, noted in Section 2 of this chapter, that large countries with significant political sway were often treated in a more deferent manner, even when IMF staff had serious misgivings about their policies. This evolution of IMF advice with respect to exchange rate management proceeded in tandem with the Fund's views regarding capital account opening. Article 4 consultations criticised the capital controls instituted by Brazil, Chile and Colombia, and other countries, though—on occasion—the IMF Board recognised that use of these controls could be a legitimate tool, when they acted as complements to sound macro-financial policies, in order to avoid destabilising surges of short-term capital inflows.[13]

12 Due to space constraints, we cannot refer in detail here to the abundant literature on this topic. See, for example, Ebeke and Fouejieu (2015) and Batini et al. (2006).

13 See, for example, the Board Statement about the completion of Article 4 consultations in Colombia in 1995.

In 1997, IMF management proposed changing the IMF charter to require full capital account opening from its members. This initiative was strongly opposed by an active coalition of Latin American and Asian countries[14] and, as a consequence, failed to gain approval at the IMF Assembly of that year in Singapore. Shortly after, the Asian crisis erupted, demonstrating, once more,[15] the dangers of fast and inadequate capital account opening. As a consequence, the IMF position on capital controls evolved into a more nuanced standpoint. Recently, the Fund has come to explicitly recognise the advantages of dirty floating and central bank foreign exchange interventions in 'dollarised' economies, such as Peru (see, for example, IMF, 2015), as a means of avoiding excessive appreciations and depreciations that may lead to balance sheet problems and financial instability.

As this account suggests, some Latin American innovations and positions had an influential role in this evolution of IMF policies on exchange rate management and the occasional use of capital controls.

Similar changes have taken place with regard to IMF positions on fiscal issues. IMF recommendations and programmes were strongly criticised for placing excessive emphasis on short-terms goals, without due consideration of business cycle or long-term effects. In particular, the focus on short-term fiscal goals in Fund programmes and advice often led, in Latin America, to inconvenient procyclical fiscal policies, excessive cuts in public infrastructure and a lack of concern given to the term and currency composition of public debt (Perry et al., 2008). A significant body of research has demonstrated the highly procyclical character of fiscal policies in Latin America,[16] drawing attention to the political economy and financial sector determinants of these phenomena, but also to the role played by IMF short-term fiscal goals that did not adjust for cyclical factors.

Chile was the first country in the region to break out of this vicious circle, which it did in 2001 by enacting a fiscal rule responsive to the domestic business cycle, as well as to deviations of the price of copper (its main source of foreign exchange and fiscal revenues) from its long-run trend (Perry, 2003; Frankel, 2010; and Engel et al., 2011; among others). Colombia in 2011 and Peru in 2015 enacted similar rules. All three of these fiscal rules are at least cycle-neutral and they allow for some degree of counter-cyclicality in special circumstances.

14 The main author of the current chapter was personally involved in this dispute.

15 See, for example, Forteza et al. (2006).

16 Haussman et al. (1996) and Talvi and Végh (2005). The IMF has recently acknowledged these contributions (See Klemm, 2014; and Bova et al., 2014).

The IMF gradually, though hesitantly, became a supporter of these policy innovations. Since the 2009 global crisis, it has become a strong advocate of countercyclical fiscal policies in industrialised and developing countries with enough fiscal space, and of more gradual, procyclical fiscal adjustments when such adjustments are unavoidable for long-term sustainability (Blanchard and Leigh, 2013). Still, a 2013 evaluation (Independent Evaluation Office, 2013), concludes that although the IMF has made progress in this area since the previous, highly critical assessment delivered in 2003,[17] it continues to fail to take sufficiently into account the critical need for countercyclical fiscal policies in commodity-dependent countries, such as most South American nations.

Similarly, pioneering studies from the World Bank on the 'public infrastructure lags' in many Latin American countries have shown that they often originated in the sharp fiscal adjustments of the 1980s and early 1990s, often under IMF programmes, after most countries in the region had to default on their public debt (Calderón and Servén, 2010). Analysts in MDBs drew attention to the high-long term growth costs of such adjustments (Calderón and Servén, 2010) and to their inefficiency and eventual failure from an intertemporal perspective (Easterly and Servén, 2003). Recent advice from the IMF to European countries, recommending the implementation of a major infrastructure investment programme as a means of stimulating aggregate demand in the short run and increasing productivity in the long run, suggest a significant reconsideration of these issues.

More generally, IMF advice and programmes have been increasingly sensitive to the quality of fiscal adjustments, trying to limit their effect on anti-poverty programmes and badly needed infrastructure investment (Independent Evaluation Office, 2013). Consequently, the Fund has begun to accept that infrastructure concessions' investment costs may be spread out during the economic life of projects if construction risks are born by private firms, thus not showing up as sharp increases in fiscal deficits and public debt in the short run.[18]

In a similar vein, in the late 1990s the World Bank and the IDB began to call attention to the fact that several recent fiscal crises, in Latin America and elsewhere, did not have their origins in excessive fiscal deficits and public debt

17 See Independent Evaluation Office (2003). This evaluation indicated that most programme fiscal adjustments were excessive (led to excessive current account corrections and recessions) because they overestimated growth recovery and had fixed goals that were not sensitive to cyclical events.

18 This is, for example, the case with the ambitious 4G highway programme currently being implemented in Colombia.

levels (at least as commonly measured at prevailing exchange rate levels) but in currency mismatches that led to unsustainable debt levels when adverse shocks made sharp currency devaluations necessary (IDB, 2007; Fiess, 2004; Perry et al., 2008). The IMF has gradually incorporated these issues into its surveillance work and programmes.

Equally important, responding to World Bank and Latin American critiques of the adverse effects of IMF-sponsored fiscal adjustment programmes on poverty levels, IMF programmes have begun to protect anti-poverty programmes from overall required fiscal expenditure cuts, from the mid-1990s on. Also, in 1996 the Fund joined MDBs in launching the Heavily Indebted Poor Countries programme, which since then has engineered 36 debt alleviation programmes, designed to reduce the burden of debt and of required fiscal adjustment on growth and poverty levels. It also launched, in 1999, the Poverty Reduction Strategy Papers, as a joint effort with the World Bank and low-income countries' authorities, with the aim of guaranteeing not only that required macroeconomic adjustment programmes had only a minimum potential effect on low-income groups, but that coordinated MDI support would ensure faster poverty reduction over the medium term. These programmes were prompted by debates over the effects of IMF programmes in the poorest countries of Africa and Asia (Stiglitz, 2006). In Latin America, a region dominated by middle income countries' concerns, they have benefited countries such as Haiti, Bolivia and Nicaragua.

Overall, all this shows that the IMF has gradually accepted certain critiques from the academic and policy maker communities with regard to its previously flawed or excessively simplistic analytical frameworks and programmes. It also indicates the need for additional revisions with respect to several policy issues.

3.3 *Diversity and Competition in the MDI World*

The previous passages illustrated the significant differences between MDBs' technical positions and IMF official positions on several topics that have affected Latin American and other developing countries. Some of these debates originated around experiences in other regions, as was the case of that regarding IMF programmes' effects on poverty (mostly in Africa) and the flawed treatment of the 1997 Asian crisis (Stiglitz, 2006). Although these debates were not centred on Latin American issues, there were also instances of such disagreements about Latin American programmes. In particular, strong criticism from the World Bank with regard to the way in which IMF programmes dealt with financial crises eventually led to a significant strengthening of IMF technical

capacity in this area and to the creation of the joint Financial Sector Assessment Programs.[19]

In summary, Latin American and other developing countries have often not faced a unified 'orthodox' view from the Washington based institutions. Such divergence of views between the IMF, the World Bank and the IDB have on occasion led to the IMF changing or moderating initial policy positions that had had negative effects on Latin American economies.

Diversity of views and competition among MDBs played other useful roles. As already mentioned, at the height of ideological excesses of the Washington Consensus, World Bank and IDB support for public infrastructure projects faded away, in the naive belief that, with adequate regulation and concession contracts, private investment in infrastructure could largely replace public funds.[20] Although this became true in the areas of telecommunications and energy, it was never the case in transport or water supplies and sewerage infrastructure. Fortunately, the CAF—an MDB created, funded and managed exclusively by Latin American countries—did not buy into these extreme views and decided to fill the vacuum left by the World Bank and the IDB. By 2010 it was lending more to public infrastructure projects in Latin America than those two institutions together. Later on, the Washington-based MDBs recognised their mistake, and the business opportunities lost to the CAF, and began to engage again more forcefully in this area.

This is only one case, albeit the most notable one, in which diversity of views and competition among MDBs have facilitated Latin American countries' ability to 'shop around' and find the necessary cheap, long-term financing without having to accept unwanted MDB conditionality.

The existence of the Latin American Reserve Fund (Fondo Latinoamericano de Reservas, FLAR) has played a similar role, though significantly more limited, for small countries in Latin America and the Caribbean (LAC) in need of balance of payments support. However, more often than not, FLAR support has played the role of a complementary source to IMF resources, acting as a 'lender

19 The IMF's initial actions during the Indonesian crisis of 1998 (closing banks in the midst of the crisis) led to a deeper financial crisis (Independent Evaluation Office, 2003). There were also disagreements at the World Bank with regard to the Fund's positions on the financial crisis in Jamaica and the Dominican Republic (the Bank was, for example, against the bailing out of off-shore debtors) and on the Argentinean financial crisis of 2000 (the Bank was, for example, against the asymmetric 'pesification' of dollar deposits and loans).

20 Environmental and social safeguards are also responsible for underinvestment in infrastructure projects.

of first resort' while an IMF programme is put together, taking advantage of the fact that FLAR can proceed much faster than the IMF (FLAR, 2015).

The fact that the IDB and, especially, the CAF have often been more flexible than the World Bank in supporting home-grown regional government programmes and policies, has probably had something to do with the fact that a larger proportion of their staff come from the region, and hence are more knowledgeable with regard to specific countries' circumstances and more sympathetic to them. However, in the last analysis, it reflects the stronger weight of Latin American countries in their boards. This is particularly true of the CAF (and FLAR), which are fully owned and managed by Latin American governments and, as a consequence, are not influenced by extra-regional agendas. Further, each has built governance structures that give more flexibility to their administrative bodies in order that they may accommodate themselves to specific and changing country circumstances (Perry, 2016).

4 Orthodoxy and Heterodoxy Reconsidered: From Stereotypes to Realities

Though 'orthodox' views in the MDI world have changed over time, as illustrated in Section 3 of this chapter, the main tenants of their recommended macroeconomic policies (fiscal and monetary discipline and trade openness) have remained fairly constant since the 1980s. Indeed, though changes in MDIs' official doctrine over time include the adoption of new views on the desired degree of exchange rate flexibility and financial integration (capital account opening), countercyclical fiscal policies, and the quality of fiscal adjustments, the most significant changes in the official doctrine of MDIs have been related to the microeconomic determinants of growth (especially with regard to the role of institutions) and to the increasing weight placed on equity and long-term sustainability issues.

During recent decades most Latin American governments, independent of their political orientation, have increasingly embraced those basic elements of 'orthodox' macroeconomic policies: fiscal and monetary discipline and trade openness.[21] This has been the case, for example, with the 'left-wing' administrations headed by Lula in Brazil, Lagos and Bachelet in Chile, Tavaré Vasquez

21 A similar development took place in Europe after the Second World War, with the ascent to power of several former socialist parties, converted into social democratic parties. These left-wing governments or coalitions increasingly adopted pro-market views with regard to economic policies.

and Mujica in Uruguay, Ortega in Nicaragua, Evo Morales in Bolivia, and Toledo and Humala in Perú, and to a lesser extent with Correa in Ecuador. All these governments clearly followed fiscal and monetary policies as strict or more strict than those of their predecessors, and similar to those of contemporary centre-right governments in other Latin American countries, such as the Pastrana, Uribe, and Santos administrations in Colombia and those of Fox, Calderón, and Peña Nieto in Mexico.

Indeed, although fiscal deficits and inflation do not depend only on government policies, the figures are quite suggestive.[22] They show, for example, that the process of fiscal consolidation and reduction of inflation rates initiated by the Cardoso administrations in Brazil was deepened under Lula, though the fiscal situation deteriorated under Dilma Rousseff.

They also show the tight fiscal stance maintained under the centre-left 'Concertación' governments in Chile, and the successful reduction of inflation rates during the terms of Alwyn and of Frei. It is particularly noticeable that the Lagos administration established and strictly followed the now famous Chilean 'fiscal rule' and that the first Bachelet administration strengthened this regulation, making it legally binding, and kept high surpluses during boom years (an average of 3 per cent of GDP; a maximum of around 6 per cent) in spite of high political pressure to weaken or abandon the rule. In contrast, the right-wing Piñera administration that followed engineered some weakening of the fiscal stance by changing the structural deficit goal and other parameters.[23]

These data also show that presidents elected on populist platforms in Peru—including Toledo and Humala—maintained fiscal balances under control and the lowest inflation rates in the region. Just as surprising, Alan García, who had, during the period 1985–90, presided over the most populist government in Peru, leading to hyperinflation, a currency crisis and recession, maintained—in his more recent term—fiscal surpluses and a low inflation rate.

Even more impressive, the Evo Morales administrations in Bolivia kept the largest fiscal surpluses in the region, in sharp contrast not only to what their main ally and mentor (Chávez) did in Venezuela, but also to the policy outcomes of their own centre-right predecessors. The same has been the case with the Ortega administrations in Nicaragua. Fiscal and inflation outcomes also suggest that Correa in Ecuador did not shift towards excessively expansionary fiscal and monetary policies, in comparison to his predecessors.

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22 See Tables 2 and 3, working paper, https://economia.uniandes.edu.co/components/com_booklibrary/ebooks/dcede2016-16.pdf (accessed on 11 April 2017).

23 See an interview with Andrés Velasco by Julian Nahuelhual (2010) in *La Tercera* concerning the Chilean 'fiscal rule' under the Sebastian Piñera administration.

These facts indicate that these 'orthodox' views on macroeconomic policies have become an entrenched conviction in Latin America, irrespective of the political inclinations of governing coalitions. Of course, there have been exceptions to this rule, such as the Chávez and Maduro regimes in Venezuela and, to some extent, the Cristina Fernandez government in Argentina[24] (see below).

Most recent left-wing governments have also maintained relatively open trade policies, at least similar to those of their predecessors, as well as prudent financial regulation and supervision, which avoided bankruptcies or credit crunches during the recent global financial crisis (Perry and Forero, 2014). In particular, the 'Concertación' administrations in Chile maintained lower average effective tariffs than had the Pinochet regime and engaged in negotiating a plethora of free trade agreements with developed and developing countries in most regions. Consequently, trade openness is the highest in Chile among LAC7 countries and has continued to rise. Though other LAC7 countries (with the exception of Mexico) maintain more restrictive trade policies than Chile (especially Brazil and Argentina), and exhibit lower scores on indexes of trade openness, figures do not indicate that left-wing regimes have been significantly more prone to protectionism than were their predecessors.[25]

Reality checks may have played a significant role in these trends. Thus, for example, Lula may have been forced at the beginning of his first administration to nominate a very 'orthodox' economic team (in Finance and at the central bank), in order to restore market confidence in the face of the considerable volatility and capital flight that had been taking place since the latter stages of the election campaign.[26] Later on, he appointed a more 'heterodox' Minister of Finance, but was keen to maintain the significant autonomy that the central bank had enjoyed during Cardoso's term and kept fiscal policy within reasonable bounds.

Lula also kept the pro-market microeconomic reforms of Cardoso (for example, with respect to openness to trade and FDI and public–private partnerships in infrastructure), though he did not continued Cardoso's reformist drive

24 Argentina maintained a tight fiscal stance during the Kirchner government and until 2009, but allowed a significant increase of the fiscal deficit from that point onwards.

25 See Tables 4 and 5, working paper, https://economia.uniandes.edu.co/components/com_booklibrary/ebooks/dcede2016-16.pdf (accessed on 11 April 2017).

26 Following the major capital outflows that took place at the end of the electoral campaign, the World Bank was actively trying to calm markets and requested that the IMF extend the existing programme for one year in order to cover the transition, in an attempt to recover market confidence in Brazil.

with regard to other microeconomic issues, except on social policies (see below). His successor, Dilma Rousseff, was more prone to interventionist policies and fiscal expansion in her first term and, partly because of this, ran into serious market confidence problems from 2013 on (Figure 10.8), which together with a negative shock to the terms of trade have brought Brazil into a deep recession (Figure 10.11). These outcomes prompted Rousseff to nominate, as Finance Minister, a well-known 'orthodox' candidate—Joaquim Levy—who immediately announced a sharp fiscal adjustment package. Political turmoil impeded its approval in congress and Minister Levy had to resign.

In Nicaragua, Ortega, in spite of his close relations with Venezuela (which has provided Nicaragua with significant financial support), has followed strict macroeconomic policies and strongly pro-market microeconomic policies. Indeed, he has become the darling of private investors in Central America. Such a dramatic shift from his earlier ideology and practices may either reflect new convictions, having witnessed the economic failure of interventionist and expansionist policies during the Sandinista regime, or a pragmatic stance, given the commitments and opportunities related to the Central American Free Trade Agreement and the obvious importance of large FDI and private investment flows for Nicaragua's growth.

As already mentioned, the Morales administrations macroeconomic orthodoxy is noteworthy. In spite of a very close relationship with Venezuela, and initial left-wing and populist microeconomic policies (his 'nationalisation' of gas production and his attempts to impose agrarian reform in Santa Cruz and

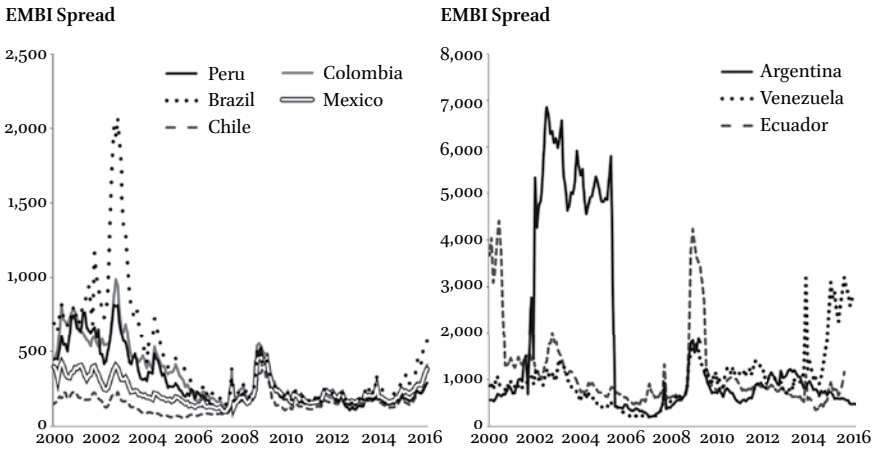


FIGURE 10.8 *LAC7 EMBIS* 2000–16.*
*Emerging Market Bond Index.
SOURCE: JP MORGAN.

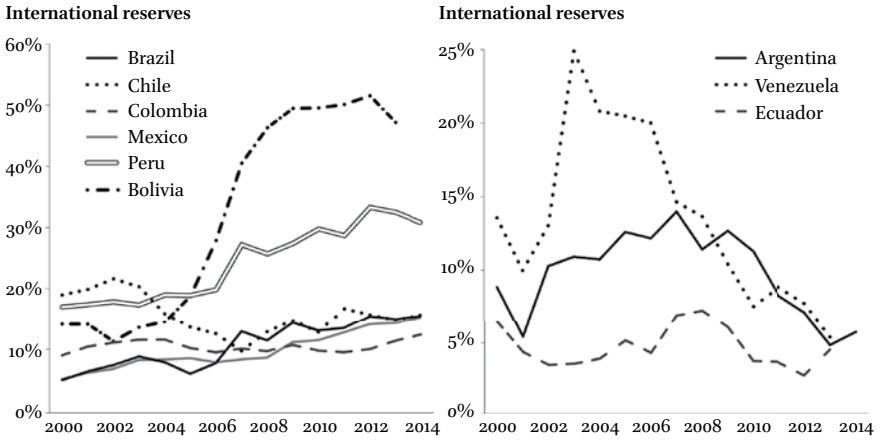


FIGURE 10.9 *International reserves/percentage GDP, 2000–15.*
SOURCE: *WORLD DEVELOPMENT INDICATORS*.

to take away oil royalties and autonomy from provinces), the Morales regime has applied the most austere fiscal and monetary policies in the region (highest fiscal surpluses and accumulation of international reserves; see Figure 10.9), certainly much more orthodox that any of his predecessors.

In contrast to a relative convergence with regard to macro-financial policies, there have been more differences between Latin American governments' respective microeconomic and social policies. At one extreme, following the return of democracy in Chile the victorious centre-left coalition decided to maintain and deepen most of the pro-market macroeconomic, trade, financial and microeconomic policies that had succeeded in delivering high growth and stability during the second half of the Pinochet dictatorship, but to complement them with aggressive and highly innovative social policies. Thus, the 'Concertacion' governments, in addition to the world-famous 'fiscal-rule', developed the best financial sector regulation and supervision in the region, promoted more free-trade agreements than any other country in the region, implemented highly ambitious and well-designed public–private partnerships in infrastructure, engaged in a second (and now a third) generation reform of its pioneering pension system and put in place ambitious policies to promote innovation. At the same time, they implemented successive ambitious educational and health reforms and the first programme in the region that attempted to eradicate extreme poverty (*Chile Solidario*). Though MDIs had little to do with most of these initiatives (or with those implemented under the Pinochet regime), they were later on adopted as part of MDIs' recommended 'package' of policies.

Uruguay's *Frente Amplio* administrations, and the Lula administrations in Brazil, considerably strengthened social policies and introduced innovations into them (including *Bolsa Familia* and *Primer Emprego* in Brasil).[27] However, although they maintained the pro-market microeconomic reforms of previous administrations, neither deepened them considerably. As previously mentioned, there were some setbacks in several of these areas during the Rousseff administration.

All of these governments had very close and productive relations with MDIs. This was in particular the case for the close collaboration between the World Bank and the first Lula government. For example, the World Bank suggested to the Lula government that it institute an aggressive Conditional Cash Transfer programme (*Bolsa Familia*, based on an expansion of the previous *Bolsa Escolha* programme) in lieu of the set of heavily interventionist social programmes initially envisaged by the administration, and helped in designing and financing it.

Something very different happened in the case of Venezuela, and—to a lesser extent—in the cases of Argentina and Ecuador. The Chávez and Maduro governments had the largest deviations from 'orthodox' macroeconomic policies and pro-market microeconomic policies. In spite of benefiting from the highest foreign exchange earnings and fiscal boom in Venezuelan history (Figure 10.12)—due to the large increase in oil prices from 2003 to 2014—Venezuela incurred significant fiscal deficits during part of this period, lost market access (since 2009) and ran out of international reserves (Figure 10.9), even while imposing strict capital controls and devaluing, on several occasions, the official currency rate to the dollar (Figure 10.10), in spite of which the difference between the black market and the official exchange rate skyrocketed. In addition, Venezuela has had the highest inflation in the region, as a consequence of a huge monetary expansion to finance the growing fiscal deficits, and the sharp devaluations of the currency.

Microeconomic policies in Venezuela have been characterised by a strong anti-private sector and populist tone: expropriations (including of supermarkets and cement factories), generalised price controls, severe restrictions on trade flows with neighbouring Colombia, and so on. Though there has been significant expenditure on social programmes (the so-called *Misiones*), some of these programmes have been questioned regarding corruption and ineffectiveness, and have used less public resources than the huge subsidies applied to gasoline prices and electricity, subsidies that favour the upper middle

27 Building on *Bolsa Escolha*, a more limited programme instituted in some states during the Cardoso administration.

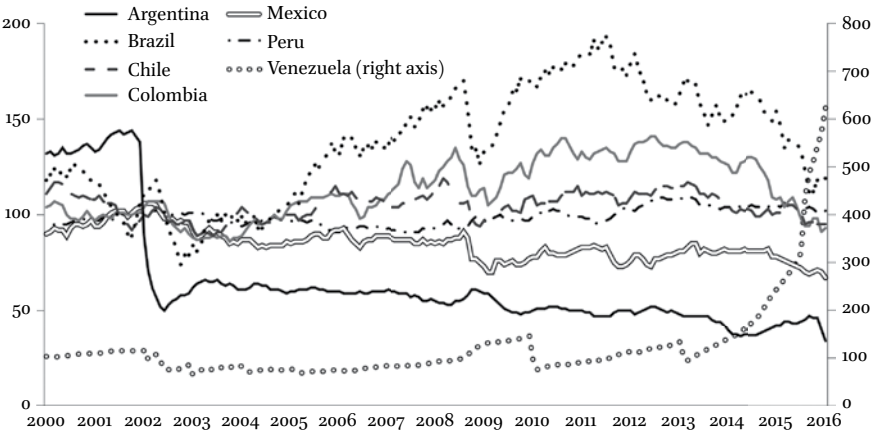


FIGURE 10.10 *Real exchange rates—2000–15.*
SOURCE: BANK OF INTERNATIONAL SETTLEMENTS. ARGENTINEAN DATA WAS CALCULATED USING THE OFFICIAL EXCHANGE RATE.

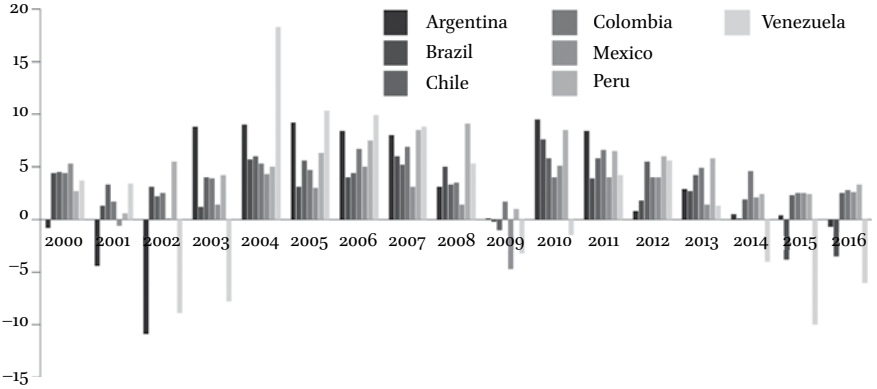


FIGURE 10.11 *Growth rates by country.*
SOURCES: WORLD BANK, WEO OCTOBER 2014 AND WEO UPDATE 2016.

classes and the rich. This combination of populist macro- and microeconomic policies led the country into a severe contraction, which began even before the fall in oil prices (Figure 10.11).

Argentinean microeconomic policies since 2000, and especially since 2012, show some similarities to those of Venezuela (expropriations, generalised tariff and price controls, export taxes and prohibitions, and import restrictions), but have never been as extreme. Macro-financial management, however, remained very prudent until 2009. Indeed, low fiscal deficits, limited monetary

expansion and a competitive exchange rate (Figure 10.10) facilitated a very fast recovery from the 1999–2002 crisis (Figure 10.11), in spite of the adverse effect of some microeconomic policies.

However, since 2009 fiscal deficits and inflation rates increased, the country lost access to international capital markets (Figure 10.8) and the central bank lost reserves rapidly (Figure 10.9), even before the fall in commodity prices and in spite of the imposition of capital controls. Consequently, there has been a more significant slowdown than that experienced by other countries in the region that were affected by more severe terms of trade shocks than those that Argentina suffered (Figure 10.12).

The significantly larger distortions caused by microeconomic policies introduced by Argentinean governments since 2000, and especially by Venezuela during the Chávez and Maduro eras, are reflected in the weakening of the Kauffmann–Kraay indicators of institutional quality[28] in these countries. These figures also show the significant Chilean advantage over other Latin American countries in these indexes (see Figure 10.13 for the example of regulatory quality); an advantage gained thanks to the continuous process of pro-market microeconomic reforms that accompanied the Concertación administrations.

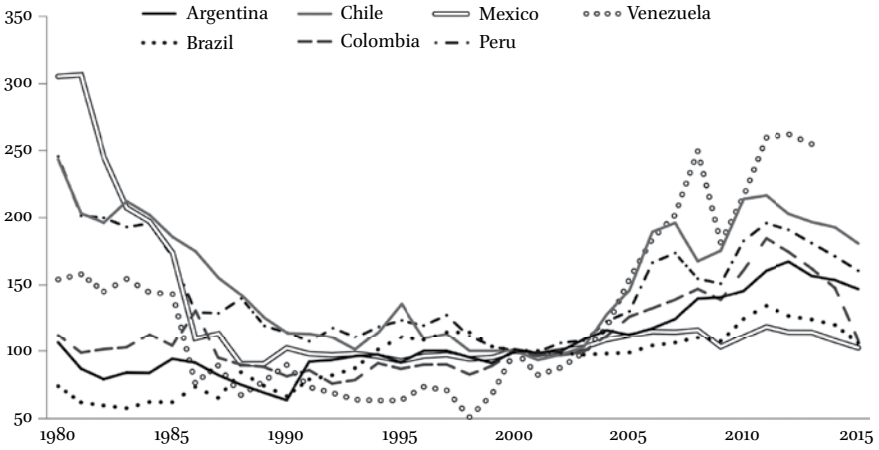


FIGURE 10.12 *Net barter terms of trade index.*
SOURCE: *WORLD DEVELOPMENT INDICATORS*.

28 Indexes of institutional quality can be questioned though; because they are often based on entrepreneurial opinion surveys, which may be biased by actual outcomes or a simplistic private sector view. The Kauffman–Kraay indexes referenced here are the result of extracting common information from a wide variety of indexes published by many individual agencies or firms, and are hence less open to such criticisms.

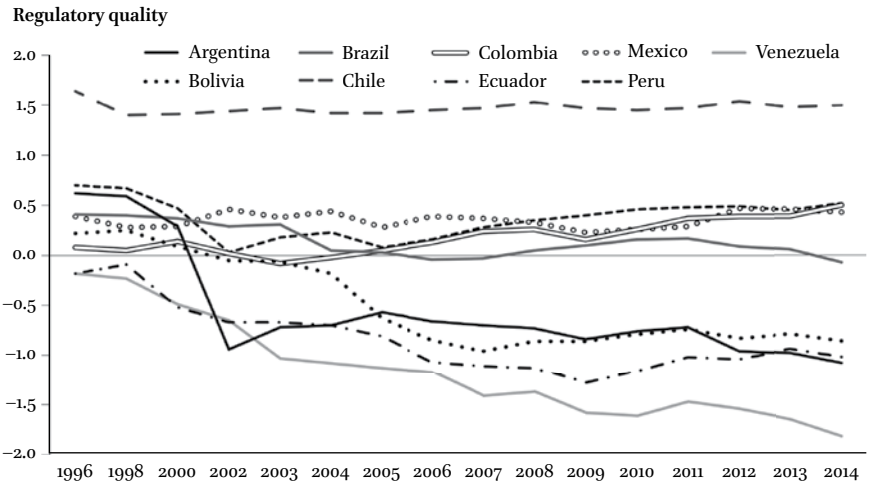


FIGURE 10.13 *Governance indicators.*
SOURCE: *WORLD DEVELOPMENT INDICATORS*.

This brief account suggests that the few governments that have engaged in openly populist macro- and microeconomic policies during the early 2000's, have eventually led their economies into output contractions that other countries have so far avoided even while suffering similar adverse external shocks. It also illustrates the close and productive collaboration of MDIs with most recent governments in the region, governments of widely different political inclinations.

5 Conclusions

This chapter shows that there have been significant changes over time in MDIs' paradigms and policies and in their relationship to, and degree of influence over, Latin American governments' development policies.

MDIs, influenced by academic research findings and, on occasion, by policy makers' views—in Latin America and other developing regions—have often recognised their previous mistakes and excessively simplistic views, and, consequently, have adapted their official positions. The analysis presented here also illustrates how a divergence of views on particular issues has also been common among MDIs themselves, and how regional MDIs (the IBD, the CAF, and the FLAR) have been more responsive to regional concerns and views and have played an increasingly important role and exerted growing influence within the international community.

The chapter also shows how the degree of influence of MDIs has naturally varied with the development and cycles of international private financial markets and individual countries' access to them, among other factors. Thus, that influence was at its height during the Latin American debt crisis of the 1980s (the period of 'structural adjustment' and the so-called Washington Consensus, when most countries in the region lost access to international private capital markets) but has significantly declined since the early 1990s, with short-lived resurgences after the 1998 Russian crisis's impact on capital flow reversals in the region and during the recent global financial crisis in 2009. MDI influence is likely to increase somewhat again in the current environment of lower terms of trade and capital inflows.

Further, the chapter illustrates how even strongly pro-market governments often had serious confrontations with what they considered the simplistic views of MDIs with regard to important issues of policy. Some of these governments' policy innovations, in either macro- or microeconomic and in social policies, were later adopted and promoted elsewhere by MDIs. At the same time, we have seen how many pro-market and social policy reforms resulted from shared views between Latin American policy makers and MDIs, or were the sole initiative of Latin American governments.

Finally, the chapter shows how governments in the region—governments of a wide variety of political inclinations—have, with some notable exceptions, increasingly applied orthodox macroeconomic policies and how they have enjoyed close collaboration with MDIs and have found that relationship useful in their pursuit of economic and social objectives, but that there still remains considerable divergence in views on microeconomic and social development policies across the region.

The landscape that emerges is, thus, more complex than a division of the world between 'orthodox' and 'unorthodox' views or strategies, either among 'left-wing' or 'right-wing' governments, or among MDIs themselves. It is better described as a changing landscape with mutual influences exerted between MDIs and regional views.

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PART 3

Social and Environmental Dynamics



CHAPTER 11

Towards Regimes for Sustainable Mineral Resource Management—Constitutional Reform, Law and Judicial Decisions in Latin America

Ana Elizabeth Bastida and Luis Bustos

Abstract

This chapter examines mining legislation trends in Latin America. It focuses on the interpretation of the judicial decisions of the Constitutional Court of Colombia regarding conditions and processes for decision-making in the context of mining projects. The authors present an initial overview of the economic organisation and the sector legislation model adopted in Bolivia. The chapter anticipates a shift from sectoral regimes, which focus on exploration and exploitation, towards regimes for decision-making processes that mainstream constitutional principles and legal frameworks that apply to managing territories and their natural resources. The emphasis lies on reflecting on gaps in legal and institutional design and on corresponding challenges. This includes the need to strengthen the capacities of institutions and the actors that participate in decision-making processes to advance efforts aimed at furthering sustainable mineral resource management in the region.

1 Introduction

The Sustainable Development Goals (SDGs) adopted by the United Nations General Assembly in September 2015 set the direction for the new global development agenda for 2030 and promote advancement towards 'achiev[ing] the sustainable management and efficient use of natural resources' (UN, 2015, SDG 12.2). The 1992 Rio Declaration on Environment and Development established the principle that human beings are at the centre of concerns with regard to sustainable development and called for public participation in decision-making processes (UN, 1992). Sustainable development entails obligations, limits and processes in natural resource management while balancing divergent environmental, social and economic interests when making decisions about economic activities. This encompasses an expansion of the historical dynamics of decision-making in industries (and challenges to the

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traditional models of sector legislation) that focus on extraction. The process of weighing up different criteria requires applying both management and planning tools and creating spaces for participation and dialogue among different actors and institutions.

The question of the role and ownership of the state over natural resources and the establishment of the main criteria for their use and exploitation have played a preponderant role in the significant waves of constitutional reforms that have taken place in Latin America since the 1990s—natural resources are known to make a decisive contribution to the economies of many countries in the region. Aspects concerning the ownership of natural resources and the role of the state are usually included in the chapter of the constitution regarding the state's economic organisation and express broader economic and political views. One of the most important axes of the constitutional and legislative reforms of the 1990s in most Latin American countries aimed at setting the bases for market economies and opening up their regimes to international investment. But this was not the only axis. The other entailed strengthening the bases for the rule of law and expanding constitutional charters of rights and guarantees in the political context of opening up to democracy. The right to a healthy environment and the rights of indigenous peoples were recognised (many Latin American countries ratified Convention 169 of the International Labour Organization on Indigenous and Tribal Peoples in Independent Countries during this period), enshrining sustainable development as the guiding principle for natural resource management. At the same time, decentralisation processes, involving the transfer of functions from the central government to subnational political units, were furthered (Yupari, 2005). These trends are consistent with, and in some cases have been driven by, intergovernmental organisations, the World Bank in particular, in the context of reform programmes for consolidating the rule of law.

In recent years, several countries—driven in part by the economic boom seen in the region due to the unprecedented demand from China and other industrialising countries for raw materials—have experimented with more heterodox policies, where the state plays a larger role in the economy. In some cases, and particularly in Bolivia and Ecuador, changes transcend the economic sphere and acquire re-foundational characteristics, which are expressed in constitutional reforms. In effect, the constitutions of Bolivia and Ecuador have aligned their structures and the state's functions with 'living well'/'good living' (*vivir bien*/*buen vivir*). This concept is rooted in the pluricultural identity of each of these countries, and draws a close connection between man and nature (Vanhulst and Beling, 2014; Villalba, 2013). Although these processes have been considered alternative forms of development—given that they

are critical of the Eurocentric view of development—(Acosta, 2010; Escobar, 2015), both constitutions and sectoral legislation incorporate the concept of the sustainable development of natural resources and the more limited term 'sustainable use' as qualifying non-renewable resource extraction.

Mining laws in the region are deeply rooted in history. A common characteristic is that the state holds ownership of mineral resources in the subsoil and grants exploration and exploitation rights through the so-called concession system. Mining has traditionally been considered an activity of public utility or public interest—a principle grounded either in ensuring mineral supply as minerals are used as basic inputs for the economy, or in the assumption that mining can contribute to development. The declaration of the public utility of mining expresses the precedence of mineral rights over surface rights, through the mineral rights holder's entitlement to demand expropriation or easements. In this sense, mining legislation establishes preferential land use and a model of territorial management that aims to promote and facilitate mining activities.

The question is to what extent sectoral legislation—aligned with multiple legal and regulatory regimes and constitutional principles—sets the bases for the sustainable management of mineral resources and for promoting the role that mining can play in contributing to the objectives of sustainable development.

First, our goal is to examine two different approaches to sectoral legislation, taking into consideration the differentiation drawn by the editorial line of this thematic issue, which focuses on the orthodox or heterodox nature of the strategies that have been adopted by countries in the region in the past few years. Second, our objective is to examine legislative and judicial developments, exploring their scope and the criteria used to align sectoral legislation and constitutional principles. Our analysis focuses on Colombia, poses a series of questions regarding Bolivia and comments on aspects relevant to the region. On the one hand, Colombia exemplifies the model of economic management based on market policies. On the other hand, various issues relative to sustainable development in mining have been subject to interpretation by the Constitutional Court—including the final purpose of the revenues generated from non-renewable resources, banning mining from ecologically sensitive areas, and the range of actors involved in the decision-making process. The court is recognised in the region for the harmonious interpretation of economic clauses and of the charter of rights and guarantees as enshrined in the constitution of 1991 with regard to the enforceability of social and environmental rights (Uprimny Yepes, 2006; see also Couso, 2006). In the case of Bolivia, it has adopted a mixed system of economic management and has also

instituted heterodox approaches with respect to the liberal notions of democracy, participation and governance (Wolff, 2013).

Lastly, our objective is to explore the evolutionary direction of law in this area, from sectoral regimes that promote extraction to broader normative frameworks that support sustainable resource management, and their contribution to the objectives of sustainable development. Additionally, we seek to delineate contextualised resource management models and point out the enormous complexity and challenges that are involved in effectively ordering and regulating the sustainable development of mineral resources in the region (UN, 2015, SDG 12.2). Our analysis aims to contribute to debate and to the work of the Economic Commission for Latin America and the Caribbean (ECLAC) regarding a recent regional initiative relative to Natural Resource Governance in Latin America, launched in response to the first report on the Sustainable Development Goals in 2016 (ECLAC, 2016).

Regarding the structure and some of the conceptual bases of this chapter, the next section describes some of the structural features of systems used to grant rights over mineral resources in the region and provides a dynamic perspective on their evolution in different political and economic contexts. This also serves as the basis for describing sectoral regimes in the countries analysed. Next, we examine the concept of sustainable development and its application in mining according to the United Nations' documents and resolutions, and we point to literature on the role of law in sustainable development (due to space constraints, we will not delve into critical literature regarding the notion of development and sustainable development).

As a tool with which to analyse the frequent fragmentation of regimes applicable to economic, environmental and other matters relative to sustainable natural resource management, we rely on the reflections of the distinguished jurist Raúl Brañes. Brañes foresaw the need to align the 'parallel legal subsystems' that exist in Latin America in terms of economic and environmental management with the purpose of achieving the shared objective of sustainable development. In a piece written a number of years ago, he contended that one of the factors that has contributed to problems of application and to the inefficiency of environmental law in the region has been 'the absence of sustainable development concepts in the legal system in general and in economic legislation in particular' (Brañes, ca. 2004). It is not our intention to go into a detailed analysis of normative frameworks or to inquire about the consequences that this lack of harmonisation generates within different branches of legislation. Instead, we explore the presence of sustainable development in sector legislation. These reflections provide us with a useful starting point for a retrospective analysis of the evolution of the integration of different

dimensions of sustainable development in those regimes that apply to mining activities.

At the end of our analysis of each country, we anchor our reflections to some lines of the literature in order to advance understanding of the context and the limits of the legal framework. Lastly, if the focus of mining legislation has traditionally been on exercising the *rights* that emanate from territorial sovereignty and on the relationship between the state and the miner (investor), sustainable development—as a final objective of and condition for resource exploitation—shines a light on the *duties* of the state in managing said resources and in expanding the constellation of actors and levels of jurisdiction involved. Along these lines, at the end of the chapter we situate our reflections as a facet of internal law in the context of the international literature and debates regarding states' exercise of sovereignty over natural resources.

2 Structural and Dynamic Perspectives in Sectoral Legislation Regarding Mining in Latin America[1]

In line with the predominant system in Latin America, states exert ownership over the mineral resources in the ground. Juristic writings usually differentiate, using nuances, between two systems for granting exploration rights to extract mineral resources. On the one hand, there is the 'legal concession' system or 'concession-property'. This is the legacy of the old ordinances that were in place during the viceroyalty periods until the countries of the region declared their independence (such as the Ordinances of New Spain–Mexico of 1783,[2] which were in place until the first codes of the new countries came into effect).[3] According to this system, the concession is granted to the discoverer (in recent codes this is the 'first applicant') in accordance with objective criteria and non-discretional procedures and for an undefined period as long as the conditions necessary to grant and maintain the same are fulfilled. On the

1 As a reference with which to structure this section, we have used the categorisation drawn up by Viñuales (2015), which differentiates between structural and dynamic perspectives when examining specific branches of the law.

2 Reales Ordenanzas para la Dirección, Rejimen y Gobierno del Importante Cuerpo de la Minería de Nueva-España y de su Real Tribunal Jeneral de orden de Su Majestad (1783). For an in-depth study of Ordinances, see Vergara Blanco (1992) and Vildósola Fuenzalida (1999).

3 In Chile, the ordinances were in effect until 1874; in Mexico, until 1884; in Argentina, until 1886.

other hand, there is the 'concession-contract' system (influenced by European mining laws, particularly the French mining law of 1810, which also served as material sources in the drafting of the first generation of sectoral legislation in the independent countries of the continent), according to which the concession is granted to the applicant *intuitu personae* as long as the same fulfils the required conditions (which may include standards relative to their technical, economic and financial capacity), and is then formalised into a contract. Apart from concession systems, the state can opt for directly contracting joint ventures, service contracts, services, or shared risk contracts.

From a dynamic perspective, and given the role of mining in the economic organisation of many of the countries in the region, the legal and regulatory regimes adopted in the sector can be interpreted through visions of the role of the state and foreign investment in the economy and in predominant political–economic contexts or models of development (Bastida, 2008). The changing scenarios at the international level in terms of prices and demand for minerals has also had an impact on the formulation of strategies in the sector, taking into consideration the fact that Latin America has historically followed a pattern of raw material exports. In the 1960s and 1970s, in the conceptual framework of the theory of dependence, most Latin American countries implemented policies whereby the state took a leading and assertive role in exercising its economic sovereignty with regard to natural resource exploitation in a context of rising commodity prices. The prevailing notion was that mining could contribute the financial resources needed for development, and thus become a 'springboard to industrialisation'. The initial measures employed to ensure the gradual transfer of shares in companies with transnational capital were followed by outright nationalisations (as with the Chuquicamata and El Teniente deposits in Chile). State companies were created to administer these resources (Codelco in Chile, COMIBOL in Bolivia, and Empresa Pública Minera del Perú, or Minero-Perú). The central state was the main player in this model. In terms of legal instruments, the historic pre-eminence of the mining concession system in the region ('concession-property') paved the way for more regulated regimes of mineral tenure (such as the administrative concession system under the General Law of Mining of Peru (1971)) and the predominant use of service and joint venture contracts (Cano, 1977). In this context, Latin American countries played a leading role in the initial articulation, and in the evolution, of the principle of permanent sovereignty over natural resources within the heart of the United Nations.

Towards the end of the 1980s and during the 1990s, in the context of globalisation and low commodity prices and following a decade of increased levels of foreign borrowing, Latin American countries registered a massive shift towards

market policies, opening up to foreign investment and liberalisation. According to the 'Washington Consensus'—initially directed at Latin America—these policies needed to be implemented prior to accessing financing. At a domestic level, the reforms were directed at generating financial resources and paying the external debt by launching new projects and privatising state-owned mining companies. The legal map of the sector in the region showed the return of traditional mining concessions regimes. Emphasis was placed on objective processes for granting and maintaining concessions (to the first applicant under the condition that that applicant pay an initial/annual amount), strengthening the status of rights emerging from concessions as real property and legal certainty, limitations on the exercise of discretionary powers, and streamlining procedures in order to 'establish enabling environments for investment' (Van der Veen et al., 1996; Bastida, 2008). In the field of investment law, many countries in the region ratified bilateral investment agreements and reformed their laws to promote and protect foreign investment, which implies recourse to international arbitration for settling conflicts between investors and states. Foreign investment regimes entail another 'parallel legal sub-system' of economic law that prioritises the protection of investors' interests—but that sub-system's interface with development outcomes and the public interest is coming under increasing scrutiny (Viñuales, 2015).

Since investment regimes opened up in the 1990s, Latin America has become a major recipient of international investment. It is important to note that in the last few decades the technical modalities of mining operations have been transformed by technology, which has made open-pit exploitation feasible—84 per cent of metal mines operate using this method—and uses chemical substances in its ore recovery processes. While fiscal revenues can provide a powerful injection of revenues and currency into national economies, the interaction of these projects with the environment, communities and local economies has frequently been profoundly problematic. In most cases, regulatory and institutional gaps have amplified the impacts, conflicts and growing opposition to such projects.

While the focus of sector policies in the 1990s was on establishing enabling frameworks for investment, in the next decade attention turned to concerns about how to strengthen institutions in resource producing countries to avoid the so-called resource curse. The current decade has been marked by debate about the potential transformative role that mining could play if linkages with other productive sectors were strengthened (Dietsche, 2014). Such an evolution calls for certain clarifications regarding the remarkable evolution of the concept of sustainable development in terms of its application to mining and minerals, which will be dealt with briefly in the next section.

3 Sustainable Development and Its Application in Mining: The Focus of Documents Issuing from the United Nations

Our Common Future (the Brundtland Report), published in 1987, contained a call to overcome the fragmented vision that saw development and the environment as separate, and coined the concept of sustainable development, which it defined as development that meets the needs of the present generation without compromising the ability of future generations to satisfy their own needs. On the one hand, the concept places emphasis on *needs*, particularly those of the most vulnerable; on the other, it posits that there are limits to the environment's capacity to meet present and future needs (UN, 1987). In a broad sense, the concept brings forward an ethical appraisal of the purpose and processes of development (Walsh, 2000).

The instruments developed at the United Nations Conference on the Environment and Development (UNCED) in Rio de Janeiro in 1992 consolidated the trends initiated in the Stockholm Declaration of 1972 and set the guiding principles for environmental law and the concepts inherent to the notion of sustainable development. While UNCED's main concern related to balancing environmental protection and economic development, the World Summit on Sustainable Development held in Johannesburg in 2002 emphasised the social dimension. The United Nations Conference on Sustainable Development (Rio+20), held in 2012, urged to focus their efforts on integrating, and ensuring more coherence among, the dimensions of sustainable development and its supporting policies and institutions, and stressed the need to eradicate poverty and radically shift consumption and production patterns. It also called for the Sustainable Development Goals (SDGs) to be elaborated in such a manner as to subsume the Millennium Development Goals, due in 2015, and to consolidate a new development agenda post-2015. The SDGs were approved in September 2015.

The question is whether it is possible to reconcile mining with sustainable development. In the 1970s, the focus of the debate on non-renewable resources was dominated by concern that they would run out. As time went on, these concerns shifted to the environmental impacts generated by mining (Tilton, 2003). The idea that mining can be a catalyst for the objectives of sustainable development is supported by the concept of 'capital substitution' developed in the economic literature. The term 'capital' comprises all inputs of economic activity, including natural capital, human capital, financial and manufacturing capital, social capital and cultural capital (Auty and Mikesell, 1998; Eggert, 2000; Harris, 2001). There is an increased consensus on the fact that certain forms of capital are not substitutable. The Johannesburg Plan of

Implementation of 2002 advances conceptually with regard to the relationship between mining and sustainable development. It reflects debates positing that rather than focusing solely on 'sustainable mining', it is more appropriate to consider mining's potential contributions to sustainable development. *The Future We Want*, the outcome document of Rio+20 (UN, 2012), goes further in this direction as it establishes that 'mining offers the opportunity to catalyze broad-based economic development, reduce poverty and assist countries in meeting internationally agreed development [...]. [W]hen managed effectively and properly [...] mining activities should maximize social and economic benefits, as well as effectively address negative environmental and social impacts'. The document continues: 'In this regard, we recognize that governments need strong capacities to develop, manage and regulate their mining industries, in the interest of sustainable development' (UN, 2012, para. 227). The SDGs have significant implications for mining although no explicit references are made to the activity (CCSI et al., 2016) and Goal 12.2 aims at achieving 'sustainable management and efficient use natural resources' by 2030. There is considerable debate at the international level regarding the manner in which mining activity—and public and private capital invested in the same—can contribute to financing the SDGs. In Latin America, ECLAC has launched a position paper to consolidate a new governance approach to natural resources in the region. The starting point is the difficulties encountered, during the boom decade, in reinvesting part of the economic benefits reaped in long-term strategies, human capital, or in diversifying economic activity (ECLAC, 2016).

Paragraph 228 of *The Future We Want* emphasises the role of law and policies in facilitating the economic and social contributions of mining and establishing safeguards that aim to reduce environmental and social impacts, conserving biodiversity and ecosystems well beyond mine closure. It also urges governments and companies to promote transparency and accountability, and existing mechanisms to work to prevent illegal financial flows from mining activities.

According to the Rio Declaration, the concept of sustainable development comprises substantive elements (integrating the environmental dimension into the development process; the right to development; sustainable use of natural resources; and intra- and intergenerational equity) and also procedural elements (public participation, access to information, environmental impact assessments (EIA) and cooperation, whose objective is to legitimise and enhance decisions). Birnie, Boyle and Redgwell contend that international law undoubtedly demands that development decisions be the outcomes of a process that promotes sustainable development (Birnie et al., 2009, 126–127). Sustainable development is a process that requires reconciling three dimensions

of decision-making regarding development policies and projects: environmental protection, social development and economic development. Sustainable development also entails effective institutions with efficient, transparent and participative structures as a *sine qua non* to achieving its objectives. It has also been noted that sustainable development is a transversal method of thinking about the law, and that it articulates a range of normative *corpora* (Walsh, 2000).

The concept is broad, flexible, but rather ambiguous. The next section analyses sector legislation and the evolution of judicial decisions relative to some elements of the concept of sustainable development in Colombia.

4 Colombia: Mining and Sustainable Development in Legislation and Judicial Decisions[4]

Over the past two decades Colombia has been applying multiple regulatory and institutional reforms to promote the extractive sector. Bolstered by a global economic cycle favourable for commodities, the sector has gained a significant share in the country's economy, which has traditionally been rooted in agriculture or coffee. In the field of mining, coal, gold and emeralds have historically captured the world's attention (Velasquez, 2013, 2014). The Code of Mines adopted by Law 685 of 2001 played an important role in the strategy to promote and attract national and international investment. The code is based

4 We note that both the Political Constitution of Chile of 1980 and the Political Constitution of Peru of 1993 enshrined the principles of economic freedom, national treatment, protection of private property and guarantees of compensation in the case of expropriation (prior cash payment) and stipulated that the state can conduct business activities if previously authorised by law (with a qualified quorum in the case of Chile). Article 19, Section 24 of the constitution of Chile proclaims ownership, by the state, of mines and states guidelines for their concession, indicating that the same are established by the Constitutional Organic Law. The Constitutional Organic Law on Mining Concessions that was subsequently passed, and the Mining Code of 1983, establishes a 'concession-property' regime whereby the concession is granted to the first applicant under the condition of an annual payment through a judicial process. The evolution of this question was similar in Peru. Following the Law to Promote Foreign Investment, of 1991, and the new constitution of 1993, Peru promoted legal and structural tax reforms to create the bases and incentives for foreign investment while implementing a programme to privatise state companies. The Revised Single Text of the General Mining Law of 1992 adopted a mining concession regime—-which exhibits similar features to the one in place in Chile—but whereby concessions are granted by an administrative authority.

on the principles of the public utility and social interest of mining and has adopted a 'concession-contract' for granting mineral rights. Colombia has signed and ratified various bilateral agreements to promote and protect investment, and a number of free trade agreements.[5]

The National Development Plan for 2010–14 placed special emphasis on supporting a coherent and integrated energy and mining policy. The plan's priorities included promoting both domestic and foreign investment in the mining and energy sectors and establishing environmental regulatory policies, and it focused specifically on transparency and preventing negative macroeconomic effects. The plan considered the need to strengthen efforts to create clusters for services and goods that add value to the economy of the country and its regions (Mancero and Montoya, 2012). The National Development Plan 2014–18, adopted in 2015,[6] establishes 'strategic areas reserved for mining', which will be identified by the National Mining Authority (ANM), classified according to their high mineral potential and the minerals that are considered as being of 'strategic interest' for the country. The system for granting rights to these areas is differentiated from the regime established in the Code of Mines. It is based on Special Exploration and Exploitation Contracts, to be regulated by the national government and to which specific rules and obligations might apply. The Ministry of Environment and Sustainable Development is expected to collaborate in this process.

In terms of mining institutions, the Ministry of Mines and the ANM are responsible for entering into, and monitoring, mining concession contracts. In environmental affairs, the National Agency for Environmental Licenses (ANLA) and some autonomous, regional corporations oversee the issuance of environmental permits and licenses to exploit mining resources and are responsible for monitoring and enforcement. Some of these institutions have

5 The bilateral investment agreements include those struck with China and the United Kingdom; additionally, Colombia is a member of the World Trade Organization and of the Andean Community of Nations. It is also party to free trade agreements with the European Union, Canada, the Northern Triangle, Chile, the United States and Mexico (OAS, 2015).

6 The plan is directed at 'building a peaceful, equitable and educated Colombia in harmony with the objectives of the national government, with best practices and international standards and with a vision for long-term planning as foreseen in the objectives of sustainable development' (Colombia, 2015, our transl.). In terms of mining, it establishes additional requirements to prove the economic capacity to grant mining titles and assign rights and areas. It also includes incorporating the obligation to develop and execute social management plans as part of the concession contracts to be entered into once this law enters into force.

responsibilities at the project level as determined by rules for territorial jurisdiction, products and export volumes.[7]

The Political Constitution of Colombia of 1991 states that Colombia is a 'social state under the rule of law, organized in the form of a unitary decentralized Republic, with autonomous territorial entities. It is democratic, participative and pluralist…' (Colombia, 1991, Art. 1). The constitution sets the bases for the regulatory role of the state in a 'social market economy' for the free exercise of economic activity and entrepreneurship and guarantees private property (which is considered as a social function with an inherent ecological function). It has been observed that the constitution introduced transformational changes into the legal as well as the political and economic structure of the country in a context marked by centralism, conflict and inequality. These changes included the principles of a unitary state and territorial autonomy, which have drawn a new 'territorial morphology', and the creation of the Constitutional Court to uphold the extensive charter of rights and guarantees (Robledo Silva, 2016).

The constitution established the bases of a development model that placed emphasis on using natural resources within the conceptual framework and the principles of sustainable development—with a focus on the treatment of non-renewable natural resources.[8] The state's recognition of the ownership of non-renewable natural resources is framed within the general provisions for the bases of the economic regime (title XII). The mandate for developing subsoil resources is based on the objectives set in Article 334, which deals with improving the quality of life of citizens and equitably distributing the opportunities and benefits of development as well as preserving a healthy environment. To accomplish this, the exploitation of these resources should accrue revenues for the state that must be distributed, controlled and earmarked for specific purposes.[9] Article 360 includes a mandate to determine by law the

7 Other institutions are in charge of planning in the sector and its development from a geoscientific point of view: the Colombian Geological Service and the Energy and Mining Planning Unit. The activities of these two State entities support the decisions made with regard to the mining sector in the Ministry of Mines and Energy (UPME, 2015).

8 Intervention of the Mining and Energy Department of the Universidad Externado de Colombia with reference to judgment C-619/15 on 30 September 2015 (not published).

9 In this regard, article 360 indicates that: 'The exploitation of a non-renewable natural resource shall give rise to an economic offset in the form of concession fees (*regalía*) for the benefit of the State, without prejudice to any other right or compensation which might be agreed upon'. The Law will determine the conditions that govern non-renewable resource exploitation. At the government's initiative by means of another law, the law will determine the distribution, objectives, purposes, administration, execution, control, efficient use and

conditions for the exploitation of non-renewable natural resources as well as the rights of the territorial entities over them and establishes a royalty as an economic consideration for their exploitation.

The Constitutional Court has ruled that the purpose of revenues accrued to the state from the exploitation of non-renewable resources is to finance the social, economic and environmental development of territorial entities and to fund physical investment in education, science, technology and innovation, among other areas. This is aligned with the declaration that mining is of public and social utility, as enshrined in the Code of Mines (judgment C-395 of 2012).[10] Judgement C-1071 of 2003 interprets that royalties are grounded in both economic reasons (as a consideration for exploiting an asset owned by the state) and ecological reasons: 'to correct and compensate for some of the negative externalities generated as a result of the exploitation of non-renewable resources'.[11]

The Colombian constitution acknowledges the right of all individuals to a healthy environment as well as the right of communities to participate in decisions that affect them (Art. 79). The constitution sets a clear mandate for the state in terms of planning to manage and use natural resources in a way that 'to guarantee their sustainable development, conservation, restoration, or replacement' (Art. 80).

The Code of Mines stipulates that promoting the exploration and development of mineral resources constitutes a matter of public interest and indicates that the same should be aligned with the principles and norms of the rational

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destination of revenues from the exploitation of non-renewable natural resources, specifying the conditions that govern the participation of the recipients. This set of revenues, allocations, bodies, procedures and regulations constitute the General System of Royalties.

10 Article 361 stipulates that the revenues 'shall be used for the financing of projects for the social, economic and ecological development of the territorial entities; for savings to meet their pension obligations; for material investments in education and investments in science, technology and innovation; for generating public savings; for the control of the exploration and exploitation of deposits and the study and geological mapping of the subsoil; and for increasing the general competitiveness of the economy in the attempt to improve the social conditions of the population' (Colombia, 1991).

11 Ruling Judgment C-1071 of 2003: 'In economic and geological terms, the royalties that the State can charge for the exploitation of private resources are based on the need to correct and compensate for some of the negative externalities that result from the exploitation of non-renewable resources. In addition to the aforementioned, the rationale for royalties that private parties pay for the exploitation of State resources may have an additional foundation which is constitutionally admissible, which is the requirement to pay compensation for the exploitation of State property' (our transl.).

exploitation of non-renewable natural resources within the comprehensive concept of sustainable development (Art. 1). In a more direct reference, Article 194 establishes that '[the] duty to adequately manage renewable natural resources and the integrity and enjoyment of the environment are compatible and concurrent with the need to promote and rationally develop the use of mineral resources as basic components of the national economy and social well-being. This principle encourages the adoption and application of regulations, measures and decisions that regulate the interaction of two types of activity, which are equally defined by the law as *of public utility and social interest*' (emphasis added, our transl.).

4.1 *The Environmental Dimension*

In environmental matters, the Colombian legal system contains multiple norms that regulate mining activities and set conditions as to the rights derived from concessions. The obligations outlined in the Code of Mines should be interpreted in a manner that considers other legal and regulatory norms pertaining to this activity, such as Law 99 of 1993, which requires the issuing of environmental licenses as a condition to exercising rights.[12] The Constitutional Court, in its judgement C-891-2002, sets forth that 'Article 59 requires the concessionaire to meet legal, technical, operational and environmental obligations when exercising concession rights'.[13]

While the mining authority is responsible for assessing a project's technical and economic feasibility, the environmental authority evaluates its social and environmental feasibility throughout the mining cycle. This is a significant challenge for the authorities, given that effective protection and adequate natural resource development will ultimately depend on a process of coordination.[14]

Likewise, a set of norms—namely, the National System of Protected Areas (created through Decree 2372 of 2010) and Law 1450 of 2011 exclude areas

12 Intervention, Department of Mining and Energy of the Universidad Externado de Colombia with reference to Judgement C-619/15 of 30 September 2015 (not published).

13 The Judgement states: 'In relation to the last of these reasons, it would be absurd to sustain a contrary position, as it would lead one to include in the different legal regimes, regardless of the subject-matter, the list of constitutional mandates applicable to each specific case (e.g. abide by the Constitution and the law, respect and obey authorities, protect the cultural and natural wealth of the Nation, respect the life of others, do not discriminate against anyone, act in good faith, etc.). Obviously, such interpretation undermines the principles of hermeneutics, legal theory and legislative techniques among others' (our transl.).

14 Intervention, Department of Mining and Energy and Environmental Law of the Universidad Externado of Colombia regarding File D-11172—Constitutional Court (not published).

from mining due to their ecological importance. The purpose of this is to protect these areas, which include regional national parks, moorlands, the Ramsar wetlands and protected forest reserves (Alvarez, 2011; SINAP, 2015; Ricaurte, 2013).[15]

The National Development Plan 2014–18 also establishes a rule for territorial ordering, as it bans areas that are classified as moorlands or wetlands from being declared as reserves for mining development—except if authorisations had been granted prior to 16 June 2011 in the case of hydrocarbon activity and prior to 9 February 2010 in the case of mining activities that have been granted a contract and an environmental license or an equivalent instrument for environmental monitoring and management.[16] In Judgement C-035 of 2016, the Constitutional Court upheld a claim that challenged the constitutionality of the sections of the National Development Plan that backed mining and hydrocarbon exploitation with permits that had previously been issued for moorlands, as these activities would cause negative and irreversible consequences for the country's ecosystems, which are paramount to the safeguarding of the planet's water and oxygen. The Constitutional Court ruled that the right to a healthy environment prevails over rights acquired through mining rights and endorsed by environmental permits.

4.2 *Ethnic Communities: Rights of Preference and Prior Consultation as Fundamental Rights*

The Code of Mines crystallises the rights recognised in the constitution,[17] and establishes ethnic communities' priority with regard to granting mining concessions within areas that are delimited as 'indigenous mining areas' or 'black communities' mining areas' (Articles 124 and 133). If the priority is not exercised, the code establishes the obligation to provide for such communities' protection and participation and for the principle of cultural integrity, as set

15 Intervention, Department of Mining and Energy of the Universidad Externado de Colombia regarding ruling C-619/15 of 30 September 2015 (not published).

16 According to the Mechanisms for Moorlands Information (MIP), an initiative of the Consortium for Sustainable Development of the Andean Moorlands (CONDESAN), in the framework of the Andean Moorlands Projects (PPA), a moorland is a 'tropical ecosystem in the mountains that develops on top of a forest and extends to the perpetual snow. In the Andes, the moorlands are extend from the Merida Range and cross through the mountainous chains of Colombia and Ecuador until the Huancabamba Depression (Peru)' (our transl.).

17 See the extensive and detailed analysis of legislation and jurisprudence on this matter in Henao and Gonzalez Espinosa (2016) and DPLF and Oxfam (2011).

forth in Chapter XIV of the code. Artisanal mining in Chocó, for example, has traditionally been carried out within black communities' councils (*consejos*) in accordance with rules of allocation, and refrains from using chemical substances in the recovery process. Practices have been streamlined with environmental and social practices agreed upon with civil society organisations. In the case of operations certified by the Oro Verde programme through the Fair Trade, Fair Mined label, miners obtain a premium on their production (Moya Mena, 2016). In terms of exercising indigenous and afro-descendant communities' right to free, prior and informed consultation, the set of norms and principles known by Colombian jurisprudence as the 'constitutionality block' has recognised the same as a fundamental right and has reinforced the state's duty to provide guarantees and protection. These norms include constitutional principles, Convention 169—which was included in the domestic legal system through Law 21 of 1991, laws such as Law 99 of 1993, and the judicial decisions of the Constitutional Court (see judgements C-030/08 and C-461/08 among others). Judicial decisions tend to expand the margins of protection of ethnic communities (Suarez Ricaurte, 2016), and the obligation to conduct prior consultation, which is clearly established in legislation for the exploitation stage and in some cases also for the exploration stage (Rodríguez, 2014). The standard of protection demanded of mining projects is high given the characteristics of this activity and its impact on territories. At this point, the trend seems to be moving towards requiring consultation, at least in some cases, to obtain consent. In effect, the theory of prior consultation as a means of obtaining free, prior and informed consent has been applied by the Court in two cases relative to mining projects, out of the three to which this standard has been applied (judgement T-769 of 2009 and T-129 of 2011; Suárez Ricaurte, 2016).

Despite developments in judicial decisions, the literature points to delays from the executive and legislative powers—which are those responsible for establishing models for natural resource development, management and planning—in their advance towards the mandatory and binding enforcement of prior consultation. Measures should include strengthening institutional guarantees to indigenous communities to effectively protect their rights, and establishing public policies to improve their quality of life, thereby coordinating the relevant powers of public authorities (Suarez Ricaurte, 2016; Moya Mena, 2016; Hurtado Mora, 2016). Suarez Ricaurte (2016) observes that the mechanism for prior consultation is ultimately an avenue for intercultural dialogue. Whenever absent, it prompts persistent judicial conflict involving companies or state entities with investment projects located in the ancestral territories of ethnic communities.

4.3 *Territorial Management and Local Competences*

The participation of territorial entities in land-use decisions with regard to mining has prompted significant debate in Colombia.[18] The spectrum of the debate is very broad, reflecting the tension between the principle of a unitary state and the principle of territorial autonomy. In several judgements, the Constitutional Court has considered the constitutionality of Article 37 of the Code of Mines, and dealt with the competence of regional, sectional or local authorities to temporarily or permanently ban mining from zones of the territory. We will now look more closely at three of these judgements to provide an insight into this important debate.

The first, judgement C-123-14, considered that Article 37 of the Code of Mines disproportionately restricts local autonomy and land use, thereby infringing the concept of local autonomy. On those grounds, the Court ruled that the constitutionality of Article 37 is subject to guaranteeing municipalities and districts a reasonable level of participation in the decision-making process regarding the authorisation of mining activities. In connection with the concept of 'reasonable participation', the Court decided that in the process of the authorisation of mining activities, the state should coordinate with municipal authorities through agreements, particularly with regard to protecting watersheds, the health of the population and the economic, social and cultural development of its communities by applying the principles of coordination, concurrence and subsidiarity. The judgement also mandated the development of processes and instruments of coordination. Although this decision provided sufficient grounds for the participation of territorial entities, it did not settle the underlying problem of the instrumentalisation of 'reasonable participation' (Colombia, 2016a).

The second judgement is judgement C-273/16 of the Constitutional Court, which once again deals with a claim challenging the constitutionality of Article 37 of the Code of Mines—in this case on procedural grounds. The claim argued that this Article ran contrary to Articles 151 and 288 of the Political Constitution of Colombia, which place limits on the exercise of legislative activities and establish a special procedure to enact laws with regard to aspects that demand legislators ponder two diverging legal rights. In other words, the claim questioned Article 37 as it entered into the Colombian legal system as an ordinary law and not as an organic law, which would require more rigorous procedures (absolute majorities) as they deal with highly sensitive issues for society.

The Constitutional Court indicated that the 'reserve of organic law constitutes a mechanism that empowers the legislator to ponder diverging legal

18 Regarding the trend towards decentralisation in Colombia, see Yupari (2005).

rights based on the principles of subsidiarity, concurrence and coordination…', and thus, considering the final objective of guaranteeing more stability in the distribution of powers and strengthening the democratic process of decision-making by mandating absolute majorities for the approval of this type of law, the Court declared Article 37 of Law 685 of 2001 unconstitutional.

The third judgement, T-445/16 of the Constitutional Court, reaffirms the reasoning of judgement C-273/16. Ruling on the popular consultation proposed by the municipality of Pijao in the department of Quindío, the judgement signals an important departure from the prerogative of decision over subsoil resources traditionally granted at a central level, as it clearly acknowledges powers to territorial entities to approve mining exploitation in their territories.

In conclusion, by means of these judgements, Colombia has apparently granted powers to regional, sectional and local authorities to define and subsequently exclude areas of the national territory from mining. This does not mean that in the future the national government will not decide to regulate this issue through an organic law that fulfils the requirements set by the Constitutional Court, thus attempting once again to empower central government.

4.4 *Declaration of the Public Utility and Social Interest of the Mining Industry*

Article 13 of the Mining Code stipulates that '[in] reference to article 58 of the Political Constitution, the mining industry in all of its branches and phases is recognised as of public utility and social interest. As such, at the request of the interested party and through the procedures established in this code, it is possible to decree expropriations of immovable properties and other rights over the same where necessary to execute and efficiently develop a project' (our transl.).

As a corollary to the aforementioned debates, a recent claim challenged the constitutionality of the declaration of the public utility of mining established under Article 13 of the Code of Mines. It contended that this classification—which was categorised as 'supra-inclusive' inasmuch as it refers to 'all of [the] branches and phases' of the industry—confers privileges to this sector, and offers it disproportionate advantages over other sectors of the economy that are equally as legitimate, and should have legal rights that enjoy special protection under the constitution.[19] The claim also argued that this declaration of public utility makes possible the automatic allocation of real estate properties,

19 Constitutional Court Judgement, C-619 of 30 September 2015; M.P. Gloria Stella Ortiz Delgado; plaintiffs: Cesar Rodriguez Garavito, Beatriz Botero Arcila and Camila Soto Mourraille.

which might otherwise fulfil important environmental functions (for example, protecting water and agricultural resources or conserving natural resources), to mining, thereby impeding property from fulfilling the ecological function foreseen under Article 58 of the constitution.[20]

Consequently, such a state of affairs would infringe the special status of the environment in the legal system and would disregard the duty of the state to protect the natural wealth of the nation. The claim also argued that the declaration of the public utility of mining runs counter to constitutional tenets that uphold the constitutional rights and obligations of territorial entities to manage their interests autonomously and to regulate land use on their territories.[21] Although the Constitutional Court declared that it was unable to rule in this case given that the charges had been inadequately formulated (judgement C-619/2015), the claim generated debate among a range of stakeholders, who expressed their opinions alongside the positions argued by government agencies and organisations during the judicial process. The declaration of inhibition paves the way for further constitutional debate in the future, as the initial parties as well as other citizens, participate. This makes it likely that the present debate will continue under constitutional jurisdiction for years to come.[22]

5 The Local Institutions 'Gap'

A review of developments in Colombian legislation and judicial decisions shows that sustainable development is 'present' in sectoral legislation: mining

20 It is important to note that Article 58 guarantees the private property and rights that are acquired in accordance with civil laws. This article also stipulates that 'When in the application of a law enacted for reasons of public utility or social interest a conflict between the rights of individuals and the interests recognized by the law arises, the private interest shall yield to the public or social interest. Property has a social dimension which implies obligations. As such, an ecological dimension is inherent to it. The State shall protect and promote associative and joint forms of property. Expropriation may be carried out for reasons of public utility or social interest defined by the legislature, subject to a judicial decision and prior compensation. The compensation shall be determined by taking into account the interests of the community and of the individual concerned'.

21 Lawsuit challenging the constitutionality of Article 13 of Law 685 of 2001, the Code of Mines, by which the mining industry, in all of its areas and phases, is deemed to be of public utility and social interest. See: Dejusticia, http://www.dejusticia.org/files/r2_actividades_recursos/fi_name_recurso.702.pdf (accessed on 2 January 2016).

22 Judgement C-619/15, http://www.corteconstitucional.gov.co/RELATORIA/2015/C-619-15.htm (accessed on 20 January 2016).

activity must be executed in the framework of the comprehensive concept of sustainable development enshrined in the constitution and in the law. This includes substantive commitments and obligations, as well as procedures inherent to the limits established to protect and adequately use natural resources and meet the needs of present and future generations.[23] This requires using management and planning tools such as EIA and territorial planning. It also implies weighing interests in the decision-making process, which entails entering into an intercultural dialogue with affected communities and agreements with territorial units to ensure that actions in different spheres of the state are coordinated and directed at achieving the common good.

From the perspective of territorial management design, Santaella Quintero (2016) contends that the proliferation of social and inter-institutional conflicts regarding the granting of mineral rights is related to the fact that mining legislation and environmental regulation, and the concurrent jurisdiction recognised under the constitution to authorities at different administrative levels (national, departmental, municipal) to manage territories and their resources are not aligned (the so-called constitutionalisation gap). Santaella Quintero also points out the fragmentation of the different legal regimes that govern each of them (the so-called legal harmonisation gap). Along these lines, he observes that placing sectoral legislation in the 'territorial toolbox' of the constitution (and in the division of powers inherent to territorial autonomy) disrupts the dynamic of 'top-down' decisions. And he argues that 'sectoral legislation should be "constitutionalised" in terms of territorial management and harmonised with other "sub-systems", taking into consideration the criteria for concurrence and the coordination of corresponding administrative orders and citizen participation in the decisions that affect the community according to the provisions of the constitution regarding the territory and its resources' (Santaella Quintero, 2016, 207, our transl.).

If we widen the geographic and temporal perspective of our analysis, we begin to wonder whether what we could call, in a broader sense, a 'local institutions gap' was not originated during the very design of the legal and institutional regime for the sector, as we pointed out at the beginning of this chapter. In terms of both the historical origins of legislation and of the reforms employed to promote the sector in the 1990s, the sectoral regime has been directed at setting stable and attractive bases for investment. Efforts directed at creating local institutions via which to strengthen decision-making processes and linkages to other productive activities have been more gradual, tenuous and fragmented.

23 Intervention of the Department of Mining and Energy of the Universidad Externado de Colombia with reference to Judgement C-619/15 of 30 September 2015 (not published).

Foreign companies carry out their operations within this space, devoid of regulation and institutions and have often been filling the gaps with international standards and certification processes (Szablowski, 2007). The fragmentation of jurisdictional levels (both national and local) and of regulatory regimes, combined with the absence of coordination mechanisms, has heightened the chances that projects to which mineral rights have been granted will be unable to make progress towards exercising the same (such as in cases where mineral rights holders are denied environmental permits), paving the way for potential claims made to international arbitration tribunals. Thus, the question is whether legal and institutional design is sufficient to promote the role that mining can play in contributing to the objectives of sustainable development.

The next section provides a preliminary overview of the constitutional and legal framework for mining in Bolivia and poses a series of questions based on these reflections.

6 Bolivia: Mining in the Constitution (2009) and in the New Mining and Metallurgy Law (2014)

Both Bolivia and Ecuador evolved along a path similar to Peru's in the 1990s by adopting legal and institutional frameworks to promote and protect foreign investment. The Mining Code of Bolivia of 1997 constitutes the most rounded version of its time of mining legislation geared towards creating enabling frameworks for investment. It established a single concession system for exploration and exploitation (similar to the situation in Peru) under the sole condition of paying an annual fee, and guaranteed expropriation of surface lands.

The administration of Evo Morales, who took office in 2005, proposed a fundamental change that expressed the identity of the indigenous majority of the population and the objectives and functions of the state. The Political Constitution of the State of Bolivia of 2009 sets forth the principle of 'living well'/*suma qamaña* as the ethos for a plural society and the state's objectives and functions. *Suma qamaña* includes a series of principles with indigenous roots that anchor the constitution within the country's pluricultural identity (Villalba, 2013).

The history of Bolivia has been marked by mining, which still constitutes a strategic activity for the country. Bolivia produces tin, lead, zinc, gold, silver, tungsten and bismuth and has large deposits of lithium and iron. Mining cooperatives play an important role in the sector. The National Development Plan published in 2006 envisaged a role for the sector in a strategy of 'comprehensive

and diversified development' according to constitutional guidelines and set its programmatic bases (Bolivia, 2006).[24]

In terms of its constitutional structure, the Plurinational State of Bolivia is constituted as a 'Unitary Social State of Plurinational Communitarian Law, free, independent, sovereign, democratic, intercultural, decentralised and with several autonomies. Bolivia is founded on plurality and on political, economic, juridical, cultural and linguistic pluralism in the integration process of the country' (Bolivia, 2009, Art. 1). Bolivia adopts a 'participatory democratic, representative and communal form of government, with equal conditions for men and women' (Art. 11.I). In terms of economic organisation, the constitution enshrines a plural economic model (state, community, private) where the state must ensure 'development through the equitable redistribution of economic surplus in the social policies of health, education, culture, and the re-investment in productive economic development' (Art. 306.V.). Natural resources play a pre-eminent role in the state's economic organisation and in the model for a plural economy. The state must also exercise strategic control over the production of these resources and industrialisation chains. Natural resources (which include minerals in all of their states) are the '… property of the Bolivian people and shall be managed by the state' (Art. 311.2) and are considered of 'strategic character and of public importance for the development of the country' (Art. 348.II.). Activities related to non-renewable natural resources 'shall have the character of state necessity and public utility' (Art. 356).

Various constitutional clauses strengthen the direct link between the planned and responsible use of natural resources and their industrialisation and the objectives of eradicating poverty and social exclusion. The state must explicitly recognise and prioritise this, and execute policies with that purpose 'within the framework of respect for individual rights, as well as the rights of the peoples and nations' (Art. 313) and articulating 'productive development of the industrialization of natural resources' (Art. 316; also Arts 319 and 355). Industrial processes should preferably take place in the location where production originates. Revenues derived from exploitation and the industrialisation of natural resources should be distributed and reinvested to promote economic diversification at the different territorial levels of the state (Art. 355).

The constitution sets some guidelines for the role of public companies, the legal instruments for the participation of private equity companies, the incorporation of mixed enterprises, and for entering into joint venture contracts for activities involving strategic resources. In terms of foreign investment, the

24 The Government approved a new plan through Law 786, *Plan de desarrollo económico y social 2016–2020 en el marco del desarrollo integral para vivir bien* (Bolivia, 2016).

new constitution establishes precedence of domestic over foreign investment and the precedence of Bolivian jurisdiction, laws and authorities in settling disputes (Art. 320). Bolivia withdrew from the International Centre for Settlement of Investment Disputes (ICSID)—of which it had been a member since 1991—with notice being submitted to the World Bank on 2 May 2007.

The powers of the state in terms of natural resource management are restricted by the duty of the state to 'conserve, protect and use natural resources and the biodiversity in a sustainable manner, as well as to maintain the equilibrium of the environment' (Art. 342; also Art. 358). The Framework Law of Mother Earth and Holistic Development for Living Well (Bolivia, 2012) establishes criteria for the use of 'Mother Earth's non-renewable components'. Administrative and judicial public authorities are responsible for overseeing the rights of Mother Earth in accordance with their competences.

In terms of mining and metallurgy, the constitution delves into the regime of the ownership and granting of mineral rights throughout the entire productive chain and the use of mining contracts that must fulfil a social and economic function. The Law of Mining and Metallurgy establishes the regime applicable to mineral rights and includes actions aimed at promoting the development of mining and metallurgic activities in a manner that is 'responsible, planned and sustainable'. The law determines the institutional structure of state authorities and so-called 'productive mining actors' (state and private mining industry and cooperatives) and the procedures applicable to mining jurisdiction. Mining contracts require the approval of the Plurinational Legislative Assembly.[25] Mineral rights holders can obtain surface rights in the area stipulated by the contract or in neighbouring areas by prior agreement and upon the payment of compensation. If no agreement is reached with regard to non-public lands, administrative authorisation will be sought from the pertinent departmental or regional authority.

In addition to assuming roles as a regulator and an administrator of the resources owned by the Bolivian people, the state plays a leading role as a productive actor in the mining industry. The executive branch can set areas aside through a Supreme Decree that allows prospecting, exploration and assessment for a maximum of five years; preferably to be granted to COMIBOL.

25 The rights and obligations derived from contracts cannot be assigned. Applications for the granting of new contracts must include work and investment plans (but not technical or financial conditions) according to Article 140. The mandatory clauses to be included in these contracts are references to work and investment plans, periodic monitoring, and stipulations relative to protecting and preserving the environment, local work forces and national services (Art. 143).

Public mining companies engage in activities involving minerals declared to be strategic, such as lithium and potassium.

6.1 *The Environmental Dimension*

The Mining and Metallurgy Law sets principles for natural resource use (Bolivia, 2014). The principle of 'social responsibility' governs 'the use of mineral resources within a sustainable development framework with the purpose of improving Bolivians' quality of life'. According to the principle of 'reciprocity with Mother Earth', 'mining activities should adhere to the framework established in the Political Constitution of the State [Bolivia, 2009], the Framework Law of Mother Earth and Holistic Development for Living Well [Bolivia, 2012] and other applicable legal norms' and take measures to 'Protect Highly Vulnerable Indigenous Nations and Peoples' (Art. 5). The Mining Law is thus subject to the limits and processes established in the Framework Law of Mother Earth.

The Mining Law establishes that promoting the comprehensive and diversified use of detrital mineral deposits shall not 'infringe the use of water needed for life' (Art. 12, our transl.). Another provision restricts mining near 'headwaters, lakes, rivers and reservoirs' and stipulates that these activities should be subject to environmental studies with a multi-sectoral focus (Art. 93.III).

6.2 *Territory Management and the Role of the Autonomous, Municipal, Departmental State*

The constitution stipulates that the territorial morphology of the state is unitary and decentralised and that it has autonomies (Art.1); territorially, it is organised into departments, provinces, municipalities and indigenous native peasant territories (Bolivia, 2009, Art. 269).

The central level of government has *exclusionary* competence (cannot be transferred or delegated) on matters related to hydrocarbons and with regard to the creation, control and administration of strategic public companies, and *exclusive* competence for strategic natural resources, including minerals (*exclusive* competence in that it can exercise legislative, regulatory and executive powers, but it can also transfer and delegate the last two) (Bolivia, 2009, Arts. 297 and 298). In terms of the environment, the central government's competence is concurrent with that of the autonomous territorial entities.

The Framework Law of Autonomy and Decentralisation 'Andrés Ibáñez' (Bolivia, 2015), which was passed on 19 July 2010, regulates the regime applicable to autonomies according to the mandate of Article 271 of the constitution. It acknowledges the power of native peasant indigenous communities to become territorial units—if they decide to become native peasant indigenous autonomies—upon fulfilling all legal requirements. The constitution recognises that peasant indigenous autonomies can exercise self-governance

pursuant to 'their norms, institutions, authorities and procedures'. Their establishment is based on the existence of ancestral lands and on the will of their population, expressed through prior consultation, in accordance with the constitution and the law (Bolivia, 2009, Arts. 289 and 290). These autonomies have the exclusive competence to develop and execute mechanisms for free, prior and informed consultation. The literature has observed that institutions of self-governance actually become subject, in practice, to the competence structure established by the constitution, and exhibit a remarkable influence exerted by known municipal statutes (rather than being the outcome of their 'norms, institutions, authorities and procedures' (Tockman, 2016; Tockman et al., 2015).

The Mining and Metallurgy Law (Bolivia, 2014) clearly establishes that as mineral resources are strategic in nature, and strategic public mining companies have *exclusionary* competence at the central government level according to the Political Constitution of the State, 'autonomous departmental and municipal governments are not allowed to create departmental, regional and/or municipal mining units or companies and may not participate in activities involving prospecting, exploration, exploitation, benefit or concentration, smelting or refining and commercialization'. In terms of activities of 'transformation' of minerals and metals (a term used in the Mining Law) for industrial purposes, the central government can work with autonomous, departmental, and municipal governments through intergovernmental public companies. Autonomous, departmental, and municipal governments receive a mining royalty that respects the percentages established in said law (Bolivia, 2014, Art. 23, our transl.).

6.3 *Prior Consultation*

Indigenous peoples' rights that are recognised by the constitution include the right to mandatory prior consultation—pursuant to their own procedures and institutions in a process led by the state—with regard to the exploitation of non-renewable resources in their territories (Bolivia, 2009, Art. 30.II.15). It is important to note that Bolivia was the first country to adopt legislation that recognises the United Nations Declaration of the Rights of Indigenous Peoples (Bolivia, 2007). The 2005 Hydrocarbons Law includes the right to consultation and participation and recognises a direct tax in favour of indigenous peoples (collections accrue to the Development Fund for Indigenous Native Peoples and Peasants). Supreme Decree 29033 sets the rules for prior consultation.[26]

26 See a detailed analysis of legislation, jurisprudence and cases of implementation in DPLF and Oxfam (2011) and Ameller et al. (2012).

The Mining and Metallurgy Law includes constitutional consultation principles. Article 19 (in the chapter on Fundamental Provisions) establishes that 'Indigenous Native Peasant Nations and Peoples have the right to participate in the profits generated by mineral resource exploitation in their territories in accordance with the regulatory mining regime notwithstanding other measures and compensation that apply under the prior consultation regime established in this Law' (our transl.). The law includes a section that contains the provisions and procedures that must be applied to the prior, free and informed consultation led by the state with 'indigenous native peasant nations and peoples, intercultural communities and the Afro-Bolivian people'. Prior consultation is a collective and fundamental right that is inherently mandatory and is a 'process of intra-cultural and inter-cultural dialogue' conducted with respect to applications for new administrative contracts during the exploitation phase of projects, whenever they might directly affect collective rights (Bolivia, 2014, Arts. 207 and 208).

By mid-2013, approximately 30 consultation projects had been undertaken relative to hydrocarbon projects. This helped develop the methodological aspects of the procedures, facilitated efforts to put together documents for public information, and generated capacities at the local level to better understand environmental and social impacts (Bolivia, 2013). Nevertheless, different sources have pointed out the difficulties that arise due to the fact that consultation processes focus mostly on compensation aspects (Bolivia, 2013; Flemmer and Schilling-Vacaflor, 2016). Findings emerging from field studies on these consultation processes also indicate their limitations with regard to reaping effective, meaningful benefits for the communities concerned. Obstacles stem from asymmetries of power, hindrances regarding communication, budget constraints (Flemmer and Schilling-Vacaflor, 2016), the short time span for executing investments in the field, and a lack of attention paid to impacts and to complaints raised (DPLF and Oxfam, 2011).

6.4 *Some Reflections*

Bolivia has chosen a heterodox model to organise its economy and the constitution aims to align it with the principles of *suma qamaña*. The critical literature has observed the contradictions inherent in an economy with a strong dependence on extractive activities but with the ethos of *suma qamaña*, which extols unity between man and nature.

In the context of this chapter, we are interested in highlighting the presence of the concept of sustainable development in sectoral economic legislation, at least in constitutional and legislative texts. The new legal instruments attempt to align, in principle, their functions and objectives with sustainable

development within the processes for participation and governance established in the constitution and specific to the Bolivian context. Nevertheless, in line with the comments made in the previous section, it also seems pertinent to pose a question with regard to the extent to which the government is designing or implementing the institutional mechanisms needed to interweave the Mining and Metallurgy Law (Bolivia, 2014) and the complex territorial framework (and legal pluralism) drawn up by the constitution in order to ensure that decision-making processes are effectively anchored in sustainable development. An initial review of the literature that has observed the application of prior consultation and the efforts made to establish indigenous native peasant autonomies in the field provides a glimpse of the enormous complexity, obstacles and challenges faced when seeking to effectively ensure that the rights of the most vulnerable will be protected in decision-making processes relative to strategic economic activities (Cameron, 2013; Flemmer and Schilling-Vacaflor, 2016). This also sheds light on the need to strengthen local capacities for effective participation.

7 Towards Sustainable Management of Mining and Minerals?

Our study has provided a perspective on the path from sectoral regimes focused on the granting of rights and setting conditions for exploration and exploitation towards decision-making processes that require a comprehensive and inclusive look at the constitutional principles and legal frameworks applicable to managing territories and their resources. The challenges are very complex. They indicate the need to work on the gaps in the design of legal and institutional frameworks, and on strengthening the capacities of the institutions and actors that participate in decision-making for the sustainable management of resources and for ensuring that mining contributes to sustainable development at the local level. From a broader perspective, the study allows one to appreciate the enormous challenges faced when seeking to effectively anchor the principles and concepts found in international normative frameworks within the legal and political contexts and trajectories of each country.

From a legal standpoint, the principle of territorial sovereignty, as an essential attribute of the state, defines the power of each state to exercise control over the natural resources located in its territory. At the international level, the principle of permanent sovereignty of natural resources, enshrined in United Nations General Assembly Resolution 1803 in 1962, sets forth that the 'right of peoples and nations to permanent sovereignty over their natural wealth and

resources must be exercised in the interest of their national development and of the well-being of the people of the State concerned' (UN, 1962, 1). In his classic book *Sovereignty over Natural Resources: Balancing Rights and Duties*, Nico Schrijver notes the evolution of the principle, from a political claim for the self-determination of peoples, emerging in the context of decolonisation and of the political and economic sovereignty of the period, to a principle of international law. The author points out the need to recalibrate the initial emphasis on *rights* to control natural resources towards *duties* for their use (Schrijver, 1997; also see Dam-de Jong, 2015). In this regard, the concept of sustainable development establishes guidelines, requirements and processes that place conditions on the manner in which the state exercises sovereignty over natural resources (e.g. opening spaces for dialogue and agreement in order to promote both the exercise of indigenous peoples' fundamental right to prior consultation and collaboration between different administrative bodies). The question is then whether the design of the legal and institutional framework, and the capacities to engage in processes of intercultural and interdisciplinary dialogue and of managing sustainable development are sufficient to ensure that states can effectively meet their duties within the sphere of domestic law.

Designing platforms and structures that promote the contribution of mining to sustainable development requires more than thinking from a territorial and local level alone. It also entails crystallising state policies to ensure transparency and accountability with regard to revenues, the reinvestment of revenues, and the transformation of non-renewable resources into other forms of capital (concepts that have already been explicitly or implicitly recognised in legal texts and in judicial decisions). Overall, this demands countries be actors and active participants in (and not just recipients of) regional and global processes for resource governance in order to take on the challenges raised by the SDGs for 2030.

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CHAPTER 12

Territories in Dispute: Tensions between 'Extractivism', Ethnic Rights, Local Governments and the Environment in Bolivia, Colombia, Ecuador and Peru

Darío Indalecio Restrepo Botero and Camilo Andrés Peña Galeano

Abstract

This chapter studies the underlying tensions between 'extractivism', decentralisation processes, the recognition of ethnic rights, and the protection of the environment in four countries in Latin America. Two of them, Bolivia and Ecuador, adhere to so-called twenty-first century socialism, while the other two, Colombia and Peru, apply policies driven by neo-liberalism. This 'major ideological fissure', however, does not imply significant differences in terms of dependence on the extractives industry and its social, institutional and political consequences; nor does it explain differences in terms of the relationships between extractivism, decentralisation, and the governments' policies concerning the environment and ethnic rights.

1 Introduction

In the 1980s, Latin American countries initiated the process of dismantling state-led import substitution industrialisation strategies, to replace them with globalisation approaches that aimed to drive internal markets, privatise large assets and state monopolies, deregulate the private sector, and take various measures to make labour markets more flexible (Zabalo and Zurbano, 2011).

The adoption of neo-liberal systems led to a deepening of 'structural heterogeneity', which caused their economies to move in two circuits: the first driven by the competitive and modern sectors of the economy, the second pushed along by sectors that lack the technology needed to compete abroad[1]

1 A given industry may or may not be situated entirely in one circuit. For example, hydrocarbons tend to be situated in the 'modern' sector, which is characterised by high technology, capital and links to the global market; by comparison, clothing production overlaps both

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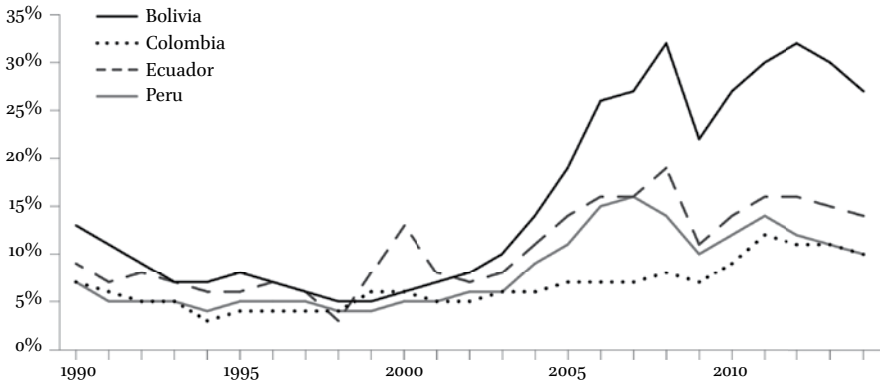


FIGURE 12.1 *Exports from energetic mining extractivism as a percentage of GDP, 1990–2014.* SOURCE: AUTHORS, WITH DATA FROM UN COMTRADE AND THE WORLD BANK.

(Sánchez, 2006). Consequently, countries sacrifice industrial capacity as they progressively increase their dependence on raw material exports. In this context, both the vulnerability and internal volatility of the economies grow since they are exposed to volatility in international prices for raw materials and in global demand. At the same time, emerging economies are subordinated to an international division of labour by which they export large quantities of natural resources and import high added-value manufactured goods. This deepens technological and financial dependence and creates the 'Dutch Disease', meaning that local currencies appreciate against the US dollar, pushing down the price of imports and dampening industrial exports. This replicates the logic of dependence and the subordinated status of emerging countries on the global economic and geopolitical stage (Gudynas, 2011).

It is necessary to distinguish between two types of 'extractivism'. The first originates in the mining and energy sectors and comprises precious metals, oil, gas and mineral exploitation, which are earmarked primarily for export (Figure 12.1). The second is generated in the agriculture sector and comprises large monocrop plantations, which are usually managed by big companies (Ornelas, 2016).

Products such as soybean, palm oil, cereals and bananas usually fall into this latter category given that they are produced on a large scale with high levels of technology and for export purposes (Figure 12.2). Agricultural extractivism progressively co-opts land and resources in this sector, which reduces

circuits—the modern export circuit and a circuit that lags behind, characterised by low levels of technology, capital, and productivity, such as is the case in Colombia and Peru.

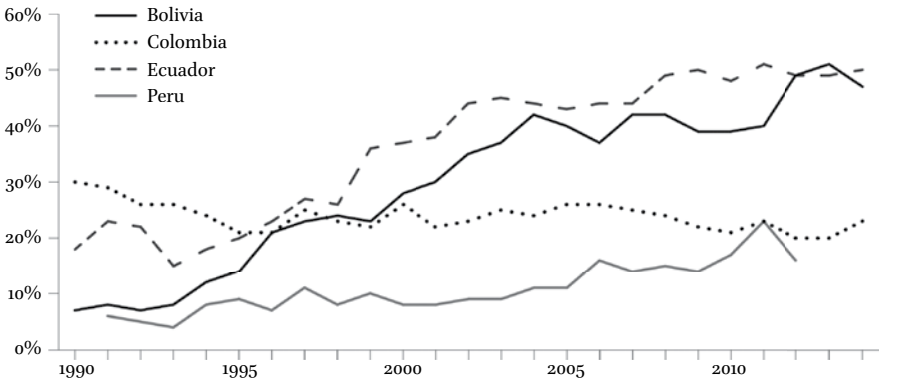


FIGURE 12.2 *Main extractivist agricultural exports as a percentage of agriculture production, 1990–2014.*
SOURCE: AUTHORS, WITH DATA FROM UN COMTRADE AND THE WORLD BANK.

the possibility of food for local consumption. In this scenario, countries are forced to import food provisions. When the raw material cycle is depressed, local currencies devaluate, the inflation rate jumps, and basic foodstuffs become more expensive given that local farmers are unable to supply the internal market. The economic recession is thus accompanied by inflation, also known as *stagflation*.

Agricultural exports are not all extractive in nature and it is not possible to define, in absolute terms, the weight of extractivist products in agricultural exports. As a precaution, we have used a handful of clearly extractive products for each country, and have compared them with the aggregate value of the agricultural sector. The products selected in the case of Bolivia are soybean and its derivatives, cereals, and Brazil nuts. For Colombia, we look at coffee, flowers, bananas and palm oil and, in the case of Ecuador, we opt for bananas, flowers, cacao, coffee and palm oil. For Peru, our selection is coffee, grapes and other fruits as well as canned vegetables.

In Latin America, extractivism has coincided with three other processes, which may be complementary in some cases and exclusionary in others. First, in the 1990s, dictatorial political systems and restricted democracy systems gave way to the restoration of liberal democracy and to audacious processes of decentralisation of political systems and public administrations, in particular the decentralisation of basic social policies (Restrepo, 2015). Second, almost five hundred years after the beginning of the conquest and colonisation of Latin America, ethnic communities achieved recognition of their right to exist as a people with their own rights, systems of justice, languages, authorities

and forms of management (Comisión Verdad Histórica y Nuevo Trato con los Pueblos Indígenas, 2003). Lastly, nature is no longer seen as a source of unlimited resources and there is increasing awareness of the depletion of these riches. Measures have been implemented to determine the environmental cost of human activities and protected areas have been created in the form of parks, moorlands and natural sanctuaries (Gligo, 2001).

In this chapter, we explore the relationship between extractivism and the three above-mentioned processes in four countries—two of which, Colombia and Peru, are recognised adherents to neo-liberalism and the free market, while the other two, Bolivia and Ecuador, apply policies that are based on so-called 'twenty-first century socialism'.

2 Divergent Discourses

In Bolivia, the neo-liberal model was abandoned after Evo Morales took office in January 2006. The Bolivian president based his state policy on a discourse that exalted the concept of *buen vivir,*[2] 'indigenism', nationalism and anti-imperialism.

The concept of *buen vivir* originates from different South American indigenous peoples. There are varying interpretations of its meaning and implications.[3] Despite differences, the concept is usually publicised as an ideology that opposes the liberal conception of the state and modern ideals of development (Vanhults, 2015).

Although it is not easy to define *buen vivir*, it is possible to work with the definition provided by Gudynas and Acosta, for whom *buen vivir* represents an 'opportunity to build another society based on man's coexistence in diversity and in harmony with nature based on the recognition of the fact that different cultural values exist in every country and throughout the world' (Gudynas and Acosta, 2011, 103).

Buen vivir is postulated as an alternative to capitalistic development that must be based on a new relationship with nature and the search for an economic model that does not plunder nature's resources. Thus extractivism does not fit into this alternative for development unless it is used transitorily as a tool for achieving said alternative development.

2 Also referred to, in certain contexts, as *vivir bien* and translated into English as 'Good Living'.

3 A vast compilation of the meanings of *buen vivir* for indigenous South Americans can be found in Huanacuni (2010).

In Bolivia, this ideology is reflected in the 'Carta Magna' of 2009, which characterises the state as 'plurinational' while calling attention to the need to 'industrialise productive development of natural resources' as a means of eliminating social and economic poverty (Solón, 2014, our transl.).

The nationalist and 'indigenist' discourse of Bolivian president Evo Morales has generated a major debate because some believe it is merely rhetorical and did not translate into any significant change in the Bolivian state's policies (Rocha, 2015).

This anti-imperialist and anti-capitalist rhetoric contrasts with various initiatives in favour of 'reforming the Bolivian State and building a "modern" capitalist society without breaking relations of dependence and subordination to imperialism' (Rocha, 2015, x). In fact, President Morales passed the Law to Promote Investments in April 2014, which seeks to facilitate direct foreign investment flows.

In the case of Ecuador, the discourse of President Rafael Correa is very similar to that of his Bolivian counterpart, the state's policy being based on the concept of *buen vivir* (Leon, 2008). In addition, the constitution of 2008 establishes a plurinational conception of the state. It also posits that the exploitation of natural resources is necessary in order to achieve a more modern and equal society.

The national development plans of both countries share several objectives: reducing primary exports, increasing exports, increasing productivity and industrialisation, and strengthening the 'role of the state as a promoter of development' (Solon, 2014, our transl.).

One of the most important *differences* has to do with the redistributive discourse of Rafael Correa, who considers himself a Marxist and socialist and as such focuses on the working class. In his own words, his discourse is based on generating 'better labour policies, better wage policies, wage increases, democratisation of the ownership of capital, but… with a good system of redistributive taxes' (Paz and Cepeda, 2015, 2, our transl.).

In short, in their discourses, both countries prioritise protecting the environment and seeking out an alternative model of development, which is considered a means by which to achieve *buen vivir*.

On the contrary, Peru and Colombia have adhered to liberal discourses that give precedence to economic openness and the free market over state interventionism.

Currently Peru has free trade agreements (FTAs) with 20 countries and multilateral organisations (Peru, 2015), the most noteworthy of which are the FTAs with the United States, China, and the European Union. Peru is also currently in the process of negotiating or signing eight more FTAs. There are 12 FTAs in

effect in Colombia (Colombia, 2015), including those with the United States and the European Union, and another eight agreements have been signed or are being negotiated. It is important to note that both countries are part of the Pacific Alliance agreement, which is being fine-tuned but seeks, among other aims, to ensure that the countries of the Alliance—Mexico, Chile, Colombia and Peru—can jointly negotiate trade agreements with countries in Asia-Pacific, the latter expected to be driving global growth in coming decades.

Both Colombia and Peru follow an economic policy that prioritises macroeconomic stability over industrialisation. It focuses on maintaining low rates of inflation, balanced public finances and free movement of capital and goods. In this scenario, industrial policy is reduced to contemplating only those actions that can generate an increase in the country's competitiveness, such as investment in infrastructure, administrative simplification, and lower taxes, all of which are meant to attract foreign investment.

In sum, both countries have based their discourse on free trade and foreign investments as the main mechanisms for promoting economic development. They explicitly place extractive activities involving raw materials at the forefront of these mechanisms because these ventures are constitutive of the comparative advantage that Ecuador and Colombia have over other underdeveloped countries in the realm of global trade.

3 Convergent Trajectories?

3.1 *Extractivism*

Despite the differences in discourse, all four countries have based their economic growth on extractive sectors. Based on the behaviour of mining and energy exports, it is possible to distinguish three phases that characterise the development of the extractive economy over the past twenty-five years in the four countries (Figure 12.3).

First came the contractive phase, which covered a large portion of the 1990s, during which exports became less important due to weak international prices. Next was an expansive phase, which began in 1998 and picked up speed in 2003 due to the commodities boom. Last, we observe a stagnation phase, which threatened to plunge all countries dependent on primary exports, on oil in particular, into the depths of an economic crisis when the price of oil dropped from USD 150 per barrel to less than USD 40 per barrel in just two years.

Although the presence of the extractivist model has deepened in all four countries, there are major differences in the way the model is applied and the consequences it generates. It is possible to draw two typologies in order

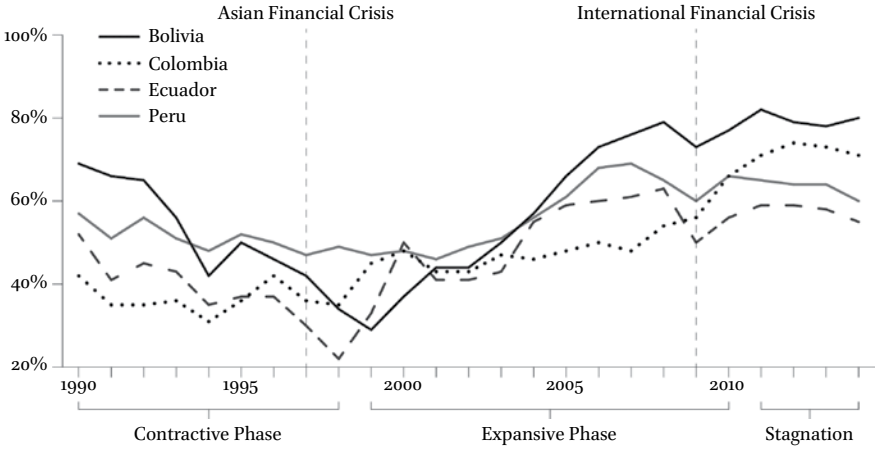


FIGURE 12.3 *Exports of mining products and energy as a percentage of total exports, 1990–2014.*
SOURCE: AUTHORS, WITH DATA FROM UN COMTRADE.

to clearly identify these differences. Colombia and Peru are part of a set of countries that assume an 'adaptive strategy' when faced with the opportunity of utilising commodities, meaning that they give in to the temptation of obtaining quick resources through large-scale efforts to exploit primary goods. This stimulates direct foreign investment, which in turn benefits the country by generating taxes and state investments, primarily in infrastructure and security. This approach is accompanied by a quest to develop national productive chains around primary activities while using surpluses to finance social and territorial policies, as well as science and technology. Ecuador and Bolivia, in contrast, follow a 'neo-developmentalist strategy'. They take advantage of booms in primary exports but implement compensatory policies to protect the internal market, diversify production, and generate added value in other economic sectors. Additionally, these policies seek to strengthen state ownership of large extractive companies and tax foreign companies in a way that favours the state. Neo-developmentalism assumes the paradigm of productive development as its main purpose, but it seeks to innovate the model with policies of social, ethnic and territorial equity, and with defending national interests against 'imperialism'.

Despite these differences, the results have been the same in all four countries, given that all of them have deepened their dependence on raw materials while their industries and agriculture have weakened against extractive sector interests. Additionally, all four countries remain in a position of subordination in the international division of labour, meaning that they export mainly low

added value products (i.e. raw materials) and import high added value products (i.e. technology and capital).

In terms of exploitation—a key difference between the typologies—it is necessary to remember that state companies are not necessarily more efficient, nor do they cause less contamination when extracting natural resources. National private companies and transnationals are not necessarily more predatory than state-owned companies.

Portillo Riascos (2014, 2015) conducts a comparative analysis of the oil extraction models in Ecuador and Colombia, two countries that are ideologically distinct but which have the same degree of dependence on exports of crude. The author finds that the most significant difference between the two relates to the ownership of crude oil. In Ecuador, crude is owned by the state whereas, in Colombia, an extractive company can own the commodity. Hence, in Ecuador, national companies and transnationals are contractors working for the state, which hires their extraction services at a predetermined price. By contrast, in Colombia the state offers private companies oil well concessions, and focuses on regulating the sector's activities. National companies and transnationals, after having extracted resources and paid the corresponding taxes, are free to use these resources and to commercialise them. The state is also a majority shareholder in Ecopetrol, Colombia's main oil company.

According to the same author (Portillo Riascos, 2014, 2015), Ecuador has proven oil reserves of approximately 8.2 thousand million barrels while Colombia has reserves equivalent to only 2.2 thousand million barrels. Nevertheless, Colombia has considerably increased its production levels under the concessions model and, in the year 2012, it produced 944 million barrels a day on average, 60 per cent of which was generated by the state-owned company Ecopetrol. In contrast, Ecuador produces 505 thousand barrels a day on average. This situation shows that, in this case, the 'neo-extractivist' model, which is led by the state (a major shareholder in this business and its profits), is less efficient when it comes to exploiting natural resources than the 'adaptive model', which promotes the rights of transnational businesses to share in profits while being subject to low taxes.

A study conducted by Portillo Riascos strives to measure the profitability of oil in each country. The conclusion is that Ecuador captures a higher proportion of resources from the oil sector. The author's calculations show that the state in Ecuador reaped 53.2 per cent of oil revenues in 2012 while the state's share in Colombia was only 35.4 per cent in the same year. This suggests that neo-extractivist states obtain a larger proportion of revenues than that obtained by adaptive states.

3.2 *Decentralisation*

Different degrees of political and fiscal decentralisation determine whether local governments block or facilitate advances in the extractive economy. In a country with advanced decentralisation processes, it would be logical to expect that royalties would be ceded to territorial bodies, which must deal with the socio-economic and environmental impacts generated by natural resource extraction. Territories should have the right to decide on land use, which implies determining if they want natural resource exploitation in their jurisdictions or not.

Decentralisation processes have been complex and have arisen in a broad range of circumstances. In Colombia, for example, decentralisation began with Legislative Act 01 of 1986, which reformed the National Constitution in order to allow mayors to be elected by popular vote. Subsequently, the 'Carta Magna' of 1991 stipulated that governors could be elected by the people, which led to a significant level of political autonomy at the local level. In contrast, fiscal autonomy has always been scarce given that numerous national laws convert local authorities into administrative and fiscal agents of the national government and the Congress of the Republic. Additionally, in 2002 and 2008, large percentages of economic transfers to territorial bodies were cut but political powers continued to be decentralised.

In the Bolivian case, decentralisation began in 1994 with Law No. 1551 for Citizen Participation, which gave political autonomy to the municipalities but failed to do the same with the prefectures, or governances, which continued to be controlled by the central government and benefited from little real effort to ensure administrative and fiscal decentralisation. This meant that these local government instances were highly subordinated to the national government and subject to its oversight. After massive and persistent manifestations in favour of departmental autonomy, political decentralisation was finally implemented in 2005. Governors, formerly nominated by the President, have since then been elected by local constituencies.

In Peru, decentralisation began in 2002 with Law No. 27783, the Law for the Bases of Decentralisation. Since then, the country has rolled out an accelerated process to transfer large amounts of resources and responsibilities to territorial entities. Nonetheless, the process is still incomplete given that fiscal autonomy has yet to be fully implemented and the central government continues to make decisions regarding the use of resources.

In Ecuador, decentralisation was first adopted in 1977, and it was strengthened through the constitution of 1979. Yet the decentralisation process was not implemented in earnest until 2008, when implementation efforts were

stepped up. Decentralisation was further reinforced in 2010 with the adoption of the Organic Code of Territorial Ordering.

In all four countries, only a fraction of the total royalties received from mining and oil exploitation are allotted to the territorial bodies where extractive activities take place. These payments are meant to be compensation for economic, social and environmental damage. In Peru, the government also cedes 50 per cent of the income tax paid by extractive companies to the regions.

The distribution of state revenues from the mining and energy sectors among the different levels of government (including national, regional, departmental and municipal levels) differs significantly among the countries studied (Table 12.1). In Ecuador, the percentage ceded to the territories is very low and practically insignificant. By comparison in Peru, the percentage ceded is very considerable given that it represents 50 per cent of total revenues; nevertheless, territorial governments must invest these resources in infrastructure and its maintenance, which reduces the freedom to allot them.

Neither of these countries have a mechanism for sharing a percentage of this income with non-producing municipalities and departments. If a mechanism were in place, it would generate a principle of solidarity with poor or marginalised regions. The lack of inter-regional solidarity is dramatic in Peru, where six departments of the country's 26 account for 64 per cent of the resources obtained from mining while four departments represent 99 per cent of the money received from oil.

By contrast, in Bolivia and Colombia the central governments cede a considerable portion of taxes to the regions and there are fewer 'ties that bind' in the central government's budget; thus, these resources belong to the regions. In both countries, there is a mechanism of solidarity with non-producing regions, which generates a principle of inter-regional solidarity and provides

TABLE 12.1 *Decentralised entities' shares of state resources obtained from the mining and energy sectors*

Country	**2007–2009**	**2010–2012**
Ecuador	2.28%	1.27%
Colombia	33.73%	35.60%
Bolivia	40.97%	39.31%
Peru	47.66%	49.34%

SOURCE: ECLAC (2014a).

some resources to marginalised regions. Both countries have also recently undertaken fiscal re-centralisation processes for resources issuing from royalties, but have used very different mechanisms.

In Bolivia, a reform for distributing the Direct Tax on Hydrocarbons (Impuesto Directo a los Hidrocaburos, IDH) was approved in 2007,[4] obligating regions to cede 30 per cent of this tax to finance the 'Dignified Income' programme—a highly popular central government initiative that provides a monthly stipend to adults over the age of sixty (Yanguas, 2013).

In Colombia, re-centralisation began with Legislative Act 05 of July 18, 2011, which reinforced the solidarity mechanism with non-producing regions at the same time that various investment funds were being set up to receive royalty resources. Of the more noteworthy funds, one concentrates the royalties in producer regions, another distributes royalties in all the country's municipalities and another is used for investment in science and technology projects. Resources from royalties continue to belong to the regions, but this money is funnelled into the funds created in 2011, which means that the regions do not have free access to these resources. The decision to allot resources from these funds is made by a collegiate body known as the Collegiate Bodies of Administration and Decision Making (OCAD), which is formed by delegates of municipalities and departments but also from the central government.

In conclusion, there are three different scenarios in the countries studied. In Ecuador, the degree of centralisation continues to be very firm and is reflected in the low level of distribution of state mining and energy revenues. In Peru, fiscal decentralisation of resources in the mining and energy sectors contrast with the fact that these activities are concentrated in only a few departments. Colombia and Bolivia are bogged down by long economic and political decentralisation processes, which are reflected in the large quantity of resources from the extractive sector that are ceded to all of the regions, including those that are non-producing. Nonetheless, re-centralisation processes are underway in both countries.

In sum, the differences that exist are not between 'neo-liberal' and 'socialist' approaches, but are instead between political processes and social mobilisations that spill over into deep processes of decentralisation in Colombia and Bolivia, unlike in the more centralised political systems of Ecuador and Peru.

4 The IDH, created in 2005, levies a tax of 32 per cent on hydrocarbons, in addition to 18 per cent of previously existing royalties.

3.3 *Ethnic Rights*

The right to conduct prior popular consultation and to defend communal property, as well as the right to preserve traditions, are all noteworthy. All four countries are widely recognised for the levels of legal respect they show for ethnic rights.

According to Yrigoyen (2011), it is possible to identify three cycles of legal and political reforms that aim to promote ethnic rights in the Latin American region. The first cycle began with the approval of Convention 169 of the International Labour Organization (ILO), which enshrines these rights and obligates signatory countries to enforce these rights. In the Colombian and Bolivian cases the convention was approved in 1991, while in Peru and Ecuador the necessary agreements were signed in 1994 and 1998, respectively.

The second cycle of reforms incorporates ethnic rights into the constitution of each country—particularly the 'political rights to participation, consultation and autonomy as well as over their [own] lands, territories, [and] natural resources and those relative to linguistic and cultural matters' (Aylwin, 2014). Ethnic rights were introduced into the Colombian constitution in 1991, the Peruvian constitution in 1993, the Bolivian constitution in 1994, and the Ecuadorian constitution in 1998.

The last cycle of reforms refers to what Yrigoyen (2011) calls 'plurinational constitutionalism'. This change implies recognising the existence of different peoples within the same state, which makes it necessary to speak of a 'plurinational state' while organising a structure that fully contemplates this reality. The only states that have been declared plurinational are Ecuador and Bolivia, which introduced these changes into their new political constitutions in 2008 and 2009, respectively. The 'socialism' practiced in these countries has been innovated to recognise the nation's ethnic and cultural pluralisms, which have been integrated into important regulatory, institutional and political developments.

Nevertheless, legal recognition and political reality are often considered distant relations, as is frequently the case in the countries studied, in particular when ethnic rights have blocked the way of mining and oil exploitation. On many occasions communities have opposed extractivism on their lands. When prior consultations are required by law, communities have often requested that extractive activities would not be conducted in their territories. Nevertheless, as consultation is not binding, authorities, along with the extractive companies, disregard the opinions of indigenous peoples and continue their projects.

An emblematic example is the Supreme Decree No. 2298 issued by the Morales government in Bolivia, which stipulates that consultation with communities should last no more than 45 days after a private company opens

a consultation process, after which the private company can forgo the consultation process even if the communities have failed to respond within the 45-day period. This constitutes a grave abuse of the right of ethnic peoples, and represents a major contradiction in the national policy—a policy that is the president's response to the need to increase gas production to offset falling international prices.

In Ecuador, Bolivia and Peru, indigenous peoples constitute powerful social movements that have the capacity to exercise a decisive influence on the political scene. In Ecuador, President Correa was elected thanks in large part to the support of the Confederation of Indigenous Nationalities of Ecuador (Confederación de Nacionalidades Indígenas del Ecuador, CONAIE), which is the most important social movement in the country. At the beginning of his mandate, Correa took up indigenous causes by endorsing '"anti-imperialist preaching", a negative attitude toward free trade agreements, and the defence of natural resources' (*El Comercio*, 2015). Later, he progressively distanced himself from the social movements, notably indigenous ones that brought him to power in 2006. He first turned his back on CONAIE after the 2006 elections. And after the new constitution was adopted in 2008, he proceeded to do the same with other organisations, including the National Confederation of Peasant, Indigenous and Black Organizations (Confederación Nacional de Organisaciones Campesinas, Indígenas y Negras, FENOCIN).[5] This process has created a significant rift between the government and social movements, which has led to various protests and subsequent repression by the military. One of the most important reasons for this division was the move by Correa's government to rapidly exploit natural resources, which have become an important source of financing.

Along similar lines, Bolivian president Evo Morales, who is from the Aymara community, was elected with the support of indigenous movements and distanced himself from the largest indigenous movements after his election. However, in contrast with what happened in Ecuador, some indigenous individuals were nonetheless appointed in the central government in Bolivia. Disagreement was bound to arise between the government and social movements, including the Confederation of Indigenous Peoples of Bolivia (Confederación de Pueblos Indígenas de Bolivia, CIDOB), which is the largest social movement in the country, the Guarani Indians, and the National Council of Ayllus and Markas of Qullasuya (Consejo Nacional de Ayllus y Markas del Qullasuyu, CONAMAQ) among others. Relations with a government that proclaims itself 'anti-imperialist' but follows 'extractive' activities, claims to be 'indigenist' but

5 For a more detailed description, see Gómez (2015) and Trujillo (2010).

deepens a 'developmentalist' system that contradicts certain ethnic ideals, have generated tensions and divisions in some social movements. On several occasions, some movements have supported the president and more than one have backed his party, the Movement Toward Socialism (Movimiento al Socialismo, MAS), but this has yet to put the brakes on a convergence of social movements that are discontented with policies and the president's centralist style of government.

Once again, the main disagreement is with the extractivist model of President Morales, who depends a great deal on natural resources, especially gas extraction, to finance various social programmes (Zeballos and Urbina, 2015).

Both President Morales and President Correa managed to maintain high level of popularity, which was over 60 per cent in the years prior to the decline in commodity prices. This was due, to a large extent, to major investment in social policies that have contributed to significantly reducing poverty levels (Fig. 12.4). This allowed both presidents to distance themselves from social movements, since the two presidencies orchestrated a culture of selection in the allocation of projects, investments and syndications, by favouring certain social movements and organisations while excluding and persecuting others.

In Peru, the situation is not very different from that in the two countries already discussed, given that President Ollanta Humala was also victorious—in the elections of 2011—due, to a large extent, to the support of indigenous and peasant groups. Humala promised a 'great transformation', which implied abandoning neo-liberalism and defending the population from the interest of multinational companies, among other points. But after his election Humala

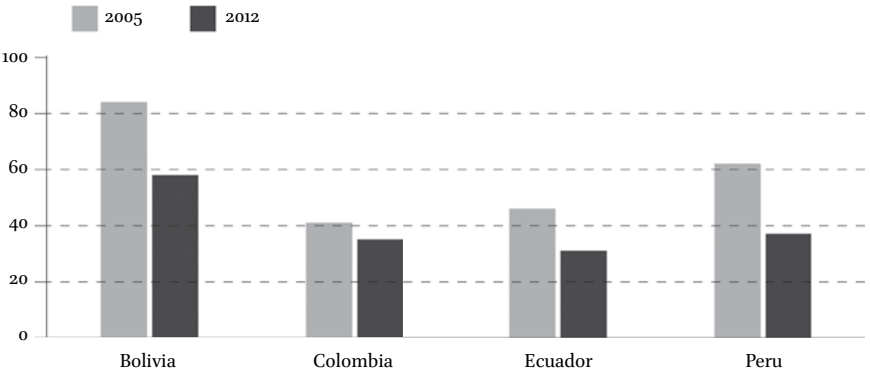


FIGURE 12.4 *Multi-dimensional poverty. Selected countries in terms of the percentage of the total population—2005 and 2012.*
SOURCE: AUTHORS, WITH DATA FROM ECLAC (2014b).

opted to continue, and actually deepen, the neo-liberal model and extractivist practices (Garra, 2014). As in Bolivia and Ecuador, prior consultation has become, in practice, exceptional; and, when it happens, it is consultative rather than regular and binding.

The case of Colombia is different because of the ongoing internal conflict. The dilemma between continuing the war or attempting a peace process has been a definitive factor in each Colombian presidential elections since the 1970s. For this reason, social and ethnic movements have not had the same weight in electoral victories, in the formation of governments, and in the formulations of public policies, as it is the case in Ecuador and Bolivia. Álvaro Uribe won the elections of 2002 and 2006 by promising a no-truce confrontation with guerillas. Juan Manuel Santos won in 2010 with the promise that he would continue on the path of war, but abandoned this commitment in exchange for a peace process that led to his re-election in 2014. During this lapse of time the indigenous struggle became stronger, despite official and guerilla violence against ethnic autonomy. Nevertheless, the victories have been more symbolic and cultural. Thus, as public support for ethnic demands grows, the government makes agreements and promises investment that it generally fails to deliver on, triggering subsequent mobilisations (Vieira, 2012; ONIC, 2013; Bermúdez, 2014). Prior consultation began merely as a random exercise to gather information while promising compensation for extractive intervention in ethnic territories. Subsequently, the Constitutional Court deemed that consultation processes were obligatory and binding, which spurred the government to roll out a media and legal campaign against the 'enemies of development', reminding the people that if the nation owns the subsoil, no community could legally oppose extractive decisions that were legalised at the central level.

In sum, the four countries studied converge towards legal recognition of the rights of ethnic minorities. At the same time, all four countries demonstrate disdain for these rights, at the institutional level and in their central governments in particular, which see prior consultation as an impediment to extractivist economic development.

3.4 *The Environment*

All of the countries studied have implemented important processes to protect the environment within the framework of a burgeoning environmental awareness that has led states to progressively commit to environmental protection as companies and consumers demonstrate more interest in the issue. The four countries signed the Paris Agreement of 2015, the Kyoto Protocol of 1998, and a dozen other agreements that commit them to protecting the environment

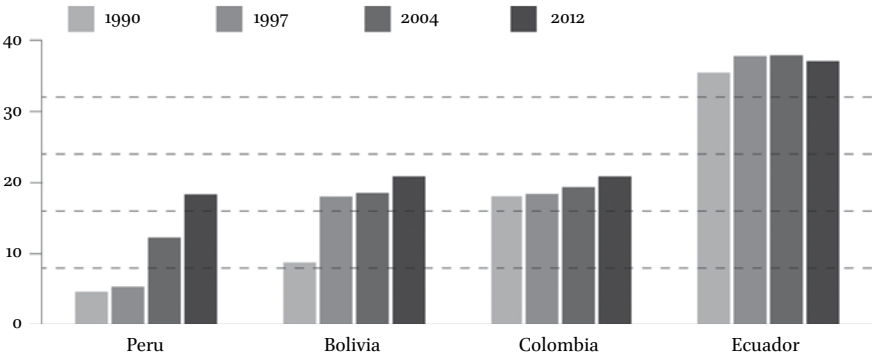


FIGURE 12.5 *Protected land and ocean areas as a percentage of total territory.*
SOURCE: WORLD BANK.

and modifying national regulations and institutions to align with international commitments.

One of the events that arose from this process was the decision to create ministries of the environment—a step that generates a stronger institutional presence in environmental matters and reflects greater political awareness with regard to these issues. In Colombia, for example, the Ministry of the Environment and Sustainable Development was created in 1993 through Law 99 for the Environment, while in Ecuador the Ministry of the Environment was created in 1996 through Executive Decree No. 195. Subsequently, in 2008, the Ministry of the Environment of Peru was created through Legislative Decree No.1013, and lastly, in 2009, the Ministry of the Environment and Water was created in Bolivia through Presidential Supreme Decree No. 29894.

This process has also led to an expansion of the numbers and the extent of natural reserves in the countries studied (Figure 12.5). These reserves constitute major progress on the environmental front given that no harmful activities can be conducted within them, including—for example—natural resource extraction.

In the last few decades, Peru and Bolivia have made astounding progress in their efforts to expand the protected areas of their countries, growing the total area concerned fourfold and threefold, respectively, to reach levels of around 20 per cent of total territory in each case. Nevertheless, both countries stand out due to the low proportion of protected areas in their territories. The situation in Colombia and Ecuador is different given that both countries have a long history of maintaining large reserves. This explains why these countries have not significantly expanded their reserves in the last few years. In fact, Ecuador has posted a decline in total protected areas under Correa's government.

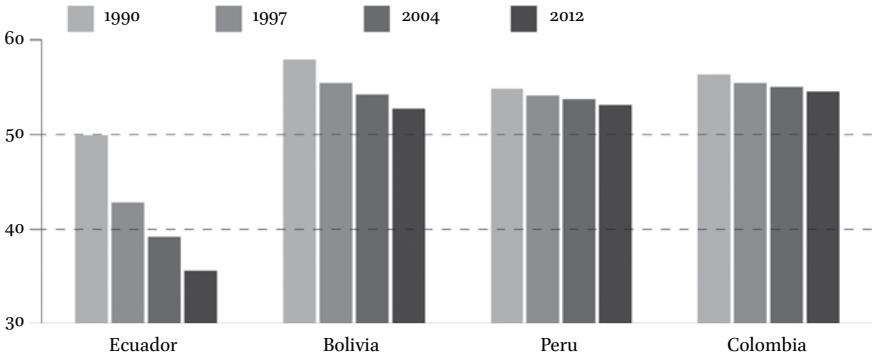


FIGURE 12.6 *Territory covered by forests as a percentage of national territory, 1990–2010.* SOURCE: ANDEAN COMMUNITY OF NATIONS (ACN).

Despite institutional efforts, deforestation has not ceased in any of these countries. The proportion of forested land has declined dramatically in Ecuador, which has lost approximately one-third of such areas over the last 20 years. Although less forested area has been lost in Bolivia, Peru and Colombia, the fact that the process has not slowed or stopped is of particular concern (Figure 12.6).

Progress towards protecting the environment has clashed with extractivism, whose importance in the economy has grown, creating tensions and irreconcilable disputes given that each of the countries' central governments are avidly promoting mining and energy extraction to generate more resources with which to finance the social policies they need to implement to maintain popular support.

In every case, the national government is in charge of expediting permits for exploitation and it also issues environmental permits, which puts its various objectives at odds with one another given that reducing the procedures and requirements, or indeed the actual need, for in-depth technical, environmental studies may generate major economic and fiscal benefits at the cost of environmental goals.

Governments can choose to disregard institutional precedents by authorising, for example, the exploration and exploitation of natural reserves, as was recently the case in Bolivia, where President Morales, driven by his mission to increase gas reserves, gave the green light (through Supreme Decree No.2366) to exploration in 11 of 22 protected areas of the country (Zeballos and Urbina, 2015).

In Ecuador, President Correa has gone against all odds to authorise oil exploitation in the Yasuni National Park, which is one of the world's most biodiverse areas (Wilkinson, 2015).

TABLE 12.2 *Exports from the national energy base as a percentage of total energy production*

Year	Colombia	Bolivia	Ecuador	Peru
2001	63%	49%	65%	29%
2005	65%	65%	70%	32%
2009	69%	62%	69%	28%
2013	80%	67%	71%	54%

SOURCE: INTERNATIONAL ENERGY AGENCY.

There are no significant examples of legal exploitation in the natural parks of Colombia and Peru. Nonetheless, numerous mining and energy projects have been set up in the jungle, in the Amazon jungle in particular. Dourojeanni et al. (2009) show that Peru has a total of 138 mining concessions operating in the Amazon basin. In Colombia, the government intends to step up mining exploitation in the Amazon by creating 'strategic mining areas' that will allow the government to offer 20 million hectares in concessions to large mining companies, although this process has been temporarily delayed by a court ruling (*El Tiempo*, 2015). To legally back its extractives strategy, the second Santos government (2014–) created 'express permits', a process which reduces the time needed to issue permits from two years and four months to only 100 days—weakening environmental oversight and prior consultation processes in the process.

Both groups of countries, neo-liberal and socialist, not only export the majority of their gross energy production (oil, gas, coal and biofuels) but have posted an upwards trend with regard to such exports in the last few years (Table 12.2). This also indicates that the primary extractive and dependent economy has grown while industrial bases have failed to expand.

4 Conclusion

Throughout this chapter we have discussed the fact that ideological discourse and orientation are not the only elements that determine the political reality and the direction of state policies in the countries studied. Mutually antagonistic, 'neo-liberal' and 'socialist' discourses are converging towards greater dependence on the mining and energy sectors, which leads to deindustrialisation and 'deagrarianisation'. With the resources generated through the expansion of this model, social policies geared towards policy reduction have

enabled the indicator of unmet basic needs (UBNs) to drop, thus legitimising government policies, whether neo-liberal or socialist.

Another characteristic shared by these countries is that they all recognised ethnic rights in the 1990s. Yet this process met with a sharp decline in the year 2000 when the four governments decided to apply restrictions on prior consultation, one of the main rights granted to indigenous communities against extractive companies, because the latter consider consultation processes burdensome.

The countries also share varying degrees of similarity in terms of the damage they cause to the environment, and to the Amazon jungle in particular, in order to drive the extractive economy.

The countries differ, however, in terms of other facets that are not attributable to neo-liberal and socialist distinctions. This is the case of decentralisation. In neo-liberal Colombia and socialist Bolivia, local governments receive a higher share of the resources generated by the exploitation of non-renewable resources and enjoy a certain degree of autonomy with regard to deciding how these resources are used. By contrast, in socialist Ecuador the central government owns the royalties and has no legal obligation to share them with decentralised authorities (i.e. the *entidad territorial*), while in neo-liberal Peru, vast decentralised resources are concentrated in a few regions and are allotted to very specific purposes.

A parting comment: the extractive temptation reinforces an ancestral characteristic of Latin American states—centralism and 'presidentialism', where national powers selectively dole out their social and economic interventions in regional territories in such a way as to reinforce inequalities in development capacity and the political power of different regional territories.

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CHAPTER 13

The Rise of Citizen Security in Latin America and the Caribbean

Robert Muggah

Abstract

Latin American and Caribbean societies are among the most violent on earth. The problem appears to be worsening. Why? There is not one, but several explanations accounting for the steady increases in crime and victimisation across the region. In addition to jarring inequality and chronic impunity, a major part of the problem stems from repressive and punitive approaches to tackling criminality. More positively, a new generation of home grown 'citizen security' measures has emerged in recent decades. These interventions expand the focus of public security measures from a narrow preoccupation with safeguarding state institutions to encompass a wider concern with preserving the safety and rights of citizens. Taken together, they include strategies to reform law enforcement, criminal justice, and penal systems together with violence prevention activities focused on at-risk families and youth. While hard scientific evidence of their effectiveness is still in short supply, citizen security represents a positive evolution of thinking in an otherwise staunchly conservative domain.

1 Introduction

Latin America and the Caribbean states and cities are among the most violent and insecure on earth. The regional homicide rate is at least three times the global average[1] and citizens there register a heightened sense of insecurity.[2] Nine of the top ten most violent countries in the world outside of war zones

1 See UNDP (2013), UNODC (2014) and the Homicide Monitor at http://homicide.igarape.org.br (accessed on 20 December 2016). See also The Economist (2016) for a review of city homicide rates.

2 See, for example, the Latin American Public Opinion Project (LAPOP) which regularly surveys popular perceptions of crime and victimisation in Latin America at http://www.vanderbilt.edu/lapop/ (accessed on 20 December 2016). Likewise, the *Latinbarómetro* has also undertaken similar assessments since the mid-1990s. See also Basombrio Iglesias (2011).

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are in Latin America and the Caribbean.[3] A staggering one in four people murdered each year is a Brazilian, Colombian, Mexican or Venezuelan (Muggah 2017a). And over 40 of the top 50 most murderous cities are located there. Early attempts by national, state and city governments to eliminate organised crime and youth violence have been repressive, known colloquially as *mano dura*. Many national strategies adopted in the region were augmented with counter-narcotics and anti-gang support from the United States (Muggah and Szabo de Carvalho, 2014; Sullivan, 2012; Sullivan and Elkus, 2010). An expectation was that more assertive law enforcement, tougher penalties and longer sentences in the region´s appalling prisons would deter actual and would-be drug traffickers and gangsters (Apel and Nagin, 2011; Jutersonke et al., 2009). This has not worked out as planned.

There is a growing acknowledgment of the limitations of narrow punitive criminal justice approaches to crime prevention in Latin America and the Caribbean (Muggah et al., 2016; CAF, 2014). Enlightened mayors, business people and civic leaders are increasingly investing in interventions at the municipal scale, building safety and security from the ground up. They learned important lessons the hard way—through trial and error. Some found that policing, criminal justice and penal systems were poorly managed and underprepared and that more people-centred strategies were required. Many also discovered how the collusion between police and criminal groups, together with corruption and impunity, can undermine public security and safety measures. Others determined that the sweeping criminalisation and social stigmatisation of entire segments of the population—especially young men, non-violent offenders and drug users—was a step backwards, in some cases strengthening rather than lessening the power of criminal organisations (Lessing, 2011; Basombrio Iglesias, 2011; Cruz and Santacruz, 2005; Cruz and Carranza, 2006).

Across Latin America and the Caribbean, metropolitan leaders started experimenting with new approaches to public security. They understood intuitively that a revolution is required not only in how public security and justice are conceived and delivered, but also in relation to civic identity and social co-existence, cohesion and efficacy (Mockus, 2008). A new compact was required

3 As of 2016, these are, Honduras (90.4 per 100,000), Venezuela (53.7 per 100,000), Belize (44.7 per 100,000), El Salvador (41.2 per 100,000), Guatemala (39.9 per 100,000), Jamaica (39.3 per 100,000), Saint Kitts and Nevis (33.6 per 100,000), and Colombia (30.8 per 100,000).El Salvador (91.2 per 100,000), Trinidad and Tobago (62.6 per 100,000), Venezuela (59 per 100,000), Honduras (57.9 per 100,000), Saint Kitts and Nevis (57.4 per 100,000), the Virgin Islands (52 per 100,000), Jamaica (48.6 per 100,000), Belize (36.2 per 100,000) and Saint Vincent and the Grenadines (34.7 per 100,000). See http://homicide.igarape.org.br (accessed on 1 March 2017).

to rebuild and restore the legitimacy of the state, and the effectiveness and efficiency of its basic services. After all, the security of person and property is the fundamental obligation of the state and the most basic right of the individual citizen. Beginning in the late 1990s and into the new millennium, a small group of Latin American and Caribbean governments, multilateral and bilateral donors and non-governmental organisations and private groups initiated a wave of innovative citizen security initiatives (Muggah and Aguirre, 2013). Key to their success was sustaining support across different tiers of government, sustaining commitment over multiple electoral cycles and scaling a new culture that combined both qualified repression with primary, secondary and tertiary preventive measures.

This chapter considers the forms and functions of citizen security in states and cities across Latin America and the Caribbean. It builds on two decades of research and the accumulated experiences of international agencies, federal, state and city governments, and civil society groups across the Americas and Caribbean. The chapter first sets out the underlying theoretical assumptions of citizen security more generally. The second section then inspects the dynamics and underlying drivers of violence in the region. Section three explores the future trajectories of citizen security interventions across the region.[4] While variously defined and described, citizen security encompasses social and situational prevention efforts, police and justice measures, and rehabilitation and re-entry interventions. It emerged as a counterbalance to the more punitive law and order paradigm that has persisted across the region. Rather than emphasising hard security measures to shore-up state authority and borders, citizen security emphasises responsive statehood and active citizenship as a means of achieving public safety.

2 Theorising Citizen Security

Citizen security encompasses an array of ideas and activities intended to prevent and reduce violence, promote public security and access to justice, strengthen social cohesion and reinforce the mutual rights and obligations of states and citizens. It encompasses more than security sector reform, which is typically enacted in post-conflict settings, though there are clearly overlapping

4 There were at least 1,200 citizen security interventions identified across 30 countries and territories in the region between 1998 and 2014 with investments exceeding USD 6.6 billion. See https://igarape.org.br/en/citizen-security-dashboard/ (accessed on 19 December 2016), Muggah and Szabo de Carvalho (2014) and Muggah and Aguirre (2013).

areas of concern and activity.[5] Taken together, citizen security entails the delivery of effective public safety measures in the context of broader democratic norms. It is thus distinct from and broader than national law and order approaches to policing and controlling crime. As a concept, citizen security is widely deployed in the policy world across Latin America and the Caribbean, yet under-theorised by scholars (CAF, 2014; UNDP, 2013, 2012, 2010). Nevertheless, the construct has caught-on in the Americas, with most countries now laying claim to a national or subnational citizen security policy, and virtually all international donors aligning their investments along the same lines (Muggah and Szabo de Carvalho, 2014).

Citizen security is more than just another passing fad. There is growing acknowledgment that successful long-term public safety and security frameworks are also those that guarantee the rights of citizens (Basombrio Iglesias, 2012, 2011; Bobea, 2012, 2011).[6] Moreover, there is data to support the claim that investments in the prevention of violence are more cost-effective than ostensibly unproductive expenditures on public or private security.[7] Yet evidence on its own is rarely a driver of policy transformation. Indeed, there are frequent calls among the more conservative Latin America and Caribbean elites for repressive policing, vigilante actions and tough incarceration measures, including lowering the age of criminal responsibility for adolescents and children.[8] Citizen security is an idea deliberately introduced to reconcile these tensions by emphasising *the responsible state* and *active citizenship*.

The first foundational construct of citizen security is *the responsible state*. Between the 1970s and 1980s discussions of human rights were shaped by a notion that committed civic and state actors should rein in systematic state abuses of citizens' rights (Sikkink, 1996). Today it is crucial to move beyond this dated formulation to understand how state policy limitations and failures can be redressed through citizen security policies. States have the ultimate obligation to protect their citizens and to assure basic guarantees of safety and

5 See Muggah and Szabo de Carvalho (2014). It is worth noting that the emphasis of citizen security on multiple settings echoes the aspirations set out in the new Sustainable Development Goals (SDGs), especially SDG 16, which focuses on peaceful societies and access to justice. See Giannini (2015).

6 See UNDP (2013) and https://igarape.org.br/en/citizen-security-dashboard/ (accessed on 20 December 2016).

7 See Abt and Winship (2016) and CAF (2014).

8 The protections for children and youth established by the United Nations Convention on the Rights of the Child (Article 40) are codified into most legislation in Latin American countries. Concerns have emerged, however, that youth and children are increasingly implicated in violent crime and do not have access to legal recourse.

well-being. And yet in many Latin American and Caribbean cities and outlying slums the state is either unable or unwilling to provide these guarantees. Security entities are either predatory or negligent. As a result, there is frequently a perceived and real absence of the state—represented in its most basic form as the provision of law and order and predictable basic services and infrastructure—from socially and economically disadvantaged areas (Arias, 2009, 2006; Muggah, 2015b; Muggah and Souza, 2012). A closer examination usually reveals that this is virtually never the case: public institutions and services are always present to varying degrees.

What is perhaps more relevant is that the duties of state entities, especially policing and criminal justice providers, are routinely exercised in inefficacious or inappropriate ways that exacerbate violence and undermine development. And in using the term *state*, it is important to specify police, judicial and penal institutions. In Latin America and the Caribbean, it is not just law and order entities, but also military actors that engage in domestic security provision. Yet the presence of soldiers on the streets can generate contradictory messages and messy outcomes, including basic violations of human rights and civil liberties. While warmly welcomed in some quarters, the historical legacy of soldiers on Latin American streets is a complicated one. The emphasis of military entities on 'social cleansing' and in some cases the excessive and arbitrary use of force—while diminished since the 1990s—still persists in a number of countries.[9]

The second of these concepts is *active citizenship*. It is not just police, but also citizens that play a key role in ensuring citizens' security. On the one hand, citizens hold state officials to account for their failures to adequately deliver on their obligation to provide security. On the other hand, the success of many public safety policies is predicated on positive engagement between police and the population. Although often confronted with a tradition of negligence and systematic mistreatment, finding ways to build engagement between the police and the population is essential for delivering information and designing and implementing an effective policing policy (Ungar and Arias, 2012).

To be effective, citizens—in collaboration with law enforcement—must take ownership of their own security. This could be described as both 'auto' and 'mutual' regulation—the idea that citizens take responsibility for themselves and others. This does not imply vigilantism or lynching, support for which is alarmingly common in some parts of Latin America and the Caribbean (see for

9 What is more, there are real concerns about whether the military is adequately prepared—in terms of doctrine and practice—to assume law and order functions and coordinate activities with police forces. See IACHR (n.d.).

example ICG, 2013). Nor does it require the creation of militia or paramilitary forces or investing in more prisons, which in the region are often referred to as 'finishing schools' for crime (Dammert and Zuñiga, 2008; Dudley and Bargent, 2017). Rather, it underlines the importance of creating enabling spaces for citizens to work together with police and civic groups to ensure security in their workplaces, neighbourhoods and homes (Ainslie, 2014; Costa, 2012; Dammert, 2007; Frühling, 2012, 2004; IADB, 2012, 2010, 2009).

At heart, citizen security is 'rights-focused'. It is framed and backed by the state but guided and shaped through active public engagement (IACHR, n.d.; Costa, 2012; IADB, 2012, 2010, 2009). Citizen security is consistent with—though does not replace—a wide variety of successful policing practices used across the globe including problem-oriented policing, proximity and community-oriented policing, and intelligence-led policing.[10] Such approaches are increasingly introduced in the context of police reform and modernisation in Latin America and the Caribbean.[11] In addition to specific policing strategies and tactics, citizen security policies also encompass an array of activities that seek to improve general safety, prevent violence and reduce crime. These can include, but are not limited to, the redesign, renewal and upgrade of urban spaces, targeted job creation, apprenticeship and employment placement programmes, educational measures and school-based interventions for at-risk youths, early childhood and parent-support activities, and formal and informal mediation to reduce inter-group tensions in highly volatile situations (Muggah et al., 2017; Muggah, 2017b, 2016).

Citizen security offers a challenge to the progressive and now widespread privatisation of security activities across Latin America and the Caribbean. Globally, private security is booming, estimated to be worth between USD 100 billion and USD 165 billion annually (SAS, 2011). Private security personnel across Latin America outnumber police officers by a ratio of at least 2:1, and this figure rises even higher in some parts of Brazil, Colombia, El Salvador, Honduras and Mexico.[12] While they are increasingly connected to local

10 For a comprehensive discussion of the application of contemporary policing strategies in Latin America, see Arias and Ungar (2009) and, Ungar and Arias (2012), Harriot (2000), Goldstein (1990), FIP (2012), and Felson and Clarke (1998).

11 Major restructuring processes have swept across Central and South America over the past two decades including in Argentina, regarding Colombia's National Police and Chile's Investigative Police, and in Venezuela where successive efforts have been undertaken. See FLACSO (2007).

12 Given the lack of transparency in the industry it is difficult to determine with precision their numbers: there are roughly 570,000 registered private security personnel in Brazil and at least 450,000 in Mexico. The numbers registered for the region are as follows:

political economies across the region—not least in relation to the defence sector, policing unions and aid industry—there remain open questions regarding what degree of 'protection' is generated by higher walls and armed security guards. The privatisation of security also has a corrosive effect on public security resourcing, with elites increasingly reluctant to subsidise public security services for the 'other' (Godson, 2003; Gambetta, 1996; Bloc, 1974). By privileging security as a private good, societies are being further segmented into haves and have-nots.

3 Changing Citizen Security Context

There are no simple solutions for Latin America and the Caribbean's far-reaching and overlapping challenges with regard to insecurity and injustice. Rapidly scaled-up interventions modelled on programmes from North America and Western Europe are unlikely to succeed. This is because the region's present dynamics are connected to deeply rooted historical, political, economic and sociocultural factors, including deepening inequality, impunity, the under-institutionalisation of state entities, and a normalisation of violence (UNDP, 2013; Zaverucha, 2001; Woodrow Wilson Center, 2013). A paradox in Latin America and the Caribbean is that even as improvements in democratic governance and poverty reduction have taken hold over the past three decades, violent crime has stabilised and even increased (Muggah and Szabo de Carvalho, 2016; Muggah, 2015b).

Notwithstanding this depressing regional scenario (and the heterogeneity of country experiences), there is growing evidence that policies and programmes which are data-driven, designed with inputs from beneficiaries, professionally managed, and supported across multiple terms can improve security and safety (Abt and Winship, 2016; Akpokdje et al., 2002; Muggah et al., 2016; Muggah and Aguirre, 2013). Many of these initiatives have taken root in cities as diverse as Bogotá, Ciudad Juarez, Medellin, Recife, and São Paulo (Ainslie, 2014; Calderon, 2013; Cano, 2007, 2012; Muggah and Szabo de Carvalho,

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Bolivia (2002), 500; Brazil (2005), 570,000; Chile (2008), 45,000; Colombia (2005), 190,000; Costa Rica (2008), 19,500; the Dominican Republic (2008), 30,000; Ecuador (2005), 40,300; El Salvador (2008), 21,100; Guatemala (2008), 120,000; Honduras (2005), 60,000; Mexico (2005), 450,000; Nicaragua (2008), 19,700; Panama (2008), 30,000; and Peru (2005), 50,000. By way of comparison, the United States was estimated to have at least 2 million registered private security personnel in 2007. See Small Arms Survey (2011, 106); also see Expert Group on Private Security Services (2011, 2–3).

2016; Guerrero and Concha-Eastman, 2001; Garcia et al., 2013; Gaviria et al., 2010; Mockus, 2008; Llorente and Guarín Leon, 2012; IADB, 2012, 2010, 2009). There are likely many more cases that have yet to be carefully evaluated (Muggah et al., 2017).

A central ingredient of successful state and city-based interventions is the development of reliable, real-time and accurate data and analysis (Akpokdje et al., 2002; Muggah et al., 2017; OAS, 2011; Olavarria and Pantoja, 2010). Another is the tailoring of policy and programme measures to the discrete social, economic, political and related problems faced in each setting (Chioda, 2017; UNDP, 2013, 2010; Vandereschueren et al., 2009). This section considers the wide-ranging contexts of Latin American and Caribbean settings when it comes to organised and disorganised violence. It underlines how differently they clearly experience different forms of insecurity. A schematic framework via which to reflect on the types of citizen security challenges facing specific environments is then presented, followed by a consideration of what sets of strategies can be mobilised to address them.

Criminologists and public health researchers have detected sharp differences in violence rates across the cities of Latin America and the Caribbean. For example, Briceño-León et al. (2008) found that cities in Argentina, Chile, Costa Rica and Uruguay exhibit comparatively low mortality rates while those in Peru, Nicaragua, Ecuador, the Dominican Republic, Panama and Paraguay feature moderate rates. Meanwhile, Brazilian, Mexican, Colombian, El Salvadorian, Honduran and Venezuelan cities all register high mortality from lethal violence owing to social inequality, lack of employment opportunities, urban segregation, local drug markets, the availability of firearms and the widespread use of alcohol (Muggah, 2016; Soares and Naritomi, 2010; Briceno-Leon et al., 2008; Villaveces et al., 2000). Across time and space, the social and economic costs of this violence are excessive.[13]

Many Latin American and Caribbean cities are notoriously violent (Jaitman et al., 2017; Salama, 2013; World Bank, 2011). Most of the region's 33 countries and territories feature homicide rates well above the global average.[14] More than 40 of the 50 most murderous cities in the world are located there in 2016 (Table 13.1). Even in cities that are comparatively 'safe', including Buenos Aires, Lima or Montevideo, feelings of insecurity are high owing in part to high levels

13 The costs of violence as a proportion of gross domestic product (GDP) vary by country. Estimates suggest that for Peru and Brazil it is 1.4 per cent of GDP, for Mexico 3.6 per cent, for El Salvador 4.9 per cent, for Colombia 6.4 per cent, for Venezuela 6.6 per cent, and for Guatemala 6.7 per cent.

14 See http://homicide.igarape.org.br (accessed on 19 December 2016).

TABLE 13.1 *Homicide rates (per 100,000) in selected cities (2016 or latest year)*

1	San Salvador	136,7	432	2016
2	Acapulco de Juarez	108,1	918	2016
3	San Pedro Sula	104,3	789	2016
4	Soyapango	91,1	220	2016
5	Chilpancingo de los Bravo (Guerrero)	88,1	234	2016
6	Distrito Central	79,9	971	2016
7	Marabá	76,7	201	2015
8	Grande Sao Luís	74,5	800	2016
9	Guatemala	70,8	704	2016
10	Ananindeua	69,6	352	2015
11	Choloma	90,5	220	2015
12	Serra	64,7	314	2015
13	Caruaru	64,0	225	2016
14	Viamão	61,9	156	2015
15	Cape Town	61,5	2469	2016
16	Belém	60,9	876	2015
17	Victoria	60,5	216	2016
18	Mossoró	59,3	171	2015
19	St. Louis	59,3	188	2016
20	Aparecida de Goainia	58.8	307	2015
21	Caucaia	58,8	208	2015
22	Aracaju	58,5	370	2015
23	Santa Ana	55,4	136	2016
24	Imperatriz	54,5	138	2015
25	Manaus	54,3	1118	2015
26	Cali	53,2	1273	2016
27	Nelson Mandela Bay	53,1	668	2016
28	Camacari	53,0	152	2015
29	Baltimore	52,1	323	2016
30	Maceió	51,8	529	2016
31	Betim	51,5	215	2015
32	Cariacica	51,1	195	2015
33	Natal	50,9	443	2015
34	Villa Nueva	50,7	292	2016
35	Tijuana	49,8	871	2016
36	Vitória da Conquista	49,5	170	2015
37	Juazeiro do Norte	47,4	126	2015
38	Buffalo City	46,5	388	2016

TABLE 13.1 *Homicide rates (per 100,000) in selected cities (2016 or latest year)* (cont.)

39	Palmira	46,3	142	2016
40	Culiacán	46,3	439	2016
41	Mazatlán	46,3	224	2016
42	Porto Alegre	46,0	679	2015
43	Canoas	45,4	155	2015
44	Detroit	44,9	316	2016
45	New Orleans	44,5	175	2016
46	Cuiabá	43,8	254	2015
47	Joao Pessoa	43,7	350	2016
48	San Juan	43,4	144	2016
49	Kingston	43,2	288	2015
50	Jaboatão dos Guararapes	42,4	291	2015

SOURCE: HOMICIDE.IGARAPE.ORG.BR.

of victimisation. This is not entirely surprising given the extent of urbanisation: fully 75 per cent of the region's population live in cities. And in some of the region's most rapidly expanding cities—such as Acapulco in Mexico, Caracas in Venezuela, Maceió in Brazil, and San Pedro Sula in Honduras—violence is especially acute.[15]

Violence in Latin America and the Caribbean is hyper-concentrated in urban areas, especially lower-income neighbourhoods (Muggah et al., 2017; Salama and Camara, 2004). This is due in large part to rapid (and unregulated) population growth, higher population density and informal or poorly planned development. As a result, zones of exclusion are quickly established segmenting higher-income communities from lower-income ones (Dammert, 2007; Muggah, 2015b). These spatially segregated areas can inhibit connectivity with other urban neighbourhoods. They also frequently feature topographic barriers and an uneven supply of and access to social services. Organised crime groups, gangs and vigilante groups frequently develop alternative mechanisms of social control (Briceño-León et al., 2008; Concha-Eastman, 2005, 1994; Cruz, 2004; Rodgers, 1999; Rodgers and Muggah, 2009; Rubio, 2005).

15 See http://fragilecities.igarape.org.br (accessed on 19 December 2016) for a review of homicide and population growth rates in over 2,100 cities around the world. Also see Muggah (2017a; 2017b) and The Economist (2017).

Different states and cities inevitably experience different types and intensities of crime and victimisation. This heterogeneity is important to acknowledge when considering the design of citizen security interventions. The extent of violence and its organisation can be visualised as a continuum. For example, in some cities—Medellin, Rio de Janeiro or San Pedro Sula—there is a comparatively high level of violence and that violence is, simultaneously, highly organised. Meanwhile, in other cities, say Managua or Panama, rates of homicide and crime are comparatively low but there are still organised criminal groups who may play a role in preserving nominal stability (Garzon, 2016; Sullivan, 2012; Sullivan and Elkus, 2010).

Violence in Latin American and Caribbean cities is also frequently sticky. Although patterns of violence and victimisation can change over time, they nevertheless tend to concentrate in specific locations. Crime and victimisation are concentrated in specific cities and within specific neighbourhoods and blocks, or 'hot spots'. In most cities, the largest share of violence occurs on just a few street corners. In Bogotá, for instance, social scientists have determined that less than 2 per cent of the city's streets accounted for virtually all of its lethal victimisation in 2012–13 (Mejia et al., 2014). In Honduras, more than two-thirds of all homicides occur in just three cities.[16]

There are many ways to explain why urban violence clusters. Some theorists contend that specific areas within cities offer intrinsic opportunities for criminal activity as a result of political neglect and the absence of a state presence together with highly localised economic decay (Ackerman and Murray, 2004; Concha-Eastman et al., 1994; Cohen and Rubio 2007). Other insights from social disorganisation theory connect higher crime rates with neighbourhoods exhibiting a higher density of offenders, a higher percentage of rental housing, and large social housing projects (Vilalta and Muggah, 2016). Indeed, the probability of becoming a violence entrepreneur also increases if the individual is brought-up in a highly crime-affected area (Vilalta and Muggah, 2014; Krivo and Peterson, 1996).

3.1 *Explaining the Violence–Poverty Paradox*

With Latin American and Caribbean poverty rates at their lowest level in decades, why is violence so persistent? Researchers tend to expect an inverse relationship between improvements in the welfare of the poor and reductions in crime and violence (Roger and Pridemore, 2013). On the positive side of

16 US studies have demonstrated that up to half of all crimes can be focused within 1 per cent of a city's blocks and 70 per cent of all crimes within 5 per cent. The same trend is seen in Latin America. See Muggah (2015a).

the ledger, most Latin American and Caribbean countries have experienced dramatic reductions in poverty since 2000. According to United Nations data, the proportion of the region's 632 million residents suffering from poverty declined from 41.7 per cent to 25.3 per cent.[17] Although the reduction of poverty rates has stalled in some countries, Latin American and Caribbean residents have experienced real improvements in economic well-being.[18]

Paradoxically, many Central and South American countries and cities are still among the most violent on the planet. It was not always this way. In spite of civil wars and brutal dictatorships in some Latin American and Caribbean states, homicide rates were closer to the global average during the 1960s and 1970s. Since then, homicide rates steadily increased while murder declined in most other parts of the world (UNODC, 2014). The precise relationship between poverty and homicide is still a mystery. Part of the problem is disagreement over how 'poverty' itself is defined. It is more than just a narrow material measure of dollars per day. While many people in Latin America and the Caribbean at the bottom end of the social ladder have experienced real income gains, the quality of economic growth has been poor. For most countries, poverty reduction efforts were based on a model advocating consumption. Poverty reduction, then, was due in large part to direct cash transfers and access to low-wage, part-time work, which resulted in limited social mobility.

Even so, the relationship between violent crime and the overall development of a country is not linear. According to the World Bank, 'homicide rates first increase as per capita income rises and then decline at high levels of per capital income' (Chioda, 2017, 9). This is because as income grows, the opportunity costs of crime also increase (Felson and Clarke, 1998; Gaviria et al., 2010). There is also likely an increased demand for security and safety as levels of crime rise, forcing more investment in controlling crime. Another insight is that investments in social and economic development alone cannot necessarily reduce criminal violence. It turns out that the size of the middle class and levels of poverty are not on their own statistical determinants of violence trends. What seems to matter is the speed of development: a 1 per cent increase in the growth rate of GDP correlates with 0.24 fewer homicides per 100,000.

17 In absolute terms, this translates into at least 56 million people lifted above the poverty line from 2001 to 2012. See http://www.latinamerica.undp.org/content/rblac/en/home/presscenter/pressreleases/2014/08/26/un-tercio-de-los-latinoamericanos-en-riesgo-de-caer-en-la-pobreza-dice-el-pnud/ (accessed on 19 December 2016).

18 See UNDP's press release http://www.cepal.org/en/comunicados/se-estanca-la-reduccion-de-la-pobreza-y-la-indigencia-en-la-mayoria-de-paises-de-america (accessed on 19 December 2016).

This suggests that the speed of growth is a 'protective factor', reducing the benefits of crime.

Another suspected driver of homicidal violence is inequality, though there continues to debate on the strength of the relationship. Panel surveys often show that the more unequal a setting, the higher the rates of violence. In spite of demonstrated declines in poverty across Latin America and the Caribbean, inequality reduction is stagnating. The World Bank and the Socio-Economic Database for Latin America and the Caribbean (SEDLAC) detected reversals in inequality in some parts of Central America's northern triangle and the Andean region since 2010 (Cord et al., 2014). In fact, Latin America exhibits the most unequal distribution of income in the world: including 10 of the top 15 most unequal countries on the planet (Deas and Daza, 1995; Fainzylber et al., 2002; Sánchez and Núñez, 2001). There are at least two reasons why more inequality translates into more violence. First, large disparities in wealth create greater competition in and between populations experiencing high unemployment and limited upward mobility. Second, income inequality generates competition for public goods between the rich and poor.

Given elites' capacity for appropriating or even eliminating services, the result is often substandard public services, including policing in poorer areas. Yet inequality does not tell the whole story. When measures of poverty are included in models used to examine homicide effects, the inequality–homicide effect diminishes substantially. According to some researchers, non-income measures of poverty—including infant mortality rates and the availability of only limited social protection services—also seem to play a statistically significant role in shaping the trajectory of homicidal violence (Pridemore, 2011).

One key factor that contributes to high homicide rates is persistent youth unemployment. About 13 per cent of Latin America and the Caribbean's 108 million young people (15–24) are unemployed.[19] This is three times the rate for adults. Over half of those who actually do work are tied to the informal economy. Taken together, more than 20 million young people are not receiving education, training or employment. Panel surveys have shown that a 1 per cent increase in youth unemployment leads to an additional 0.34 additional homicides per 100,000 people (Chioda, 2017). The supposed reason for this is that youth are especially susceptible to predation and criminal behaviour, and the benefits of engagement in the criminal market are higher than the formal market. It is important to stress, however, that employment alone may be

19 See the news from ILO: http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_362985/lang--en/index.htm (accessed on 19 December 2016).

insufficient to deter involvement in crime. There is research suggesting that the 'quality' of labour matters.

In Brazil, a 1 per cent rise in unemployment rates for men results in a 2.1 per cent spike in murders. Latin American and Caribbean societies are witnessing an explosion of 'aspirational crime'. The perpetrators and the victims alike are typically young people who are out of work, out of school and out of options. As observed by economist Gary Becker in 1968, criminals may determine that the benefits of their crimes outweigh the potential costs. As such, limited employment horizons are associated with a reduction of the opportunity costs of crime. Unemployment is also connected to a surge in gang recruitment and membership. Relatedly, low rates of education achievement are also frequently correlated with higher exposure to criminal violence. Latin America has expanded access to schools and improved literacy rates, but drop-out rates are still high and school quality is low. The non-completion of school—especially secondary education—is strongly correlated with delinquency. Studies from Bogota indicate that age and educational attainment are key factors shaping violent crime exposure, and that targeted support for permanent income can play an important deterrent role in criminal involvement.

Yet one more explanation for high violence rates in Latin America and the Caribbean relates to the weakness of institutions responsible for security and justice (UNDP, 2013). Weaknesses include low institutional legitimacy and uneven capacity. For example, abusive, corrupt and illegitimate institutions may fuel crime. Meanwhile, low institutional capacity ensures law and order is associated with patronage and impunity. In Latin America, just 20 in every 100 murders results in a conviction: the global rate is 43 in 100. There are several explanations for institutional weakness. One of the most obvious is the legacy of conflict and military rule in countries like Argentina, Colombia, El Salvador or Haiti. Military and police institutions continue operating with a war mentality. Some of them harbour clandestine structures, in the armed forces, intelligence and judicial sectors. In Guatemala, for example, right-wing paramilitary groups are still active and are cultivated by powerful elites (ICG, 2016).

A major factor shaping systemic impunity is organised crime—especially drug trafficking organisations. All Latin American and Caribbean countries are affected, to varying degrees, by criminal organisations, especially drug cartels, which generate an estimated USD 330 billion in revenues each year (UNODC, 2012b). In many countries, such groups have already penetrated all branches of government, not unlike the mafia during the twentieth century in Italy (Bloc, 1974; Gambetta, 1996; Godson, 2003; Varese, 2011). After all, a weak state is a boon for organised crime. Buying off public institutions is much more efficient than fighting them.

There are of course other reasons that Latin American and Caribbean countries are wrestling with above-average rates of crime and victimisation (Sanchez and Nunez, 2001). For example, unregulated urbanisation partly explains a surge in homicide rates in large- and intermediate-sized cities and slums (Muggah, 2015a). The abundance of unlicensed firearms, including those trafficked from the US or those that reach the market from domestic sources, are also associated with the region's disproportionately high burden of gun violence (Muggah and Dudley, 2015). Moreover, social norms that condone machismo and unequal gender relations are credited with shaping high intimate partner and domestic violence rates (Morrison et al., 2004; Nelson, 1996).

3.2 *Responding to Different Types of Citizen Insecurity*

The specific characteristics of criminal violence in Latin America and the Caribbean are also heterogeneous. Naturally, distinct settings confront one with distinct types of citizen security challenges, necessitating diverse solutions. For example, there are some settings with several independent criminal organisations in routine (violent) contact with state actors, as is the case in Brazil, Colombia, El Salvador and Mexico. There are others where criminal groups are highly active but there is less violence, as in Guyana, Peru or Panama. There are still more situations in which levels of criminal organisation are comparatively low but police and military corruption is high, as in Bolivia, Ecuador, Nicaragua and Venezuela.

In Latin America, several types of strategies are mobilised to deal with these various kinds of insecurity.[20] As the conditions on the ground evolve, so too do the various responses. It is of course the case that conventional citizen security approaches are germane to many situations of criminality. That said, in extreme scenarios, particularly in situations of intense state complicity with armed groups, more fundamental state reform, anti-corruption measures, and mediation actions may be more appropriate. At the centre of Figure 13.1 are doctrinal changes. These can include improvements in data gathering and use and changes in police practices and behaviour that often serve as a central locus of a variety of policy changes but that do not target particular types of crime (Olavarria and Pantoja, 2010). Figure 13.1 provides a generic menu or road map via which policy makers and practitioners may consider the types of contexts they confront and the most appropriate and evidence-based intervention strategies.

20 This section, focusing on strategies, was developed in partnership with Desmond Arias in 2014 and 2015.

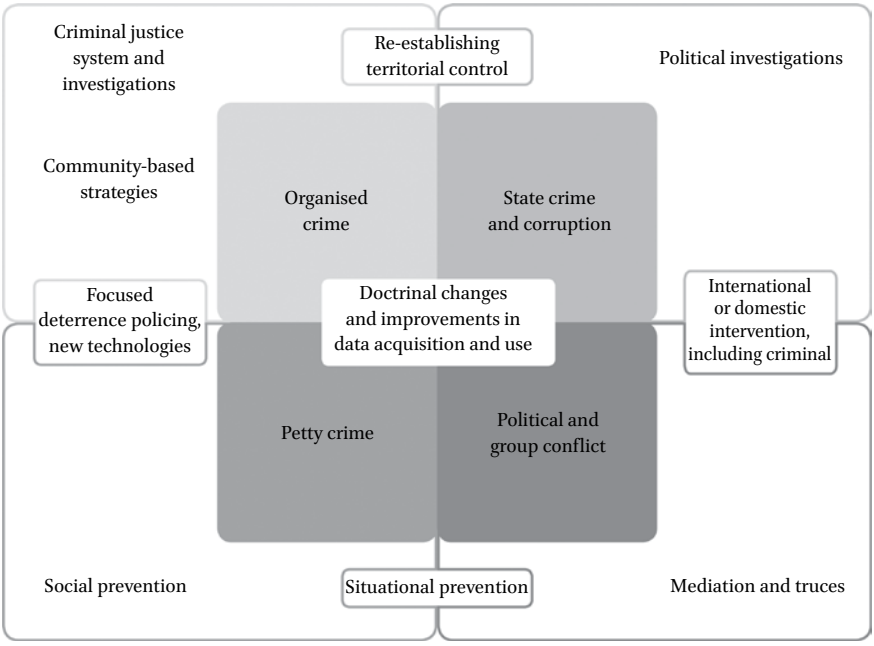


FIGURE 13.1 *A typology of citizen security threats and interventions.*
SOURCE: AUTHOR.

It is often the case that different types of security conditions and intervention strategies come together in practice. For example, in the lower left-hand corner of the central box in Figure 13.1 (petty crime) responses to diffuse crime groups and high rates of violence include focused deterrence and social and situational prevention. New kinds of policing technologies are also increasingly being mobilised in Latin America to address low-level crime, and include geo-referenced crime data, intelligence-led patrol practices, neighbourhood watch groups and open street planning (Arias and Ungar, 2009; Beato Filho, 2013; Weitekamp and Kerner, 2003; Weisburd et al., 2010). Experiences from Mexico show that conventional policing strategies—together with prevention measures—can effectively deal with diffuse and uncoordinated criminal activity (Calderon, 2013; Harriott, 2000).[21]

There are several citizen security approaches that seem to be more effective than others. For example, focused deterrence—identifying the individuals

21 For example, recent assessments conducted by Mexico's Instituto Nacional de Estadistica y Geografia de México (INEGI) in the city of Aguascalientes were able to detect a specific type of criminal activity (car theft) and reduce it by half in less than a year.

most prone to using violence and engaging them in repeated communication with law enforcement officers, social services and community leaders—seems to have a strong positive effect in lowering violence rates.[22] Likewise, cognitive behavioural therapy—approaches that employ clinical psychological techniques in order to change the harmful thinking and behaviour of criminals—also exhibits robust scientific evidence of success.[23] Ultimately, the success of these programmes depends on the extent to which they are guided by reliable data and integrated into a country's or city's citizen security strategy.

Different strategies may be required to combat more organised criminal activity and corruption. Sophisticated crime groups (such as cartels or transnational gangs) may not be amenable to the strategies mobilised to combat petty crime. In the case of more organised gangs, the importance of local community building and citizen participation increases as does that of routine criminal investigation (see Figure 13.1). As long as state institutions are not deeply complicit in crime, local community activism and participation tend to play an important role in preventing, controlling and ultimately reducing crime and improving overall safety and security (Arias, 2004).

Citizens are central to the process of gathering and delivering important information to the police and to helping to improve public security. Even more pivotal, local resident associations often take ownership of citizen security issues in their own neighbourhoods through community watch groups and other forms of legal and legitimate informal control measures (McIlwaine and Moser, 2001). The specific role of citizens in safeguarding their own security is not well understood, though some research from northern Mexico is revealing (Vilalta, 2013). As criminals become more organised, particularly moving from youth gangs to more sophisticated mafias and extortion rackets, intensified investigations come to play an important citizen security role (see Figure 13.1).

Meanwhile, complex criminal enterprises, while often network-based, are also often largely clandestine and may have little visible public presence, as the case of criminal bands (*Bacrim*) in cities like Medellin amply shows. In such circumstances, the equation changes again. Individuals who might have been willing to work with the government on controlling gangs or who might report street crimes may be unable to interact with the public authorities for fear of criminal retaliation. Under these circumstances more assertive and effective

22 In nine interventions out of ten, this strategy was found to reduce homicides from anywhere between 34 per cent and 63 per cent, according to the report. See Abt and Winship (2016).

23 The report by Abt and Winship (2016) found the most effective CBT interventions resulted in a 52 per cent reduction in the recidivism of juvenile and adult offenders.

police investigations of criminal activities play a more important role in controlling crime. In conditions of highly organised crime, with either a contentious or more collusive relationship with state officials, efforts by the state to reoccupy territory controlled by these criminal organisations constitute a key response to criminal activities (see Figure 13.1). Organised criminal groups often capitalise on their ability to control territory and to provide informal security services ordinarily provided by the state (Garzon, 2016). In such cases, truces and ceasefires are tempting options, but must be treated with caution (Muggah et al., 2013).

The re-establishment of territorial control and the reclaiming of basic services—as with the case of consolidation in Colombia or of pacification in Rio de Janeiro—may be the priority. This can help state and city governments and police forces to actually conduct investigations and, over time, to engage in community building and the promotion of more participatory citizen security activities that are made possible by an improved and reliable state presence. State corruption, from the federal to the municipal level, can however attenuate the effects of a territorial occupation. When crime is highly organised and has strong relationships to the state, or in situations of state-centred criminal activities, state accountability and oversight, often exercised through internal or legislative investigations, becomes essential to controlling criminal activities (see Figure 13.1). The different elements of horizontal, vertical and social accountability can help break apart strongly collusive relationships between state officials and criminals.

As these relationships dissolve, other solutions, including international investigations and territorial reoccupation, can become more effective. In conditions where state actors have generally positive relationships with different types of organised and disorganised armed actors, as reflected on the right hand border of Figure 13.1, state reorganisation, building, and reform may be important to efforts to improve security. The International Commission against Impunity in Guatemala is an example of an innovative intervention in this regard (Panner and Beltrán, 2010). As the general structure of the state improves, it will become possible to hold collusive state actors to account and engage in security activities.

A particularly insidious situation occurs where there are divided armed groups collaborating with the state or factions within the state (Figure 13.1). In such settings, stability operations, as opposed to law enforcement efforts, may be essential to controlling violence and other forms of criminality (Muggah, 2013, 2009). Under these conditions different factions of the state may be engaged in internal struggles as well as in violent competition with armed groups. Dealing with this problem may involve efforts to control and contain both conflict between these groups and confrontations between the state and

relevant armed factions. Over time, as security is consolidated, institutional strengthening of state entities and social and economic reintegration interventions for armed actors may play an important role in promoting citizen security (Muggah, 2009). Indeed, the peace-building and peacekeeping communities are addressing many of these kinds of 'no war, no peace' scenarios in the course of their work (Muggah and Krause, 2009). The rise of so-called police-keeping as part of UN peace support mandates—including in Haiti—is testament to this.

In conditions of disorganised criminal activity, whether connected to the state or not, policies of state-building must be attentive to the way they unintentionally give rise to insecurity. This is because most of those involved in criminal activities—and this applies to a broad range of such endeavours—typically lack wider social and economic opportunities. Indeed they may fall back on criminality to secure protection from other criminal groups or to support themselves. Under these circumstances controlling crime may involve a heavy investment in social welfare policies that provide opportunities for vulnerable populations to build better connections into the social and economic system. Integrating these communities and their populations more effectively into state services and programmes may involve developing strategies to help build and extend public services at the micro-level into the areas and populations most affected by criminal activities and violence.

4 The Future of Citizen Security

A major deficit of citizen security moving forward is the lack of evidence explaining outcomes and impacts (Araya, 2011; Cano and Rojido, 2016; Muggah and Aguirre, 2013; Alvarado et al., 2015; Fundación Ideas para la Paz, 2012; Garcia et al., 2013; Sherman, 2012; Tocornal et al., 2011; Rau and Prosser, 2010). While there is growing political support and rising investment—including from donor countries in North America and Western Europe—this will be difficult to sustain in the absence of hard metrics of success. What is more, it will be hard to replicate citizen security innovations without credible documentation of how activities were sequenced and without solid monitoring and evaluation. Notwithstanding a wealth of scientific impact evaluations in the North American and Western European setting, there is a surprisingly limited number of studies of Latin America and the Caribbean.[24]

24 For a review of citizen security activities consult Muggah and Aguirre (2013) and CAF (2014). For an examination of the literature on homicide reduction evaluations consult Cano and Rojido (2016).

To better apprehend the scale and distribution of citizen security investments across Latin America and the Caribbean, the author worked with several partners to develop a citizen security dashboard.[25] The time period covered by the dashboard was from 1998 to 2015. Citizen security initiatives were categorised according to their spatial, temporal and thematic scale, distribution, and budgets. In addition to tracking regional, national and municipal activities in a number of countries, the dashboard also considers the activities of multilateral and non-governmental sources such as the IADB, OAS, UNDP and World Bank, among others. While the assessment is not exhaustive, it is nevertheless complete and facilitates an analysis of trends (Muggah and Aguirre, 2013).

One of the core objectives of the creation of the citizen security mapping database for Latin America and the Caribbean was to assess the impact of discrete interventions. In other words, the goal was not just to assess the quantity of interventions—which, given the 1,300 collected across 26 countries, is sizeable.[26] Rather, the objective was also to determine the quality of these policies, programmes and projects (Muggah and Aguirre, 2013). One way to do this is to canvass the published, grey, and private literatures for impact evaluations. An intensive review of the literature detected some evidence in the criminological literature of the merits of deterrence-based strategies, interventions focused on at-risk youth, environmental design approaches, and approaches emphasising housing and tenure. But the fact is that there are very few peer-reviewed articles, and even fewer robust experimental designs that measure outcomes.

After an exhaustive search, just 85 evaluations were detected from the caseload of all 1,300 citizen security interventions. Of these, only 18 were designated as 'formal' scientific impact evaluations.[27] Impact evaluations of citizen security interventions were most commonly pursued in Colombia, Chile and Brazil. All but one of the evaluations identified a positive outcome.[28]

25 See http://citizensecurity.igarape.org.br/ (accessed on 20 December 2016).

26 Additional information is currently being added from several Central and South American countries as well as Caribbean states/cities including Barbados, Haiti, Jamaica, Puerto Rico, Saint Kitts and Nevis and Trinidad and Tobago.

27 By *formal* evaluations we mean evaluations employing a 'scientific methodology' using a counterfactual (e.g. experimental, quasi-experimental, and case study-based design). To be included, the findings of a given evaluation must detect a positive effect of the intervention in achieving the objective (cause–effect).

28 See, for example, Beato Filho (2005), Cano (2012, 2007), Soares and Viveiros (2013), and Villaveces et al., (2000). Just one evaluation (in Colombia) reported a negative or null effect of the intervention evaluated.

Another 67 interventions featured monitoring systems that 'reported results' in a standardised and convincing manner. In these cases, the supporters of the intervention maintained documentation of outcomes (such as the number of beneficiaries, or some statement on results).

Notwithstanding the limited evidence base, citizen security is widely considered a development priority across Latin America and the Caribbean, especially for mayors and municipal leaders.[29] It allows for the combination of a wide range of activities—from situational prevention and preventive policing to judicial and penal reform and social interventions. The legacy of citizen security interventions is far-reaching. There are, on the one hand, obvious security and safety dividends arising from the interventions discussed in this chapter. But there are also far-reaching transformational influences of citizen security on security sector and wider democratic governance. The role of Brazil's pacification police, or Pacifying Police Unit (Unidade de Polícia Pacificadora, UPPs), for example, is to tame armed groups in communities, but also to pacify the military police themselves, long inclined institutionally towards more repressive models of intervention. Citizen security can and is reshaping security policies both domestically and intra-regionally[30] and generating important gains in the short, medium and long terms.

5 Conclusion

While some states and cities in Latin America are reverting to more repressive law and order strategies, efforts to promote citizen security will likewise continue expanding across Latin America and the Caribbean. Yet it is worth recalling that citizen security is a necessary but insufficient pathway to improving safety and preventing violence. It must also be accompanied by efforts to reduce concentrated poverty, chronic income and social inequality, and unemployment, especially among younger population groups. It is vital that national, state and city leaders mobilise and sustain social and economic policies, not least initiatives that keep adolescents and teens in school and in the labour market. There are positive examples of this, including in Brazil and

29 See, for example, the Bogota Manifesto at http://www.iadb.org/en/news/news-releases/2010-04-16/mayors-latin-america-and-the-caribbean-alliance-of-cities-citizen-security-idb,6993.html (accessed on 20 December 2016).

30 For an example of how UPP policies are being adopted in Panama and beyond, see Cunha (2012).

Mexico where targeted conditional cash transfer programmes and redistribution policies are correlated with reductions in homicides and sexual violence.[31]

Nevertheless, public authorities that have demonstrated a commitment to sustained investment in safety and security are yielding promising results. While there are still conservative supporters of heavy-handed approaches to crime prevention in Latin America and the Caribbean, many governments are nevertheless seeking to strike a balance—investing in both punitive and preventive measures. Transparent civilian oversight of the region's military, law enforcement and justice institutions—what some are calling security governance—is a precondition for restoring their credibility and legitimacy. Likewise, improvements in the quantity and quality of data collection on crime[32] are also leading to smarter policing and the more efficient delivery of judicial services to those who need them most. These are all deeply challenging tasks, and all demand enlightened leadership if they are to be achieved. The greatest successes arise when policies are sustained across multiple electoral terms and are genuinely owned by citizens themselves.

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31 In Mexico, conditional cash transfer and redistribution programmes are strongly associated with reductions in both homicides and sexual violence at the state and city levels. And in Brazil, conditional cash transfer and housing improvement measures such as *Bolsa Familia* and *Minha Casa Minha Vida* have yielded positive impacts on reducing property-related and youth crime. See Vilalta and Muggah (2016), Vilalta and Muggah (2014) and Muggah (2015b).

32 See, for example, Guerrero and Concha-Eastman (2001) for an early examination of data-driven violence prevention.

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CHAPTER 14

The Evolving Role and Influence and Growing Strength of Social Movements in Latin America and the Caribbean

Ricardo Fuentes-Nieva and Gianandrea Nelli Feroci

Abstract

This chapter argues that we are witnessing new processes of social participation and activism in Latin America, characterised by the absence of defined centres of deliberation and coordination, and by transitory leadership. This activism is part of a wider global wave of social protests that began with the Arab Spring in 2011, with which it shares common features such as the generational factor, the role of social media and networks and the use of information and communication technologies (ICTs), the gap between institutional politics and the citizenry, and the weakening of the convening and mobilisation power of classic social movements. The period 2011–15 was characterised by the emergence of this new kind of social activism in Latin America. This form of activism is growing in a specific regional context of increasing contradictions arising from exclusionary socio-economic development and incomplete human development characterised by radical social inequalities in democracies that still do not attend to the needs of large parts of society. Although these social movements may seem new, they are in fact the expression of underlying tensions present in most societies of the region; points of tension that have long represented the core of social conflict in Latin America: inequality, poverty and the exclusion they both imply. This exclusion is social (a lack of access to basic services, education, health and transport, etc.) and political (a lack of participation in decision-making processes, self-referential political classes and opaque institutional processes, and a lack of political–institutional accountability).

1 Introduction

This chapter is the result of a research and analysis process the authors undertook over three years, as part of their research work for Oxfam, to observe the

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panorama of social movements in Latin America and the Caribbean (LAC). The research is based on a mix of direct experience in the field—gained while organising programmes in the region, a literature review, and interviews with key actors. In order to achieve its goals, Oxfam works with and through local civil society organisations (CSOs); thus, a better understanding of the emerging trends in this sector is important for the organisation's strategic thinking and positioning.

The chapter's analytical framework is the academic research being pursued with regard to the emerging social movements linked to the wider global wave of social protests that began with the Arab Spring in 2011—protests in which social networks and media, ICTs, fluidity, a lack of clear leadership, spontaneity, and disenchantment with regard to party politics and institutions are common features and play a key role (Branco, 2014; Castells, 2014; Cardoso, 2014; Calderón and Szmukler, 2014; Pellizzetti, 2014). The authors define a 'social movement' as 'the process of the (re)constitution of a collective identity, outside the context of institutional politics, through which individual and collective action become meaningful' ('el proceso de (re)constitucion de una identidad colectiva, fuera del ambito de la politica institucional, por el cual se dota de sentido a la accion individual y colectiva') (Revilla Blanco, 1996, p.1, our transl.).

The positive trend of economic growth, development and poverty reduction that characterised LAC in the first decade of the twenty-first century has come to a halt, and this may lead to the stagnation of social development or even, in social terms, to new negative trends. At the same time, the region seems to be entering a period of political crisis, in which the progressive regimes, which strategically exploited the economic bonanza in order to foster social development, are now running out of resources, in terms both of political strategies and economic policies. The same is happening in those countries where conservative regimes have retained power. It would seem that most of the countries in the region are reaching the end of a political and economic cycle. At the same time, it must be acknowledged that the progress, in both economic and development terms, of the last decade has formed a new social landscape in LAC, characterised by a growing, but fragile, middle class (or *better-off class*), and by a citizenry increasingly conscious of its rights. In this context, new forms of active citizenship and social mobilisation have appeared.

Notwithstanding the positive changes of the first decade of the present century, the latest Latinobarómetro results reveal the lowest support for democracy in LAC since the yearly regional public opinion poll began in 1995. In 2015, only 37 per cent of Latin Americans said they were satisfied with democracy, with record lows in Mexico (19 per cent) and Brazil (21 per cent)

(Latinobarómetro, 2015). Even though LAC has been characterised by what is commonly defined as the 'golden decade' and has scored better than any other region of the globe in terms of progress in social development, it is the geographical area with the lowest satisfaction with regard to democracy (compared with Africa, Asia, and Europe). That apparent contradiction may be explained by the continuing high levels of inequality in LAC and by a qualitative differentiation between the economic classification of 'middle class' and how the new middle class self-assesses its progress up the social pyramid, especially from a sociopolitical point of view. In fact, in most cases, the new Latin American middle class—richer, more educated, and politically conscious—is still economically vulnerable, and risks falling back into poverty. And, most importantly, it is still excluded from decision making processes, universal social welfare, fair access to justice, better employment opportunities, and is still waiting for a meritocracy to take shape. This perception of exclusion is often amplified by corruption scandals involving the political and economic elites. What the economic statistics do not say is that an important part of the new middle class is still very 'poor' in sociopolitical terms.

It can be argued that Latin American people are—due to democratisation, reduced poverty, advances in education levels and increased access to information—currently traversing a phase in which they are increasingly aware of the situation of economic and political precariousness in which they find themselves and of the injustices that situation implies. Social disparities are no longer perceived as naturally occurring or teleological, but as unacceptable evidence of injustice and dysfunctional states, and these disparities become sources of unrest and issues worth fighting for in order to achieve societal change (PNUD-PAPEP, 2012). It is not by chance that the period 2011–15, when the first symptoms of the end of the economic cycle and the sociopolitical limitations of the growth model started to be felt, was characterised by a (re)emergence of social activism in the region. The social movements fostering this activism grew in a context of the increasing contradictions that arise from fast economic growth combined with exclusionary economic development and from incomplete human development, characterised by radical social inequalities in democracies that still do not attend to the needs of large parts of their societies. They also share common features such as the generational and social class factor (youths, university students, and the urban *better-off class* play a key role in most of the mobilisations), the role of social media and the use of ICTs, the gap between institutional politics and the citizenry, and the weakening of classic social movements' convening and mobilisation power.

Another common and challenging feature is that most definitions of social movements seem to be too narrow or obsolete to adequately describe what is

currently happening in LAC, as in other regions of the globe. In most of the countries of the region it would be more accurate to talk about social eruptions of connected networks, which disappear and reappear rapidly to protest against specific issues. ICTs and social media play a key role in this continuous social work in progress, allowing active citizens to stay permanently interconnected and mobilise when a critical mass is built around a specific call for mobilisation. These 'movements' can have an impressive convening power. However, in most cases, their political and economic impact is still unclear, even if some implications can already be identified in sociocultural terms and with regard to emerging players.

In fact, perhaps the most revolutionary aspect of these new social movements lies in their structures and forms of mobilisation and organisation. In political terms however, it remains to be seen whether the new urban middle class is willing to create enduring alliances with traditionally marginalised groups, given the massive concentration of political power, income and wealth still evident in the region, which affects both sides of such potential alliances. Some experiences seem to confirm that a convergence can be found. That is what happened during the *paro agrario* in Colombia in 2013 when peasant movements and the urban middle class joined forces, and during the *#YoSoy132* mobilisations in Mexico in 2012, and the Guatemalan *#RenunciaYa* protests in 2015 when private and public university students protested together, something previously unseen. However, this has not yet led to formal political alliances, and seems more linked to a specific coincidence of interests during the demonstrations rather than to long-term strategies.

The above—together with these movements' organisational characteristics—is linked to the question of why, so far, these movements, despite their enormous convening and mobilisation powers, have not been able to bring about actual political (with the partial exceptions of Guatemala and Chile) and structural change, and whether this is likely to change in the near future. We try to answer to these questions through the analysis of three regional case studies, encompassing apparently similar forms of social unrest during recent years but with different outcomes: Brazil, 2013; Mexico, 2012–14; and Guatemala, 2015.

2 National Cases: Convergences and Divergences

2.1 *Political Contexts and Demands*

The movements analysed arose in different political contexts and with different dynamics. While the 2013 demonstrations in Brazil took form during the tenure of the reformist and progressive government of Dilma Rousseff, the

protests in Guatemala and Mexico spread while the conservative and economically liberal governments of Otto Pérez Molina and Enrique Peña Nieto, respectively, were in power. Thus, there is apparently no direct relationship between the protests of recent years and a specific political regime. The absence of clear identification of the movements with classical political ideologies and party politics seems to point towards dissatisfaction with structural issues, such as inequality and exclusion, rather than towards a reaction against a given political ideology. Let us remember here also that Mexico (conservative governments) and Brazil (a progressive government) are the countries with the lowest satisfaction level in the region with regard to democracy. What the Latinobarómetro (2013; 2015) results seem to be telling us is that no political regime has done enough to implement those structural changes that are deeply needed in the region; structural changes that would have also contributed to fostering a more positive perception of democracy.

It is important to stress that dissatisfaction with democracy does not mean that the majority of Latin Americans are opposed to democracy as a form of government. On the contrary, 56 per cent of the region's people still believe that democracy is preferable to any other kind of government (Latinobarómetro, 2015). What their dissatisfaction tells us is that most of the people in LAC are not satisfied with the way democracy is being applied in the region. In fact, it can be argued that the mobilisations of recent years are deeply linked to democracy and democratic dynamics. They do not argue against the regime; they demand an enhancement of the way in which the regime is functioning. The new movements are the typical expression of societies with a consolidated democratic culture, where debate, criticism, freedom of speech and communication are deeply rooted, and this leads to protests that are typically entrenched in the democratic rules of the game. These protests and their demands for more democracy are paradoxically a symptom of mature democracies. The new social movements in LAC share many commonalities with the new movements in countries considered to be more robust democracies. These movements are found across all democratic systems and are indicators of these systems' dynamism and vitality; and that is a positive trend for the region as a whole.

The disenchantment with democracy can also be explained by the growing disconnect between party politics and the people. In each of the three cases analysed, institutional politics and political parties, both left- and right-wing, were taken by surprise by the size and power of the new movements. They were unable to measure the level of dissatisfaction of the citizenry. This shows how traditional political structures are not effectively linked to the citizenry, and thus were unable to identify in advance the causes of social dissatisfaction. This disconnect can also be considered evidence of the huge level of impunity

with which political parties and politicians are accustomed to operating in the region without even taking into account the possibility of public indignation, at least until today. Because of this disconnect from society, mainstream politics could not foresee the protest movement coming, nor could it address the roots of dissatisfaction by adapting strategic political actions.

These movements were also a rejection of traditional institutional political players. And it can be argued that they are the result of the increasing distancing of political parties, and unions, from the social reality they should represent. Notwithstanding these shared features however, the movements' relationships with institutional actors change depending on each country's reality. While in Brazil, together with other cases not analysed here such as Chile, there was some sort of approach between the movements and some formal political forces, in Mexico and Guatemala the rejection was sharp.

Only once massive social unrest erupted did those political forces—that are supposedly sympathetic to social demands—try, opportunistically, to establish ties with the new social movements. However, with the partial exception of Brazil—where the Socialism and Liberty Party (Partido Socialismo e Liberdade), the Unified Socialist Workers' Party (Partido Socialista dos Trabalhadores Unificado) and the Revolutionary Communist Party (Partido Comunista Revolucionário) joined and participated actively in the mobilisations—these moves were unsuccessful and were openly rejected by the movements. In Mexico, attempts by the Democratic Revolutionary Party (Partido Revolucionario Democrático) and the National Regeneration Movement (Movimiento Regeneración Nacional) to exploit the protests and ally with the movements failed. While, in Guatemala, political parties were openly invited *not* to participate in the protests, which were against the entire political system that they themselves represented, and those same parties preferred to keep a cautious distance from the streets with the presidential elections approaching. In all three countries different kinds of demands coexisted, even though the protests and mobilisations started for specific reasons. In Brazil, the first protests of June 2013 were led by already existing social movements that historically had addressed public transportation issues. However, the violent reaction of the police, together with government and mainstream media attempts to delegitimise the protest, led to a public outcry that soon transformed into massive mobilisations made up mostly of 'common people', not usually politically active. A specific protest linked to transportation suddenly became a massive movement demonstrating against the high costs—economic and social—of hosting the football World Cup and the Olympic Games while the quality of public education and health care was falling. This was accompanied by other demonstrations, ranging from protests against police brutality and human

rights violations and demands to democratise to media to requests for the recognition of the right to have different sexual preferences. In the Brazilian case the reaction of law enforcement bodies was excessive and very violent, leading to mass indignation. In the cases of Mexico and Guatemala, the police seem to have learned from the political backlash experienced in other countries of the region—or during previous internal episodes (Mexico, *#YoSoy132*)—following a repressive approach, and tactically stood aside.

In September 2014, Mexico was shaken by the forced disappearance of 43 students of the rural teachers' preparatory school of Ayotzinapa, in the state of Guerrero. Immediately following the event, hundreds of thousands of citizens began to gather and protest, demanding justice. The Ayoztinapa case uncovered thousands of other forced disappearances, an extended web of corruption and impunity linked to organised crime, and the government's deliberate manipulation of information. The demonstrations were convened by active citizens via social media with the hashtag *#YaMeCansé* (enough), while the classic social movements—at least at the begining—and opposition parties had a very marginal role, if any. While social unrest had started because of the Ayotzinapa case, the mobilisations soon began focusing on other issues too, including widespread corruption, the unfair justice system, violence and insecurity. Many of those involved were once part of the *#YoSoy132* movement, which in 2012 had protested against the candidature of the current president Enrique Peña Nieto.

In April 2015 a corruption scandal involving the president and vice-president of Guatemala led to massive protests, calling for their resignation and prosecution. Following months of increasing public pressure, first the vice-president and then the president were forced to step down and face trial. This was something previously unheard of in one of the poorest, most unequal and most violent countries of the region, with a long record of repression of CSOs and of civil and human rights violations. The movement *#RenunciaYa* (quit right now), which eventually led to such a historic outcome, was triggered mostly by urban middle class, non-politicised individuals. The demonstrations were convened via social media by active citizens, while the opposition parties had no role and traditional social movements joined only at a later stage. Even though the protests had erupted with regard to a specific scandal, it was the whole Guatemalan political system, accused of widespread corruption, which was placed under scrutiny. It is important to mention the role played by the International Commission against Impunity in Guatemala[1] (Comisión

1 The CICIG has many attributes of an international prosecutor, but it operates under Guatemalan law, in the Guatemalan courts, and it follows Guatemalan criminal procedure. It

Internacional Contra la Impunidad en Guatemala: CICIG)—backed up by the US and the international community. Not only did it uncover the corruption scandal, it also played a key role in calming protesters' fears. Guatemalan citizens were positively shocked by a 'functioning' judicial system and this was a key factor in their empowerment. It was this 'lack of fear' that the traditional political actors failed to anticipate.

2.2 *The Actors*

Because of the fluidity of the new movements, identifying clearly the actors within them represents an analytical challenge. Although—using network and media analysis—it is possible to identify the 'founding members' or 'stem cells' of the movements, with the increase of participation and the diversification of demands, mapping the actors becomes more challenging. Most of the players are not part of a formal movement—with registered members—and in most cases they can be only followed through Twitter or Facebook accounts. That organisational fluidity is at the same time the strength and weakness of these new forms of aggregation and activism.

If, on the one hand, the catalysing capacity of the founding members, thanks to ICTs and social media, leads to impactful protests, rapidly transforming small groups of individuals into mass mobilisations, on the other, those impressive demonstrations are apparently not backed by structured organisations with coordination capacities that can be maintained over time. We are witnessing the emergence of fluid movements, in which random individuals play a key role in terms of the impact of the mobilisations, while the convening groups are relatively small. These two groups of people, founding members, or stem cells, and circumstantial players, are not fixed categories. On the contrary, they mix and interchange roles rapidly, through social media, depending on the specific demands that arise over time.

In the Brazilian case, the mobilisations in 2013 were triggered by the Free Fare Movement (Movimento Pase Libre: MPL), an organised group that had been demanding free public transportation for years. However, the number of

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carries out independent investigations into the activities of illegal security groups and clandestine security structures, which are defined as groups that: commit illegal acts that affect the Guatemalan people's enjoyment and exercise of their fundamental human rights, and have direct or indirect links to state agents or the ability to block judicial actions related to their illegal activities. The influence of these groups within the State is considered to be one of the cornerstones of impunity in the country and a major obstacle that impedes efforts to strengthen the rule of law. Source: CICIG website, http://www.cicig.org/index.php?page=about (accessed on 22 March 2017).

organisations, associations, movements and, most importantly, ordinary citizens without any affiliation who joined the protests, grew so quickly that it was soon impossible to identify one clear leadership or key catalysing demands among the numerous demands raised. The result was multiple actors protesting for multiple reasons contemporarily, with no clear core mobilisation.

In Guatemala in 2015, the protests were convened by the urban middle class, using the social media hashtag *#RenunciaYa*. Without any form of structured organisation, thousands of people, from across the whole political and class spectrums, took to the streets demanding justice and an end to corruption. Another characteristic of the movement was the widespread reaction and participation of Guatemalans abroad; this was not significant in terms of numbers perhaps, but had an important effect in terms of increasing national cohesion. One of the protesters' clear messages was that no political party, no matter its ideology, was welcome to join the demonstrations. Only in a later stage did pre-existing social movements and organised groups join the mobilisations.

Mexico is probably the case in which fluidity was more radical. This is illustrated by the case of the *#YoSoy132* (2012) and *#YaMeCansé* (2014–15) mobilisations. The *#YoSoy132* movement arose spontaneously in May 2012 as a message of support—channelled through social media—sent to the 131 students of the Universidad Iberoamericana who publicly opposed the then presidential candidate Enrique Peña Nieto in a forum held following a speech he gave on university premises. From social media, the movement moved to the streets and started coordinating and deliberating through more conventional dynamics, such as participatory assemblies—convening massive mobilisations that were enlarged by the participation of the urban middle class. The movement was openly opposed to political parties and collaborated only with a few existing indigenous movements and the radical Mexican Electrical Workers' Union (SME). Once Peña Nieto was elected at end of 2012, the movement seemed to disappear rapidly and to break down into small separated groups.

However, some analysts pointed out that it would be a mistake to consider the movement finished. The problem was the analytical lens that was being used: that of classical social movements. In fact, *#YoSoy132* was kept alive via a network of active citizens connected through social media, mostly Twitter and Facebook, with a capacity for rapid mobilisation that could erupt around a given demand. This was proved in the following months by sudden demonstrations convened through this network: *#PosMeSalto,* to protest against a rise in urban rail prices, and *#NoMasPoderAlPoder* and *#ContraElSilencio,* to protest against the government's attempt to increase control over internet usage. When the Ayotzinapa disappearances caused a widespread outcry in Mexico, the convening power of former *#YoSoy132* members was confirmed again by

the massive mobilisations that gathered around the hashtag *#YaMeCansé*. A network analysis shows that many of the Twitter hubs that served as key convenors were shared by *#YoSoy132* and *#YaMeCansé*.

In Brazil, Mexico and Guatemala the key players of the movements are young adults, joined in later stages by other generations. And among these young adults, university students play a key role, not always through formal student associations. Instead, the key players seem to be non-affiliated students or students affiliated to non-university movements such as non-governmental organisations (NGOs), or other CSOs. In Brazil for example the National Union of Students (Union Nacional de Estudiantes), the country's main and oldest students' union, had a marginal role in the 2013 mobilisations, while independent students took the lead, deliberating and coordinating through open participatory assemblies on a daily basis. In Mexico, the 131 students that triggered opposition to Peña Nieto's candidacy in 2012 were not affiliated to any organisation and, more surprisingly, all came from a private, elitist university with no history of political protests.

That the role played by traditionally active student associations was only secondary seems to have loosened the sociopolitical boundaries separating these youngsters from one another, allowing students and youths from different social classes to converge in the movements. In each of the three countries studied, students from private and public universities protested together. That was a striking departure from the past for such stratified societies where *private* and *public* always delimited the difference between the economic elite and the rest of the people. In Guatemala for example, in an unprecedented move, students from the Universidad de San Carlos de Guatemala, the Universidad Rafael Landívar, the Universidad del Valle de Guatemala and the Universidad Francisco Marroquín joined forces so they were able to organise more effective mobilisations. The same dynamic can be found among adult participants in the mobilisations. Here too, the fact that traditional social movements defined by clear political positioning only played a marginal role seems to have opened the doors to a freer participation of individuals sharing the same demands, but not always coming from the same sociocultural and political backgrounds.

It remains to be seen whether freer also means fairer. On the one hand, the loosening of political standpoints has allowed more participation from active citizens who are less and less associated with politics or classic movements. On the other hand, it can be argued that in a region where half of the population has never had access to Internet, the central role of ICTs and social media is exclusionary per se. This poses clear limits on who takes part in the mobilisations and with what roles, and explains the centrality of the urban middle class and youth. At the same time it may also raise doubts about the sociopolitical

legitimacy of the new movements, which, although able to convene mass mobilisations, do not represent large strata of the population.

2.3 *Structures and Forms of Mobilisation*

Probably the most revolutionary aspect of the new movements resides in their structures and forms of mobilisation. Although most of the movements are linked to social demands that have existed in the region for decades, from the first years of the twenty-first century—with a sudden acceleration from 2011 on—they start to be characterised by features that break with the past, especially from a formal point of view. Therefore, while it can be argued that there is continuity of content, the social eruptions of recent years have been so impactful due to radically new forms of organisation, communication, coordination and aggregation. ICTs and social media do not seem to play a special role in the definition of content or new demands, but they do revolutionise the way in which these are transmitted and manifest themselves.

Horizontal communication allows participants to bypass classic organisers and conveners of mobilisations, such as 'old' movements, unions and opposition parties, facilitating the free participation of individuals in the protests. Organised protests, controlled and coordinated by party or union directives, lose their attraction; what becomes important is the role of the individual, connected—through the Internet—to others with a fast mobilisation capacity that does not need any prior form of organisation.

There is no unique centre of deliberation and coordination, while the culture of the *virtual spread of the word* and *re-tweet* predominates. The 'tweet' and the 'retweet' begin to replace coordination assemblies in the convening of protests and mobilisations. Anybody can start a chain of messages that become a collective call for impactful mobilisations, although these messages can also be ephemeral. As mentioned previously, this organisational fluidity is at once the great strength and the weakness of the new movements. Their rapidity of formation and dissolution disorients classic politics and law enforcement representatives, who do not know with whom, and where, to go in order to interact and control. At the same time, this also disorients more classic social movements, CSOs, and NGOs that would be interested in establishing ties with the emerging actors of social activism in the region.

What stands out in these new forms of mobilisation is the importance of maintaining individual independence while participating in mass movements and protests. This creates a contradiction between the need to remain independent and the need to organise and coordinate a movement in order to have a political impact. Such a contradiction is evident in the case of Brazil, Guatemala and Mexico, where mobilisations have been wavy; that is, where there

were impressive peaks in participant numbers, which deflated rapidly but, nevertheless, could 'inflate' again just as fast.

The question of whether a given political message or call for mobilisation is more or less relevant will be answered by whether it becomes 'viral' on social media. It is the Net, and those who are connected to it, that determines in a self organising fashion whether a call is important, and makes it effective or irrelevant. This 'instinctive' selection is based on whether social media users empathise with the political messages and calls for mobilisation that circulate on the Net. Online communication and mediation enable identification and awareness of other individuals sharing similar ideas and opinions and who may team up for a common cause (Cardoso, 2014). The mobilisations of recent years were the result of multiple voices and messages which took to the streets in the form of protests. However, before the protests erupted, those voices and messages were already present in everyday life and only in a second phase did they connect, gather and spread thanks to social media.

A study of the 2013 protests in Brazil shows that the mobilisations were characterised by the presence of small groups of people supporting the demands in question—which can be defined individually as the stem cells of the movements, and that only in a later stage did we witness 'the mimetic attitude' that led to a high number of participants in the protests. The mimetic attitude is a possibility; it is a personal choice that becomes real only when one realises that something is really happening (Cardoso, 2014). And it is at that stage—the realisation that something is happening—that social media's horizontal communication lines play a key role.

Guatemala's and Mexico's movements were characterised exactly by this dynamic. What changes is the size and number of the stem cells. While in Brazil they were numerous and dispersed, reflecting the existence of parallel demands, in Mexico they were fewer and more concentrated around the Peña Nieto candidature in 2012 and the Ayoztinapa case in 2014. In Guatemala they were even smaller than in Mexico, reflecting the country's social reality and population size. Thanks to social media, the act of being a stem cell and that of displaying the mimetic attitude are not mutually exclusive, and one can easily be part of a 'stem cell' today and a follower tomorrow, or the other way around.

The relationship between these emerging social actors or new movements and already existing organisations and groups varies from case to case. In Brazil, while the mobilisations were characterised by high fluidity and the retweet culture, the new actors also coexisted and interacted with some opposition parties and with more structured movements such as the MPL, the Comités Populares da Copa, the Centro de Mida Independente, the Homeless Workers Movement (Movimento dos Trabalhadores Sem Teto), the Red de Comunidades y

Movimiento contra la Violencia, the Independent Popular Front (Frente Independente Popular) and the Movimento Periferia Activa, just to mention a few. The movements and organisations that participated in the 2013 protests were so many and varied that it was often possible to have several different demonstrations in the same urban space, with no coordination and articulation, with the obvious result of dispersed strength and no political impact.

The lack of formal coordination with other social actors was even more evident in the Mexican case, where the extreme fluidity of the *#YoSoy132* and the *#YaMeCansé* movements made it almost impossible for these movements to join other organisations through formal channels. Links were established with the people of the indigenous community of Atenco and other indigenous organisations, with the SME, and with the parents of those who had disappeared. However, the movement changed so rapidly, disappearing and reappearing in the form of new groups or members and gathering around constantly evolving demands, that it is very difficult to keep track of its coordination through the lens of organisations that are structured more classically. One always doubts whether it is the movement that is coordinating or just somebody who was actively involved in the movement, but today is interacting as an individual.

In Guatemala, it could be argued that while in the initial state the mobilisations were convened by the urban middle class outside of any organised movement, more classic social movements, such as peasants' organisations and university student associations, have progressively increased their participation in the mobilisations. Furthermore, and this is a difference between the Guatemalan case and other cases, the protesters started to organise around more formal spaces of deliberation and coordination, such as the Plataforma Nacional para la Reforma del Estado, which presented a proposal to reform the electoral law, and the Asamblea Social y Popular, which gathers together 73 organisations involving—for example—students, indigenous peoples, peasants, women and scholars and which aimed to articulate a debate on the future of the country.

3 Conclusions

Although the above movements arose in different countries, with their own peculiarities, they all have more features in common than not. They grow in a specific regional context of increasing contradictions that arise from exclusionary economic development and incomplete social and human development, characterised by radical inequalities in democracies that still do not attend to the needs of large parts of society.

These movements seem new, but they arise from underlying tensions in most societies in the region, tensions that have long represented the core of social conflict in Latin America: inequality, poverty and the exclusion they both imply. This exclusion is social (a lack of access to basic services, education, health, transport, etc.) and political (a lack of participation in decision-making processes, as well as self-referential political classes and opaque institutional processes, and a lack of political–institutional accountability).

All the movements had impacts on their countries and on the region in general. But it is still too early to develop a definitive evaluation of the effectiveness of such impacts, and—especially in the political field—a medium- and long-term perspective will be needed in order to assess their real reach. That said, some implications can already be identified in sociocultural terms and with regard to emerging players.

The Guatemalan case is somehow different from the other two in terms of political impact. It is worth emphasising that, in Guatemala, the movement erupted in the midst of an electoral campaign, sharpening disgust towards the political system. At the same time it gave greater leverage to the movement as candidates (especially those standing for Congress) feared missing out on re-election. However, while the movement led to the president and his deputies stepping down and a series of arrests, it was not able to gather around a political project and present its own candidate for the presidential elections held in September 2015. It is important to mention that this was not only because of a lack of the capacity to do so, but also due to lack of time. The protests occurred just a few weeks before the electoral process was officially convened. This led to a very interesting debate on the subject of the constitution. The majority of protesters were against reforming or 'disregarding' the constitution in order to stop the electoral process. A few others argued that respecting the constitution was not a requirement anymore, given that the social contract had been so utterly violated, and they proposed a transitional government.

Finally the elections were held, but in a political vacuum that opened the door to the triumph of the anti-politics candidate, Jimmy Morales. However, at the same time it can be argued that another outcome of the protests was the emergence of an accountability culture, in which we are seeing citizens being much more aware of what the new government is doing, and of the laws being passed in Congress.

In general, the most revolutionary aspect of the new social movements lies in their structures and forms of mobilisation, characterised by new dynamics that have radically broken with the past from a formal point of view. All the cases analysed here are evidence of the emergence, also in Latin America, of a *liquid society*—that is to say, of the need to take on a flexible and versatile

identity; a process through which the individual must pass in order to join an increasingly global society, with no fixed identity, being malleable, changeable. Identity has to be invented, created; survival disguises must be moulded (Bauman, 2004). In the context of social movements and protests, this leads to the weakening of traditional forms of aggregation, and to the growth of the relevance and importance of circumstantial players, or to new forms of 'organisation' such as that carried out using networks.

This varies from case to case and if in Mexico and Guatemala these liquid organisations represent the foundation of new forms of mobilisation, in Brazil they move and join more structured and already existing social movements. In all cases, ICTs and social media play an important role, especially as a means of communication, aggregation, and coordination among those players, and less as a means of deliberation—except in Mexico. The more fluid social movements are, the more difficult it becomes, from the outside, to identify players with whom to interact.

The eruption and spread of protests is linked to the increasing diffusion of social networks and social media and coincides with the presence of new key players in the protests of recent years: the circumstantial metropolitan citizens who, through ICTs and new forms of communication, take part in mass protests on an ad hoc basis. However, these players are not involved either actively or in the long-term in the coordination and organisation of social movements. In the cases being analysed we must then distinguish between large demonstrations linked to 'traditional' social movements and social eruptions that are also expressed through large demonstrations but linked to the new forms of aggregation, organisation and coordination described in this chapter.

This distinction is important if we are to understand who the actual active players are in the renewed Latin American social activism landscape. In most cases we find social organisations and movements—large or small, organised or less so, depending on the country—in which young people have a central role, representing the stem cells of mobilisation and from whom the messages that lead to mass protests emerge. These movements do not have institutionalised coordinative mechanisms. This in many cases leads to a dispersion and dilution of the potential impact of mobilisations. This happens especially in countries—Brazil is the most obvious example—where there is a multitude of organisations, sometimes also very small, which move in parallel, leading to multiple micro-protests that have no long-term political impact.

Although we must differentiate between stem cells and circumstantial players, mass participation in protests seems to demonstrate that a new active citizenship is emerging—more attentive to and more keen to scrutinise politics, eager to participate in public issues affecting individual citizens' quality of life.

In this sense, these new movements, especially mass mobilisations, are an expression of a mature democratic culture, where citizens are outraged and fight for rights that are no longer questionable.

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