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Regionalism, Development and the Post-Commodities Boom in South America

Edited by Ernesto Vivares

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Editor

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Foreword

Few would deny that the world is in flux. Since the end of the Cold War many observers have offered their views about world order transformation, as illustrated by arguments about the end of history, globalization, clash of civilizations, chaos and disorder, a world of regions, and a world dominated by new and emerging powers, to name only a few.

South America is arguably one of the most interesting regions of the world, both because its future is so deeply intertwined with world order transformation, but also because of its rich and varied intellectual community. Ernesto Vivares and his colleagues carry forward this proud intellectual heritage as they provide us with a compelling account about South America's insertion into an unequal world. Apart from the many empirical insights, the book offers at least three important theoretical and methodological contributions. The book's approach is "critical", "global", and it moves beyond the conventional "formal" IPE to include "informal" dimensions and issues. Its novelty lies in the combination of these contributions.

First, Vivares and colleagues argue in favor of critical, alternative and interdisciplinary theoretical approaches that confront state-centric or economistic views about how the world hangs together. A fundamental distinction in this type of research is between "problem-solving" theory, which takes the world as given, and, on the whole, as "good" and "critical" theory that is concerned with how the existing order came into being and what the possibilities are for structural and social change. Critical IPE theory challenges problem-solving features such as the separation of subject and object, fact and value, and rationalist epistemologies. Critical IPE also rejects "methodological nationalism", a point strongly emphasized in this book.

The point with transcending methodological nationalism is not to reject the nation-state and national space *per se*, but to transcend conventional conceptions of the unitary Westphalian nation-state and "the territorial trap" of the nation-state inherent in much of problem-solving theory. Surely, methodological nationalism has resulted in many superficial representations of spatial horizons and practices. When the "taken for granted" national scale is problematized then other spaces and actors automatically receive more recognition, below as well as above the nation-state. This approach is particularly plausible for the study of regionalism in the Global South, because it helps to transcend Eurocentric conceptions of both the nation-state and regional integration.

Second, Vivares and his colleagues emphasize a "global" perspective. Just like other regions, South America was not formed in a vacuum. The book correctly underlines that regions cannot be understood only from the inside-out, but must also, and perhaps mainly, be approached from a "global" and outside-in perspective. Although IPE scholars are trained to analyze global structures (perhaps more so than regionalist scholars), the fundamental question is what the global perspective actually entails. Much effort is made to theorize the "global", but what is often lacking is a global perspective that also takes into account regional particularities and contexts. Somehow, a genuinely more "global" approach to IPE needs to be tackled, which moves beyond Western-centric perspectives of the world. This book makes an important contribution to a genuinely more "global" IPE by studying South America's external penetration, and how globalization, regionalization, and domestic variables interact to produce a diversity of outcomes in different policy fields.

Third, Vivares and colleagues transcend the "formal" side of IPE and include informal processes and agents, from solidarity economies, informal flows, to organized crime. A broadened understanding of external penetration and regionalization around the world rests on reaching beyond hegemonic formal/formalistic and state-centric interpretations of global and regional governance. This, of course, implies that comparison becomes a more pluralistic exercise, transcending the prevailing tendency in the field to focus on and explain variations from the "standard" European case, not least formalistic and EU-style institutionalization. This book successfully straddles the formal-informal nexus through focusing on both the formal configurations of development (e.g., trade, finance, technology, and knowledge) and the informal structures (e.g., organized crime, and informal economy).

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Acknowledgements

This project was born during August, 2015, at the Third Latin American and Caribbean Congress of Social Sciences, when nearly 200 regional scholars met to present their latest research and hold discussions regarding their increasing concern about the South American IPE, regionalism, and global insertions after the end of the commodities boom and the changing and unsettle global order. The discussion was friendly but intense, in particular about the lack of Southern voices in an international debate, monopolized and understood by and from the North academy in terms of neoclassical economics and political sciences, based on two major unquestioned assumptions. The first is the assumption that everything moves to the achievement and wisdom of the industrialized north, and second, that the fluctuations of South America are causal and directly related to the oscillations of the commodity cycles, as the region never has managed to rule capitalism. For the South American scholars and partners at the Congress it was that the undeniable time after decades to endeavor open, critical, and multidisciplinary academic studies and discussions upon the IPEs of regional development and global insertion as a contribution from the South. The result is this book composed of the efforts of a great deal of colleagues, South Americans, and others from many parts of the world, whose contributions in recent years have been vital for the return and development of the IPE germinal epistemic community in the Southern Cone. To all them, my thanks.

First, I am pleased to thank Professor Timothy Shaw, editor of this International Political Economic Series, for friendship, loyal support, and invaluable advice to the scholarship in the region, FLACSO, and to myself over the years. Also, to Christina Brian, editorial director at Palgrave Macmillan, for her constant support, direction, and advice, and to James Safford for his clear assistance during the editing process. Thanks to Juan Ponce, Director of FLACSO, Ecuador, and to his Coordinator of Research, Fredy Rivera. Also, to the invaluable recommendations and refreshing discussions about IPE and South American regionalism from our colleagues Cintia Quiliconi and Raul Salgado. Thanks to Steen Christensen and the scholars from Aalborg University for intellectual advice and support in Ecuador and Denmark. Also, to Arlene Tickner, Diana Tussie, and Gladys Lechini, three great colleagues in our regional field who backed the project from the beginning. Thanks also to Jose Briceño from Venezuela, Javier Vadell and Leonardo Ramos from PUC Minas Gerais with whom we had the opportunity to talk and exchange ideas about the central issues of this work. Thanks to Rachel Babin, Lorena Herrera, Adriana Montenegro, Alexis Colmenares, and Marco Mendez, doctoral candidates at the PhD program in International Studies of FLACSO, Ecuador, who contributed with their research to enable us to take further reflection on regionalism in our doctoral seminars. Also thanks to Daniela Barreiro for her technical assistance with the editing of the book; to Ankur Mehrotra and Nicola Salgado for translating and correcting the academic styles of the first drafts. Finally, as always, thanks to my wife Cheryl Martens for discussion and recommendations for the book, and to my sons, Genaro, Ayel, Alejandro, and my bandits pets; all the sources in my life.

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List of Abbreviations

ACBF	African Capacity Building Foundation
ACCORD	Accord on Fire and Building Safety in Bangladesh
ADBC	Agricultural Development Bank of China
ADEFA	Automotive Factories Association
ADGs	Decentralized Autonomous Governments
AERC	African Economic Research Consortium
AfDB	African Development Bank
AFI	Federal Agency of Investigation
AGRA	Alliance for Green Revolution in Africa
AIIB	Asian Infrastructure Investment Bank
AISA	Association of International Schools in Africa
ALADI	Latin American Integration Association
ALBA	Bolivarian Alliance for the Americas
AMERIPOL	Community of Police of America
AMV	Africa Mining Vision
AND	Democratic Action (Venezuela)
ANFAVEA	National Association of Motor Vehicle Manufacturers
AP	Pacific Alliance
APP	Africa Progress Panel
ASEAN	Association of Southeast Asian Nations
ATM	African Trade Market
AU	African Union
BANDES	Economic and Social Development Bank of Venezuela
BBVA	Banco Bilbao Vizcaya Argentaria
BCG	Global Management Consulting
BIT	Bilateral Investment Treaty
BNDES	Brazilian Development Bank

BRAC	Building Resources Across Communities
Brexit	Britain Exiting the EU
BRIC	Brazil, Russia, India, China
BRICS	Brazil, Russia, India, China, South Africa
CACM	Central American Common Market
CADF	China – Africa Development Fund
CAF	Development Bank of Latin America
CAFTA	Central American Free Trade Agreement
CAN – ACN	Andean Community of Nations
CCR	Center for Conflict Resolution
CDB	China Development Bank
CELAC	Community of Latin American and Caribbean States
CELADE	Centro Latinoamericano y Caribeño de Demografía
CELC	Center of Latin American Studies About China
CEO	Chief Executive Officer
CEPAL	Databases and Statistical Publications
CEPALstat	Databases and Statistical Publications – ECLAC
CEPE	Ecuadorian State Oil Corporation
CFTA	Continental Free Trade Area
CGD	Center for Global Development
CIA	Central Intelligence Agency
CIGI	Centre for International Governance Innovation
CISC	Criminal Intelligence Service Canada
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa
CIVICUS	Non-profit Organisation
CLER	Center-Left Extractive Regimes
CMI	Chang-Mai Initiative
CODESRIA	Council for the Development of Social Science Research in Africa
COMBIFRON	Binational Border Commissions
COMESA	Common Market for Eastern and Southern Africa
COOTAD	Código Orgánico de Organización Territorial, Autonomía y Descentralización
COPEI	Social Christian Party of Venezuela
COSBAN	High Level Bilateral Commission
CSP	Concentrated Solar Power
DAC	Development Assistance Committee
DBRA	Davis-Bacon and Related Acts
DEA	Drug Enforcement Administration
DRC	Democratic Republic of the Congo
EAC	East African Community
ECA	Economic Commission for Africa

ECLAC	Economic Commission for Latin America and the Caribbean
EITI	Extractive Industries Transparency Initiative
EM	Emerging Markets
EMNC	Emerging Market Multinational Companies
EP	Emerging Power
E7	Emerging 7 Countries
ETF	Exchange-Traded Funds
ETN	Exchange Traded Notes
EU	European Union
FAO	Food and Agriculture Organization
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FBO	Farmer Based Organization
FDI	Foreign Direct Investment
FED	Federal Reserve of the USA
FFD	Financing for Development
FIESP	Federation of Industries of the State of São Paulo
FIFA	Fédération Internationale de Football Association
FLACSO	Facultad Latinoamericana de Ciencias Sociales
FM	Frontier Market
FOCAC	Forum on China-Africa Cooperation
FOMIN	Multilateral Investment Fund
FSC	Forest Stewardship Council
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
FX	Foreign Exchange
GATT	General Agreement on Tariffs and Trade
GAVI	Global Alliance for Vaccines & Immunizations
GDP	Gross Domestic Product
GIF	Global Innovation Fund
GLR	Great Lakes Region
GRI	Global Redesign Initiative
G7	Group of 7 countries
GT	Global Trend
GVC	Global Value Chain
HDR	Human Development Report
IADB	Inter-American Development Bank
IBM	International Business Machines Corporation
IBSA	India, Brazil, South Africa Dialogue Forum
ICBC	Industrial and Commercial Bank of China Limited
IDB	Inter-American Development Bank
IDPC	International Drug Policy Consortium

IDRC	International Development Research Center
IEA	International Energy Agency
IFI	International Financial Institution
IIRR	International Relations
IIRSA	Initiative for South American Regional Integration
IMF	International Monetary Found
IMG	International Management Group
INEC	Instituto Nacional de Estadística y Censos
INGO	International Non-governmental Organization
INTERPOL	International Criminal Police Organization
IOC	International Olympic Committee
IPE	International Political Economy
IPEA	Instituto de Pesquisa Economica Aplicada
IRB	US Institutional Review Board
ISA	International Studies Association
ISI	Import Substitution Industrialization
ISS	Institute for Security Studies
IT	Information Technology
JSE	Johannesburg Stock Exchange
KP	Kimberley Process
LA	Latin America(n)
LAC	Latin America and the Caribbean
LAFTA	Latin American Free Trade Association
LAIA	Latin American Integration Association
LNG	Liquified Natural Gas
MAS	Movement towards Socialism
MCP	Municipal Compensation Fund
MDG	Millennium Development Goals
MDGs	UN Millennium Development Goals
MERCOSUR	Southern Common Market
MINT	Mexico, Indonesia, Nigeria, Turkey
MIST	Mexico, Indonesia, South Korea, Turkey
MIT	Massachussetts Institute of Technology
MNC HQ	Multinational Corporation Headquarters
MNC	Multinational Corporation
MOFCOM	Ministry of Commerce (China)
MRPS	Metropolitan Regulatory Plan of Santiago
MSC	Marine Stewardship Council
NAFTA	North American Free Trade Agreement
NCD	Non-Communicable Disease
NFC	National Finance Corporation
NICs	Newly Industrializing Countries

NOC	National Oil Company
NTS	Non-Traditional Security
OCMAL	Observatorio de Conflictos Mineros de América Latina
ODA	Official Development Assistance
OEA-OAS	Organization of American States
OECD	Organization for Economic Cooperation and Development
OFC	Offshore Financial Center
OFDI	Overseas Foreign Direct Investment
OICA	Organisation Internationale des Constructeurs d'Automobiles
OLCA	Latin American Observatory of Environmental Conflicts
OOF	Other Official Flow
OPEC	Organization of the Petroleum Exporting Countries
OSSREA	Organization for Social Science Research in Eastern and Southern Africa
PASGR	Partnership for African Social and Governance Research
PCC	Political Constitution of Colombia
PCCH	Political Constitution of Chile
PCP	Political Constitution of Peru
PDVSA	Petroleum of Venezuela Corporation
Petrobras	Brazilian Petroleum Corporation
PIIGS	Portugal, Italy, Ireland, Greece, Spain
PIMCO	Pacific Investment Management Company
PPP	Point – to – Point Protocol
PPP	Purchase Power Parity
PPP$	Purchasing Power Parity in international dollars
PPT	Physical Planning of Territory
PRC	People's Republic of China
PTA	Preferential Trade Agreement
PUC	Pontifical Catholic University
PWC	PricewaterhouseCoopers
R&D	Research and Development
RCEP	Regional Comprehensive Economic Partnership
RCF	Regional Compensation Fund
REE	Rare-Earth Elements
RMB	Renminbi – Currency of the PRC
RSA	Regional Studies Association
S&T	Science and Technology
SADC	Southern African Development Community
SAIIA	International Development Bank
SAS	Small Arms Survey
SCO	Shanghai Cooperation Organization
SDGs	UN Sustainable Development

SDR	Special Drawing Rights
SFU	Simon Fraser University
SICA	Central American Integration System
SINOPEC	China Petroleum & Chemical Corporation
SISME	MERCOSUR System of Exchange of Security Information
SITC	Standard International Trade Classification
SME	Small and Medium -Sized Enterprise
SOE	State Owned Enterprise
SRF	Silk Road Fund
SSA	US Social Security Administration
SWF	Sovereign Wealth Fund
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TCP	People's Trade Agreement
TFTA- T-FTA	Tripartite Free Trade Area
TICAD	Tokyo International Conference on African Development
TiSA	Trade in Services Agreement
TOC	Transnational Organized Crime
TPP	Trans-Pacific Partnership
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TTIP	Transatlantic Trade and Investment Partnership
UK	United Kingdom
UN	United Nations
UNASUR	Union of South American Nations
UNCTAD	UN Conference on Trade and Development
UNDP	UN Development Program
UNECA	UN Economic Commission for Africa
UNECLA	UN Economic Commission for LAC
UNODC	UN Office on Drugs and Crime
UNRISD	UN Research Institute for Social Development
UNU	UN University
US EIA	US Energy Information Administration
USA – US	United States of America
VISTA	Vietnam, Indonesia, South Africa, Turkey, Argentina
WACD	West African Commission on Drugs
WB	World Bank
WEF	World Economic Forum
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
WWI	World War I
WWII	World War II

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CHAPTER 1

The IPE Puzzle of Regional Inequality, Instability, and the Global Insertion of South America

Ernesto Vivares

This book is about the IPE of the unequal and the unstable structures of South American regional development and their uneven links with the global order after the decline of the commodities boom. The book explores the extent to which the South American development concerns are related to the decline of commodities and/or the historical political structures of unequal development and international insertion. The specific aim of this collection is to open up regional research agenda through multidisciplinary and eclectic approaches to critical and empirical study of the region, beyond the limitations of North American and European approaches. As Söderbaum points out, "the problem is not … theory and practice per se [of North American and European approaches] but … a particular reading of [those] formal and state-centric models" (2000: 1). The assumption here is that the regionalisms of the Global South, cannot be studied and evaluated as variations of those models. Rather, South American regionalism requires that that we pay attention to its specificities,

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dilemmas, paradoxes, and contradictions of development as well as its unsteady structures of insertion in a dynamic world order. Second, this book contends that regionalism, regionalization, and region are not by themselves "benign" or "positive", and that, instead, regionalism can be formal, informal, non-state, and even malignant regionalization such as is observed in many regions (Taylor 2005; Duffield 2001).

This book takes issue with the normative stance of approaches around unrevised assumptions of formal, actor-oriented, institutionalized politics, and neoclassical economic views. Instead, the work here aims to undertake a multidisciplinary, eclectic research endeavor, through the voices of mainly South American scholars who offer a critique of the mainstream stance on IPE of regionalism. It does not set out to undertake an exhaustive account of the issues of the region, but seeks rather to open up the regional research debate. Briefly, this collection develops theoretical and methodological approaches, and lays out a set of empirical studies of the South American region at this particular, complex, and challenging historical moment. It is about theory and research in the IPE of the Southern Cone of the Americas, and critical and eclectical reflection upon the unequal and uneven structures of regional development and global insertion, which have historically been defined. It also provides a set of empirical multidisciplinary studies, as each section focuses on a selected sample of some of the key structures of unequal and uneven South American development. The claim here is that the new South American regionalism is a central case towards understanding the LA IPE of regionalism and development in a changing world order. Accordingly, this book is not about the progressist features or successes of the Pink Tide or the rise of AP but upon their regional reconfiguration, development setbacks, and global insertions and in doing so, it is about the South American structures of unequal regional development within a complex world order.

This chapter serves as an introduction to the theories and methodological approaches that underpin the book. The first section sets out the analytical concepts that cut across the fields of IPE and regional studies about South America in order to respond to a central question. That is, if regional development in the South is defined by commodity prices cycles, which the region is failing to achieve convergence in prosperity as in industrialized countries, or if regional structures of development and international insertion have keep it from reaching wellbeing and growth. The section seeks to broaden and link IPE and regionalist interpretations in terms of formal, informal regional development, and international insertion. The second section sets the historical methodological lines of the LA IPE, its features and contributions to the central regional issues of inequality and international insertion with the world order, its central assumptions and premises of its varied perspectives. On the basis of this, the section deploys the concept of unequal structures of regional development and international insertion. These are understood as the contextual and historical developmental configurations (ideas, institutions, and material conditions) at the very basis of inequality, instability, and external insertion. The third section is based on the methodological notion of conceptual cages, which often bias research, or reduce it to rational reductionism. In total, the section identifies and discusses five conceptual cages. The final section analytically outlines the three most important IPEs in LA concerning the interpretation of South America as a region within a changing world order.

Commodities Boom or Unequal Structures Development?

During the last decade, we witnessed promising claims about the rapid rise of the Global South, with South America and Africa leading, with unprecedented levels of growth and reduction of poverty (World Bank 2015). The new global and regional reconfigurations arrived with optimistic assertions concerning a post-hegemonic, post-neoliberal, and multipolar order thanks to BRICS/CIVETS/MINT/MIST/VISTA, emerging markets and regions (Shaw, Chap. 14 in this book). The two regions provide necessary comparative cases, showing similar flawed neoliberal narratives underscored by optimism of alternative development paradigms, within a world order dominated by neoliberal economics, institutionalized globalization, and liberal peace-war (ibid.). However, the new global divide was marked by normative and progressive assumptions, sustaining imprecise categories, bearing different political and normative interpretations upon the future, despite their real achievements. South America was at the forefront of experiments with alternatives to neoliberalism; 56 million people came out of poverty, 20 million stepped out of extreme poverty, and an historical reduction in income inequality and democratic stability followed, where evident. However, with still nearly half of the population at risk of falling into poverty (UNDP 2014; Cord et al. 2014).

Even so, suddenly, several countries in the region have gone from very positive circumstances to critically dire situations, with the decline and collapse of progressive governments and what once were the stars of the global heterodox progressive change. Beyond the widely recognized changes, something had not changed as the historical structures of unequal development were still there, bouncing and shifting back and forth, between the realities of neoliberal and conservative orientations. Is the South American regional shift back to conservatism and neoliberalism just another chapter in the old tale of the chronic LA capitalism, driven by populist governments unable to follow the universal economic wisdom of the North? Are we seeing the impact of the End of the Commodities Boom? Or is it an undeniable part of its global regional transformation defined by a particular piece of the regional puzzle of development, unattached under different orientations of development, but with the same international insertions throughout history? To what extent are inequality and uneven regional structures responsible for these issues? Finally, how do we grasp these realities in the critical and eclectical IPEs of regions and development? The research presented here is open to the task of challenging new and old regional scholars; this section aims only to set out questions and general methodological lines of reflection and concepts to explore.

The beginning of the new century was full of regional development narratives, filled with diagnoses about a historical countries´ growth and convergence, all in favor of alternative policies, and claims that the South would eventually decouple from the North and drive its own growth (Nossel 2016). The rapid rise and new configuration of the Global South were undoubtedly evident, but these did not provide an idyllic alternative world, but one within all the contradictions of the historical framework of neoliberal globalization and the Western peacekeeping of the last decades. Market-led global economic stagnation, the Panama Papers, Britain's exit from the EU (in the form of Brexit), declining cities, refugees and mass exodus, famine, media environment destruction, Middle-East globalized national and religious wars, and the growth in global scale of organized crime are just some of the parts of unforeseen neoliberal global development. This historical global development is one in which we do not know yet if it can be understood as the end of the post-1945 world order, or a post-crisis and world disorder, triggered by the 2008 crisis (Kaletsky 2017). Evidently, countries that have somehow temporarily succeeded using market signals, state intervention, and international competition to take advantage of high commodity prices have joined transnational production networks (Estay, Chap. 3. in this book). While these are located in advanced economies, they do not necessarily translate to structural and consolidated changes in Southern domestic social structures and welfare (Ponce et al., Chap. 2 in this book). Value chains and North-South fragmented production networks have risen with strong state-led technological incentives, but not sufficient to consolidate Southern technological structural hubs (Moreira Lima, Chap. 8 in this book). For first time in LA's political economic history, knowledge has come to the fore as unsolved, albeit trapped in historical regressive structures, and, above all, education has also increased (Frankema 2009; and Cango et al., Chap. 9 in this book). Summing up, reprimarization spread in particular over South America linking progressist governments, Pink Tide regionalism with reprimarization and weakening the external position of the region in the face of any set back in terms of commodity prices (Estay, Chap. 3 in this book) In fact, historical regional structures are proving to be more resilient than everyone expected, with formal theories limited to fully grasp them and their relations to cities characterized by unequal development structures and global financial intermediation, thanks to reprimarization (Sassen 2016; Fuentes and Duran, Chap. 10, and Estay, Chap. 3 in this book). For instance, fragmented production networks grew in and around cities in the region, with highly educated populations and marginalized ones, some tied to regional other to global setting, marking new key ambiguous roles for LA cities of development, inequality, and global insertion (Sassen 2005, 2016). Briefly, this is an IPE of South America as a region, but rather than studying it from its achievements, or how shifts between right- and left-wing and top-down regionalist politics, this work examines South American regionalism in terms of its structures of inequality, asymmetric, and unsteady regional and international development.

To assert that the rise and fall of Global South America is a reflection of the last, long international commodities boom (2003–2012) is to reduce all these regional reconfigurations and development setbacks to a price-oriented sophism, where everything, sooner or later, moves towards the achievements of the industrialized North (Dumitru et al. 2015). In fact, historical evidence speaks differently about these changes, and, in particular, about the historical relations among the global economy, South American inequality, and its strong dependence on development funding from primary sectors. The matter is not new in the political economy of regional and LA development (Halperin Donghi 1995; Weaver 2000; Bertola and Ocampo 2012). Certainly, there was, and there continues to be, a wide range of regional IPE scholarship focused on the regional history of inequality and its international insertion (De Ferranti et al. 2004; Frankema 2009; Thorp 2012; Astorga 2015). Strikingly, the literature is mostly centered on the relations between the international order, peripheries and cities, the political economic nature of world hierarchies, the relationship of inequality in development, and their structures of reproduction, as well as the regional attempts to change them.

More to the point, the research about the impact of the rise and decline of the commodities boom on the region highlights different conclusions compared with the aforementioned sophism. In fact, the fluctuation between neoliberal-conservative and neo-populist–neodevelopmentalist directions have been present, in different but similar ways, since the 1940s in LA accompanying a deep process of hemispheric and regional reconfiguration (Griffith-Jones 1984; Payne 2005; Bertola and Ocampo 2012). Following the literature, the relations between world orders and regional change are more related to regional structural reconfigurations, something accompanied by economic cycles rather than determined by them (Halperin Donghi 1995; Weaver 2000). This common unrevised sophism concerning commodities derives from the methodological bias of particular theoretical assumptions in research premised on ideas such as "when there is money there is progressist regionalism, but when there is not, market clearing rules." This argument biases the analysis towards universalist and ahistorical conclusions (regionalism rise and fall tied to the development finance), without accounting for other dimensions of life beyond the formal numbers of trade, finance, and fiscal budgets (Söderbaum 2000).

A more integral and wide-ranging way to approach the central features of the realities of LA development is from the specific political economic caveats at the heart of its unsteady history of its distinctive regions of development, for the case of inequality in all its varied configurations and forms in their historical regional context. This includes lines of conflict, which have marked the region and passed from the colonial empire to the Pax Britannica, and from the Pax North Americana to the current global order. A global configuration that seems today to shift from a neoliberal and institutional settings towards a world shared between the great powers and regions, all crossed by nationalism, mercantilism, and new right wing configurations of political economic forces.

The relation between regional domestic and the international is perhaps one of the most elusive research topics in the fields of both International Relations (IIRR and IPE), since they question some specific academic understanding regarding the nature of regional economics and politics, and above all, the dynamics between the domestic and the international connections. To contest this, a conceptual and methodological introduction argues that any multidisciplinary and comprehensive South American regional research must start with its main lines of inquiry examining its unequal structural development and peripheral insertion.

Latin American IPE, Inequality and World Order

Any attempt to talk about the Political Economic History of LA represents a complicated challenge for three reasons. First of all, there is an important deal of mainstream scholarship where orthodox economics dominates the tale with essentialist and ahistorical interpretation, to say the least. Second, the region is huge, complex, crossed by formal and informal subregions, national-states configurations, settings that do not play well with closed generalizations and universalization. Third, it is the fact that the LA IPE has been focused deeply upon three major issues: inequality, political economic instability in the management of capitalisms by governments, and finally the matter of international insertion or whom the region is part of. There, the importance of the links between IPE and regional approaches, LA IPE, had provided for a long time the base of regional research.

The LA IPE, beyond its different approaches, has historically focused on the complex relations between the international, regional and national, in terms of development, conflict, and inequality. Economics and politics have been presented as inseparable analytical relations framing power and development, and the same were seen between the domestic and the international (Tussie 2015). It is in relation to these methodological frameworks that the concept of region and regionalism are often inserted, although the notion of LA as a region existed well before the independence of its nations (Deciancio 2016). However, that tradition, including both that of CEPAL and dependency theories, was abruptly halted in the middle of the 70s, via the repression and exodus of an important wave of innovative scholars, stalling for more than two decades the academic development of the LA IPE. By the middle of the 90s, the wave of regional scholarship began to rise again in a different global order, seeking to comprehend, explain, and contest the agenda of the neoliberal globalization based on the power of international finance in partnership with the Bretton Woods institutions (Tussie 2015).

Compared with recent decades, the challenge has been different for the return of the LA IPE. In the absence of a regional epistemic community, the neoliberal mainstream, rooted in a particular version of the North American positivist political sciences and a Eurocentric view of the neoliberal progressist global liberalization, setting a universal understanding of regionalism and development (Deciancio 2016; Acharya 2014). At present, two decades later, with the global order in flux due to the rise of right-wing populism, nationalism, and mercantilism, the return of China, and the decline of neoliberal Europe and international institutions, the challenge of the LA IPE has shifted toward a new set of challenges and dilemmas (see Christensen, Chap. 4 in this book). This is to approach the new realities through the narrow paradigms and methodologies used to investigate and explain the world order of the Cold War or open the conceptual cages in search for approaches, theories, and methods more sensitive to the structural configurations and realities of LA. Those historical configurations of material conditions, institutions, and ideas in historical context behind inequality, political instability, and international insertions, all at the very basis of the historical, swing back and forth, between progressive and conservative national tendencies, regional development, and global orientations.

There are different lines in terms of academic contributions and dominant interpretations about the causes of why inequality, instability, and asymmetric insertion are so embedded and extreme in the LA region. One of these major contributions has been developed by Rosemary Thorp (2012), emeritus reader in the political economy of inequality of LA at Oxford University. According to Thorp, historically, inequality has been functional to the growth and international insertion, even constructed and promoted by governments and elites in different periods to support particular paths of growth (2012). Based on the works of scholars such as Frankema (2009), Palma (2003), North (1990) and Gasparini and Lustig (2011), Thorp builds a powerful argument. First of all, she argues that the Spanish colony created a strong institutional legacy that sustained and projected regional inequality over the following centuries, holding the region back in terms of development and global insertion. Second, she states that the colonial rule created and embedded the overlap between class and ethnicity that has defined inequality in the region during the intervening centuries. Third, she argues that institutions created around labor supply and inequality in land ownership have come to define an unstable political economic culture of the management of regional capitalism (2012).

According to Thorp, this has severe implications in the transformation and reconfiguration of LA after the Spanish colonial rule, framing a structural relation with the world trade, reacting to falling transport costs and rising European demand of commodities between 1870 to the Great Depression, as a valid generalization that marked the IPE of LA. Countries, facing labor force shortages, moved to resolve the issue by reducing their proportion of labor. Migration and indigenous subservient groups were institutionalized, linking inequality, new LA capitalism, and international insertion. Inequality came to be seen as functional for growth and indifferent LA societies, based on the power of socio-, economic, political, and cultural elites tied to the world order, centered around the hegemony of Europe first and later the USA.

Along these lines, considering the close relations between inequalities, political instability, and international insertion, similar interpretations such as the contributions of regional heterodox economists, such as Antonio Ocampo (2012). According to Ocampo, the LA misfortunes of development can be found in the past and present relation with the whole as the bulk of the LA countries have not yet been able to leave their natural-resource based production patterns behind them that provide an economic focus in a global economy. For Ocampo and Bertola along this heterodox economic lines of research, LA's pattern of trade specialization has held region back from gaining further access to more technologically dynamic segments of the global market. In other words, Ocampo highlights the formal trade link among nations, regions in their international insertion. His conclusion, LA's pattern of trade specialization, along with the region's cyclical access to capital markets, accounts for the highly unstable nature of LA's economic growth (ibid. 2012). As a matter of fact, historically, other regions and countries with similar characteristics were able to leverage their natural resource-based productions and shift development paths towards more industrial dimensions and the key for them was their international insertion or position within the world order and in relation to the hegemon. These include Canada, Australia, and New Zealand. Nonetheless, the main characteristic present in these countries, but not in LA, is the type of international insertion or multilevel relationship with the dominant world order and hegemon, that played a key part in LA's insufficient diversification of production structures made it difficult to sustain broad-coverage welfare politics (ibid. 2012). This point is central as the new regional global trade networks of South America remain structurally yet strongly concentrated and underdeveloped in the region (See Pérez-Oviedo et al., Chap. 6 in this book).

In a critical review of these political economy contributions, Pablo Astorga, focusing on the formal political economy and development, argues that these conclusions are inconsistent with the evidence in LA in the pre-industrial era in comparative international terms (2015). According to Astorga, the time of polarization can be traced to the periods 1900–2011, in particular, the 60s and during the implementation of the "Washington Consensus" (ibid., 26–28). Considering the relations between domestic and international development, inequality grew in the 60s in a world context of the reduction of the development finance flows to the region by the time of ISI policies, and in the 90s the period of liberalization and financialization of development (Griffith-Jones 1984; Lustig et al. 2012). However, industrial development and the expansion of middle classes were not enough to curb the burden of rural population into inequality in the 60s and, in the 90s, deindustrialization and informalization of labor force did not either. Also, the comparative studies of the region between the 90s and the first decade of the twenty-first century presents further contradictory results concerning the historical social structures in the region or the variations according to the stage of development of upper, middle, and lower classes (Ponce et al., Chap. 2. in this book).

In summary, the LA IPE scholarship on inequality in LA has longstanding contributions, albeit focused on two lines: One attributing inequality to the Iberian colonial heritage, the other focused onto formal economics, political institutions, and public policies. In any case, strikingly, neither take into account other academic contributions related to geo-economics, history, urban studies, security, sociology, economic ecology, etc. A more multidisciplinary and diverse regional research agenda links regional IPE to the multidimensional phenomena of development. Inequality, including its economic and political dimensions, constitutes a contextual and historical matter of development since it is crossed in its rise, reproduction, and historical resilience by different and interrelated structures of development and also demonstrates how inequality is structurally tied to multiples configurations of material, institutional, cultural, and ideational social forces.

Historians and other social scientists, beyond different perspectives, have, for a considerable time, provided us with central insights about the political economy, dynamics, and conflict of the power in the world order. These discernments help us to frame that in a wider and integral approach to comprehend the unequal, unstable, and pivotal political economies of LA regions today. The contributions of E. H. Carr (1967), Eric Hobsbawn (1998), Fernand Braudel (1979), Emmanuel Wallerstein (2004), Robert Cox (1981), Katzenstein (2005), and Ikenberry (2011) differ regarding the conceptualization of structures within a world order, but they do have central points in common in the major features of the different worlds orders and regions of the last 400 years.

Accordingly, the world order has boundaries that define their identities; they circle a center or a set of major cities that are set in an already dominant type of capitalism, consisting of particular configurations among economy, the market, political order, and elite classes. Every world order can be historically divided into different and often hierarchical layers, one based around a central city or metropolis, highly socially diversified and heavily protected as world class cities. Venice, Antwerp, Amsterdam, London, and, in the last century and present day, New York, Paris, Frankfurt, and Tokyo were examples of that. The second level consists of a line of cities associated with the center, like a class role in the world order, and finally, the periphery subsumed into inequality, poverty, and backwardness, since inequality is structural and functional to the world order (Braudel 1979). Within any historical order, regions connect, and overlap in their political economic boundaries; regions are functional to the hierarchical nature of the world order (ibid.). Hierarchies between world cities and regions as well as inequality are intimately related each other and LA within the world order does not seem to escape the historical features mentioned: inequality, political instability, and type of world insertion have for a long time been tied to structural configurations.

Following this, one the most important lessons is that world orders and regions occur simultaneously as they are structurally linked in their dynamics and reconfigurations (Bøås et al. 2005; Söderbaum 2000). This includes the case of the historical remapping of the Americas and LA as regions since 1889 and their institutional expressions such as the Commercial Bureau of the American Republics, later the Pan American Union (1910) and, finally, the OAS (1945). These are at the center of the common, often misleading, assumptions or conceptual cages that regionalism started in Europe after WWII and from there, the phenomenon spread to other regions such as South America (Söderbaum 2000; Acharya 2015). In this sense, LA regions have historically occupied a position in the periphery of the different world orders (Weaver 2000). Historically, LA regions have passed from a peripheral relationship with one historical hegemon to another. For instance, this was the case with regard to the Spanish and British Empires, to Pax Americana, all in a functional relationship with the hegemon on the basis of regional hierarchy (Weaver 2000; Halperin Donghi 1995). Accordingly, world orders present a hierarchy of core, intermediary, and peripheral cities, which is easy to follow in the dynamics of LA's geography of cities and metropolis (Sassen 2016; Fuentes and Duran, Chap. 10 in this book). Finally, hierarchy and inequality have been bound and functional to the political economic nature of the region within a world order (Braudel 1979; Payne 2005; Thorp 2012). In conclusion, LA regions are necessary heterogeneous configurations of historical political economic structures, formal and informal that define position in the world order at a historical given time (Katzenstein 2005; Ikenberry 2011; Weaver 2000; Bulmer-Thomas 2003). Regarding informal or malign regionalism, there is wide range of contributions challenging us to link in our research region, security and development (Payne 2005; Bøås et al. 2005; Taylor 2005).

Historical variations in terms of upper, middle, and lower classes generally related to macro formal economic variables where the research on inequality becomes abstract, analytical, and useful although limited to formal economics (i.e., Lustig et al. 2012). However, in political economic terms inequality is also tied and related to different structural conditions, which, as well incomes and wages, shaped by size of informal economies, access to urban infrastructure and services, organized crime, distribution of trade and financial benefits, security, migration, etc. (see Canales, Chap. 11, and Ponton and Guayasamin, Chap. 12 in this book). Inequality in LA is historically a structure of development in a given space, which shares regional features and is multidimensional, as it is horizontally crossed by different configurations of forces from the formal and informal world. Something similar can be observed about political instability, as this is bound to social and development structures whose resilient power may remain in place beyond different stages of change. The political economy of the formal political construction of legitimacy around political governmental projects is vital to unpacking this relation, although most of the time it does not account for the impact and relation with other developments such as organized crime, para-state conflicts, and their international insertions. Briefly, three different but complementary dimensions of the IPE of development are present in LA, as well as in other peripheral regions of the world order: the formal, informal, and that about regional global insertion.

In terms of research, the concept of unequal structures of development has two sides. The first is flexible and subject to the orientations of the research as this allows multiples combinations for empirical and theoretical investigation. The second demands to identify and critically open or review the conceptual cages framing the IPE issue of regional development and international insertion. Historians and international political economists have, for a considerable time, provided central insights about the importance of structures as an empirical starting point of the research. This helps us with the political economy, dynamics, and conflict of the power of the regional in relation to the world order, and those discernments do help us to frame that wider and integral approach highlighting the structural nature of the LA regional structures of development and global insertion today.

Therefore, a key point from the South in opening any agenda about LA must rest on few premises, or at least they must be explored. The first is that inequality must be considered as a multidimensional phenomenon, shaped by unequal structures of development and global insertion. Second, that inequality cuts across regional development orientations, national institutionality, urban orders, urban-rural economies, undercover worlds, formal and informal sectors, and domestic–international settings, without omitting the centrality of the relation between power and economies. Structural inequality is a *longue durée* (i.e., following Braudel); a multidimensional process that is functional to the global insertions of the region and its countries. Inequality is linked to the domestic–international political economic dynamics via a state–society complex (Cox 1981), and, the resilience of this is at the very core of the regional bouncing between neoliberal conservative to developmentalists regional orientations of development (Braudel 1979; Palma 2003; Frankema 2009).

The theoretical and methodological value of this approach to unequal or asymmetric structures of regional development rests on that which allows us to identify the multidimensional political economic nature of that region in a historical and geographical context, as the configurations of these structures varies from North to South and from East to West regions and countries. A second benefit is that, as an ideal type to be fulfilled by research, it allows us to identify relations between the macro and the micro levels of analysis. For instance, the impact of a structure of trade is not the same in the formal or informal sector of the economy, very much less over primary, industrial sectors, or regional valued changes. The same can be said about organized crime (e.g., see Moreira Lima, Chap. 8, and that of Ponton and Guayasamin, Chap. 12 in this book). In this sense, the concept of unequal structures of regional and national development is useful but for the understanding of some aspects of the world, as these are historical and contextual frameworks of action, they do not determine actions but constitute the material ideational configurations where they take place (Cox and Schechter 2002). On the one hand, they are, at a micro level, a particular amalgam between material capabilities, institutions, and ideas (e.g., migration, organized crime, knowledge, cities, etc.) On the other hand, the entire set of these configurations interact multidimensionally in three macro levels; social forces, forms of state-society complex, and world orders (ibid.). Accordingly, any particular unequal or asymmetric structures of development can be analytically approached from a specific research focus, for instance, domestic or international, formal or informal, ideational, institutional, or as a political economic process, and grasped in its specificity.

Successful Ideas at One Time Can Turn into "Conceptual Cages" at Another

The idea that scholarly IPE is biased by certain preconceptions, concepts, and research practices is not new. Numerous scholars have pointed out how misleading preconceptions and research practices implicit in Eurocentric regionalism, North American actor-oriented, or reducing regionalism to liberal economic integration perspectives, have contributed to their failure to explain sufficiently new regional processes and outcomes elsewhere (Jackson 2011; Acharya 2011; Söderbaum 2013; Riggirozzi and Tussie 2012; Torrent 2003). For Söderbaum, the problem inherent in the above approaches is the assumption of the European experience "as the foundation for conceptual development, theory building, and comparison", leading to a "false universalism" based on universalist "Eurocentric" readings of the history of regional integration (2013: 1). The fact is that the variation in approaches concerning South American regionalisms varies according to the methodologies used and their different ontologies and epistemologies (Söderbaum and Shaw 2003; Lombaerde 2016).

These variations are central, both theoretically and methodologically, since the study and evaluation of the IPE of regionalisms, such as the LAs, can be part of a diverse and critical integrated research agenda in IR and IPE to better grasp other realities beyond the mainstream. It is important to note that LA retains strong ties to the North American–European influence in the academic field of IR, and, above all, to the frameworks for explaining regionalism and its relations with globalization and development. In fact, there is relatively little research about LA contributions to IR or IPE on regionalism out of the umbrella of both the Eurocentric and North American market-led perspectives of integration. Different historical and academic factors have contributed to this but certainly the dominant theoretical views in the region rest on neofunctionalist, institutionalist Eurocentric and North American perspectives, somehow caging the research (Söderbaum 2012: 5; Lombaerde 2016).

In his *The Protestant Ethic and the Spirit of Capitalism,* Max Weber warned how the successful ideas and projects of one time turned into political *iron cages* of another period (2001). According to Weber, the use of certain concepts for current research, removed from their original meaning and political purposes given to them by their founders, usually justify the survival and expansion of existents powers rather than serving to explain social change. Weber calls such historical ideas (those with a strong political sense in their orientation of development), "long lasting iron cages", derived from rationalized forms of how reality functions in one historical context (2001). The Weberian metaphor might be a useful concept as a base to identify and analyze the theoretical and methodological elements that are necessary in order to avoid the biases of key conceptual cages.

The main issues with these conceptual cages lie in the architecture of the paradigms where they rest and reductionist assumptions concerning the role of theory in research on regionalism and IPE, the base of its "false universalism". The problem is not necessarily with the theories in themselves, but with some dominant and unquestioned ontological and epistemic assumptions on which they are built. Conceptual cages can be identified as they do frame issues of development, set hierarchical assumptions, enclosing research and production of knowledge. In other words, they constitute epistemic practices that distort, depoliticize, and turn into technical concepts in relation to specific projects of development (Bøås and McNeill 2004: 1–4). The epistemic power of them, as theoretical and methodological lenses, often ends in a transformative logic that taking research towards an ahistorical, top-down, and liberal-institutionalist analysis based on particular assessments of other regionalist experiences (Söderbaum 2013; Bøås and McNeill 2004).

These conceptual cages are marked by excluding tendencies that block other agency-structure dynamics from the formal regional processes, informal processes, conflict, and development (Bøås et al. 2005; Taylor 2005). In fact, conceptual cages function as consensual epistemic devices and they depend and extend according to the power of particular epistemic communities. They legitimize and operationalize a certain ontological hierarchy of assumptions. This work is done by stages, first depoliticizing historical or contextual concepts of development, then operationalizing them into technical and objective theories. For a final stage, using those conceptual frameworks to measure or test to which extent other realities fit the mould (Bøås and McNeill 2004). In summary, six major conceptual cages can be identified by an IPE of regional South American development: (1) the assumption that regionalism started with the rise of the EU in the 40s; (2) the Eurocentric or North American market-led oriented regionalism as measure of all regionalisms in the South; (3) the concept of LA as a homogenous political economic identity detached from the Americas and the world order; (4) the formal and top-down interpretation of regionalism; (5) the fusion of regionalism into the concept of formal political economic integration.

Latin American IPE and South America as a Region

There are important contributions to the comprehension of the Pink Tide's decline, such as that from Quiliconi and Salgado Espinoza, Chap. 13 in this book, which offer deep analytical components from where to grasp current debates about the South American regional dilemmas. However, three major IPE regionalist perspectives about South America compete for the interpretation of the South American region: the institutionalist market-led regionalist perspective, the pragmatic neodevelopmentalism, and the named consensus of commodities or post developmentalists. The institutionalist market-led regionalist perspective has been the dominant academic view in LA with significant contributions inciting the regional debate that has highlighted the institutional and trade integration weakness of the different regional process (Malamud and Gardini 2012). This is nurtured by complementary academic strands of institutionalism, Eurocentric regionalism, and economic liberalization fixing its analysis to market outcomes, national homogenous convergence, and supranational institutionality. It claims that the EU, from a particular institutional and liberal economic understanding, is the necessary model to follow and compare with other regionalist projects (Malamud 2011). The major critiques to that are summarized in what Acharya has come to name the Eurocentric regionalism with its false universalism (2011: 631). Its conceptual cage dimension lies in the notion that international history and development are the result of free trade and markets, supported by regional and international institutions (Stein 2008). The neoliberal and historical institutional premises rest on the contributions developed by functionalists and neo-functionalist theorists for whom the origin of regional cooperation is primarily economic and institutional. This, therefore, equates regionalism with market and institutional integration defined by a top-down construction; market, and political convergence, and sovereign transfer from national states to regional institutions are conditions *sine qua non* of its existence (Malamud 2011). Such a view, certainly quite popular amongst a particular network of LA scholars, stems from two central, but unrevised perspectives. One is the particular universalist and ahistorical interpretation of European regionalism. The other is rooted in positivist North American political science traditions, centered on actor behavior, liberal economic integration, and neoliberal institutionalism (Söderbaum 2013).

The second major regional view focuses on regional transformations and shift from LA into South America following the exhaustion of the Washington-sponsored regional multilateralism and its institutions, the return of the state, the presidential diplomatic regionalism, new multilateralism, and social policy issues (Sanahuja 2012; Bonilla and Long 2010; Riggirozzi and Tussie 2012). Its representatives contend that renewed regional integration emerges as a South American political coalition focuses upon social, political and security dimensions, and common policies in areas of energy and infrastructure against the emphasis on trade liberalization of the "open regionalism" (Sanahuja 2010: 88). The political leverage of the new South American Regionalism is nurtured by the hegemonic differentiation and competition among North America, EU, and South East Asia. With a critical and varied focus on power and governmental relations, multilateralism and public policy, political projects, and institutionality, proponents of this view argue that the rise of the new South American regionalism responds to two major facts: the failure of the Washington-sponsored old inter-American system, in particular, the OAS and the creation of the UNASUR. The root of the change is "from above", state and presidential-led, which has moved the axis from Latin- to South America, opening the door to the surge of different multilateral regional alternatives, and the creation of a regional security complex by democratic administrations (Bonilla and Long 2010: 23–28). The major strong point of these perspectives is their solid and critical eclectical conceptual apparatus, their downside is the dispersion and embryonic empirical research with important exceptions (Estay and Sanchez 2005a; Bøås et al. 2005; De Lombaerde and Söderbaum 2014; Riggirozzi 2014).

Finally, according to proponents of the "Commodities Consensus", "Post extrativists", "Post-regional" or "Post-developmental" perspectives, the new world system of development forces the region into new paths of "underdevelopment", characterized by a return to economic regional reprimarization, complex rentier states, and new asymmetries and inequalities, as well as social and political conflicts that threaten to destroy the conditions for existence of local societies (Petras and Veltmeyer 2012; Svampa 2013; Falconi 2014). These views represent both most critical to existent world order and innovation, although with the peril of resting on universalist and economist interpretations about underdevelopment, generally focused on the study of isolates contextual and historical cases studies around the issues of: Dutch disease; the Prebisch-Singer thesis; Bhagwati's immiserizing growth; or Ricardian rent. Scholars from this critical perspective argue that new CLER led this pragmatic IPE of development as the result of difficulties of "private and state sectors" to develop national industrialization and the "opportunities of high prices" via partnerships with MNCs (Petras and Veltmeyer 2012). That CLERs have been able to finance poverty-reduction programs, rising wages, and expand social expenditure but co-opting trade unions, local communities, and social movements without a real transformation of the neoliberal model (ibid.). A rather extreme conclusion by these scholars is that if the model fails, for example, due to falling raw material prices globally, it might detonate a conflict between two sides: financial-export-import sectors and state calling armed forces and the upper middle class all versus local communities, provincial capitals, town and villages, and the urban leftist parties and ecology organizations (ibid.).

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CHAPTER 2

Is Latin America's Rise of the Middle Classes Lasting or Temporary? Evidence from Ecuador

Juan Ponce, Rob Vos, José Rosero, and Roberto Castillo

Introduction

According to an influential study by Homi Kharas (2010), the increase in average income and the fall in levels of absolute poverty, in particular during the last decade, suggest that an increasing proportion of the world's population is neither rich nor poor by national standards but finds itself in the middle of the income distribution. This expansion continues. Despite the global economic slowdown following the Great Recession of

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2008–2009, in an update, Kharas (2017) foresees a continued expansion of the global middle class from 3 billion in 2015 to 5.4 billion by 2030. The bulk of this growth will come from Asia. By 2030, Asia would represent 65% (or 3.5 billion) of the global middle-class population and 57% (or PPP$37 trillion) of middle-class consumption, compared to 46% (1.4 billion) and 36% (PPP$12.3 trillion), respectively in 2015, according to the Fig. 2.1 below. LA's middle-class population would expand from 285 million today to 335 million by 2030, while dropping their share in global middle-class consumption from 8% to 6% in the same period.

The developing world's "emerging middle class" could be critical for global development, because of its potential as an engine of growth. History tells us that those in the middle have vigorosly accumulated capital, both physical (plant, equipment, or housing) and human (education and health), more than the poor or the rich. Consolidating this incipient middle-income group into a stable middle class could provide a solid foundation for economic progress by driving consumption and domestic demand. This becomes evident when contrasting, for instance, the experience of Brazil and South Korea. In the 60s, the countries had similar income levels and rates of growth. By the 80s, however, due to high inequality in Brazil, the middle class made up less than 30% of the population, in contrast to South Korea's 53%. Its growing middle class enabled South Korea to shift away from its reliance on export-led growth towards a growth path rested on expanding domestic consumption. Brazil did not witness the same growth dynamics, and domestic market expansion has been feeble and volatile. Opportunities might still be there, thanks to the decrease in poverty from 22% to 7% between 2004 and 2014, as 26.5 million Brazilians exited poverty and joined the ranks of the middle class (World Bank 2016).

The middle class can not only act as the engine of consumption and domestic demand, their social role can be equally critical. Middle classes are believed to support democracy and progressive but moderate political platforms. Strong middle classes can influence economic development through more active participation in the political process, expressing support for political programs, and electoral platforms; in particular, those that promote inclusive growth. Despite having incomes that are above international or national poverty lines, middle classes in many cases remain vulnerable. Their employment (many work in the informal sector), education (often only few have university degrees), and consumer behavior do not coincide with perceptions of a middle class that drives

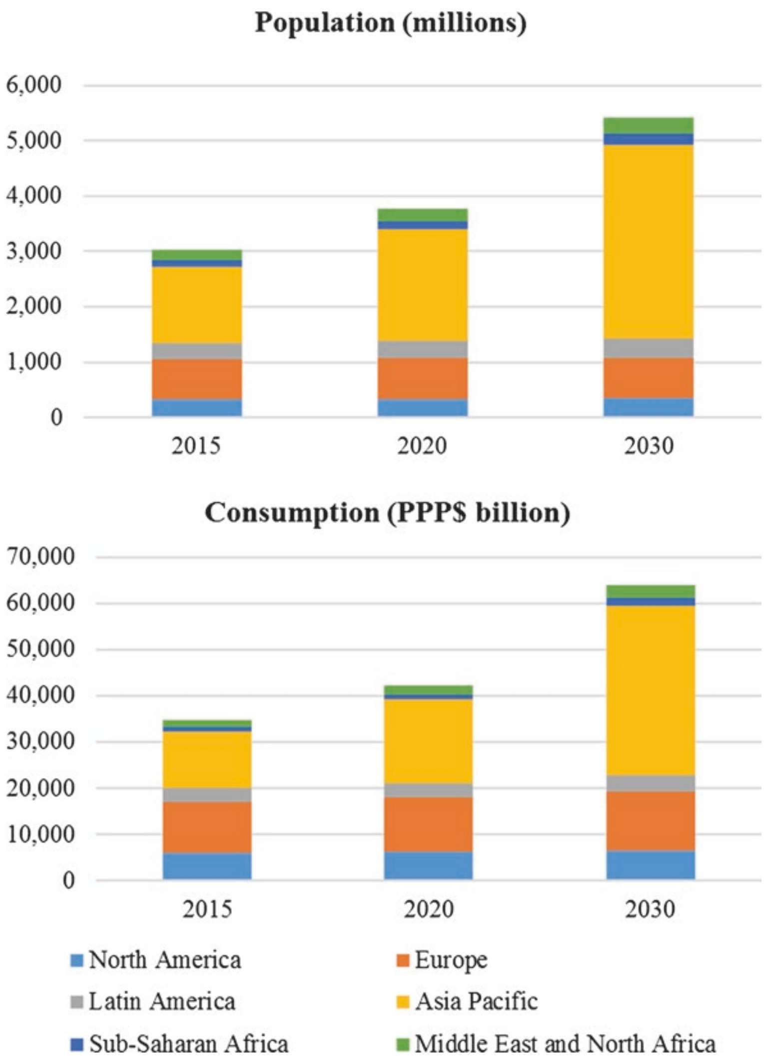


Fig. 2.1 Estimates of the projected rise of the global middle class[a], 2015–2030. (Source: Kharas (2017: Tables 2 and 3); Note: [a] Global middle class is defined here as the population with a per capita income of between US$10 and US$100 per day in Purchasing Power Parity (PPP) in 2011)

domestic consumption and growth. For instance, in Bolivia, Brazil, Chile, and Mexico there are up to 44 million informal middle-class workers, more than 60% of the total middle-class working population. Not surprisingly, social protection and social insurance systems fail to reach even half of this population, as coverage rates of informal workers are extremely limited. Coverage of some programs may be larger, such as many of the cash transfer programs introduced in the late 90s but most of those are targeted at the poor.

Thus, LA's rising middle class may be unlike that which became the engine of development in most developed countries. Yet, middle-class expectations in emerging and developing countries are rising and evolving as their countries' economic situations improve, following Hirschman's "tunnel effect": they are no longer satisfied with simply having access to public services, but are increasingly concerned with their quality (Hirschman and Rothschild 1973). Providing the quality services that the middle classes demand is far more complicated than simply providing access to them and this can be a source of friction, conflict, and political upheaval. The new middle classes in LA seem to be very vulnerable still, as many lack access to adequate social protection, and many could easily fall back into poverty when the next macroeconomic shock arrives.

The rising expectations of the expanding middle class in developing countries contrasts with the stagnating living standards of a shrinking middle class in many developed countries. Today, both middle classes are awakening. Each with its own specificities, the question is will these middle classes be agents of change?

This paper will not speculate about the possible political implications, but assess the drivers underlying the growth of the middle class in Ecuador over the past two decades. Ecuador's middle class, as defined by international standards as those with a per capita income of between PPP$10 and PPP$50 per day, rose from about 10% to near 40% of the total population between 1990 and 2015, mostly as a result of declining poverty and rising real wages. Likewise, the income group earning between PPP$4 and PPP$10 per day, defined here as non-poor but vulnerable, increased from around 30% to 40% of the total population over the same period. Hence, about 80% of the population is either vulnerable or middle class and the majority derives income from informal sector activities and is highly vulnerable to economic downswings. Much of poverty reduction was achieved on the back of a thriving economy bolstered by high oil prices and fueled by expansionary social policies during the 2000s, lasting till around 2015.

Weakening primary commodity prices could not be offset by new robust middle-class consumption growth, and Ecuador's economy went into a tailspin from 2015, putting the rise of the middle-class status to a halt.

The remainder of this chapter is organized as follows. The second section gives an overview of economic and social factors underlying recent trends in inequality, and the corresponding rise in middle classes in Ecuador and the broader LA context. The third section analyzes the trends of declining urban and rural poverty and the rising middle class in Ecuador and compares these with the broader patterns observed throughout LA. The fourth section disentangles the sources of income growth of the poor and middle classes, on the basis of which questions are raised regarding the sustainability of the expansion of Ecuador's middle class. A final section provides conclusions and draws some lessons for the future.

Ecuador's Rise and Fall in Income Inequality

As elsewhere in the region, Ecuador experienced notable increases in income inequality during the 90s, which, by and large, were undone during the 2000s. Active social transfer policies by successive governments played a role in reducing inequality in the second decade, but the rise and fall in inequality seem to have been associated for most part with swings in macroeconomic conditions.

The 90s were characterized by Washington consensus-type reforms. Trade and financial sectors were liberalized from around 1990, and high inflation of the late 80s was controlled through a combination of heterodox and orthodox macroeconomic stabilization policies in the early 90s. The liberalization policies strengthened export growth, especially of more capital-intensive activities (oil, manufacturing, traditional export agriculture), though some of the effect was counteracted by the stabilization policies that cut inflation, caused the exchange rate to appreciate, and allowed real (urban) wages to increase. On balance, there was a mild increase in inequality during the first half of the decade (Ponce and Vos 2014). The adjustment policies and market reforms failed to induce strong employment growth in the modern sector.

The jobs that were created in the formal sector mainly benefited skilled workers. The slack in the labor market was absorbed in traditional agricultural and informal urban sectors. This drove up the wage gap between modern and informal sector workers as well as between skilled and unskilled workers. Lower inflation and aggregate real wage increases dampened these unequalizing forces to a certain extent.

The influences mitigating inequality disappeared in the second half of the 90s when the impact of the macroeconomic stabilization policies faded, trade liberalization pushed further for primary export-led growth, and the political situation became very unstable. A series of external shocks, including heavy floods, caused by the El Niño phenomenon, and falling oil prices, put the economy into a tailspin leading towards a full-blown banking and economic crisis in 1999. The economic downturn, accelerating inflation, sharply falling real wages, along with accelerated exchange rate depreciation, pushed more and more workers into unemployment and, in particular, into underemployment in informal sectors, pushing up the (urban) Gini coefficient to 0.55 in 2000 (from around 0.49 in the early 90s; see Fig. 2.2).

Amid the crisis, large numbers of Ecuadorians started to leave the country, migrating to Europe and the USA in search of better opportunities, and many more would follow in subsequent years. The 2000s started with a hasted decision to dollarize the economy amid major political turmoil. In the first year as an officially dollarized economy (2000), Ecuador

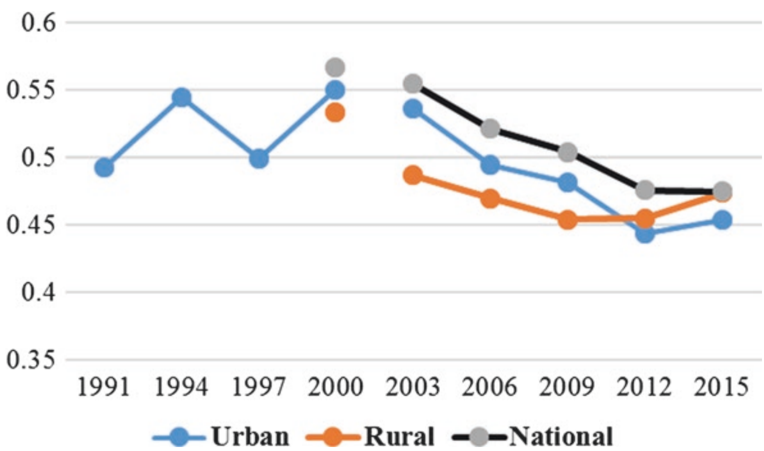


Fig. 2.2 Ecuador: Income inequality, 1990–2015. (Gini coefficient) (Source: INEC (various years); Note: Because of a substantial change in survey methodology, no line is shown between 2000 and 2003. The household surveys used here only covered urban areas during the 90s).

witnessed high inflation (peaking at an annual rate of 100%), in large part because of the way the currency change was implemented.[1] Real income and wealth declined steeply for most Ecuadorians, which further pushed up inequality, as low-income groups were affected the most. The ensuing real exchange rate appreciation and a rebound in international oil and other commodity prices, however, helped stage an economic recovery in subsequent years. Increased government revenue supported a recovery of government spending. As a result, employment levels and real wages rebounded, including those for unskilled workers. The broad-based increase in purchasing power helped sustain and expand an already large informal sector, even as the relative share in informal employment declined during the 2000s (see also below). This shift, by itself, contributed to higher labor income inequality but was more than offset by overall employment growth and a fall in the wage gap between skilled and unskilled workers. The recovery in real education spending during the 90s (see Vos and de Jong 2003) started paying off in the next decade with more skilled workers entering the labor market, and this trend was sustained with cash transfer programs introduced at the end of the 90s, which induced higher school retention rates. At the same time, demand for unskilled workers in urban services sectors and traditional agriculture outpaced that for other workers.

These factors explain much of the fall in per capita household income inequality in the 2000s and early 2010s. The lack of dynamic structural change in the economy, however, does not augur for sustained reductions in labor income inequality. Continued increases in the supply of skilled workers may push further in that direction, but this effect may also not be lasting, lacking a drive towards diversification into more skill-intensive activities. This became evident in the second half of the 2000s. The fact that household income inequality continued to decline (though only slightly), was primarily on account of public transfers and, to a lesser extent, worker remittances. While already in existence from the late 90s, the cash transfer program, which mainly benefits poor households, was enhanced substantially under the "new leftist" government of Rafael Correa, along with other social spending. At the same time, worker remittances increased substantially during the 2000s. Initially, these mainly benefited higher-income groups but became less regressive and even slightly progressive towards the end of the decade. The importance of remittance incomes has tapered off more recently because, among other reasons, many migrants have returned to Ecuador as employment opportunities in the USA and Europe diminished with the Great Recession of 2008–2009 and its aftermath. Furthermore, the decline in income inequality came to a halt around 2012, along with the deceleration of the economy against the backdrop of falling oil prices, stagnant real wages, and a drop in fiscal space to continue with fiscal expansion, which also put further growth of social transfers to a halt.

In summary, the decline in income inequality during the 2000s and early 2010s was initially pushed by the economic rebound following the deep crisis of the late 90s. A recovery of real wages was a key factor, especially for urban workers, while improving agricultural terms of trade helped push up farm incomes in rural areas (Ponce and Vos 2014). After 2007, activist labor market policies and social transfers gave a further boost to rising real wages and reductions in poverty and inequality. These, in turn, gave rise to an expanding domestic market generating employment in service activity, in particular. With lower oil prices and the economic slowdown from 2013, these sources of poverty reduction and greater income inequality have come increasingly under strain. Little economic diversification has taken place beyond Ecuador's traditional reliance on primary exports and the continuous expansion of, mostly, service sector activity. A large part of these sectors consists of informal activities (traditional agriculture, petty trade, and other services). By the mid-2000s, about half of the country's work force was employed in informal sector activity (defined as employees of economic establishments without tax registration), while 4 out of every 5 workers did not have access to the formal (contributory) social security system. Fiscal reform and active social policies pulled a significant number of workers into the formal, tax-paying segment of the economy and reduced the share of workers without access to social security from 80% to 65% between 2007 and 2014 (Fig. 2.3). Minimum wage hikes pulled up average wage levels, especially for unskilled workers. With the downturn of the economy from 2014, these trends were reversed as visible in the rise of the share of workers in informal employment between 2014 and 2016.

This does not augur for sustained reductions in the still high income inequality and increases the risk to new members of the middle class to fall back into the vulnerable group of those with incomes just above the poverty line or even back into poverty. The following sections will put this hypothesis to an additional test.

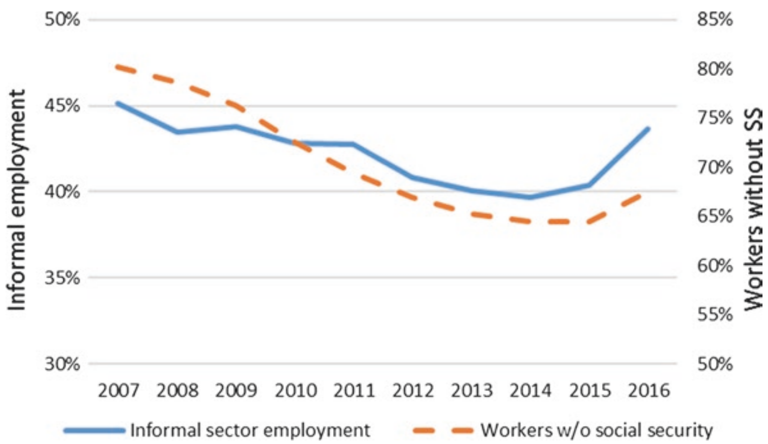


Fig. 2.3 Ecuador: Informal sector employment, 2007–2016 (Percentage of total employed labor force). Informal sector employment defined here as workers of establishments without tax registration (*left axis*), and workers without access to (formal) social security (*right axis*) (Source: INEC (various years))

Falling Poverty and the Rise of the Middle Class

Despite the rise of LA's middle classes, the region continues to show the highest levels of income inequality, with a weighted average Gini coefficient hovering around 0.5 (World Bank 2016; and Fig. 2.4 below). In most countries of the region, inequality increased during the period of economic opening and liberalization (Vos et al. 2002), but dropped again during the 2000s to return to levels of the late 90s. Like Ecuador, other countries in the region managed to reduce poverty and lift incomes of the bottom 20% of the income distribution during the 2000s. Nonetheless, the top 20% of the income distribution continues to take more than half of all income, leaving 30–40% for the middle 40%, and just over 10% for the bottom 40%. This broader distribution pattern is remarkably similar across all countries in the region (Fig. 2.4). Ecuador's middle 40% earns about 35% of total household income, putting it in the mid-range of the ranking of LA countries.

There is some debate as to what constitutes the middle class. Statistical definitions vary, but most often refer to those in the middle of the size distribution of income, e.g., the third and fourth quintiles as in Fig. 2.5. Notions of an emerging global middle class, however, are based on

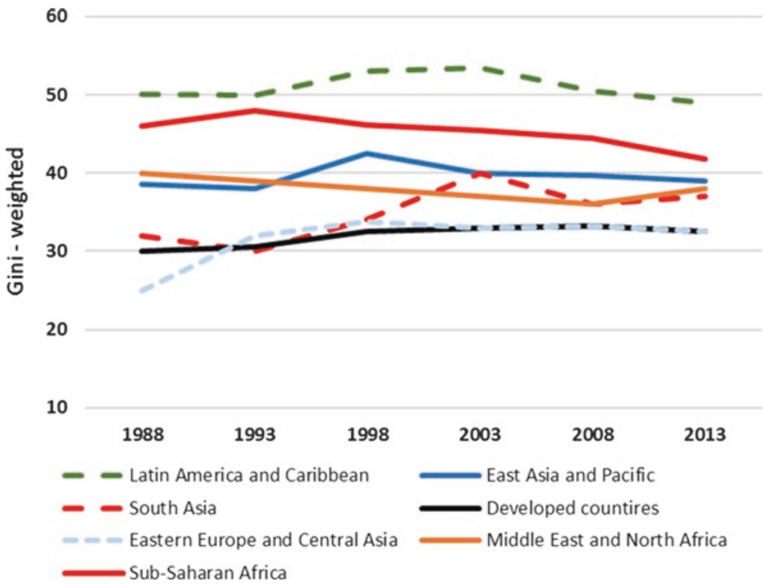


Fig. 2.4 Within-country income inequality by regions, 1988–2013 (Gini–weighted) (Source: Based on World Bank 2016: Fig. 4.7)

internationally comparable income levels. The most often cited studies see the global middle class as those households with per capita incomes between PPP$10 and PPP$100 per person per day in PPP terms (Kharas 2010, 2017; World Bank 2007; Ernst and Young 2013; Bank of America Merrill Lynch 2016). This implies an annual income for a four-person middle-class household of US$14,600 to US$146,000. For the case of Ecuador we consider a similar definition, but taking the range of PPP$10 to PPP$50 of daily per capita income. In nominal 2015 dollars that translates into a monthly per capita income of between US$191 and US$954, or, for a family of four, annual household incomes of between US$9000 and US$46,000 per year. The reason to put the upper bound for the middle class at PPP$50 per person per day is that, beyond that level, only a very small share remains for the richest group.[2]

Figure 2.6a–c show the trends in the size of Ecuador's middle class from the early 90s for urban areas and nationwide trends from 2000. We compare its evolution with the prevalence of extreme and moderate poverty (at international poverty lines of, respectively, PPP$1.90 and

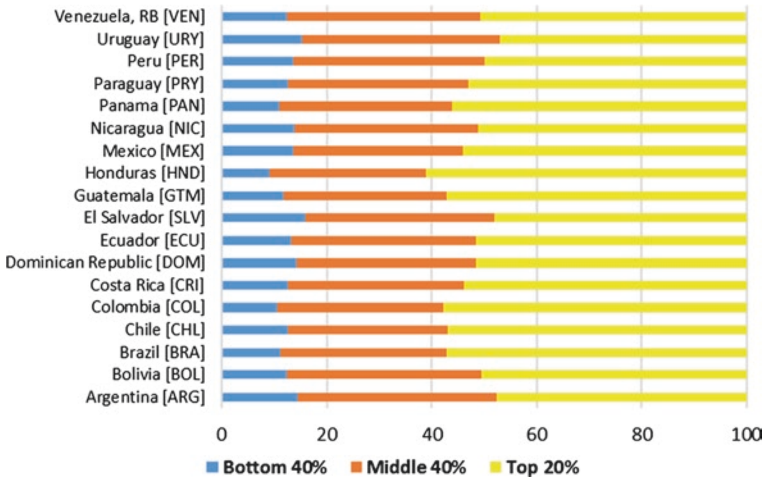
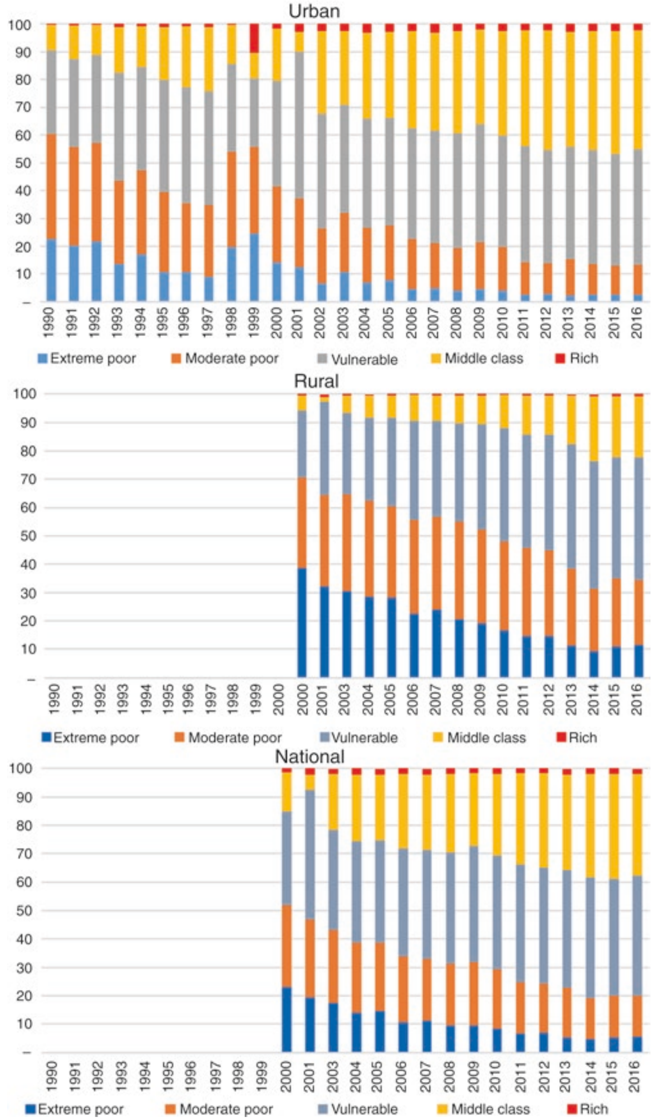


Fig. 2.5 LA's top, middle, and bottom of the income distribution, around 2013 (income shares of bottom 40%, middle 40% and top 20%; ranked by income share of middle class) (Source: World Bank, Poverty, and Inequality Database)

PPP$4.00 per person per day), the group of vulnerable households between the poor and the middle class (with PPP$4.00 and PPP$10.00 per day), and that of rich households with daily per capita incomes above PPP$50. By these international standards, Ecuador's urban middle class quadrupled from 9% to 43% of the urban population from 1990 to 2016, increasing from 670,000 to 4.9 million people. However, most of the expansion (24%points) took place during the 2000s. On the back of rising real wages, the rise of the urban middle class began in the mid-90s, but many fell back into the group of vulnerable and poor in the late 90s as the economy went into a tail spin. As discussed in the next section, the recovery of the economy and pro-active labor and social policies supported the stark expansion of Ecuador's urban middle classes in the 2000s and into 2010s. Expansion stagnated again with the renewed economic slowdown from 2014.

The 2000s also saw the emergence of a rural middle class (by international standards), increasing from virtually non-existent to one fifth of the rural population (or about 1.1 million). Nationwide, the share of Ecuador's "global" middle class almost tripled (from 14% to 36% of the nation's population), representing 6 million by 2016. The nationwide picture



Note: Extreme poor = share of population living on less than PPP 1.90 per person per day; Moderate poor = population living on between PPP 1.90 and PPP 4.00 per person per day. Vulnerable households = share of population living on between PPP 4 and PPP 10 per person per day; Middle class = share of population living on between PPP 10 and PPP 50 per person per day; and Rich households = share of population with more than PPP 50 per person per day

Fig. 2.6 Ecuador's rising middle class, 1990–2016 (population shares by income categories) (Source: INEC (various years); *Note*: See text for the definition of income groups) mirrors that of urban areas with further growth of the size of the middle class coming to a halt (and even turning into a slight decline) from 2014, as the economy, real wages, and the agricultural terms of trade went into a tailspin.

Figure 2.6a–c further show the staggering decline in extreme and moderate poverty, as measured against international poverty lines of, respectively, PPP$1.90 and PPP$4.00 per day.[3] Between 2000 and 2016, the extreme poverty incidence fell from 23.0% to 5.5% for the country at large. The rural extreme poverty incidence was cut by more than two thirds: from 38.6% in 2000 to 11.6% in 2016. Extreme poverty in urban areas had dropped from almost 23% in 1990 to 9% in 1997, but rose again to initial levels towards the end of the decade as a result of the economic and political crisis. During the 2000s, urban extreme poverty was nearly wiped out, dropping to under 5% of the urban population by 2010 and to under 3% by 2016. Declines in moderate poverty (those living on between PPP$1.90 and PPP$4.00 per day) were also substantial, though less dramatic. Many of those lifted out of poverty transited to the group of vulnerable households and many in that category into the middle class. The transition matrices presented in the next section and the decomposition of income changes during 2000–2015 disentangle the underlying dynamics.

Will the New Middle Class Stick?

Economic growth during the 2000s and into the 2010s has been strongly pro-poor, in contrast to patterns found in the 90s. Figure 2.6a–c show the increase in annual terms of the per capita income of the household. In the period 2001–2006, it grew sharply for all income deciles, significantly more for the lowest deciles as a result of the recovery in real wages and the agricultural terms of trade, as the economy rebounded. Worker remittances and the introduction of the new cash transfer program, targeted at the poor, also contributed significantly to this pattern. Pro-poor growth continued during 2007–2016 on the back of the same factors, though the at lower relative income growth than in the immediate recovery in the first half of the 2000s. During the entire period, middle-class income growth (deciles 6 and up) was robust but below that of the poorer and vulnerable classes (Fig. 2.7).

As a result, most upward income mobility took place from 2000 onwards. Table 2.1 shows the pattern for 2007–2014 in the form of a

Fig. 2.7 Ecuador: Growth of real per capita household income by deciles[a], 1991–2016 (Source: INEC (various years); [a]Only deciles 1–9 are shown here, as incomes measured for the top decile show some volatility owing to significant under-reporting)

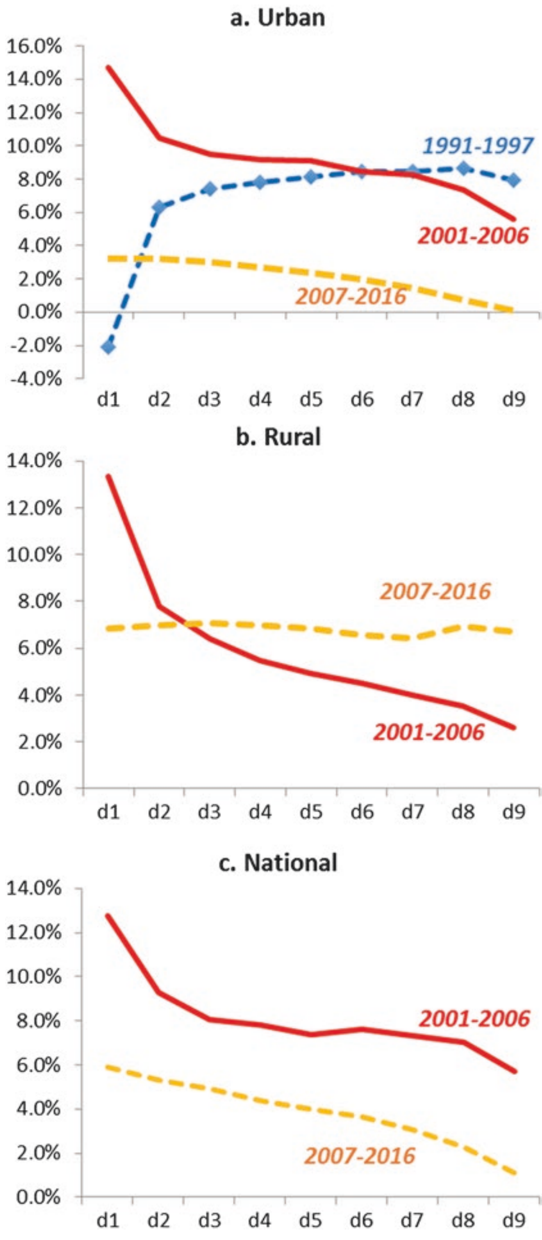


Table 2.1 Transition matrix of mobility across income classes, 2007–2014

		2014			
		Poor (%)	*Vulnerable (%)*	*Middle class and rich (%)*	*Total (%)*
2007	Poor	55.0	39.0	6.0	100.0
	Vulnerable	12.6	52.1	35.3	100.0
	Middle and rich	0.9	16.4	82.7	100.0

Source: INEC (various years)

transition matrix of mobility across income classes. To compute income mobility, we followed the methodology of non-parametric synthetic panels proposed by Dang et al. (2011). This method overcomes constraints posed when estimating transition matrices for a sample of households that does not form a panel in a strict sense.[4] The method consists of an econometric model of consumption or income determinants. The model is estimated using survey data for the first year (2007) and the resulting parameters are subsequently used to estimate a new, counterfactual consumption/income distribution for the households of the panel in the last year of the period (2014). This way we obtain for each household of the 2014 panel an observed income for 2014 and an imputed income for 2007. These results are then used to study the probability of households transiting from one income class to the next.

The table shows that poverty fell, on balance, almost exclusively as a result of people moving out of poverty. Relatively few fell back into poverty from vulnerable and/or middle classes during 2007–2014. About 40% of those classified as poor in 2007 had transited upward to the category of vulnerable households by 2014. About 13% of the group considered vulnerable in 2007 had fallen back into poverty by 2014. Over one third of the population belonging to vulnerable households became part of the middle class during 2007–2014 and 6% of those considered poor in 2007 moved upward to middle-class status. At the same time, most (83%) of those belonging to the middle class in 2007 had remained in that category by the end of the period.

These findings would suggest that the growth of Ecuador's middle class has been robust building on upward mobility. However, as indicated, much of the reduction of poverty and rise of the middle class was facilitated by an economic expansion fueled by strong primary export prices, which provided the Ecuadorian government with the fiscal space to underpin expansive labor policies (through minimum wage increases) and social policies (expanding social transfers and public infrastructure). Fiscal reform and a strong government push to expand coverage of the social security system increased the share of workers in formal employment, especially in services and benefiting unskilled workers. As analyzed by Ponce and Vos (2014), the boost in purchasing power among broad segments of the population facilitated a further expansion of the market size of an already large informal sector (in agriculture, but especially in urban services), as well as that of modern urban service, generating multiplier effects on employment and real wage and farm income growth. This growth pattern is also reflected in a lowering of the wage premium for skilled labor and a rising wedge between informal and formal sector labor incomes.

Turning first to the decline in the skill premium, existing studies have suggested that much of the increase in income inequality in LA during the 90s was on account of increasing wage differentials between skilled and unskilled workers. The increase would have been produced by more skill-intensive technological change induced by trade and capital account opening.[5] The greater demand for skilled labor would have increased the wage gap between skilled and unskilled workers.[6] During the 2000s, in contrast, the increase in the educational level of the work force would have counteracted the increase in the demand for skilled labor, reducing the wage gap.[7]

To analyze whether this pattern also occurred in Ecuador case, we ran a Mincerian wage regression for the population aged 25–55 years. The estimation model is as follows:

$$Y_i = \alpha + \beta C_i + \gamma X_i + \varepsilon_i$$

Where Υ_i is the logarithm of labor income per hour, X_i is a vector of control variables (such as age, age squared, and a dummy for working in the modern sector), and C_i is a dichotomous variable that has a value of 1 if the worker is skilled and 0 if she or he is unskilled. A skilled worker is defined as someone who has at least completed secondary school. Eta (ε) is the error term, with a normal distribution and a mean of zero. The coefficient of interest is beta (β), which indicates the salary gap between skilled and unskilled workers. Results are reported in Table 2.2.

The results confirm that trends in Ecuador are no exception to those found elsewhere. During the 90s, the wage premium for skilled workers increased. Correcting for age (used as a proxy for work experience) and type of employment (modern or informal), skilled workers earned around

Table 2.2 Ecuador: Skill-based wage premium for urban workers (Beta coefficients estimated using a Mincerian wage equation)

	Urban area		
	Men	*Women*	*Total*
1990	0.534[a]	0.371[a]	0.481[a]
1996	0.627[a]	0.381[a]	0.548[a]
2000	0.789[a]	0.576[a]	0.718[a]
2006	0.637[a]	0.565[a]	0.617[a]
2010	0.574[a]	0.422[a]	0.521[a]
2015	0.515[a]	0.489[a]	0.509[a]

Source: INEC (various years)

[a]Significance at a 1% confidence level

72% more than unskilled workers in 2000, up from 48% in 1990. A similar trend is observed for male and female workers. These trends reversed during the 2000s, as the wage gap decreased. The skill premium reduced from 72% to 50% in 2015. The trend is also similar for both male and female workers. The improvements in the skill level of the labor force are closely associated with the recovery of real public spending in education during the 90s and the cash transfer programs of the 2000s and 2010s, which helped improve access to education. At the same time, the structural change towards an expanding informal sector economy slowed the demand for skilled workers, which does not augur well for sustained productivity and income growth moving forward.

Using the same Mincerian model above, we also tested the trend in the wage premium for modern sector workers by taking the results of the dummy variable for the sector of employment. The dummy takes the value of 1 if the worker is employed in the modern sector and 0 if employed in the informal sector. The coefficient is indicative of the gap in labor income between modern and informal sector workers, after controlling for skill levels and work experience. As shown in Table 2.3, the modern sector wage premium for urban workers increased strongly during the 90s and 2000s.

The implications of this finding are not immediately clear, but one inference could be that for further sustained upward mobility towards the middle class, an expanding modern sector in agro-industries and other non-extractive productive sectors would be needed. This would help reduce the vulnerability of the economy to swings in world market

Table 2.3 Ecuador: Wage premium for urban workers in the modern sector (Dummy coefficients for the modern sector)

	Urban area		
Year	*Men*	*Women*	*Total*
1990	0.056[a]	0.097[a]	0.066[a]
1996	0.133[a]	0.424[a]	0.226[a]
2000	0.195[a]	0.345[a]	0.241[a]
2006	0.295[a]	0.435[a]	0.344[a]
2010	0.402[a]	0.570[a]	0.458[a]
2015	0.477[a]	0.595[a]	0.523[a]

Source: INEC (various years)

[a]Significance at a 1% confidence level

commodity prices and in the related fiscal space, and it would allow the income growth for the middle classes to be underpinned by higher productivity growth and broader based sector development. Indeed, as shown in section 2 above , the downturn in the economy affected the services sector activity the most, notably reversing the trend of increased formal sector employment and social security coverage. Alongside, poverty reduction came to a halt and growth of Ecuador's middle class stagnated. On the positive side, the middle class did not collapse under the weight of the economic downturn, as happened during the crisis of the late 90s. Yet, like the poor and vulnerable, the middle-class welfare position remains highly vulnerable to macroeconomic swings.

Conclusions

The strong rise of Ecuador's middle class coincided with a period of economic recovery and growth. Part of the surge had its origins in real wage growth and an increased wage premium for skilled workers associated with trade and financial liberalization of the 90s. However, during that period, macroeconomic as well as political instability brought about fluctuating trends in real wage growth, as much as in poverty and inequality, mitigating the expansion of the middle class. Both income inequality and poverty saw sustained reductions from the early 2000s onwards. Much of this had to do with the recovery from the El Niño natural disaster and deep economic and financial crisis in the late 90s. This was reflected in strong real wage increases, improvements in relative prices for farmers and employment, especially in services sectors. This provided an important boost to domestic market growth. Nonetheless, neither the economic liberalization of the 90s nor the solidarity economy policies enacted by Correa's "new leftist" government from the mid-2000s did much to alter the economy's reliance on primary exports as the key driver of economic growth. Indeed, during the 2000s, improved international commodity prices helped the recovery and provided space for significant real wage and rural labor income increases, as well as for substantial increases in social spending. The lack of dynamic structural change in the economy, however, does not augur well for further declines in inequality and a continued strengthening of the middle class, as the structural causes of high inequality have not been addressed. The economic downturn that set in after 2014, following declines in international oil and other commodity prices, caused setbacks in real wage improvements and employment opportunities in formal and informal sectors alike, and has put a halt to the rise of the middle class.

A solid middle class can provide the backbone of more stable societies and sustained welfare. Ecuador's experience, similar to that witnessed elsewhere in LA, has yet to reach that footing. An expanding middle class not rooted in strong aggregate productivity growth and structural change towards modern services and industries may neither be lasting nor become a basis for more balanced and sustained economic growth that is less vulnerable to global market shocks. Ecuador clearly has not entered that stage.

This is not to argue that a solid middle class is a sufficient condition for sustainable development and political stability. Other things will need to fall into place as well. The changing distribution of middle-class spending toward new entrants will change aggregate demand. Households just entering the middle class will seek to purchase consumer durables, as well as services including tourism, entertainment, health, education, and transport. It will also change food demand towards increased consumption of animal-sourced food products, fruits and vegetables, and processed foods, all of which are more resource- and emission-intensive to produce, as compared with grains and other staple crops (FAO 2017). More generally, growing middle-class spending, undoubtedly, will increase carbon emissions and have a larger ecological footprint, but the size depends on government policies. For instance, if cities are properly planned with energy-efficient buildings and mass transport, and food production is made more sustainable, then the carbon footprint of global middle-class expansion can be reduced considerably.

Crafting continued political support for the middle class may present a greater challenge. Unless globalization can be reframed into a win-win for the middle class in each country, the political narrative can be distorted into one of colliding interests between the middle class in emerging economies like Ecuador and those in advanced economies. A new package of "inclusive growth" must be constructed based on the common theme that continued widening of income and opportunity inequality, and the barriers these create to social mobility, must be forcefully tackled while preserving the benefits afforded by globalization and technological change and innovation.

Notes

1. The high dollar inflation was the result of setting a sucre-dollar conversion rate at a level much higher than the peak market exchange rate before dollarization and failure to introduce enough small-denomination dollar coins, which pushed up prices for many basic products (by rounding to one dollar). See Vos (2000).
2. Please note that the size of the upper middle-income and rich household group in Ecuador is probably strongly underestimated because of underreporting of incomes by those households in the household surveys used for the present analysis.
3. The results presented in this chapter are based on a new and robust procedure to reconstruct series of poverty and income distribution data for the labor force surveys conducted in Ecuador since 1990. The surveys have gone through several methodological changes in questionnaire design and sampling. Also, the dollarization of the economy in 2000 poses problems in proper deflating nominal incomes for the currency change. The set of deflators for national and international poverty lines used to construct the time-consistent poverty and real income estimates are available from the authors upon request.
4. The results on mobility presented in this chapter follow the same procedure as the study of Pesantez (2014), which also estimates transition matrices based on Ecuador's labor force surveys, but covers the period 2007–2013.
5. For the case of LA and Ecuador, see, respectively, Vos et al. (2006) and Vos and León (2003). The Brazilian case represents an exception in this sense, given that trade liberalization generated a reduction of inequality. See Ferreira et al. (2008)
6. Critical stances regarding the focus on technological change with a bias towards skilled labor can be found in Card and Di Nardo (2002), Morissette and Drolet (1998), Oosterbeek (1997), and Entorf et al. (1999). For Ecuador see Oosterbeek and Ponce (2011).
7. See, for example, López Calva and Lustig (2010).

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CHAPTER 3

Past and Present of Latin American Regionalisms, in the Face of Economic Reprimarization

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In this text, we will identify the principal stages through which regionalism, in the context of its economic elements, in LAC has passed. In relation to these stages, we will revise the theoretical approaches which have been present, as well as the context in which they have unfolded.

This chapter proposes that in the second half of the twentieth century, two clearly distinct stages of economic integration developed in conjunction with two dominant patterns of economic operation that were in force in the region. These patterns are both defined by a set of functions for mechanisms of integration. In this century, while disparate strategies of economic development in the region coexist, a third stage is unravelling whose main feature is the increased heterogeneity within and between different integration projects in which important changes have taken place. This is the case, particularly in South America, with regard to geographical composition and with international trade which is increasing the importance of trade with China and accentuating the role played by primary products to be exported.

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Regional Economic Integration in the Context of the ISI Model

Even though the first integration mechanisms were created in the region at the end of the 1950s, the pursuit of economic integration has been included as part of the strategy of industrialization since the Economic Commission of LA was first drafted and began activities in 1948.

In these initial terms, and with the advancement of integration, two principle objectives were sought: (1) the creation of a common market that embraced all or the majority of LAC countries; (2) given the obstacles derived from the existence of multiple bilateral agreements of signed payments among countries in the region, a constitution of a union of payments was proposed.

With respect to both objectives, the immediate reference point was the similar initiatives that were being pursued in Europe: on one hand the negotiations for and subsequent implementation of the European Community of Coal and Steel (1952), as well as the European Economic Community (1958); on the other hand, the Intra-European Payments Agreement of 1948 and 1949, and the creation, in 1950, of the European Payments Union, which in 1958 was replaced by the European Monetary Agreement.

Thus, the terms of LAC integration were nurtured by the theories of European integration, which, in the main, were created from the perspective of traditional economic analysis and were based on "customs union theory", found in research by, for example, Viner (1950), Meade (1953, 1955), Lipsey (1957, 1960), Balassa (1961a, b and 1963) and Johnson (1957, 1960a, b, 1965), amongst others. Other authors who influenced the initial terms of the ECLAC are, for example, Meier (1960), Allen (1961), Cooper and Massel (1965), and Mead (1968). In this research, more reference was made to the situations of developing nations, above all, necessities beyond free trade were considered, such as savings in foreign currency, the improvement of exchange rates, the increase of international negotiation capacity, the formation of capital, and the achievement of industrial development.

In this initial stage, the role allocated to economic integration in the ECLAC strategy of the ISI model can be seen in the *Economic Survey of Latin America 1949* in which a review of the characteristics and the problems of the bilateral conventions between countries in the region suggests that these conventions:

> [...] have not pursued a long-term goal as would stimulate industrial exchange, ensuring that a country has a market for certain industrial products from another country, in exchange for reciprocal concessions of equivalent quantity.
>
> [...] each country is trying to develop industrial and agricultural products on one side of the border which are similar to the products being developed on the other side, to the detriment of specialisation and the widening of the market (CEPAL 1951: 88).

During the rest of the 50s, ECLAC introduced multiple resolutions with regard to the increase in intra-regional trade, the creation of a common market, the definition of a multilateral payment system, and policymaking for industrialization at a regional level. These resolutions were mandates for the elaboration of research on this topic as well as studies completed by the secretary of ECLAC and recommendations made by the governments, a large part of which was channeled through ECLAC's trade committee, created in 1955.

We are not attempting to provide a detailed account of all of the above, but will simply highlight that the progress made in the analysis of this area is reflected in the document of ECLAC's trade committee, *Recommendations on the Structure and Norms of a Common Latin American Market*, published in March 1959 (CEPAL 1959) and in which 11 points and 12 norms are proposed referring to the "structure" of the common market and which would frame its operation.

If what is suggested in this document is compared with the contents expressed in the *Treaty of Montevideo* that was signed in February of 1960 creating the LAFTA, the differences are evident. For example, the "subregional" character of the association—the Treaty of Montevideo was initially signed by seven countries—the lack of inclusion of a multilateral compensation mechanism of balances,[1] and the definition as an objective of the association a free trade area rather than a common market.

The creation of the LAFTA marked the beginning of the first stage of regional economic integration that corresponded to the ISI model. At this stage, the CACM was also created with the signing of the *Treaty of Managua* in December 1960, as well as the Andean Group, which in 1996 became the Andean Community with the signing of the *Cartagena Agreement*, and the Caribbean Community (CARICOM) with the signing of the *Treaty of Chaguaramas* in July 1973, to which the replacement of the LAFTA, the LAIA, was added with the signing of the *Treaty of Montevideo 80* (TM80) in August 1980.

During the first stage of regional integration, the founding texts of these mechanisms and their development had specific characteristics as well as differences between them, of which we will mention only a few: in CACM, the intention to create "Central American Industries for Integration" and a maximum momentum of intra-scheme commerce in comparison to previous mechanisms; in the Andean Group, a more complex institutional structure with common procedures and norms on various topics with "Sectoral Industrial Development Programs" and with some characteristics of supranationality; in the *Treaty of Chaguaramas* and in the development of the CARICOM, the importance of functional cooperation and the coordination of foreign policy; in the LAIA, the greatest possible flexibility in defining objectives, the absence of liberalization deadlines and the possibility of "partial scope" agreements—which according to the TM80 would be object to a "progressive multilateralization" —compared to the LAFTA.

Despite these differences, the schemes share two characteristics and general results that demonstrate the development of regional integration during its first stage:

- On one hand, and in exactly the same way as happened with the LAFTA, the initial definition of the remaining mechanisms also distances itself from the integration model created in the 50s, in such a way that the objectives, for example, the regional character desired for integration, the realization of common markets, and the incorporation of advanced models of monetary and financial co-operation, were relegated, remaining at a declarative level.
- On the other hand, the operation of the mechanisms distanced themselves swiftly from the fulfillment of the commitment and deadlines set, with which the progress made was only partial and time-related. The results were partial because the only commitments that were moderately fulfilled were those related to the mutual reduction of tax and in some cases to the creation of credit mechanisms for intra-scheme trade. This happened in such a way that the integration almost exclusively manifested itself as growth of the aforementioned trade; time-related because the "integrating stimulus" only lasted for the period immediately after the creation of each scheme, after which it fell into a period of stagnation and regression.

These general characteristics and results of the integration mechanisms were clearly present at the beginning of the 80s. In addition to this, a major regional crisis throughout this decade marked the final stage effort of the ISI model and of the modality of integration associated with it. Thus closing the first stage of integration with a global balance, which, at the end of the 80s, CEPAL (1990: 164) summarized, identifying a "general insatisfaction which can be observed in the countries of the region with respect to the achievements of intraregional integration."

In the context of this crisis, the decision of LA governments to generate considerable commercial operations to serve the interest of the external debt, had a large impact on integration. The operation of the mechanisms suffered a sharp deterioration, the quantity of infringements, and existing problems multiplied, new problems appeared, and even in those areas where progress was previously being made there was a regression. As a result, years later a new regional context arose with completely different content assigned to integration.

Regional Economic Integration in the Context of the Neoliberal Model

During the 80s, a set of policies that implied substantial changes to the economic and social operation of the countries in the region was applied. Of these changes, amongst the most important were those which referred to international integration modalities and to performance of the external sector, in such a way that the new form of operation implied an accelerated opening process of the market, modifying the previous approach in a way that emphasis was on productive structures and internal markets—or regional—that developed with important mediation with respect to the world scene.

In this new context and since the end of this decade, there was a "relaunch" of regional integration, beginning a second phase in which there was not only new content but also a distinct positioning of the development strategies present in the countries.

In general terms, the beginning of this second phase corresponded, time-wise and with some of its content, with the boom of the so-called "new regionalism", which was deployed from developed countries and whose main expression was the growing presence of trade agreements that had been in existence since the second half of the 80s, and which Schiff and Winters (2003: xi) describe as "one of the most significant developments in international relations in recent years", and which is considered by Bhagwati (1993) as the second wave of regionalism since WWII.

This increased presence of trade agreements, which were a background to the problems present in the negotiations of the GATT/WTO, includes those new agreements that deepen liberization in the areas of trade included in those negotiations and add areas that had not been considered by the aforementioned organization[2] and while it had as the main characteristic the increase in number of agreements—according to the WTO, the existing agreements notified before it, and previously before the GATT, increased from 46 in 1985 to 101 in 1995, to 226 in 2005, and to 423 in 2016—it also relates in an important way to the developments that, in this regard, were being made in Europe and the USA.

In the case of Europe, we need to remember that in the second half of the 80s there was a "relaunch" of the integration process whose beginning could be pinpointed to the year 1986 with the signing of the Single European Act, followed by the Treaty of Maastricht, the convergence criteria, the Single Market, the Treaty of Amsterdam, the Treaty of Nice, the successive increase of member states, the single currency, and the difficult institutional reform, which was finally embodied in the Treaty of Lisbon, amongst others.

In the case of the USA, the willingness to sign agreements marked a change of politics, incorporating the aforementioned agreement in its strategy for international economic links as a multilateral policy. From the second half of the 80s and in the context of the problems of the Uruguay Round of GATT, the deepening of European integration and the adjustments to its international politics derived from the end of the Cold War, the signing of trade treaties was set up as a pillar of what the US government described as "competitive liberization", which suggests the simultaneous movement in different types of negotiation, in addition to the multilateral, and which, in recent years, has become a negotiation towards "mega agreements"; the TPP since 2010, the TTIP since 2013, and the TiSA, also since 2013.

The USA's turn towards "competitive liberalization", since the NAFTA, included signatures of treaties from developing countries, and exerted pressure on them in two areas: for those countries prepared to sign, the requirement of making progress with "structural reform"; for those countries reluctant to sign, the threat of remaining isolated from their neighbors and allies, as well as losing out on increased US market access, which they would otherwise have had.

In the following paragraphs, that correspond to an article from 2002 by the US government trade representative at the time, Robert Zoellick, the strategy is summarized:

> Let's promote free trade at a world, regional and bilateral level […} (Zoellick 2002).
>
> "Currently, any decision made by the WTO requires a consensus from its 144 members. Any country […] can paralyse the Doha Agenda […] If others do not want to move forward, the United States will move forward with those that want to […]"[3] (ibid).

In parallel to the application of this strategy and since the 90s, considerable research has been conducted about the "competitive liberalization" of the USA and about "new regionalism", identifying its general characteristics and its differences from previous regionalizm (Mistry 1995, 1999; Bergsten 1997; Baldwin 1997; Ethier 1998a, b; Bouzas 1999; Burfisher et al. 2003; Söderbaum and Shaw 2003; Söderbaum 2015); analyzing the relationships between the development of blocks and multilateralism, as well as the conditions or difficulties with which new regionalism leads to global free trade (Summers 1991; Bhagwati 1993, 1995; Winters 1996; Bhagwati and Panagariya 1999; Panagariya and Findlay 1994; Hettne and Inotai 1994; Ethier 1998a; Hettne and Söderbaum 2000; Andriamananjara 2000, 2003; Hettne 2005; Baldwin 1999, 2006; Crawford and Laird 2001); critisizing the protectionist character, which would definitely conserve regionalism in its new forms (Krugman 1989, 1993; Oman 1994; Bhagwati 1995; Organization for Economic Cooperation and Development (OECD) 1995; Bhagwati et al. 2014; Bhagwati and Krishna 2016); and highlighting the importance of the attractions that the formation of a block has over non-member states (Baldwin 1995, 1997; Corden 1995), amongst others.

With "new regionalism" as a framework in the international economy and the neoliberal trend in the world and in the region, the relaunch of integration implied the abandonment of previous intentions to give it a regional character—with a clear preference for agreements of a bilateral nature or for small groups of countries—and, as a result, that it looks beyond trade, adding, in some cases, the circulation of capital and people. With regard to trade, a deepening of liberalization was proposed for the various instruments of integration, as well as the application of a common external tariff and the harmonization of instruments of trade policies and some macroeconomic policies.

As a result, integration acquired a clear free trade stamp with the aim of adjusting it to the liberalizing trend and transforming it into an instrument of increased integration for international markets, reducing the relevance of any objective that does not support the opening up of economies to international competition. These are characteristics that have, as yet, partially remained in the regional integration scenario.

The Andean Group's Galapagos Meeting of December 1989 clearly had this as its aims, as did the CACM in the meeting of presidents that took place in Antigua, Guatemala, in June 1990 and the *Protocol for the General Treaty of Central American Economic Integration* signed in October 1993.

Also, after previous progress made by Argentina and Brazil—under the governments of Raúl Alfonsín and José Sarney—who were looking to build links in which the component of trade liberalization was neither unique nor the most important, as alongside this, the priority contents related to productive integration, binational companies, food supplies, financial matters, investment funds, transport by land and sea, currency, and planning.[4] Both in the *Act of Buenos Aires*, signed in July 1990 by the new presidents of these two countries, and in the *Asuncion Treaty* from which the MERCOSUR was created in March 1991, there was a change in direction that prioritized trade and, in particular, the commitment to accelerate a reduction in taxes, as well as relegating non-trade issues, which resulted in a startup period that Caetano (2011) calls a "Phoenician MERCOSUR", and Saludjian (2004) refers to as a "neoliberal MERCOSUR".

With respect to the LAIA, its objectives and its breadth of membership differed markedly from its new directions of integration, which have had clear positions both in the limited progress made in the regional agreements—and, particularly in the regional tariff preference system,[5] as well as in the proliferation of partial scope agreements among member states, which, to date, total more than 74, of which 38 are of economic complementarity. This did not make any progress in the 70s, or in subsequent years, towards "progressive multilateralization", as was included in the TM80.

In parallel to what has happened with the operation of the distinct instruments of integration, another important implementation of the changes that have occurred in the context of the neoliberal model was the signing of numerous free trade treaties, to such an extent that—according to the Organization of American States' Foreign Trade Information System—from the first half of the 90s until now, the countries in the region have signed 23 treaties and 51 with partners outside the region.

Among those treaties with partners outside the region are those that have been signed with the USA by 11 countries in the region,[6] —agreed in parallel with, or after, the negotiations of the FTAA. It is clear that a large percentage of the countries in the region, and above all Mexico, began with "asymmetrical bilateralism" (Bouzas et al. 2008). This negotiation, in both the treaties and in the FTAA, was clearly a priority, both as with other negotiations of other free trade agreements, as well as in relation to the development of regional integration schemes.

In conclusion, it should be noted that the official document elaborating on integration from the region in this second stage, unlike what happened with the ISI model, clearly took place before the redefining of the direction of regional integration, whose basic components were finalized between the end of the 80s and the beginning of the following decade. This suggests that the document intended to fine-tune itself to the new integration format already in place, and with respect to this take on the demand for an urgent neoliberal openness as well as take advantage of integration.

With respect to this approach to integration, identified by the LA Economic System (2002) as a "new stage" of integration and by the Inter-American Development Bank (2002) as the "new regionalism in Latin America", the policy that had the greatest impact corresponded to the ECLAC, which presented its proposal of "open regionalism" in 1994, defining it as the "process that emerges while conciliating [...] the interdependence born from special agreements that had preferential characteristics and that which was basically propelled by market signals resulting from trade liberalisation in general" (CEPAL 1994:12).

In this document, which was complemented the following year by another with a title of more general nature (CEPAL 1995), strategies were proposed for incorporation into the international sphere and objectives and functions of regional integration were defined, assuming the general sense of what had already happened in this area, as well as locating "open regionalism" in the proposal of "Changing Production Patterns with Social Equity", which ECLAC put forward at the beginning of the 90s (CEPAL 1990, 1992).

In the document about "open regionalism", the principal behind the policy of the ECLAC with regard to regional integration in the 90s was described and, in our view, since then has had no significant reformulations, in such a way that in their analysis of the topic—completed by the Executive Secretariat, by staff, and consultants—what has principally been done, on one hand, is the general follow-up of the distinct integration projects and of the bilateral treaties, as well as the analysis of the links of integration with distinct general tendencies, first through specific documents about the topic (CEPAL 1994a, 1995a) and after in the annual reports *Panorama de la inserción internacional de América Latina y el Caribe* and in studies such as those of Ocampo (2000), Baumann et al. (2002), Maldonado (2003), Duran and Maldonado (2005), Vaillant (2007), Da Motta Veiga and Rios (2007), Saez (2008), CEPAL (2008) and Baumann (2009). On the other hand, the specific integration issues, both in these annual reports as well as in other studies, to which, in recent years, documents requested by some of the new mechanisms have been added, will be referred to in the following section.[7]

It should be noted that the proposal of "open regionalism" has been object to considerable criticism since its creation over 20 years ago, which in our opinion demonstrates its shortcomings. These have become more evident to the extent that the regional situation has been modified with the appearance of alternatives to neoliberalism. In this new situation, modalities of integration whose principles have, in time, become more distanced from open regionalism have been incorporated.

This criticism included both the actual concept of "open regionalism"[8] as well as the integrating projects that it synthesized, in relation to which Garrido (2008) points out the limitations of its political agenda and Grien (2005) criticizes the demand for dispersal associated with this path of integration. Guerra-Borges (2001) associates it with the tendency of taking trade liberalization to the extreme and sacrificing LA independence, and Caldentey (2000) argues that under open regionalism "subregional integration agreements have a multilateral role and are no more than progressive steps towards the extension of free trade."

The Twenty-First Century: Regional Integration in Times of Reprimarization

Since the beginning of this century, different assessments of the development of integration have been added to the criticizm directed at the formulation of "open regionalism" and to the new directions taken by regional integration in the neoliberalism framework. These assessments generally agree that limited progress has been made, even in the narrow context of objectives and goals proposed in the model of the liberalizing trend.[9]

In concordance with the model—and with the present dynamism in international trade at a systematic level—a significant increase in the region's exports to the world, as well as with intra-regional trade, was observed for a large part of the 90s, as can be seen in Fig. 3.1, which represents these values (shown on the left axis) for South America, as well as for the rest of LAC. The percentages of which trade to the LAC represents

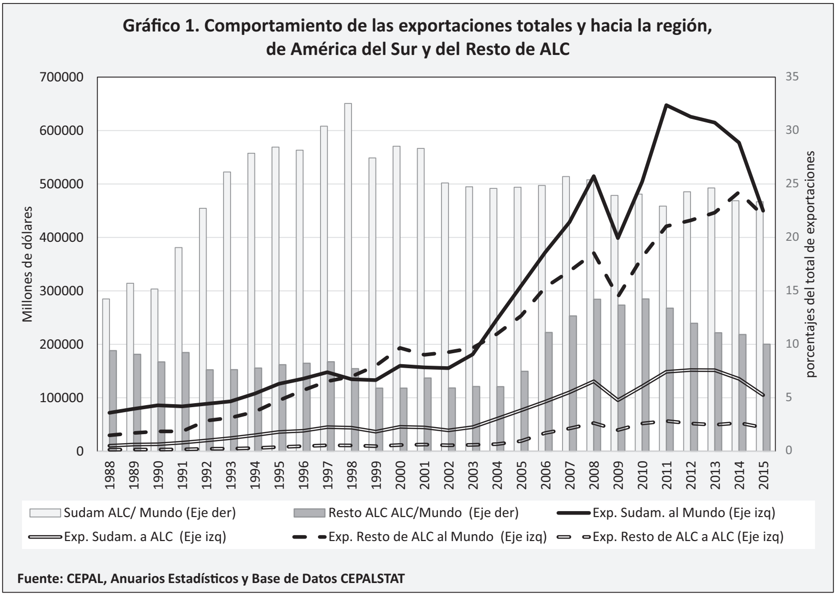

Fig. 3.1 Performance of total export and exports towards the region of South America and the rest of the LAC. *Left* axis—millions of US dollars; *Right* axis—percentage of total exports
Key: South America LAC/world (*right* axis), rest of LAC LAC/world (*right* axis), exports from South America to the world (*left* axis), exports from South America to LAC (*left* axis), exports from the rest of LAC to the world (*left* axis), exports from the rest of LAC to LAC (*left* axis)
Source: ECLAC yearbook of statistics and database CEPALSTAT

in the total trade of both groups of countries (shown on the right axis) shows that trade to the region, even though its importance increased towards the end of the 80s—above all, for South America—did not do so to expected levels, given the priority to the increase in trade links in open regionalism, adding the dramatic fall in these percentages in the four years of regional economic deterioration from 1998 to 2002, which has also been happening in recent years, maintaining it like that—as occurred in the 80s—the pro-cyclical character of intra-regional trade.

During the full implementation of "open regionalism", and within the countries, the incomplete character of the common external tariff was inserted to the various mechanisms of integration, in addition to the lack of political harmonization and the failure to reach the commitment and deadlines set, amongst others. At the beginning of this century, the lack of results in regionalism, with regard to what had been announced with its application, was evident, in addition to the lack of coherence in the "entanglement" of signed agreements by different governments and the consequent absence of any sign of progress towards the promised "progressive multilateralization".

At the change of the century, this lack of results for open regionalism became evident in a new regional context, in which the growing rejection of neoliberalism was embodied with the arrival of a significant number of governments with projects, which to varying degrees, were opposed to the neoliberal model—Venezuela (1999), Brazil (2003), Argentina (2003), Uruguay (2005), Ecuador (2007), Nicaragua (2007), and Paraguay (2008)—which included international strategies for integration that were different to the liberalizing trend, a clear decision to distance themselves from any extra-regional mentorship and a redefinition of regional integration that assigned distinct functions and objectives to those of open regionalism.

Thus, during the first decade of this century a new modality of regionalism in the region unfolded, beginning a third stage of regional economic integration, in part through changes in pre-existing mechanisms,[10] and primarily with the creation of new mechanisms: the ALBA in December 2004, the UNASUR in May 2008—as a predecessor to the South American Community of Nations, and the CELAC in December 2011—as a predecessor to the Rio Group created in 1986, and the presidential summits that took place in 2008 and 2010.

Even though there are differences among these mechanisms, in general terms, within them there is a notable increase of the action plans, the themes, and the areas included in their respective agendas, in which, for the ALBA and the UNASUR, Serbin (2011: 7–8, 2014: 54, 2012: 79) summarizes as "a return to the development agenda", "return to politics", and "return of the state", which he expresses in at least three ways:

- On one hand, in respect of economic integration, the commercial component lost the importance it had in open regionalism—and in the ALBA this component redefines itself under other criteria—incorporating other related economic themes, according to the mechanism, alongside energy cooperation and security, the creation of financial instruments and institutions, as well as productive cooperation.
- Second, non-economic fields were incorporated, related to the social, the political, and the cultural, with such themes as poverty, inequality, food security, education, health, social inclusion, peace, security, defense, participation of social actors, identity, citizenship, and environmental damage.
- Third, particularly in the CELAC, the agenda for discussion and positioning with respect to topics of global politics were incorporated, in particular, in view of the global crisis that began in 2008, as well as dialog with further actors—the EU, the BRICs, China, Russia, South Korea, the Arab States of the Persian Gulf, India, Turkey, and Japan, amongst others—to which the UNASUR can be added, whose constitution can be considered as a space of conflict mediation.

The new form of regionalism has been the subject of various denominations, depending on which characteristics and which of the mechanisms involved are to be highlighted. Thus, the UNASUR and the ALBA refer to a "post-hegemonic regionalism", according to Riggirozzi (2012) and Riggirozzi and Tussie (2012), with which Briceño (2014) agrees. The UNASUR, the ALBA, and the CELAC refer to a "post-liberal regionalism", according to Sanahuja (2009, 2012, 2014) and a "new multilateralism" according to Yepe (2014); for Hettne and Söderbaum (2006), a "regionalism geared towards development" is referred to in the MERCOSUR and, at that time, in the Andean Community; for the ALBA reference is made to a "new strategic regionalism", according to Aponte (2011, 2014, 2015) and a "counter-hegemonist integration", according to Puello-Socarras et al. (2014); for Preciado (2013) and Preciado and Florido (2013), a "post-neoliberal integration with a communitarian character" is referred to in the UNASUR, the MERCOSUR, and the CAN, and a "post-neoliberal integration of counter-hegemonic tendency" in the ALBA; and for South America a post-liberal regionalism according to Da Motta and Rios (2007) and a "new regionalism" according to Bonilla and Long (2010) as well as according to Vivares et al. (2010).

The new form of regionalism to which those labels refer, and which demonstrate considerable diversity, have developed in coexistence with "open regionalism", which still applies in certain countries in the region, and is progressing even with the launch, in April 2011, of the AP. With this, the third stage of regional economic integration, which appeared with the emergence of new regionalism and was referred to above, has as its main characteristic a considerable heterogeneity of integration projects, both among the different mechanisms and within them. This has resulted in a deep crisis within the Andean Community.

That heterogeneity, that ultimately refers to the diversity of national strategies of development and international integration—impacting also on the recent operation of the MERCOSUR, after the changes of government in Argentina and Brazil—contrasts with the relative homogeneity that both "open regionalism" and economic integration associated with the ISI model have had.

In this sense, Malamud and Gardini (2012: 118) characterize regionalism in recent years as "segmented and overlapping", whereas Riggirozzi (2012: 139) identifies three tendencies of regionalism which are classified in accordance with the countries and mechanisms. In addition, Briceño (2012: 89–92, 2013: 13–14) proposes the existence of three axes of integration: neoliberal or of open regionalism, revisionist and antisystemic.

An important characteristic of the third stage of regional economic integration, is that, until recently, it developed in parallel to a process of "reprimarization" in the region, primarily in South America from which significant resources that played an important role in the development of this third stage have derived, particularly in the case of the Venezuelan oil revenues used by the ALBA.

Since 2003, the international price of primary products showed a clear upward trend, reversed in 2009, but resumed over the next three-year period and ended in 2012. As a result, and according to UNCTADStat figures, between 2003 and 2012 the unit value of LAC exports grew considerably more than their imports, producing a 42% improvement in the terms of exchange in the region and 70% in South America.

In light of this positive performance of prices, in the majority of the region and almost all of South America, the production and export of primary products increased, multiplying the extractivist activities and their participation in economic activity of the different countries as a whole, including those such as Ecuador, Bolivia, and Venezuela, where the governments had aimed to achieve targets to change previous production methods which would enable greater diversification, increase the aggregated value, and support a more endogenous development.

This general tendency of reprimarization of the economic activity, which has appeared with the independence of political views of the different governments for some time now, became an object of critical analysis, being described by Svampa (2011, 2012, 2013) as the "Commodities Consensus" that replaced the Washington Consensus, by Acosta (2009, 2011) as the "curse of abundance", given the way that natural resources are extracted and taken advantage of, the landlord mentality that generates extractivism and the limited benefits that result in well-being, and by Gudynas (2009, 2010) as "progressive neo-extractivism" in reference to the governments with programs opposed to neoliberalism, in which there is a use focused on social compensation of the achieved surpluses from primary exports. These authors, amongst others, highlight the social impact and negative environmental shift towards reprimarization,[11] to which can be added other research, such as that of Cypher (2009) in which a warning was given about the transitory character that the "boom" of primary products would have, which eventually happened.

With respect to the export of primary products, (Fig. 3.2), it is possible to see the biggest share in the total exports since 1993, both for South America and the rest of LA, reversing the trend of the previous decades to an increased share of manufactured exports. Thus, it is possible to see that for the majority of the four decades considered, except for the period from 1979 to 1983—that the primary products represented in the total exports was greater for South America than for the rest of the region, and that the difference has increased in recent decades in which the growth in manufactured exports from Mexico to outside the region has been key, due to *maquilas* and assembled products.

This modification in the composition of exports, has been directly linked to changes in the relative weight of the international trading partners in the region, in which an important increase in the exports from the region to China is noticeable, whereas before the tendency was concentrated clearly within South America.

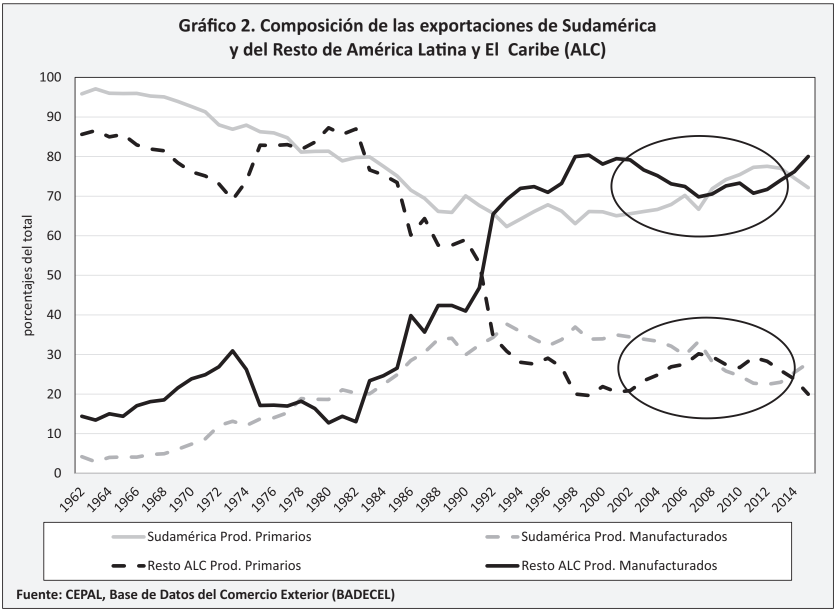

Fig. 3.2 Composition of exports from South America as well as the rest of the LAC.
Y axis—percentage of total
Key: South American primary products, South American manufactured products, primary products from the rest of the LAC, manufactured products from the rest of the LAC
Source: ECLAC, database of foreign trade (BADECEL)

According to Fig. 3.3, the participation of China in the total exports of South America increased by approximately 3% at the beginning of this century, by more than 15% from 2013 to 2015, in so far as the rest of the LAC exports to China did not exceed 2% of their total exports. Thus, it can be seen that, for the 20 years represented, the vast majority of South American exports to China were primary products—in contrast to the exports to China from the rest of the region—and that this trend has increased since 2003, to the extent that, in recent years, these products have represented around 95% of the total exports to this country.

The substantial increase of economic links with China, above all from South America, which, in addition, includes the import of products and the

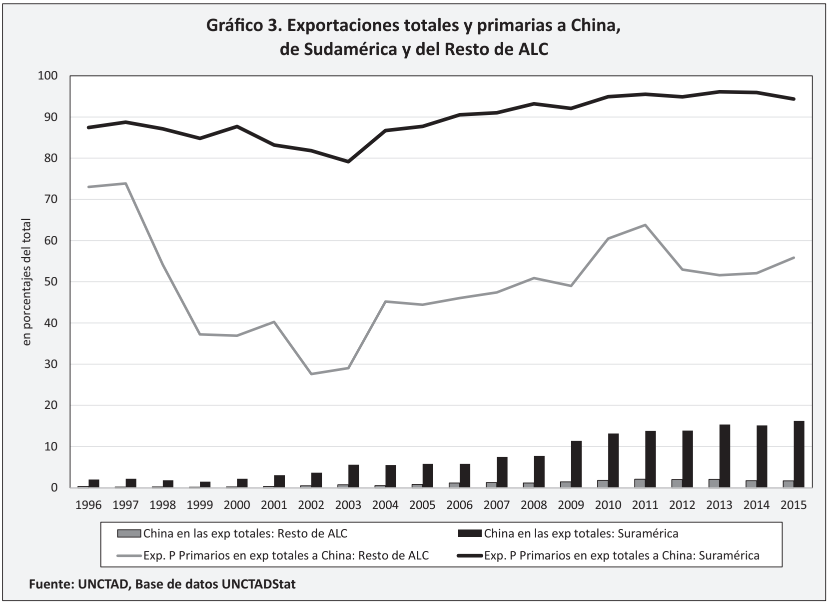

Fig. 3.3 Total and primary exports to China from South America and the rest of the LAC
Y axis—percentage of the total
Key: China in the total export: rest of the LAC, China in the total exports: South America, primary export products within total exports to China: rest of the LAC, primary export products within total export to China: South America
Source: UNCTAD, database UNCTADStat

arrival of capital coming from this country and the features characterizing these links, has been the focus of increasing attention in the region, linked also to a sharp increase of Chinese presence at a systematic level. We make no intention here of explaining all of the above, even though it is interesting to highlight that the importance of the relationship with China has led to the possible emergence in LA of a "Beijing Consensus" — Slipak (2014), Svampa and Slipak (2015)—and that, regarding exports to the aforementioned country, they have become an important motor and extreme expression of the reprimarization to which we have been referring.[12]

In contrast to the figures for the total exports to China, is the trade within LAC. For several decades now, for the majority of these countries, regionally focused exports have been characterized as having a different composition to what they export to the rest of the world, which has been highlighted in various reports, both of the ALADI (1983, 1996, 2000, 2012) as in the CEPAL (1992a, b, 1996), in such a way that intra-regional trade—and amongst the different mechanisms of integration—there is greater export diversification and a larger presence of manufactured goods, which retain a high percentage of total trade between the countries in the region, even during the recent shift to reprimarization.

As can be seen in Table 3.1, over the last 20 years around half of the exports from South America to the LAC have been manufactured goods, and this percentage fluctuates at about two-thirds for exports to the LAC

Table 3.1 Percentage composition of the exports to the region 1995–2015

Percentage composition of the exports to the region				
	South America		*Rest of the LAC*	
	Primary products	*Manufactured*	*Primary products*	*Manufactured*
1995	49.2	50.8	34.6	65.4
1996	50.3	49.7	34.9	65.1
1997	45.3	54.7	34.6	65.4
1998	43.7	56.3	34.1	65.9
1999	47.7	52.3	39.1	60.9
2000	51.3	48.7	43.9	56.1
2001	49.2	50.8	43.4	56.6
2002	50.1	49.9	39.2	60.8
2003	48.9	51.1	41.6	58.4
2004	48.8	51.2	41.6	58.4
2005	47.7	52.3	36.3	63.7
2006	46.8	53.2	32.8	67.2
2007	47.8	52.2	32.5	67.5
2008	50.2	49.8	32.7	67.3
2009	47.0	53.0	27.8	72.2
2010	47.3	52.7	27.6	72.4
2011	49.5	50.5	29.0	71.0
2012	49.5	50.5	30.1	69.9
2013	46.6	53.4	27.6	72.4
2014	51.6	48.4	32.8	67.2
2015	47.0	53.0	34.2	65.8

Source: UNCTAD, database UNCTADStat

by the remaining countries in the region, which for South America implies a percentage that is substantially higher than the corresponding total exports, shown in Fig. 3.2, and evidently the extreme opposite of the minimum level of manufactured exports to China.[13]

Consequently, this characteristic of intraregional trade is still present as it has been throughout the three stages of economic integration. This has kept open the possibility of increasing this trade in order to help to attenuate the tendency towards reprimarization and enabling progress in the creation of economies of scale in manufacturing, which could be the foundation for initiatives of greater depth in the development of productive links between the countries in the region.

However, it is necessary to recognize that regional economic integration, in its third stage, is experiencing not only difficult moments but is also full of uncertainty, both economically and politically, within the region, as well as through the traits that characterize the global system and international economic relations, including trade.

From outside the region, in addition to the systemic economic downturn that has persisted since the outbreak of the crisis in 2008, the serious problems in trade multilateralism expressed in the Doha Round crisis and the end of the "boom" for primary products, we can add the uncertainties created by Brexit, the future development of the EU and, above all, the arrival of Donald Trump to the US government. This could mark the beginning of a period of increased protectionism, of trade wars, and greater use of "economic nationalism" —with the removal of the USA from the TTP, anti-immigrant politics, and questioning of the NAFTA, as steps in this direction. To all of these can be added uncertainties about the role that China will play as a global actor in response to the new strategies for global insertion and international relations that the US government seems prepared to deploy.

Within the region, and since 2014, to the heterogeneity characteristic of the third stage of integration, the fall in export revenues of the recent four-year period, and the drastic regional economic decline—and of the intra-regional trade—has been added the predictable continuity of reprimarization and the changes present in the political situation of the different countries, which are already impacting on the operation of different integration mechanisms. All certainly leading us to a yet more complex scenario, in which the definition of a "common minimum" in order to move forward, and the generation of a consensus about improved integration, will definitely become more difficult.

Notes

1. Only in September 1965 was LAFTA/LAIA's *Treaty for Payments and Reciprocal Credits* signed, which, despite some changes and additions, is still in force today.
2. A detailed revision of the contents of the new agreements can be found in WTO (2011).
3. The original formulation of "competitive liberalization", which took place quite some time before the following citation, corresponds to Bergsten (1996) in which he suggests in an article:

   > In the search for reciprocal liberalisation, countries could return to their respective geographical region or towards the global system of commerce in its totality […].
   >
   > However, as the urgency of competitive liberalization accelerated in the last decade, the forging of closer regional relationships increasingly dominates the process. This has simply resulted in the resolution of mutually acceptable agreements with some neighbours that with the agreement of more than 100 countries of WTO member states has become less time-consuming and less complicated.

   In a previous text by Bergsten, Richard Baldwin (1995) suggests the "domino effect" to refer to the incentives that non-member states have in order to integrate into the agreement.

4. This refers to the *Iguazu Declaration* of November 1985, to the *Act for Brazilian-Argentine Integration* of July 1986 and to the *Integration Treaty* between Argentina and Brazil, which was signed in November 1988.
5. To that effect, in a stock-taking document of its first 30 years, LAIA suggests "the negotiated tariff preferences in the regional agreements have been either of poor coverage […] or of little depth […]. Additionally, […] these agreements have in practice not made any progress in the last two decades" (ALADI 2012: 71).
6. Guatemala, El Salvador, Honduras, Costa Rica, Nicaragua, the Dominican Republic, Mexico, Chile, Colombia, Peru, and Panama.
7. Two recent ECLAC documents regarding the productive dimension of the integration, and in particular the value chains in this integration, which distance themselves from the assumptions of "open regionalism" are CEPAL (2014a, b).
8. In relation to the concept of "open regionalism", Gudynas (2005) criticizes its "insufficient and woolly" character, Vázquez López (2011) highlights the flagrant contradiction, which he identifies in a regionalism whose ultimate aim is the liberalization of world trade, and Guerra-Borges (1998)

argues that the term is fraught with danger as it intertwines two concepts that within themselves are contradictory.

9. In addition to the various texts mentioned previously, further examples of research with assessments of this period are Devlin and Ffrench-Davis (1999), Devlin and Estevadeordal (2001), Phillips (2003), Bouzas (2005), Sanahuja (2007), Bouzas et al. (2008), Torrent (2009), Wollrad et al. (2011), and Briceño (2011).
10. In particular, the MERCOSUR, which in the first five years of the 2000s—specifically with the signing of the *Consensus of Buenos Aires* by Kirchner and Lula in October 2003—signified a move towards a more integral profile, with an extension of its objectives and the incorporation of new areas, which in part implied the recuperation of the previous content of the Treaty of Asuncion, mentioned in previous paragraphs, and, in part, corresponded to the new profile of regional integration that was taking shape.
11. Three books that collate the research referring to the impact of extractivism in different areas of LA and the resistance that has been generated are those of Delgado (2013), the OLCA and OCMAL (2014), and Alvarez et al. (2015).
12. In this respect, the following paragraph of the *Panorama de la Inserción Internacional* 2015, of ECLAC, synthesizes the profile of such exports: "In spite of its dynamism, trade between Latin America and the Caribbean and China has a number of gaps. The regional exports to this country are highly concentrated in few countries, products and companies, and basically consist of primary products. These characteristics are causing a reprimarization of the regional exports, a high environmental cost, a concentration of sales to China with a reduced number of economic operators, an accelerated deindustrialization of the economies and an absence of indirect dissemination effects [...]" (CEPAL 2015: 63).
13. In the case of the "Rest of the LAC" excluding Mexico—which targets most of its manufactured exports at the US market—for the other countries the share of manufacturing in its exports to the region is also substantially higher than the share of its total exports.

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CHAPTER 4

The Impact of China on South America Political and Economic Development

Steen Christensen

Introduction

This chapter analyzes China-South America relations since the beginning of the twenty-first century, a period in which China has gained a strong presence in South America (Brandt et al. 2012: 3). It focuses mainly on bilateral economic relations between China and South American countries, but also considers a more comprehensive set of interconnected issues, such as geopolitics, alliance patterns, and domestic politics in South American countries, and how this connects to China-South America relations.

The analysis is oriented by a comparative approach that considers three "types" of South American countries. The three typologies are based on three elements: economic policy, foreign policy, and economic development model. These elements are considered to be potentially significant when comparing the relations of different South American countries with China. The first category is the "liberal" category, exemplified in this analysis by Peru and Chile. This category is characterized by liberal market-oriented economic policies, foreign policies guided by commercial

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concerns and a development model with a heavy specialization in primary goods but with some diversification into the manufacturing sector. The second typology is exemplified by Bolivia and Venezuela, and counts socialist-inspired "neo-developmental" countries with economic policies that emphasize the active role of the state in the economy, foreign policies that put greater weight on geopolitics, and a development model with intense specialization in commodities. The third typology consists only of Brazil. It has an intermediate position in terms of economic and foreign policy orientation compared to the other two typologies, whereas its economic model is significantly more diversified. Furthermore, Brazil's role in the global economy and on the international political scene is much greater than in the two other typologies.

The Liberal Typology: Peru and Chile

In 1989/1990 Peru faced a severe foreign debt crisis and a situation of hyper-inflation. The Peruvian government reacted by introducing liberal economic reforms and has since then stabilized the economy and achieved economic growth through a strategy of privatizations, liberal trade, and reliance on the private sector coupled with prudent macroeconomic policies. In 1999, a fiscal responsibility law was passed in order to support this strategy convincingly (Werner 2015: 1–4). Peru dropped its former focus on industrial policies, and between 1992 and 2008, Peruvian development strategy did not build on long-term strategic planning policies (Mattar and Cuervo 2016: 153–154).

At the turn of the century, China was the fourth biggest export market for Peru and the sixth largest source of its imports (Dussel Peters 2011: 94). Since then, economic relations with China have grown enormously. In 2009, China made up 15.4% of Peru's total exports compared to 6.4% in 2000 (Rosales and Kuwayama 2012: 78), and in 2011, China became Peru's biggest export destination (Sanborn and Chonn 2015: 9). In 2014, China became both Peru's biggest export market and its largest source of imports (OECD, UN, CAF 2015: 212). Peruvian exports to China are heavily dominated by mining exports. In 2013, these made up 74% of Peru's total exports to China (Rosales 2015: 47). Since 2014, Peru has seen export earnings fall by approximately 12% due to falling commodity prices. Nevertheless, exports to China have grown by some 16% over 2015 and 2016 (ECLAC 2016a: 128–129) attesting to China's growing significance to Peru.

Between 2003 and 2007, Peru experienced annual average economic growth of more than 7% (ECLAC 2008: 18) based in large part on the boom in commodity prices. Chinese demand had a significant impact on these prices (Perotti 2015: 49–50). The international financial crisis hit the Peruvian economy it in 2009, where growth fell to just 1.1%, but as export prices and markets improved again, economic growth rebounded to 8.3% in 2010 and was kept at a high level until 2013. The end of the commodity boom then led to significantly lower economic growth from 2014, where Peru had 2.4% growth (ECLAC 2015b: 62).

Since 2003, Peru has achieved primary budget surpluses every year (Werner 2015: 1) and it has accumulated enormous foreign reserves thus pursuing prudent counter-cyclical macroeconomic policies. Reserves reached an all-time high of more than US$65 billion in 2013 (ECLAC 2015b: 75) providing the country with very strong economic buffers and a capacity to pursue counter-cyclical policies in the context of low commodity prices after 2013 (World Bank 2016).

Peru's policy towards China has centered on bilateral economic relations as part of its overall liberal strategy of diversification of economic partners. In 2006, Peru celebrated a FTA with the USA and, in 2009 it celebrated a FTA with China. Peru has signed various other FTAs in the last two decades, as well (Sanborn and Chonn 2015: 3). Peru's aim in the FTA with China was amongst other things to get preferential access to the Chinese market as well as to pursue a strategy of greater integration into Asian industrial "*supply chains and to become a business center in South America*" (OECD, UN, CAF 2015: 211). This aim remains an important but also challenging strategy for Peru (Rosales 2015: 75–78).

Apart from the strong bilateral trade, Peru has also received much FDI from China that now controls around 30% of the mining sector (Sanborn and Chonn 2015). In 2015, the Chinese and Peruvian governments signed a number of cooperation agreements, and Peru also signed an agreement with a large Chinese corporation to establish cooperation in the development of the Peruvian energy sector (ibid). Recently the Chinese state-owned enterprise, Chinese National Petroleum Company, bought the Peruvian holdings of Brazilian state-owned Petrobras. Thus, China currently controls around 40% of Peru's hydrocarbon sector (Sanborn and Chonn 2015: 7). This reflects China's interest in access to metals and oil. Furthermore, China, Brazil, and Peru announced a joint US$10 billion investment for the construction of a transoceanic railway in order to connect the Pacific and Atlantic coasts. Chinese investment in infrastructure and in the oil sector is thus growing strongly. In this way, China seems set to live up to its promise in the China-CELAC Cooperation Plan 2015–2019 of stepping up trade and investment relations with LAC (Rosales 2015: 67–76) in the case of Peru. Finally, China has also become an important lender to Peru during the last decade (OECD, UN, CAF 2015: 211–212).

Economic relations between the two countries take on a decidedly North-South pattern: China imports commodities from Peru and exports manufacturing products. A huge 95% of Chinese exports to Peru are from this sector and is dominated by relatively advance segments of manufacturing. Although competition from Chinese manufacturing is quite relevant, Peru maintains an important manufacturing capacity (Sanborn and Chonn 2015: 8).

Of the five countries emphasized in this analysis, Peru ran the biggest trade deficit in 2014, though its deficit of US$1445 billion is a far cry from Mexico's deficit of more than US$60 billion in that same year (Rosales 2015: 41).

The general focus of the Peruvian government's policy towards China follows a liberal commercially oriented focus. Peru does not seem interested in entering into the realm of geopolitics with regard to the possible competition between China and the USA for influence in the region. Nevertheless, Peru's room of maneuver and thus autonomous policy space has increased since 1990. This is, in large part, thanks to its economic strengthening, but China's rising importance as an economic partner, as well as Peru's own economic diversification strategy, have also contributed towards this situation as they strongly reduced Peru's economic dependency on the USA.

Chile's relationship with China is similar to Peru's. It is guided by a liberal commercial strategy and its strategy of diversification. It emphasizes bilateral economic relations and does not emphasize geopolitics. China and the USA are key economic partners for Chile, as in the case of Peru.

Unlike Peru, Chile did not face a foreign debt crisis in the early 1990s. Chile introduced a very orthodox neoliberal economic strategy in the 70s during the dictatorship of Augusto Pinochet (Rindefjäll 2009: 180), although Chile did not privatize copper, which is a key export resource for Chile, and state-owned CODELCO remained the dominant actor in the copper sector. Chile's abandonment of the import substitution and industrialization strategy in the 70s led to a tendency towards de-industrialization (Castillo and Martins Neto 2016: 12), and the orthodox neoliberal development strategy turned out to create disastrous results as Chile was hit by one of the worst economic crises in the region in 1982 and 1983 in response to falling copper prices and a sudden stop of international credit. This led to a huge increase in unemployment and to a rise in state debt and foreign debt. Chile responded by devaluing its currency and by adjusting its development strategy towards an export-oriented growth model with some more state regulation of the economy (Christensen 2009: 44–45). As a result the economy stabilized and new economic growth was achieved from the mid-80s. Growth picked up further from 1990, when democracy was re-introduced, and averaged 5.5% between 1990 and 2005. As a consequence, Chile's high level of poverty was substantially reduced. In this period, Chile maintained neoliberal continuity, though with a strengthened focus on social policies following a strategy of "growth with equity" (Rindefjäll 2009: 177 and 181).

The strategy had a strong focus on free trade and Chile celebrated a high number of FTAs, like Peru. In the 90s, a number of FTAs were celebrated with LA countries and, in the early 2000s, Chile celebrated a large number of FTAs with extra-regional countries such as the USA, South Korea, and the EU (Christensen 2009: 51 and 54). In 2006, Chile was the first LA country to celebrate an FTA with China (Wise 2016).

In 2000, China was the fifth biggest export destination for Chile and the fourth biggest source of its imports (Dussel Peters 2011: 94). The boom in the prices of Chile's commodity exports, particularly copper which is the dominant export item, between 2003 and 2008 led to high economic growth and large current account surpluses. Coupled with fiscal surpluses, Chile reduced its public debt and its foreign debt assuring a very solid financial situation (ECLAC 2008: 18 and 141), similarly to Peru. In Chile's case, the government introduced the rule that the government should assure a structural fiscal surplus of 1% to even out the business cycle. The calculation of this structural surplus was linked to the long-term tendency of the copper price, due to its key importance in the Chilean economy (OECD 2007: 21). The Chilean macroeconomic strategy sought to assure stable economic growth and to avoid an overvalued exchange rate and the problem of "Dutch Disease" that would harm the manufacturing sector.

The boom in commodity prices and China's huge appetite for imports of copper and other minerals from Chile led to a significant intensification of bilateral trade, and in 2009, China was Chile's number one export destination with 23.2% of exports compared to just 5.0% in 2000. In comparison, 11.3% of Chilean exports went to the USA in 2009 against 16.2% in 2000 (Rosales and Kuwayama 2012: 78). As in the case of Peru, Chile's exports to China were dominated by metals. These made up 82% of Chilean exports to China in 2013 (Rosales 2015: 45). China's exports to Chile, as in the rest of South America and LA as a whole, were strongly dominated by manufacturing exports. In the FTA between the two countries, Chile had achieved exceptions from low trade tariffs in the sector of textiles and clothing in order to protect national producers. Chile furthermore hoped that the agreement would open up for rising Chilean exports towards China of more value-added exports. However, the reality was that Chile mainly exported metals to China (Rosales 2015: 65), although it did achieve significant exports of Chilean wine to China (Wise 2016: 39–40).

Chile has been interested in receiving Chinese investments. However, unlike Peru, Chile has not had success in attracting Chinese FDI. Between 2010 and 2013 Chile only received US$100 million in Chinese FDI compared to Peru's approximately US$7 billion (Rosales 2015: 60). Carol Wise argues (2016: 39) that the main reason for this is that China's main interest in Chile is copper, and that copper is largely controlled by the Chilean state. Another reason stems from Chile's liberal strategy and free trade agreements such as the one with the USA that prohibits restrictions on unrefined metal exports. Although Chile produced 31.1% of global copper output in 2014, its share in refined copper was merely 11.9%, and Chile maintains a relatively small refining capacity. In comparison, China's global share in refined copper production has increased to 34.8% in 2014 from 15.6% in 2005. Chile now is considering to expand its refining capacity as well as to develop more value-adding activities in the manufacturing sector based on copper (Mautz 2016: 13 and 16). In other words, Chile is considering strategically oriented industrial policies. This seems to be a reaction to the fall in copper prices since 2013.

Chile responded to falling export prices since 2013 by implementing counter-cyclical fiscal policies, as did Peru. In 2014, the government hiked public spending. This continued in 2015 and led to a doubling in the fiscal deficit and a weakening in the current account (World Bank 2016: 104). Unlike Peru that saw a major widening in its trade deficit in 2015, however, Chile maintained a significant trade surplus in 2015 (ECLAC 2016a: 128), something that implies greater solidity to Chile's financial situation. Nevertheless, worsening terms of trade have provoked a fall in economic growth as in Peru's case. Also, Chile has been relatively unsuccessful in the manufacturing sector that experienced a reduction in its share of GDP from 14.6% in 2005 to 11.6% in 2014 (Mautz 2016: 19).

Nevertheless, Chile's liberal economic strategy has served it well in terms of assuring a stable economy and rising GDP, and Chile has recently become one of the few high income countries in LA (World Bank 2016). China has played a key role in this development. For years Chile has achieved substantial trade surpluses with China largely driven by copper exports. However, the recent fall in commodity prices has led to a reduction in export revenue from China of more than 16% over 2015 and 2016 (ECLAC 2016a: 129).

The "Neo-Developmental" Socialist-Inspired Typology: Bolivia and Venezuela

Bolivia and Venezuela show major similarities in terms of their recent economic development strategies, foreign policy strategies, and development models, although some significant differences are also clear. For instance, Bolivia is one of the poorest countries in LA, while Venezuela is one of the few LA countries that recently became a high-income country (World Bank 2016: 111).

Bolivia and Venezuela, like Peru, Chile, and Brazil pursued neo-liberal economic strategies in the 1990s in response to the economic crisis experienced in the 80s. However, this changed in the 2000s after disappointing development outcomes associated with neoliberal strategies (Madrid 2010/2011: 600–602).

For much of the twentieth century Venezuela pursued a relatively successful oil-led development path while seeking to diversify the economy towards manufacturing. However, as in the other country cases, Venezuela was hit by a financial crisis in the early 80s. The crisis had a highly negative effect on industrial production, jobs, and the fiscal health of the Venezuelan state. In response to this, Venezuela introduced harsh fiscal measures and privatizations in the oil sector (Buxton 2009: 157). Nevertheless, the economy continued on an unstable path in the 90s. This paved the way for major political change when Hugo Chávez won presidential elections in 1998 as the leader of a new political party, the Party of the Fifth Republic thereby putting an end to 40 years of dominance by the two parties COPEI and ADN. Chávez promised what he called a "Bolivarian Revolution" based on pro-poor policies and state control of the huge oil company PDVSA (Christensen 2016a, b: 79).

As president, Chávez pursued deep economic reform policies that confronted local elites and Venezuela's traditional allies such as the USA, Venezuela's main partner in the oil industry. In 1999, a new constitution that set up the guidelines for these reforms was passed, and in 2001, a new law for the oil sector was passed giving the state more control in the sector (Giacalone and Briceño-Ruiz 2013: 79–80). The aim was to use state control of the strategic oil resources as a platform for greater autonomy from the USA and for a socially inclusive state-led economic growth strategy. Venezuela's foreign policy strategy emphasized alliance formation with states that could contribute to these aims as well as to pursue an actively anti-hegemonic strategy against the USA and neoliberalism (García Agustín 2016: 104). Key alliances were made with China, OPEC countries, as well as with Cuba, and later other countries in the regional cooperation scheme ALBA that opposes free trade agreements. In this way, Venezuela's foreign policy and its economic policy differed significantly from those of the liberal countries.

Hugo Chávez visited China in 1999, and in 2001 the two countries celebrated a strategic alliance (Giacalone and Briceño-Ruiz 2013: 81–85), although bilateral economic relations at the time were extremely limited. In 2000, China was only the 37th largest export destination and the 18th largest source of Venezuelan imports (Dussel Peters 2011: 194). This changed drastically with the Chávez government in power. Initial oil exploration agreements were celebrated with China in the early 2000s, and in 2007 the Venezuelan government celebrated an "Oil for Credit" agreement with China (Giacalone and Briceño-Ruiz 2013). At this point Venezuela was experiencing an oil-led economic boom with dramatic rises in oil prices. This strengthened Venezuelan exports and fiscal revenues as well as living standards in the country. Exports almost tripled between 2002 and 2007 assuring big current account surpluses and strong growth in the international reserves at the Central Bank. At the same time, Venezuela ran primary budget surpluses (ECLAC 2008: 113–117), though at a low level considering the windfall incomes and extraordinarily high economic growth figures between 2004 and 2007 (ibid: 18).

The international financial crisis put an end to the economic boom period in 2008. Venezuela was hit much harder by the international financial crisis than the other countries in this study. Several reasons account for this, such as Venezuela's strong dependence on oil that was quickly felt in worsening fiscal and current account outcomes. Furthermore, the crisis came at a bad time, since Venezuela had just recently started an ambitious and costly nationalization strategy in the oil sector and in other sectors. Venezuela's strategy of moving towards socialism and the government's aggressive anti-imperialist rhetoric worsened the situation further as Venezuela's creditworthiness suffered a severe blow in international financial markets (ECLAC 2015a: 73).

In 2009, China had become Venezuela's third biggest export market and its fourth biggest source of imports (Dussel Peters 2011: 94). China also became increasingly important as a lender and as an investor, particularly in the oil sector. Venezuela was by far the biggest recipient of lending from Chinese public banks between 2005 and 2016 (Gallagher and Myers 2016). Many development cooperation projects and joint productive projects were celebrated (Giacalone and Briceño-Ruiz 2013), and Venezuela became increasingly dependent on China, although the USA remained its largest export destination (García Agustín 2016: 105–106). With this support as well as with higher oil prices again, Venezuela achieved decent economic growth results in 2011 and 2012. However, the international financial crisis had provoked a severe worsening of the Venezuelan financial situation, and when oil prices started falling again from 2013, Venezuela lost control of its financial situation. The Venezuelan economy is currently in a deep crisis with an expected negative economic growth of 8.0% in 2016 and an expected contraction of 4.0% in 2017 (ECLAC 2016b).

In the chaotic economic, social, and financial situation this has created, the Nicolás Maduro government is facing strong political opposition. The opposition is questioning the lack of transparency in the credit dealings between the Venezuelan government and China and it criticizes the risk to Venezuelan sovereignty that relations with China imply, according to its view (Pérez Flores and Jatobá 2016: 140–141). This situation introduces uncertainty as to Venezuela's future development strategies as well as to its relationship with China.

However, an eventual future liberal government is not likely to pursue an anti-American foreign policy and would most likely follow a more liberal orientation both in terms of foreign policy and economic policy. This will most likely not mean that China will lose importance for Venezuela, since China plays a significant role for Venezuela.

However, the preference for China-based cooperation and alliances in global politics is likely to give way to a new approach from Venezuela. China on its part can also not be counted on for unlimited financial support. The Chinese government has recently expressed concerns about corruption and fraud with Chinese funds directed at development projects in Venezuela (CELC 2016: 9). Thus, there are serious doubts as to the Chinese future willingness to lend to Venezuela and a moratorium on Venezuela's foreign debt seems likely. The caution of the Chinese government at the moment regarding new lending to Venezuela could be seen as strategic, since the political opposition may soon take over power in Venezuela, and China wishes to build a good relationship with a coming new government.

Bolivia faced a very severe development crisis in the 80s due to a worsening in its terms of trade and financial instability. This led to a crisis in its relatively insignificant manufacturing sector (Madrid 2010/2011: 600). In response to this, Bolivia introduced harsh fiscal adjustment policies and later a neoliberal strategy of openness and privatizations, including in the strategically important energy sector (Petras and Veltmeyer 2005: 185).

These policies helped to stabilize the economy, but a new period with a worsening in Bolivia's terms of trade in the late 90s and early 2000s led to economic stagnation and widespread popular dissatisfaction with the outcomes of neoliberal policies. This paved the way for a reversion in the political landscape in Bolivia in 2005 similar to what had earlier occurred in Venezuela. In Bolivia's case, Evo Morales became president as the candidate of the new party, MAS. He introduced a state-led development strategy with nationalizations and a focus on social inclusion as well as greater political inclusion of indigenous groups. On the foreign policy front, Bolivia, like Venezuela, pursued counter-hegemonic foreign policies aiming at strengthening Bolivia's autonomy and reducing US influence (Christensen 2016a, b).

Bolivia's bilateral economic relations with China were very limited in 2000. China was its 18th largest export destination and its seventh biggest source of imports (Dussel Peters 2011: 94), whereas Brazil was its dominant trade partner and investor. However, the new Bolivian government sought closer diplomatic relations to China from the outset in 2006. Initially this did not translate into substantially closer bilateral economic links (ibid). Nevertheless, Bolivia benefitted from the boom in commodity prices, achieving a strong rise in export revenues and an average yearly economic growth rate of 4.5% between 2004 and 2008 as well as a significant strengthening of its foreign reserves (ECLAC 2008: 18). The Morales government was also able to introduce social policies aimed at the poor sectors in society while pursuing prudent macroeconomic policies.

In 2009, a new constitution was passed after a long political process wrought with tensions between the government side and the political opposition. The opposition was opposed to the nationalist and statist orientation as well as to constitutional changes oriented towards the interests of indigenous groups. Evo Morales was re-elected as Bolivia's president in the same year thus legitimizing the political direction. The USA was negatively inclined towards this direction and sided with the political opposition. This led to bilateral tensions and in 2008 the Bolivian government expelled the US ambassador (Wolff 2011: 5–9).

In Bolivia's case, the international financial crisis in 2008 led to a quite modest reduction in economic growth in 2009. At the same time, contrary to Venezuela, Bolivia was able to add further to its reserves, even during this period. In late 2009, Bolivia's terms of trade improved again and economic growth resumed (Christensen 2016a, b: 93).

Bilateral trade with China started rising significantly after 2009, though mainly in terms of Bolivian imports. China became Bolivia's biggest source of imports. The ratio between imports and exports was 4.2:1 in China's favor. More than 80% of Bolivia's exports corresponded to the mining sector, since Bolivia's dominant export item, natural gas, is not easily transported over long distances. China's exports to Bolivia were concentrated in the manufacturing sector in areas of high-value adding (Ellis 2016: 3).

Bolivia received its first loans from China in 2009, but Chinese financing was relatively limited, and Bolivia mostly financed its economic growth by its own means contrary to the Venezuelan case. At the end of 2015, Bolivia had received loans worth US$1.6 billion from Chinese public banks to finance different development projects in collaboration with China, e.g., in infrastructure and satellites, as well as to finance Bolivian imports of technical equipment from China in the energy sector. More than half of these loans corresponded to 2015 alone (Gallagher and Myers 2016).

In comparison to Venezuela, Bolivia's exports were more diversified with specialization in energy, mining, and agriculture (World Bank 2014). This, along with the expansion of production, made Bolivia less vulnerable to external economic shocks. Nevertheless, falling export prices from 2014 were a challenge. Bolivia, however, has managed to maintain economic growth, and a solid financial situation allowed the country to achieve a fall in its relatively low risk rating in international financial markets in 2015 (ECLAC 2015b**:** 73) in spite of a fiscal deficit of 6.6% (Vergara 2016).

In this context, Bolivia turned to China for support in 2015. The Bolivian government made agreements with China to receive financing for 11 strategic projects that were included in its 2016–2020 National Economic and Social Development Plan. It was agreed that Chinese companies would be the ones in charge of developing these projects that had a combined value of US$7.5 billion (Ellis 2016: 1). Bolivia is thus pursuing a counter-cyclical strategy based on growing foreign financing and big fiscal deficits bargaining on its ability to assure continued economic growth and stability with the support of China and its own financial buffers. So far, Bolivia's financial buffers seem to be strong enough for such a policy. ECLAC (2016b) expects economic growth of 4.5% in 2016 and 4.3% in 2017. However, there are concerns in Bolivia about the consequences of higher foreign debt. Will this make Bolivia more dependent on China, and will Bolivia be able to repay this debt (Ellis 2016: 8)?

The Bolivian government's strategy seems to be to react to the currently low commodity prices by turning to Chinese project financing as a way of assuring continued economic growth and the ability to maintain its social programs. The intensified relations with Bolivia offer China an opportunity to show that Chinese cooperation and financing may help Bolivia achieve sustainable national development, contrary to what has happened in Venezuela's case. This could be important for China as it has promised LA a new era of "win-win" economic cooperation with the adoption of the Cooperation Plan 2015–2019 between the member states of CELAC and China. This is surely not what we are seeing in Venezuela at the moment. If Bolivia is able to profit from its current intensification of bilateral economic cooperation with China, maybe China can avoid being seen as a new imperialist partner. This is something that China wants to avoid. In any case, the move to the political right in a number of South American countries will most likely reduce this risk. There is every indication that China is as interested in collaborating with right-wing governments as with left wing governments in the region.

The analysis now turns to Brazil-China relations.

The Neo-Developmental Typology of Brazil

Like Peru, Venezuela, and Bolivia, Brazil opted for a neoliberal economic strategy in the early 90s faced with a situation of significant economic constraints from foreign indebtedness and a weak financial position of the Brazilian state.

However, unlike the other countries analyzed, Brazil emerged from the debt crisis of the 80s with a highly diversified economic development model with a relatively strong manufacturing sector, although the share of the manufacturing sector in total GDP had fallen a little since its peak in the early 80s. The manufacturing sector's share in overall employment peaked in the late 80s and then saw a major decline in the 90s (Castillo and Martins Neto 2016: 8 and 13).

In 2000, just 2% of Brazilian exports went to China; Brazil's 12th largest export destination (Rosales and Kuwayama 2012: 78; Dussel Peters 2011: 94), although Brazil and China had celebrated a strategic partnership in 1993.

Bilateral relations developed further during the presidency of Lula da Silva (2003–2010). In 2004, China's President Hu Jintao visited Brazil promising to intensify bilateral relations. For this purpose, the two governments agreed on the establishment of a COSBAN (Tavares Maciel and Nedal 2011: 243), and Brazil accepted China as a "market economy". Inside Brazil this measure was controversial and met opposition from the representatives of the manufacturing sector, headed by the São Paulo branch FIESP, which found that China should not be considered a market economy due to the nature of the link between the Chinese government and the Chinese productive system. Accepting China as a market economy made it more complicated to use safeguard mechanisms against China at the WTO and thus constituted a major competitive challenge for the manufacturing sector (Vadell 2013: 51; Pérez Flores and Jatobá 2016: 145).

Bilateral trade rose dramatically in the decade of the 2000s in response to the commodity boom (2003–2008) and Chinese manufacturing exports to Brazil. Brazilian exports to China were dominated by soybeans and iron ore. With the growing price and export volume of these commodities China became Brazil's greatest export market in 2009 with a 13.2% share (Rosales and Kuwayama 2012: 76 and 78).

Exports to China kept rising until 2013 when bilateral trade between the two countries reached a historical record of US$83.3 billion (Brun 2016: 201–202).Growing export receipts helped Brazil stabilize its economy, build up reserves, and to achieve a period of dynamic economic growth until a short-lived economic recession hit in 2008 and 2009, as a consequence of the international financial crisis. As in the case of Chile, Peru, and Bolivia, the Brazilian government pursued prudent macroeconomic policies with high primary budget surpluses and foreign trade surpluses. The government, furthermore, introduced a development strategy that emphasized greater active state intervention in the economy than in the neoliberal 90s. State-business cooperation was a significant component of the strategy. The government cooperated with the industrial sector in order to promote its expansion and to work against the de-industrialization that had been experienced in the 90s (Coutinho 2007). This led to a significant increase in employment in the manufacturing sector until 2008 (Castillo and Martins Neto 2016: 13). At the same time, the government also backed the agricultural sector, for instance, through its activist international trade policy in the WTO where it formed a South-South coalition, the G20, with countries such as China, India, South Africa, and several LA countries. The purpose was to promote the liberalization of agricultural markets in developed countries (Christensen 2012).

In spite of participating in the G20 coalition, the Chinese leadership stressed that its priority in relations with LA as a whole was strictly focused on the economic area, as it wanted to calm potential US worries of China becoming a challenge to US influence in the region (Vadell et al. 2014: 100). Brazil, in turn, was more openly seeking to strengthen its influence on the global political scene through different South-South coalitions.

Brazil's economic downturn in late 2008 and in 2009 turned out to be short-lived. In late 2009, Brazil resumed its economic growth path with the use of counter-cyclical policies. Chinese growing imports and improved commodity prices contributed to the resumption of Brazilian growth (Brun 2016: 202). At the same time, China started to invest more in Brazil and to offer loans. In 2009, when credit conditions were difficult due to the international financial crisis, the Chinese Development Bank and the Brazilian state-owned oil company, Petrobras, agreed on a US$10 billion loan-for-oil deal (Wise 2016: 29). In 2010, Chinese FDI in Brazil rose tremendously from a very low level (Oviedo 2014). Investments were largely directed towards oil and mining (Bernal-Meza 2016: 36). A US$7.1 billion investment by Sinopec in the oil sector was the biggest individual investment (Planas 2011). Economic relations with China thus helped Brazil to weather the economic crisis, and in 2010, Brazil achieved 7.5% economic growth.

As a reaction to the international financial crisis, China began to put more emphasis on its relations with Brazil and on South-South relations more generally (Haibin 2010: 186). Xing Li (2016: 1) argues that the international financial crisis led to a greater assertiveness of China on the global political scene. The so-called "emerging powers" were also increasingly recognized as important global political players by the dominant developed countries. For instance, the USA, that was hosting the 2008 meeting of the G8, decided to invite the countries of the financial G20 to the meeting. This group includes the greatest economies in the world and, therefore, also China, India, and Brazil. This changed the political dynamics of global economic governance (Visentini 2013) as the BRIC countries, Brazil, Russia, India, andChina, started to coordinate their negotiating positions within the G20. In 2009, the BRIC countries had their first Presidential summit thus institutionalizing their network cooperation in something that seems like an informal coalition (Christensen 2013). Similarly, Brazil collaborated in the BASIC coalition with China, India, and South Africa in negotiations on global climate change politics. China-Brazil relations were further strengthened with the signing in 2010 of a Joint Action Plan for the period 2010–2014. The plan focused both on bilateral relations and on their collaboration on a range of multilateral issues (Haibin 2010: 186).

In spite of these favorable developments in China-Brazil relations, tensions between the two countries started to grow on the bilateral economic front due to a negative Brazilian perception of the North-South pattern of bilateral economic relations. A number of issues provoked dissatisfaction from the Brazilian side, particularly the growing competitive pressure from China in the manufacturing sector. The issue of the revaluation of the Brazilian exchange rate was of great importance to the competitive pressure. The Brazilian Real strengthened for a number of reasons. One was the US policy of monetary easing. Another was China's defensive exchange rate policy. A third reason was the "Dutch Disease" phenomenon that affected Brazil due its high export receipts from commodities. Brazil's counter-cyclical expansionary policies during the financial crisis also contributed towards this outcome, as did the inflow of financial speculative investments in Brazil (Christensen 2013). Between early 2009 and January 2011, the Brazilian Real thus rose by 38% against the US$ (Economist, January 13, Economist 2011), as well as it strengthened against the Chinese currency.

This led to a surge in imports, not the least from China. In 2010, FIESP criticized "excessive imports" of consumer goods and the loss of thousands of jobs in the manufacturing sector to China (ibid). The FIESP President, Paulo Skaf, pointed out that, although Brazil had a trade surplus with China in 2010, there was a Brazilian deficit of around US$25 billion in manufacturing sector trade with China (Vadell 2013: 53). The Brazilian finance minister, Guido Mantega, spoke of a "currency war" or an indirect "trade war" among Brazil, the USA and China (Economist, January 13, Economist 2011). This concern was shared by Dilma Rousseff (Vadell 2013: 52), who became Brazil's new President in 2011. She argued that bilateral economic relations should move "beyond complementarity" and allow for greater Brazilian manufacturing exports to China (Guilhon-Albuquerque 2014). Her government, and the Lula government before her, introduced a range of policies aimed at promoting Brazilian manufacturing production. In 2010, the government introduced a "buy national" public procurement policy aimed at favoring national producers (Fleischer July 30, 2010). Another policy in 2010, made Petrobras participation of at least 30% in all oil exploration mandatory. Furthermore, in 2010, Brazil put limits on the purchase or control of land by foreign capital in Brazil in order to avoid "land grabbing". This policy was to a large extent a reaction to growing Chinese interest in investing in the Brazilian soybean sector (Hearn 2015: 306–311).

Furthermore, in 2011, the Dilma government introduced a new industrial development policy, "Brasil Maior" (Greater Brazil) after having reached an understanding with the industrial sector through government-business dialog (Ogier 2013). These initiatives did little to improve the situation of the Brazilian manufacturing sector, though. It has remained basically stagnant since 2012 (Christensen 2016a, b: 100). Recently, it has even gone into negative terrain (Economist October 29, 2016a, b). Similarly, economic growth has faltered since then, not the least due to volatility in commodity export prices. This has led to growing external economic imbalances.

In 2015, Brazil experienced negative economic growth. In this context, Brazil has received growing amounts of Chinese lending, part of which went to Petrobras in a loan-for-oil deal as in 2009. Furthermore, a US$20 billion Brazil-China Fund of Cooperation aimed at expanding productive capacity in Brazil was created in 2015 with two-thirds of the funding from China. Chinese FDI to Brazil has been growing since 2013 and it has gone through a diversification towards infrastructural investments and market-seeking investments in the manufacturing and services sectors (Brun 2016: 200). This development is in line with the Chinese "going out" strategy after the international financial crisis (Vadell et al. 2014: 102; Li 2016: 1 and 16–17) that aims at Chinese global investment diversification and China's political strengthening on the global scene. It can be seen as a strategy of competing with the USA for influence in different world regions (see e.g., Li 2016: 16–17). In spite of tensions over trade issues, China and Brazil have thus maintained close bilateral economic relations as well as pursuing common agendas on the global political scene in different international coalitions.

In 2016, President Dilma was impeached, and her vice-President, Michel Temer, from the coalition party PMDB, took over the presidency. The new leadership has taken new steps that could be seen as a correction in the strategy pursued by the PT-led governments. The new government may be leaning towards a foreign policy strategy and an economic strategy similar to that of the liberal countries that now include Argentina after Mauricio Macri took over power in 2015. In the realm of economic policy, the Temer government is dropping the local content policy introduced in 2010 as well as the policy guaranteeing a minimum investment share of at least 30% to Petrobras in all oil exploration projects in the pre-salt petroleum deposits (under the seabed) (Fleischer, October 7, 2016a). Transpetro, a private company in the oil sector, recently announced that it had cancelled the construction of 17 oil tankers by Brazilian shipbuilders as the policy of Lula and Dilma of obliging the company to buy from Brazilian producers has been discontinued (Fleischer, October 28, 2016c). In spite of a 5.2% fall in industrial production in Brazil between August 2015 and August 2016 (ibid), the Temer government has thus introduced a more liberal policy in the area of public procurement.

The fiscal situation is still deteriorating, and public debt has moved up over 70% of GDP (Fleischer, October 7, 2016a), and Temer has made fiscal consolidation his government's number one priority (CELC 2016: 4). In October, Michel Temer participated in the 2016 BRICS summit in India. Russian President Putin, however, did not wish to meet with him due to issues that the Russian President has had with the impeachment of Dilma. Thus, the BRICS coalition seems hurt. After the BRICS Summit, Temer went to Japan where he attended a meeting of Japanese and Brazilian business leaders and had a long talk with Japanese Prime Minister, Shinzo Abe. This was the first visit of a Brazilian president to Japan in 15 years (Fleischer, October 21, 2016b).

The Temer government seems to be focusing on a commercial agenda that no longer emphasizes South-South relations from a geopolitical strategic position. Trade agreements with developed countries have moved up amongst the top priorities in Brazil's foreign policy. The policy should not be seen as being against China, though. Brazil still collaborates with China and Chinese investments in Brazil remain solid (CELC 2016: 10).

Conclusion

The historical comparative analysis of the five South American cases grouped into three typologies allow us to draw a number of conclusions on recent China-South America relations.

Relations between China and South American countries intensified after the year 2000 for all three typologies. This intensification was particularly caused by China's economic rise and impact on international commodity prices. China's growing import of commodities and its impact on commodity prices was an opportunity for all of the countries studied, even for Bolivia whose exports to China were very limited. Rising prices of commodity exports helped all five countries assure economic strengthening and greater room of maneuver during the commodity boom (2003–2008), and they all pursued development strategies based on the centrality of commodity exports, although particularly Brazil also had some emphasis on industrial policy.

China's main focus was on bilateral economic relations, initially with an emphasis on access to commodity imports needed in the Chinese development process but also with an interest in the diversification of its manufacturing exports. In the early part of the 2000s, trade relations were most developed with those countries that specialized in the mining sector, i.e., Chile and Peru. This was followed by growing trade and economic relations with oil producing countries and then countries with significant agricultural production, particularly soy. At the end of the decade, China was amongst the main economic partners for all of the case countries with the exception of Bolivia due to its particular specialization in the gas sector. Venezuela on its part became increasingly dependent on Chinese financing in the context and in the aftermath of the international financial crisis when faced with volatile oil prices and poor access to international capital markets. The other four case countries managed this crisis better due to their stronger financial situations.

The international financial crisis also led to greater emphasis on South-South collaboration through coalitions. This was particularly relevant in the case of Brazil due to its stronger role in the international system.

In the second decade of the twentieth century, China has become extremely central from the perspective of all of the five country cases, especially due to its contribution to external financing of development through FDI and loans, which has become increasingly important after the end of the commodity boom in 2013. This particularly is the case for

Bolivia, Brazil, and Peru. Venezuela, the biggest recipient of Chinese financing since 2005, has entered a chaotic economic and political situation. The socialist-inspired government is facing huge challenges from the political opposition and China is no longer willing to function as a lender of last resort to Venezuela criticizing the lack of transparency in the government's handling of Chinese financing. China thus seems to prepare itself for collaborating for a future government of the right-wing opposition. This shows that ideological orientation (on the political left) is not very significant from the perspective of China.

Volatile commodity prices have led to an increased focus on how development based on commodity exports can lead to external vulnerabilities and to promoting strategies of handling this problem. So far, Bolivia, Chile, and Peru have dealt successfully with this through prudent macroeconomic policies. Currently, especially Chile is considering a focus more on innovation and industrial policy, a strategy Brazil has also attempted, though with limited success as the problem of "Dutch Disease" often associated with development models strongly based on primary sector exports tends to make strategies of productive diversification difficult.

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CHAPTER 5

The Changing Problem of Regional Development Finance in Latin America

Leonardo E. Stanley and José M. Fernández Alonso

Introduction

Defined as the complex of resources assigned to the enhancing of socio-economic structures and dynamics within a specific political entity,—usually a State, but not exclusively—development financing comprises both public and private funds and actors. On the one hand, funds could be obtained from national or supra-national (public funded) institutions or from private sources (bonds, banks, etc.)[1] On the other hand, funds could be directed to finance private agents´ projects (corporate financing) or they go to finance public projects (public debt). The mobilization of domestic resources in LA has historically been limited. In this context, political-economic authorities in the region were compelled to rely on foreign funds in order to forge development projects, frequently associated with infrastructure necessities: the construction of railways and ports in the late nineteenth century, the expansion of roads and basic facilities

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for the provision of public services during the twientieth century, or the generation of wind farms, or rapid transit systems in present days.

In spite of being a constant, this need for external financing did not always have equal importance. Likewise, the amounts and mechanisms regarding the need for capital varied in the course of time, together with the adjustments in the international financial system and LA development strategies.

Without the purpose to display a detailed historical approach, the argument merely note that, in recent decades, the access of South American countries to development financing has gone through substantial changes.

In this respect, it could be stated that, in spite of the low savings to GDP ratio traditionally observed in the region, this problem became particularly significant in the 70s, when governments decided to phase out the ISI policies and disarticulate the so-called financial "repressed model". In this regard, it should be noted that after the liberalization of the capital account, savings were no longer required to match investment necessities. At the same time, the post WWII financial architecture suddenly collapsed, transforming development financing with it. Cross-border funds began to increase, alongside the likelihood of financial crisis on a global scale as we have repeatedly observed since then.

In order to obtain funds, sovereign nations were somewhat forced to go into the markets, whose conditions and institutions would cyclically challenge them, as observed after 1982 when the LA debt saga erupted. A decade later, international debt markets experienced a "revolution", as transnational bank loans lost their prominence, and bond financing bloomed. Most LA bonds were issued under New York jurisdiction, with sovereign nations unaware of the legal conditions the market was imposing on them.

The role of multilateral lending agencies also changed during these years, particularly after the collapse of the Bretton Woods order. Historically, development financing came from traditional IFIs, namely, globally funded agencies as the World Bank or from institutions established on a regional level such as the IADB and the CAF, among others.

After the turn of the century, the financial development setting became more complex when other international agents gained presence: the PRC, in particular, followed by other members of the BRICS coalition (Brazil, Russia, India, and South Africa). In this context, it should be noted that the decision of the Chinese authorities to compete globally—under the so-called "go global" strategy—and to internationalize the Renminbi

(RMB), were the beginning of new patterns in international capital flows, and development financing. Suddenly, countries in the region benefited from a new source of funding for their development projects.

Besides the systemic changes produced by the rise of China, other factors impacted South American strategies towards development financing. In this respect, the externalities of the commodity boom initiated during the first years of the twenty-first century must be considered. In this respect, the extraordinary resources obtained from trade allowed South American countries to escape the traditional constraints imposed by traditional IFIs.

Financing necessities were not considered until these international processes began to fade. In effect, the decrease in commodity prices, the deceleration of the Chinese economy, and the persistence of a low savings ratio, henceforth, re-introduced the issue in policy-maker circles.

The aim of this chapter is to evaluate the old and current challenges experienced by South American countries regarding development financing. Specifically, this study analyzes the conditionalities that South American countries had—and have—to cope with in order to access to external development financing, from a historical perspective.

The interest in scrutinizing extra-regional development financing mechanisms provokes tension between economic opportunities and political constraints experienced by South American countries. When lenders are called to fill this gap, these funds would necessarily try to impose their conditions, as IFIs have done in the past, or the PRC might *try* right now. This study looks at development financing from a historical perspective, analyzing the old scheme and describing the alternatives that South American countries are beginning to face.

The Changing Challenges of Regional Development Financing: A Brief Historical Overview

As previously stated, the problem of development financing became a constant in LA countries since their independence. Due to their structural difficulties to save and manage their own capital, governments in the region had been forced to rely on foreign means in order to carry out development initiatives, associated with infrastructure facilities. The main mechanisms used during the first decades of their political independence—e.g., the nineteenth century and the first decades of the twentieth century—were private bank loans and debt issuance. These resources allowed LA countries to generate and develop critical infrastructure—railways and port complexes, for example—required by a development model based on agricultural exports. Nevertheless, the onset of WWI constrained the access to foreign capital. Consequently, development financing had to be channeled through internal funds, which were known to be scarce. In this context, some LA countries—particularly those with more complex economies—initiated a new development strategy: the so-called ISI model.

Moreover, it is important to note that this new strategy of development joined a revamped political and economic order. According to Ruggie (1982), the principles of embedded liberalism dominated the postwar era, where national economies remained relatively closed off from external capital movements, highly regulated financial markets, and public sector involvement in vast sectors of the economy. This vision of embedded liberalism emerged as an historical response to the tension created by both extreme liberalization observed during the first globalization wave and those emerging from the highly protectionist environment irrupting after 1930. In any case, and despite the interest of US negotiators,[2] the IFIs related to Bretton Woods conferences were silent regarding developmental issues. However, with the passing of time and the advancement of the independence process in the so-called Third World, these institutions incorporated developmental goals and discourses, but all frequently clutched to political and economic conditionalities (Coehlo 2012). However, financial institutions established in Washington became key actors in financing infrastructure projects around the world—unfortunately, this lending practice was disrupted in the 70s and 80s (Sanderson and Forsythe 2013).

Back in the early 70s, LA countries were among the most active participants in the oil-related credit boom with epicenters at New York, London, and other major financial districts. Credit from transnational banks allowed them to bypass the economic changes that were required due to leaving the ISI model. However, cheap credit was an illusion, as loans were associated with flexible interest rates. When Mexico defaulted on its debt, a long-term struggle started among sovereign debtors and creditors, which tilted in favor of bankers and the so-called "lost-decade" of growth. Financial development objectives, henceforth, were no longer considered by US officials, nor by IMF staff (Chwierorth 2010).

Only after the Brady Plan was implemented during the end of 80s and the beginning of 90s, did a new wave of credit-led growth erupted in the region. This new process, however, was focused on the issuance of bonds, starting an active sovereign emerging market bonds. However, instead of just favoring the public sector needs, as in the 80s, capital flows were now basically private, entering in the form of bonds and portfolio equity as well as foreign direct investment (basically related to privatization programs). Multilateral lending re-emerged as well, basically to finance utilities and public works. In this new stage, the WB and the IDB took a leading role, supporting structural reform policies (conditional lending). In this context, IFIs were actively engaged in forcing members to liberalize their capital accounts, unaware of the long-term effects, as this measure "*was unambiguously good*" for them (as for the 2014 Nobel Prize Laureate, Jean Tirole, as quoted by Chwieroth 2010: 12).

Despite their mathematical perfection, the reform policies financed by the "Washington Consensus" institutions soon turned into failure. When the succession of the financial crisis struck emergent economies (Mexico, South East Asian Countries, the Russia Federation, Brazil, Turkey, and Argentina), IFIs rushed to condemn local countries due to weak institutions, malpractices on a macro level, and fierce populism but being incapable to see any faults in their behavior. From a macro perspective, Argentina's 2001 default could be signaled as a leading example of this pattern, despite the fact that the IMF previously complemented the local authorities for their macroeconomic conduct. The highly contested water privatization process in Cochabamba (Bolivia) could be signaled as an example of WB's[3] short-sighted vision. Similar situations were observed on other levels, and the message remained: more adjustments were needed, growth will follow thereafter; more private involvement would come to solve the problems of privatization. In short, for international agencies, credit-related problems were linked to the mismanagement of developing countries.

As social unrest increased, elected governments were pushed to choose between their creditors or their voters. A new wave of leftist administrations came to power, whose economic teams were highly distrustful of neoliberal ideas, and privatization efforts were suddenly disrupted. Henceforth, after 2002 several economies in the region began to embrace Keynesian policies, and some of them were re-nationalizing firms related to utilities and energy.

At this point, it must be said that this new political-economic stage was enabled—and fostered—by the convergence of two international processes: on the one hand, the boom in commodity prices; on the other hand, the emergence of new poles in the international arena, PRC, in particular. The conjunction of these processes essentially evolved due to the development financing problem. In fact, the resources gained or obtained through commodity trade and Chinese credits enabled LA governments (South American ones, in particular) to bypass traditional IFIs.

However, when the commodity boom began to slow down some sovereign countries decided to move to China—whose credits were not fined without conditions from political intromission. Consequently, a small but economically significant group of South American countries (specifically, Argentina, Ecuador, and Venezuela) formed intensive financial relationships with the PRC. In brief, it concerned countries with several difficulties to borrow from traditional financial centers as they maintained important disputes with former creditors. For them, a new political consensus emerged: Beijing was replacing Washington.

Developing Finance in a Changing World: China, New Development Finance Structures, and Political Order

When the Chinese economic reforms were launched in the early 80s, its economy, measured by GDP, was almost a quarter of the total GDP of LAC. Nowadays, it is twice the size and increasing. Only in a few decades, the PRC has become a leading world-factory producer, a giant global trader, and a leading innovative country. In fact, China now ranks second worldwide just behind the US economy, although it remains categorized as a middle income country. Likewise, and after decades of being ranked amongst the largest recipients of foreign direct investments, its *go out* policy and a fierce appetite first for resources and recently for technology transformed China in a net capital exporter.

Due to the structural characteristics of its political system, the Chinese authorities have always maintained a leading role in the process of directing outward capital flows. Notwithstanding the foregoing, an important number of Chinese private firms have recently begun to establish investments abroad.

The *go out* policy was managed by governmental financing sources since the launch and implementation of the aforementioned strategy, involving a variety of public agencies and political actors, initially aimed at financing infrastructure projects abroad. As we will see, infrastructure projects were mainly financed by two banking institutions: the China ExIm bank and the CDB.

However, Chinese financing is no longer constrained to aid and infrastructure projects or restricted to developmental sources. Since the start of the Asian financial crisis, and in order to help neighboring Asian counties, the Chinese government launched a series of contingent loans or currency swap lines (originally in US$), that came to complement the financial assistance arriving from developed countries' central banks' sources.

The global financial crisis re-introduced the relevance of this idea, but now, China transformed into a leading player as a net creditor. Henceforth, new swap lines were now issued in RMB. The PBC became a very active player entering into more than 30 bilateral currency swap agreements since December 2008,[4] including an important number of agreements with South American countries (Liao and McDowell 2014). Argentina's US$11 billion swap arrangement is one of the most peculiar[5] ones, not just because of the funds involved, but because of the particular use made by local authorities during the transition that took place after Mauricio Macri's administration lifted the so-called clamp on foreign currency transactions previously in operation.

The decision to advance with the RMB internationalization process is going in the same direction. The newly established RMB offshore markets might be seen as a different source of project financing, although in its initial steps. One of the leading and more innovative offshore markets is London, a financial district that recently issued the first sovereign RMB bond outside of China.[6] Bonds issued in London, or other financial districts certainly possess all the legal guarantees that similar papers might grant. Additionally, authorities in China are aware of its relevance for enhancing the RMB internationalization process as this interests them in pushing for being including in the IMF's exclusive group for Special Drawing Rights (SDRs).

Last, but not the least, the strategic inclusion of a selected group of local commercial banks as part of the *go out* policy, which explains their increasing presence abroad.

In summary, the Middle Kingdom has rapidly transformed from a net importer into a net exporter of capital. Chinese outward direct investment is increasing rapidly, challenging established models of capital flows in the process – Xi Jinping has recently declared that China's foreign investment in LA would reach the US$250 billion threshold during the next decade.[7] This new status leaves China with new and challenging obligations. Consequently, and despite the large amounts in financing development, authorities are becoming aware of their global leadership and how this is transforming their old lending practices. For example, they are becoming forced to take environmental assessments into account or to include transparency clauses in their credits.

Historically, their function as a donor was free from non-economic assessments: Chinese credits were basically benefiting sovereign countries in the South not really interested in governance related issues. However, funds are no longer confined to developing partners, but are now becoming global.

As a matter of fact, China is increasingly involved in financing development projects all around the world. Development financing aid can be traced back to the early years of communism in government, in the form of donations directed to "friendly" regimes around the world with one main conditionality: the recognition of the One China principle. To this we should add the principle of non-interference and mutual benefit. In summary, China's development financing within the South-South cooperation framework initiated by Mao Zedong in the middle 50s (Xu and Carey 2015a, b). Modern era (and widely dispersed) financing recognizes its roots in Africa (Brautigam 2011; Cheng-Hin 2015),[8] as China maintained deeper political and economic relations with the region since the early 50s (Avendaño 2013).[9]

China's financial aid continued after Deng Xiaoping's reforms, although the country now also benefitted from multilateral lending and external aid packages.[10] This second phase would embrace a strong orientation towards economic development— mainly limited to the African continent.[11] Furthermore, and in contrast to old development packages where political interests predominate new loans, objectives become wider in scope although economically driven and basically directed to boost Chinese economic presence abroad.[12]

During both stages, Chinese financing was tied to governmental sources and bilateral negotiations. After the financial reforms were passed, developmental funds began to be mediated by the China ExIm Bank and the CDB, financial entities that were both created during the mid-90s and cataloged as policy (financial) entities.[13] As such, credits remain subordinate to the approval of the MOFCOM, in both cases. Although some of the credits granted by China's policy banks are concessional, most of the loans qualify as non-concessional, in the sense that they are tied to market-based interest rates.[14] Furthermore, Chinese credits have often profited from sovereign guarantees, basically associated to earnings from the export of natural resources—a practise originally introduced by Japan and followed by China in Africa and later extended to LA. However, developmental banks' credit lines are also available to local firms, not just public agencies or governments.[15] Note that these two institutions are not just confined to provide financing to developing countries, but they do business with developed countries as well—as shown by the involvement in UK nuclear energy plant financing. China's policy banks are also engaged in the funding of China's SOE acquisitions abroad—including funds for overseas acquisitions of oil companies (Sanderson and Forsythe 2013). Henceforth, being a key actor in the "go global" strategy launched by the Chinese government. The role of policy banks in helping the country's currency to internationalize has also become highly relevant, as they increasingly settle their operations in RMB (Stanley 2014). In any case, as their role in financing deepens, problems might also start to emerge, as indicated by an increasing number of poor countries facing debt problems with China.

China's New Growth Model

Nobody can refute that the export-led growth model has transformed East Asia, and China is not an exception, but rather one of the most successful examples of such a framework. In brief, the PRC's ascent has not only shifted global wealth but has induced a commodity boom with it that benefited Southern American countries the most.

As previously observed in the region, when planning their global insertion, authorities followed an eclectic policy approach, which included the control of key economic variables (i.e., exchange and interest rates). In other words, they implemented a repressive financial model that enabled the financing of the country's accelerated industrialization. Industry also benefitted from the presence of a devaluated RMB, allowing local manufacturers to maintain their wage-competitiveness. Low wages were maintained for a long period, due to the continuous arrival of new workers from the countryside. Industrialization was reinforced by the presence of a series of public policies and rules: for example, the FDI policy that favors the entrance of foreign firms although forcing them to transfer technology or forbidding them to participate in the local market. FX undervaluation allowed authorities to accumulate foreign reserves, a strategy that progressively shielded China against any global financial turmoil.

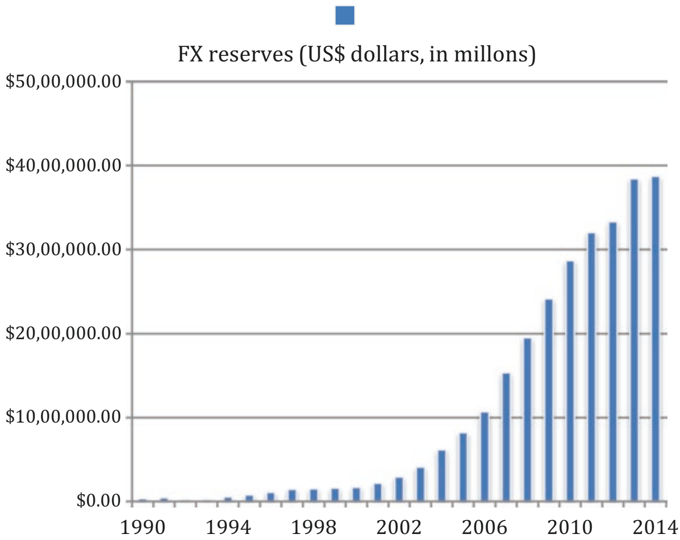
However, irremediably the model began to show signs of exhaustion. It was the global financial crisis that permitted authorities to observe limitations— particularly the inconvenience to rely upon economic success in global trade. Initially, policy-makers sought that the shortfall was attributable to exceptional circumstances and even managed through a fiscal stimulus package. Additionally, this package would cause a real estate boom but also a race to over—investment in regional SOEs and overcapacity. As the global economy did not recover, political cadres began to accelerate their move towards a new process of economic accumulation. This new process was at the center of internal consumption but was also observable in the new role given to China's OFDI. This "*go global*" policy signals China's transformation into a capital exporting country, although this trend is also observed at other economic policy changes. On a micro level, this is reflected by the fact that Chinese companies are now capable of competing for international assets and putting them to productive use.

Whereas the Asian financial crisis came to demonstrate the fragility of the global financial architecture and the inconvenience to rely on IFIs funds—explaining its FX accumulation policy, the Global financial crisis shows the risks of continuing with this policy—particularly after the performance of T-bills. Henceforth, Chinese authorities decided to advance with the process of capital account openness (Graph 5.1).

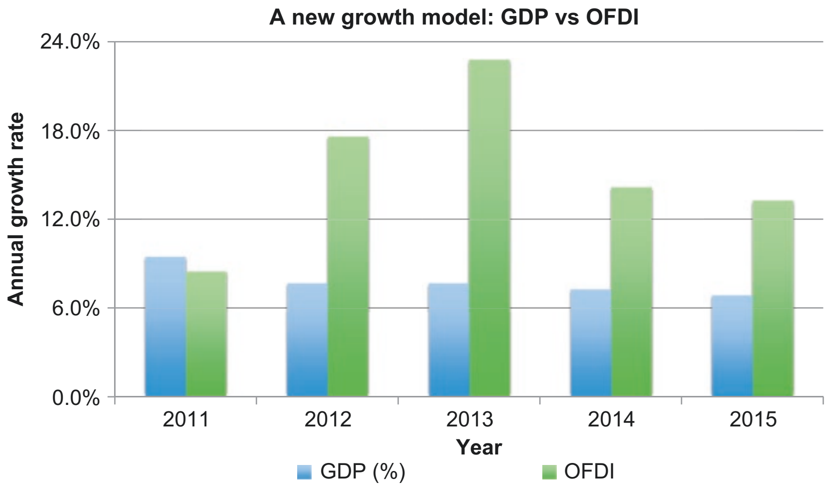
In summary, Chinese authorities decided to implement a new growth model under which credits and investment flows (so-called OFDI) complement the traditional trade links of the recent past. Graphically, this new pattern corresponds to the accelerated increase in FDI flows, whose two-digit figures are now eclipsing former growth rates—see Graph 5.2.

Since 2012, the growth rate of Chinese investments abroad has been exhibiting a two-digit rate—resembling prior GDP figures.[16] A large portion of these funds are going to the USA and Europe, explained by the Chinese firms' drive for innovation and new technologies—as well as the growing rejection that they observe abroad. LA countries also benefited, although on a minor scale—funds were mainly directed at the purchase of energy or raw materials companies. As China's economic growth began to slow down, reducing the historic FDI trend, the country became a net exporter of capital.[17]

The process of RMB internationalization should also be seen through the same lens: the interest of China to expand its global influence—in this case, among players of the main financial districts. Financial internationalization is also being channeled by political as well as commercial banks—as explained throughout this chapter. An increasing number of scholars have recently analyzed this loan pattern for LA, as China transformed into a



Graph 5.1 FX Reserves (Source: Federal Reserve of St. Louis—Database)



Graph 5.2 China as a capital exporter

leading source of developmental funds (Gallagher et al. 2012).[18] Chinese capital flows arrive in the region, not just to finance infrastructure projects but primarily to invest in natural resources companies—in particular, in the oil and mining industries.[19] Energy related credits, however, are somewhat special as they link the purchase of a commodity (oil, at market prices) from local companies (generally, local SOEs) to the funds being offered by the Chinese policy bank.[20]

The Chinese lending practices affect benefits and might also impose costs on borrowers. On the one hand, as IFIs practises would suggest, sovereign nations are free from economic constraints (and also from political intervention), avoiding the scrutiny of creditors. Chinese lending has also benefited sovereign countries during the last decade, particularly benefiting Venezuela, Brazil, Argentina, and Ecuador. Credits were intermediated by political banks (CDB, ExIm Bank of China) mainly, although commercial ones were also active. Loans were priced above institutional (IFI) levels but below market rates—henceforth, benefiting some creditors. On the other hand, the access to credit was often tied to the purchase of Chinese goods or investments from Chinese firms. Furthermore, hidden costs in credit contracts might be important and largely unnoticed for all interested parties. State-to-State negotiations were usually a secret (eventually benefiting those from the government), lending conditions often remained un-published, and claims from non-governmental voices were generally not considered during negotiations. In summary, and despite the fact that the arrival of funds permitted sovereign nations to bypass the financial constraints, Chinese financing did not guarantee a proper use of funds by developing countries, and critics began to emerge (Xu and Carey 2015a, b).

However, Chinese development finance continuously evolves towards better practises—although effort need to continue (Lin and Wang 2015). The Chinese government is intending to improve governance practises,[21] reduce aid-led-corruption, and so on. As recently as 2014, authorities launched a series of new multilateral institutions in order to finance a series of financial initiatives mostly directed at increasing the Chinese presence in the world. However, as China's financial relevance continues to grow, this old financial relationship is being questioned—and for several reasons, not just regarding its lack of transparency. In response, authorities began to accept new (and more transparent) forms of financial relationships as those envisioned by multilateralist institutions. This led to a third phase of financial arrangements which, among other characteristic features, detaches financial obligations from activities being funded. In this sense, Chinese development funding is acting more in line with global financial institutions—as might be the case for the flows that are being channeled by the recently created AIIB.[22] With headquarters in Shanghai and an international board and technicians, the AIIB has US$100 billion as initial capital.[23]

The so-called New Development Bank, another development bank in which China participates alongside the rest of the BRICS countries, faces similar challenges regarding governance, transparency, and stakeholder engagement.[24] Next, we should mention the SRF, which aims to become the finance branch of both the Silk Road Economic Belt and the twenty-first-century Maritime Silk Route (or "Belt and Road") Initiative.[25] Finally, there is the recent announcement of the Shanghai Cooperation Organization Development Bank, established by the SCO,[26] with India and Pakistan as two of their initial members. As observed in the past, most of these funds go to finance infrastructure projects. But, in contrast to previous loans going to Africa or LA, these new institutions are more transparent and more receptive to delink financing from clauses with contract provisions. The Chinese government is aware of all of these challenges, and seems to be actively working in that direction (IDS 2015). In this sense, the previously mentioned "Africa Growing Together Fund" is being opened to procurement and participation of all of the African Development Bank members (Xu and Carey 2015a, b: 6). In summary, the Chinese government has decided to transform its excess foreign reserves into real investments around the world with returns stretching into the long term future (Yu 2013).

In addition to the importance of policy banks abroad, commercial banks are beginning to gain relevance abroad, as they become invincible at home.[27] For example, since 2013, loans from Chinese commercial banks are used to finance electricity and railway projects in Africa. Commercial banks are beginning to enter local financial markets in LA, as in the case of the ICBC in Argentina or China's Bank of Communication in Brazil. In summary, nobody would contradict that these institutions "*will increase their weight in developed markets in the coming years*" (The Economist 2016). In fact, China has moved "from the margins of development finance to being a central actor and provider" (IDS 2015). To some extent, it is normal to observe an increasing relevance of other sources of financing, including the major role of OOFs, commercial financial institutions, as well as SWFs. Consequently, the Chinese government is initiating a third stage of financing, now expanding the scope of their credits and borrowers.

China launched a series of dialogs with their counterparts, first in the African continent and more recently in the region, followed by a series of initiatives for cooperation that later induced the creation of particular financial schemes (for instance, the CADF).[28] As for the region, Chinese lending gained relevance after the global financial crisis (Gallagher et al. 2012). In 2009, China decided to join the IADB, after contributing US$350 million in funding. Later, this bank received funds from the Bank of China and the ExIm Bank of China (Pérez Roldán et al. 2016). More recently, Chinese authorities decided to sign a cooperation package with the CELAC, aimed to increase the dragon's financial assistance in the region.[29]

Conclusions

Development financing might be considered as one of the recurrent problems faced by LA countries since their independence. Short of funds, governments in the region had periodically turned to foreign capital in order to advance with their investments projects. During their time as independent States, they have made use of different sources and mechanisms in order to finance its developmental needs. Each of these financing mechanisms has been consistent with a specific international order and a particular model of development adopted in the region.

At first, LA countries—especially the South Americans ones— resorted to bank loans and the bond market. These resources allowed them not only to build their own States during their first years of independence but also to define an international economic insertion based on an agro-export model. However, the structural changes reported during the first decades of twentieth century altered the aforementioned financial logic and the international economic strategy. As a consequence of this new context, LA governments decided to articulate an ISI model. This model was funded mainly with their own resources, but also with external ones. In this regard, it must be emphasized that since their institutionalization after WWII, IFI's—development Banks, in particular—have traditionally focused on mobilizing long-term funds towards strategic sectors under this new developmental model. Infrastructure was, of course, one of those critical sectors. Nevertheless, these financial development mechanisms eroded concurrently with the erosion of the Bretton Woods' agreement.

After the arrival of the Debt Crisis in the first half of the 80s, the funds provided by IFI were conditioned to the implementation of political and economic reforms in order to create a neoliberal model under the "Washington Consensus" paradigm.

During the boom in commodity prices, public funding constraints were lifted and developmental financing problems faded. However, once the boom transformed into a burst, policy-makers began to realize the challenges imposed by foreign lending and the insufficient funds maintained to foster economic development, including largely forgotten infrastructure needs. Once again, the government of the region proved incapable to meet development necessities with long term financing. Such dynamics in financing, although autonomous, demonstrated a lack of sustainability over time.

Regardless of the cycle, long-term development financing is still relevant. Infrastructure is now considered to be, as in the past, key to economic growth and development. Although relevant during the aftermath of WWII, financial institutions located in Washington have forgotten this premise. Nowadays, China seems to have become a critical agent of change, called upon to fill the gap. In recent years, the PRC's ascent induced a revival of bilateralism, first benefiting Africa but recently expanding to other latitudes. Afterwards, a South-South pattern emerged, which made the availability of funds affordable and somewhat lifted political constraints. After years of conditionalities of the IMF, and structural reform packages from the World Bank, the arrival of China was seen as a panacea for developing countries' rulers. In spite of the criticism that this funding could cause, Chinese financing came to fill the gap left by traditional donors and multilateralism.

Regardless of the sources, financing collateral obligations start to recurrently constrain the region's growth ambitions, when funds are exogenous and long-term developmental objectives remain unclear. When lenders are called upon to fill this gap, they will try to impose their conditions, as IFIs have done in the past, and China might *do* right now. Whether this would change in future would depend on ourselves, by making our economies more resilient to external shocks, by improving our institutions, and overall, by beginning to think of long-term development.

In light of the above considerations, South American countries– should strengthen their savings in order to avoid external (political and economic) conditionalities and construct a sustainable development model.

Notes

1. We do not consider donor funds, as benefited countries are not entitled to their repayment.
2. Helleiner (2014) describes Harry D. White's efforts to addressing this topic at Bretton Woods meetings. Interestingly, US involvement in the Latin American region during the late 30s and early 40s becomes crucial to embrace this vision—missions in which White himself and Robert Triffin were especially involved. These initiatives, in turn, were part of the famous *Good Neighbor* policy toward the region installed by US President F.D. Roosevelt in the 30s.
3. The 1998 Asian financial crisis was a significant event, signaling the beginning of a worldwide movement to condemn the challenges imposed by unchartered capital flows—including massive support for re-introducing capital controls. In any case, industrialized countries led by the USA continued to push for market deregulation and capital account openness.
4. Currency swaps can be viewed as a credit line that both sides can draw upon at a pre-determined exchange rate. US Fed liquidity swaps lines are essentially repo transactions based on prevailing exchange rates, whereas China's bilateral currency swap agreements are designed to facilitate settlements in renminbi.
5. The swap was initially supposed to last three years and allowed Argentina to pay Chinese imports with RMB, but Argentina used up most of it in the first two years, bringing in RMBs to boost the country's foreign-currency reserves, which had been on the decline (Buenos Aires Herald, Wednesday 25 December 2015).
6. Previously, the CDB issued an RMB bond in London (RMB 2 billion), the first by a quasi-sovereign outside of China. The UK government issued a landmark RMB bond (RMB 3 billion), the first non-Chinese issuance of sovereignRMBdebthttps://www.gov.uk/government/news/china-chooses-london-for-its-first-ever-sovereign-renminbi-rmb-bond-issued-outside-of-china
7. "China's Xi woos Latin America with $250 bln investments" Reuters. January 8, 2015.
8. The role of China's development finance in the "Africa rising" history is certainly crucial. Guinea, a newly independent socialist government in the early 60s, obtained an interest free loan from the PRC, a practise that expanded to other newly-decolonized African states. Years later, China participated in the TanZam railway between Tanzania and Zambia, which involved the participation of Chinese public works companies but also public funds from China.
9. Chinese (financial development) involvement in the region, on the other hand, remained weak as most LA governments preferred to side with the

USA. Henceforth, it was the Nixon – Mao deal that permitted Sino—LA political relations to be resumed.

10. As noted by Xu and Carey, the dual role initiated in the 80s (as donor as well as receiver) permitted Chinese leaders to learn a key lesson: foreign aid could play a catalytic role in economic transformation (Xu and Carey 2015a, b: 5).
11. By the time LA's countries were relaying in IFIs and private markets, China's increasing relevance was circumscribed to the commercial realm.
12. Although it still occurs, competing for recognition no longer dictates Chinese financing abroad- as can be observed by loans granted to various projects in a few pro-Taiwanese countries.
13. The ADBC is the third policy bank installed as part of financial reforms of the mid-90s, and falls under policy control of the State Council, as in the case of the other two banks.
14. Concessional loans are not interest free, but they have a rate below the market rate (PBC lending rate).
15. One of the most recognized cases is Petrobras, for which the CDB granted two different loans, one in 2009 (US$10 billions) and another one in 2015 (US$3,5 billions), for which the Brazilian oil giant guaranteed the supply of up to 200,000 barrels of oil a day to China's state oil firm, SINOPEC, for 10 years (http://www.reuters.com/article/us-brazil-petrobras-china-idUSKCN0W001T).
16. According to the UNCTAD, China's total outward FDI has skyrocketed over the last 10 years, going from a mere US$5.5 billion in 2004 to US$101 billion in 2013.
17. Thilo Hanemann and Daniel Rosen (2016) "Lower for Longer: The New Normal of China's FDI Balance" The Rodhium Group June 17, 2016.
18. In 2015, total loans from China's developmental banks (CDB and Export-Import Bank of China) reached US$550 billion, a multiple of the WB's roughly US$150 billion.
19. Chinese OFDI flows are difficult to measure, as most outward funds are being channeled through tax heavens—such as the Virgin Islands for those directed to LA.
20. In the region, Venezuela, Ecuador, and Brazil participated, with an amount of US$59 billion during the 2008–2012 period, although most benefiting Venezuela (US$44 billions).
21. The State Council has produced two different guidelines, namely White Papers; one in 2011 and the latest one in 2014. These policy guides are essential to understand the philosophy of Chinese foreign aid practises.
22. "Nowhere to hide: China's newest exports is its financial system, for good and for ill". Special Report: Finance in China—The Economist, May 7th, 2016.

23. This "multilateral development bank" that consists of 57 members, at present, will focus on the development of infrastructure and other productive sectors in Asia (http://www.aiib.org).
24. Also with headquarters in Shanghai, this bank initiates operations with US$50 billion in capital (http://ndbbrics.org/index.html).
25. Launched in December 2014, this initiative started operations with a US$1.65 billion hydro project in Pakistan.
26. The conformation of the SCO or Shanghai Pact dates from 1996, and by 2001 it was comprised of China and five other central Asian countries (Kazakhstan, Kyrgyz Republic, Russia, Tajikistan, and Uzbekistan). The Silk Route Initiative gave a renewed impetus to this organization. Note that Russia opposed the SCO Development Bank, suggesting that funds would be better mediated by Eurasian Development Bank it controls (http://www.eurasianet.org/node/72701).
27. Four Chinese banks are among the top ten leading banks according to the Banker's latest global ranking—two of them leading: ICBC and China's Construction Bank.
28. Following Prime Minister Li Kequiang's speech to the African Union (May, 2014), China created the "African Growing Together Fund" with US$2 billion of initial assets, financed by the PBC.
29. More information can be found on http://www.chinacelacforum.org/eng/.

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CHAPTER 6

South America: Trade and Integration in the New Global Trade Network

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Introduction

From 1992 to 2014, the international trade network suffered important structural changes. These changes included the strengthening of the USA's economic power after the fall of the Soviet Union in 1991, as well as China's (and the Asia-Pacific region in general) higher commercial expansion and gravitational force, especially after China joined the WTO in 2001. When it comes to the consequences of this for South America, changes were felt in two different ways. The first included a favorable "commodities boom" from 2000 to 2014, and a relative increase in the exportation of primary goods, exacerbated by their high prices and Chinese competition with manufactured products that used cheap labor.

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No South American country can be considered to be part of the core of the global trade network. Currently, South American countries show strong dependency towards core countries but, at the same time, have weak links between each other as well as with other countries that are part of the network. This is true even for Brazil, which can be considered to be a South American "sub-core". In addition to this, relatively unsuccessful integration efforts are important aspects when it comes to the region's attempts of becoming part of the global network.

Our goal is to study the role played by South American countries in an evolving global trade network. Given that traditional network indicators are far too general, their usage was inappropriate for this study, so we developed a set of different indicators instead. Technical details of the methodology are explained in detail in Pérez-Oviedo et al. (2016).

After the introduction, the second section of this chapter explains the methodology, which is based on the study of international trade from a network analysis perspective. The third section focuses on understanding the role of South America in the global trade context. The evolution of South America's integration efforts is analyzed in the fourth section. Finally, the fifth section includes conclusions from the information presented.

International Trade from a Network Analysis Standpoint

This chapter contains both a methodological and an empirical contribution. Our methodology is based on network theory. But instead of emphasizing on conventional indicators (such as centrality, agglomeration, degree distribution, betweenness, etc.), for our study we used a different approach. In our approach, higher exports led to income increases for countries, expanding its aggregate demand (assuming a constant marginal propensity to consume) and, therefore, increasing imports (assuming a constant marginal propensity to import as well), but since imports are equivalent to exports of other country, the last obtains new income that expands its aggregate demand, and so forth, creating a "chain effect".

Based on this logic, we were able to obtain an "income elasticity" of one country relative to another, namely the rate of change in the income of one country (j) when the income of the other country increases by 1% (i). We named this indicator the "relevance index" of i on j. By doing this for each pair of countries, we obtained an asymmetric matrix of relevance indexes that captured the importance of each country relative to others.

This measure has a strong advantage in comparison to the typical trade indicator (a country's share in global imports and/or exports), because it encompasses the structure of the global trade network and the position of every country in that network. Hence, our index was specifically developed for the international trade network, which is a directed and weighted network composed by nodes with different sizes (each country's GDP) and directly-weighted links (flows of monetary payments for imports). These indexes also have the advantage that they were obtained without adding exogenous parameters, but instead by assuming that the network structure remains stable as shocks spread. Additionally, these relevance indexes, as well as the other indexes developed for this study (see below) are comparable across countries and time.

In empirical terms, the contribution of this research is the analysis of an international trade network comprised of 145 countries with the potential of studying any international trade block. It also contributes by presenting several indicators for a better structural understanding of the global trade network that include the relevance index of one country on another, the average relevance that a country has on the rest of the world (and vice versa), the cohesion of each trade block, and even a generalization of the Grubel-Lloyd index (1975) to evaluate the balance of industrial trade within a group of countries. These indicators offer a better understanding of the concrete conditions under which countries manage to integrate themselves into the global market (Pérez-Oviedo et al. 2016).

Trade Networks and South America in a Global Context

From 1992 to 2014, the global trade network suffered substantial changes. We particularly observe the strengthening of the USA as a central economic power after the fall of the Berlin Wall and the commercial rise of China since 2001. On account of this, we looked at the evolution of the global trade core, its two members, USA and China, and the relevance to countries in South America.

In 2014, the USA had the highest relevance index (0.081). If this country had grown (decreased) by 1%, the rest of the global economy would have grown (decreased) by 0.081% (see Fig. 6.1). During the 90s, this relevance increased, probably due to the extraordinary growth in productivity that the USA experienced since 1994. For some, that growth was based on computer science and information technology developments

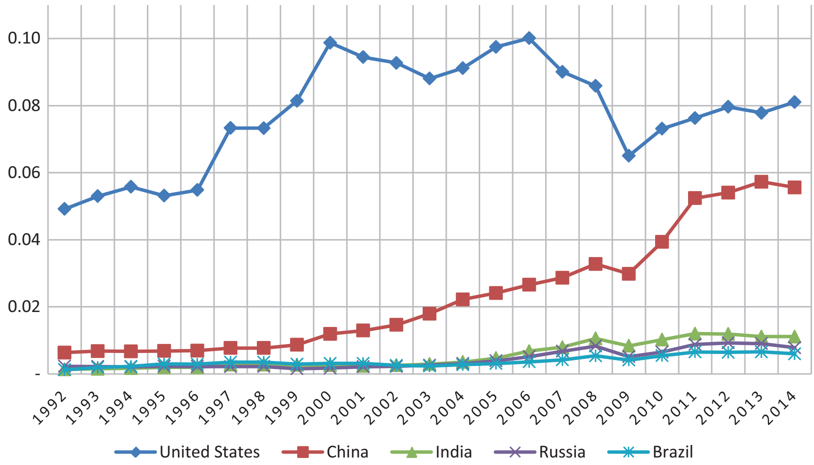


Fig. 6.1 Relevance of selected countries on the rest of the world

that took place in this country and helped launch a "New Economy" based on knowledge and information (Castells 2009). This increasing relevance of the USA ended in 2000, which coincided with the burst of the so-called "bubble of the dot coms" in March of that same year.

On the other hand, the Chinese pro-market reforms, led by Deng Xiaoping since 1992, allowed China to reach yearly growth rates of approximately 9% from 1992 to 2000. In addition to its impressive growth during the 2000s, China increased its relevance in international trade, particularly since 2001 when it joined the WTO. In 2001, its relevance index was only 0.013 but, by 2013, it reached 0.057, positioning itself as the second most important country in the international trade network. However, several elements will change the role of this country in that network in the future as its lower economic growth, its reduced demand for primary products, and Chinese leaders assigning more importance to internal demand.

Russia and India also increased their relevance in the world trade network during this period, but far behind the relevance of China and the USA (global centers). In the case of South America, Brazil's relevance grew from 0.001 to 0.006 from 1992 to 2014. This shows that its growth was far behind that of global centers, but, as presented below, this growth was enough to consolidate Brazilian commercial unipolarity in South America.

After understanding the evolution of relevant countries, central-peripheral relations are identified in both the global and South American trade networks (see Fig. 6.2). In order to do that, we developed a centrality index, with the idea that countries with a higher level of global centrality can be considered to be "centers" of the international trade network. The index was calculated using the relative worst position in which a country is placed, in terms of its relevance on all the members of the network. The better the position the higher the centrality (see Pérez-Oviedo et al. 2016). For instance, in 2014, the USA had the highest level of centrality (137) of all the countries in the network. As such, the USA had, at least, the eighth highest relevance (145–137=8).[1] This spot was followed by China (133 in 2014), which has moved to the center, particularly since 1995. Next came Germany, with a relatively stable centrality during the analyzed period (131 in 2014). On the other hand, even though France, the UK, Italy, Japan, and the Netherlands can be considered as part of the center, these countries have lost centrality during this period, while Russia and India have risen but without becoming part of the center (by 2014, their indexes were 109 and 110 respectively). When it comes to South American countries, Brazil had the highest index (102 in 2014), followed by Colombia (71 in 2014), and Argentina (which dropped from 86 in 1992 to 65 in 2014).

The USA and China, as "centers" of the global trade network, also have the greatest relevance on South American countries, described in Map 6.1. Meanwhile, Map 6.2 shows the main trade relevance relationships among South American countries (in both cases data correspond to 2013).[2]

The commercial relevance of the USA and China in relation to South America is higher than that which the South American countries have among themselves. Brazil is an exception to this in numerous important cases. As such, there is an asymmetric structure among "global core" countries and South American countries. For Colombia, Ecuador, and Venezuela, the greatest influence comes from the USA, even though they also experience important trade influences from China, which, in turn, is the most relevant country for Chile, Peru, and Uruguay. The case of Brazil is very particular because its relation with China and the USA is also very asymmetric as it is influenced greatly by both countries, while its relevance on them remains minimal. However, at the same time, Brazil is important for Argentina, Bolivia, Paraguay (first relevance), and for Chile, Peru, and Venezuela, while Brazil is just behind the USA and China in terms of its power of influence. Brazil is also important for Colombia and Ecuador.

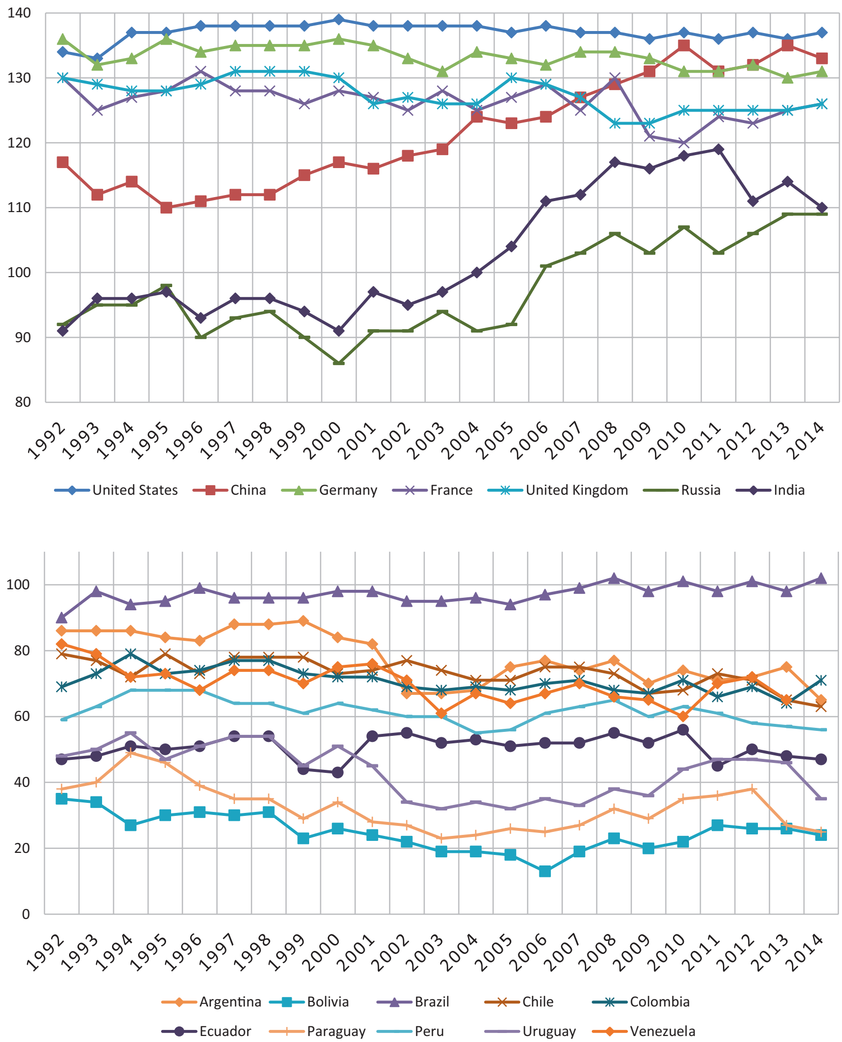
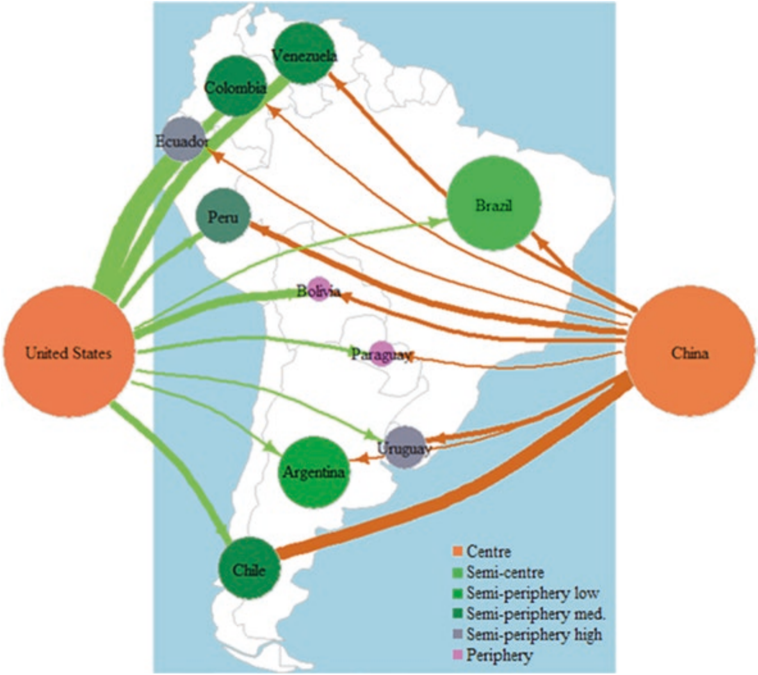


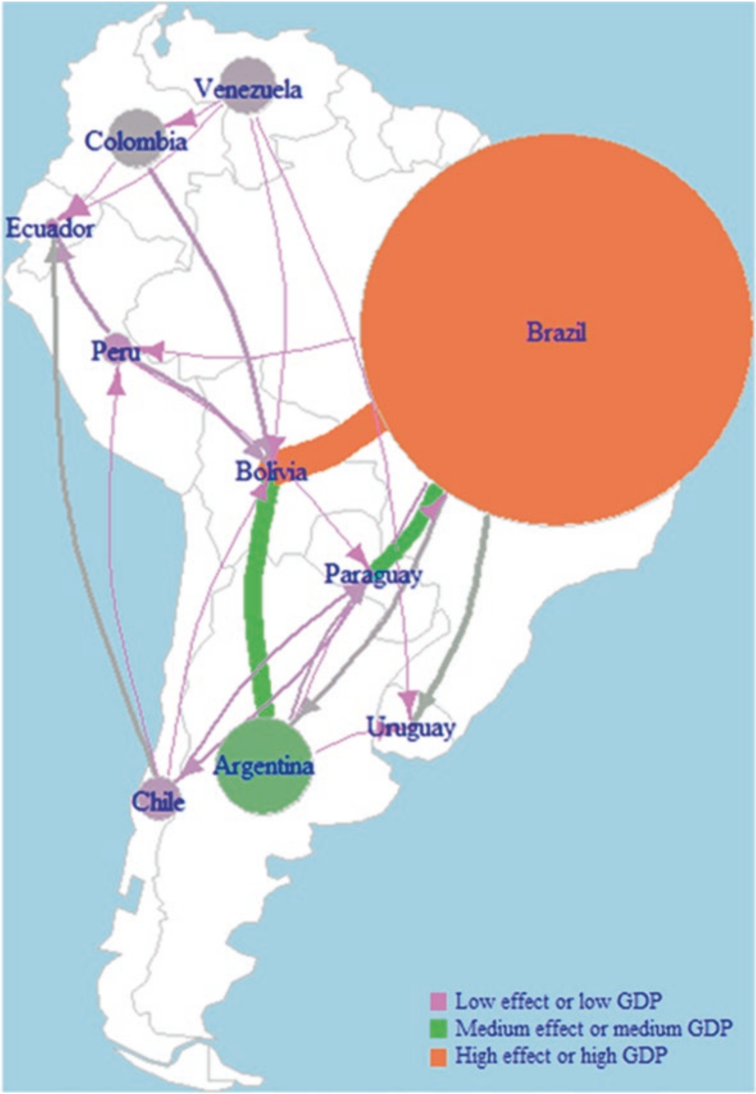
Fig. 6.2 Centrality in the global and regional trade networks. (a) Central economies. (b) Brazil, a sub-center in the South American periphery



Map 6.1 Trade relevance of the USA and China on South America (2013) (Note: Nodes are proportional to the *centrality level* of each country, while links are proportional to the relevance of one country to another)

In other words, the current structure of global trade places South American countries in a periphery. The countries of the region have few and low relationships among themselves, while they have many and highly dependent relations with the USA and China. This follows the classic Smith and White (1992) distribution that states that "peripheral" countries maintain a scarce trade relationship between each other—in spite of their geographic proximity—but are commercially dependent on "core" countries.

Based on Brazil's relevance in South America and its asymmetric commercial relevance with core countries, it can be considered to be a regional "sub-core". Also, based on the commercial relevance of Brazil and Argentina (the two largest economies in the region), we concur with Schenoni (2014) who stated that: "[…] through the historic process of a



Map 6.2 Trade relevance among South American countries (2013) (Note: Nodes are proportional to the *GDP of each country* in current US$, while links are proportional to the relevance of one country to another)

Brazilian-Argentinian bipolarity to their current state […] we can conclude that for the second lustrum the South American subsystem will turn into a unipolar system given that the regional power of Brazil was three times larger than that of Argentina." It is also interesting to note that the South American country most influenced by Brazil and Argentina is Bolivia, which has been increasingly influenced since 2000. Consequently, Bolivia seems to be more oriented toward the Atlantic Ocean now, and therefore, its integration into the MERCOSUR (achieved in 2016) makes sense.

Trade Integration Structures in South America

Even though the integration of the countries south of the Rio Grande is part of the LA political, and even academic, rhetoric, it is still a pending task. In this section, we evaluate the development of five sub-regional processes that include: the CAN, the MERCOSUR, the ALBA, the AP, and the UNASUR, comparing them with the NAFTA,[3] the ASEAN,[4] and the African Union.[5] It should be noted that the ALBA, the UNASUR, and the AP could only be analyzed from their corresponding inauguration years (2004, 2011, and 2011 respectively). However, given that there are historical tendencies that seem to remain in place even after the official creation of the blocks, for comparative purposes, the data of these three blocks is included for the entire period (from 1992 to 2014). To better understand the reality and trajectory of each trade group, a short summary of their origin and history is presented as well.

Regional Integration Efforts

The CAN currently consists of Bolivia, Colombia, Ecuador, and Peru, and has had a very low relevance index in the global trade network (from 0.002 and 0.003 between 1992 and 2014, see Fig. 6.3a).[6] The CAN had a poor performance in the 90s, except for the common external tariff, established in 1995, and helped to sustain interregional trade. During this period trade liberalization, the privatization of state companies, the opening up to international capital flows and financial liberalization were common (González Arana 1999). These neoliberal transformations led to a reassessment of the ambitious integrationist proposal of 1969, which, at its very beginning, was strongly marked by the ideological framework of ISI with the purpose of creating a common market. It can be stated that

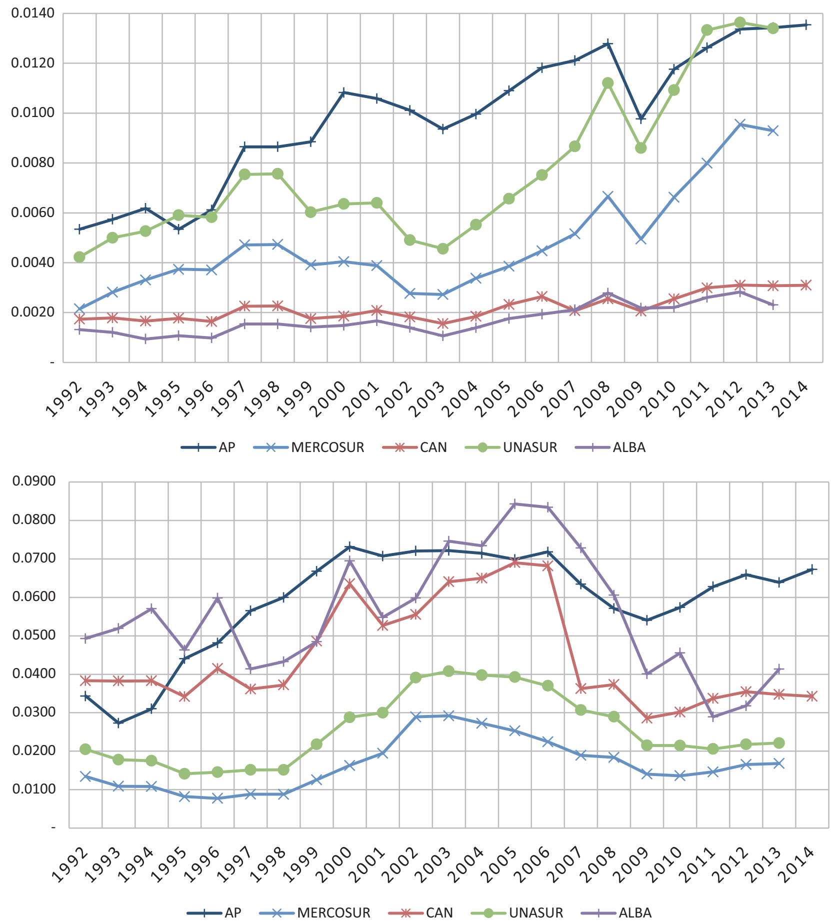


Fig. 6.3 Regional blocks and the rest of the world. (a) Average relevance of blocks on the rest of the world. (b) Average relevance of the rest of the world on the blocks

this block of countries has gradually disintegrated as several of its members have signed free trade agreements on their own (Colombia signed treaties with the USA, Canada, Mexico, and the EU, among others; Peru signed treaties with the USA, Canada, China, and the EU, among others). In addition to this, Venezuela left the CAN in 2006 and became a full member of the MERCOSUR in 2012, while Bolivia became part of the MERCOSUR in 2016 continuing to be a member of the CAN. On the other hand, Ecuador was added in 2016 to an agreement that Peru and Colombia had previously signed with the EU. Ecuador is in a disadvantageous position vis-a-vis its Andean trade partners, because it has a dollarized economy and, therefore, it is unable to manage its nominal exchange rate. This situation has caused friction among the CAN members. Between 2009 and 2014 the relevance index of the global economy on the Andean block showed a slowly growing trend from 0.029 to 0.034.

The MERCOSUR members currently include Argentina, Brazil, Paraguay, Uruguay, Bolivia, and Venezuela (Venezuela was suspended in 2016). The MERCOSUR shows a consolidated position as the second most relevant South American trading block, whose relevance index on the global trade network increased steadily for most of the 1992–2014 period, going from 0.002 in 1992 to 0.004 in 2011 (see Fig. 6.3a). However, the process was not monotonous as the economic and trade liberalization period in the 90s weakened sub-regional trade (Caetano 2011) and countries in the region took on bilateral trade initiatives. However, the block has gained relevance, especially since 2004, and its best performance was registered during the commodities boom, which corresponds to the rise of the so-called "progressive governments" of Luiz Ignacio Lula da Silva in Brazil, Néstor Kirchner in Argentina, and Tabaré Vásquez in Uruguay. During this period, a larger social dimension and a broader political context were incorporated into the agreement, giving the state a fundamental role in development (Botto 2011). Thus, the relevance index of the group increased to almost 0.010 in 2012 after overcoming an international crisis in 2008 and 2009, which had a negative impact in the region. After 2012, the relevance of the MERCOSUR started to decline once more. In summary, between 2002 and 2009 the relevance index of the global economy on the MERCOSUR decreased from 0.029 to 0.014. Since then, member countries have had a weaker position regarding fluctuations in the global economy. By 2013, this indicator reached 0.017.

The electoral triumph of Mauricio Macri in Argentina in 2015, and the removal of Dilma Rousseff in Brazil in 2016, marked the end of a political era in the MERCOSUR. This delayed the consolidation of a customs union, and extending the exemptions of the common external tariff for several years. Intraregional trade has also been affected due to the reduction in trade flows between Argentina and Brazil in 2015 (IDB 2016).

Since it was created in 2004 up to 2013, the relevance of the ALBA[7] in the global trade network has fluctuated between 0.001 and 0.0023 (see Fig. 6.3a), following a path similar to the CAN. In both cases, there was a weak positioning in the international trade network. However, it is important to note that the ALBA, unlike other integration organizations, did not adjust to traditional trade integration mechanisms and instead proposed alternatives to such. One of the alternatives proposed was the TCP, defined as "instruments of solidarity and complementary exchange among countries, aimed to benefit the people."[8]

The ALBA is the South American trading block most vulnerable to the rest of the world's income fluctuations (see Fig. 6.3b). Even though the momentum of progressive governments may have contributed in the lessening of the block's vulnerability (from 2006 to 2011 the effect of the rest of the world on the block reduced from 0.083 to 0.029), since 2012, this trend reversed, without prospects for recovery.

The AP was created in 2011 by Chile, Peru, Colombia, and Mexico[9] (the largest LA economies in the Pacific Coast) oriented towards trade integration and the free movement of goods, capital, and people among its members. Geographical interest lies in the Pacific basin and cooperation with Asian countries. According to Turzi (2014) "this new group will be politically pragmatic, open in trade, financially liberal, and more functional for the interests of the USA in geopolitics."

Regarding the importance of the AP in the international trade network, its relevance index reached 0.014 in 2014, becoming an important trading block in the region. Nonetheless, this block is more vulnerable to the rest of the world's income variations compared to other South American trading blocks. This is especially true since 2009, as the corresponding index went from 0.054 to 0.067 between 2009 and 2014 (see Fig. 6.3a).

The Influence of the USA and China on the Southern Blocks

Now we analyze the relevance of the USA and China ("global centers") in the global trade network and on the South American trading blocks. Since 2006, the USA decreased its relevance on the South American blocks. Nevertheless, after the crisis of 2009, this relatively favorable condition for South America was reverted and, from that year, most of the regional blocks record a greater effect from the North American country (see Fig. 6.4a). One particular case is the relevance of the USA on the ALBA. That relevance was 0.1304 in 2013, something against the anti-

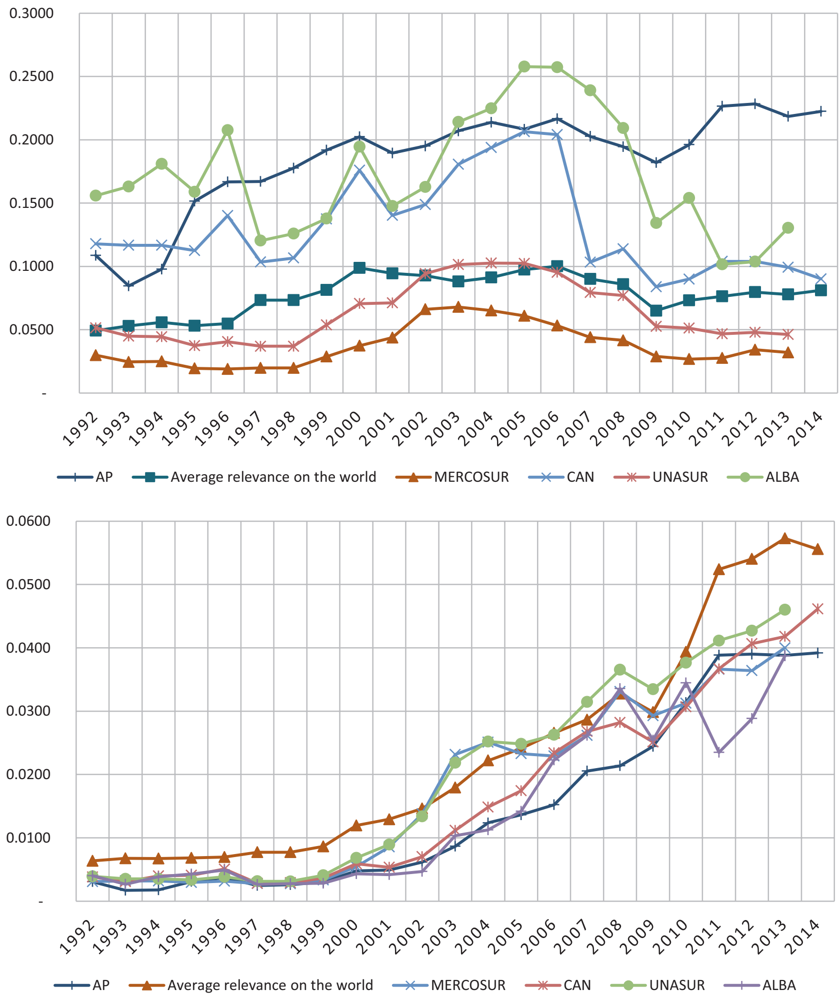


Fig. 6.4 Influence of global centers on the South American blocks (a) the USA (b) China

USA rhetoric of this group, since the relevance of the ALBA on shocks in the USA income was higher than that vulnerability suffered by the world (which was just 0.0778 in that year) and even higher than the vulnerability of the CAN.

On the other hand, the average influence of China on the rest of the world, as well as on all South American trading blocks, has increased exponentially (see Fig. 6.4b). From 2000 to 2013, the Chinese relevance grew for all South American blocks: the UNASUR (0.006–0.046), the MERCOSUR (0.005–0.040), the CAN (0.005–0.041), and the ALBA (0.004–0.038). The continuously growing trend of this indicator with regard to all South American trading blocks, and even with regard to the AP, shows that these blocks are increasingly vulnerable to a China's hypothetical crisis, although the relevance of the Asian giant on these blocks is below its world average.

Evaluating South American Integration

The processes of regional integration are evaluated using the cohesion index (see Pérez-Oviedo et al. 2016) calculated for each block. This index is calculated as the ratio between the strength of income interactions within members of each group and the income interactions between the group and the rest of the world (see Fig. 6.5).

During the study period, none of the analyzed regional blocks have achieved the high cohesion index reached by the MERCOSUR in the 90s. The dynamic of these indexes has not been monotonous as intragroup trade interactions in the South American blocks weakened by 2004, while interactions among group members and the rest of the world have strengthened. However, by 2011 certain increases in the cohesion index were recorded, not only for the MERCOSUR but also for the UNASUR.

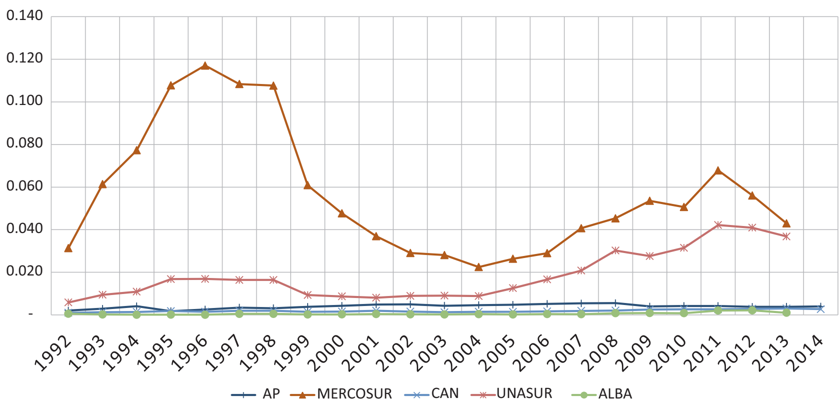


Fig. 6.5 Cohesion of the South American blocks

It is possible that the MERCOSUR had more strength to push the entire region to greater internal cohesion, especially due to the consolidation of Brazil's trade relations with the rest of South America. Since 2012, however, the regional cohesion seems to be decreasing again (see Fig. 6.5).

Figure 6.6 presents regional block cohesion indexes together with the percentage of primary products in total exports. It can be seen that the ALBA and the CAN show similar positions to the African Union. For instance, both the ALBA and the CAN have low internal cohesion and more than 50% of their exports are primary goods. The MERCOSUR

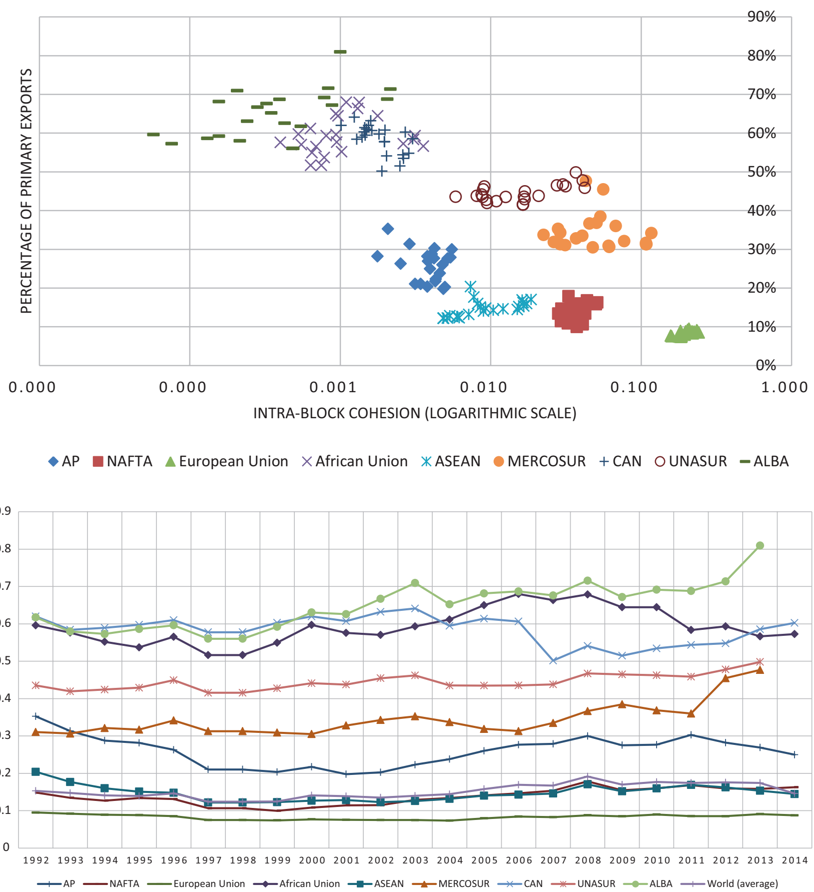


Fig. 6.6 Intra-block cohesion vs. percentage of primary exports

shows a similar cohesion index to the NAFTA but has higher primary goods participation when it comes to exports. On the other hand, the UNASUR shows a position similar to that of the MERCOSUR, revealing once again the importance of the latter in the international trade of the former. Figure 6.6 shows a negative correlation between the group's share of primary exports and its level of internal cohesion, which could signify that, in the blocks that are specialized in the export of primary products, members tend to interact more strongly with countries outside of the group. This occurs particularly with manufacturing countries, which reduces internal cohesion levels. Meanwhile, when it comes to industrialized groups, members have more opportunities to strongly interact with one another and exchange manufactured products.

Figure 6.7 shows the relevance of each trading block on the rest of the world (interpreted as a measurement of the block's importance in the global trade network) and the share of primary products in the block total exports. As in the case of block-cohesion, there is also a negative correlation between the group's relevance index and the group's share of primary exports. In South America, the ALBA and the CAN are less relevant on the

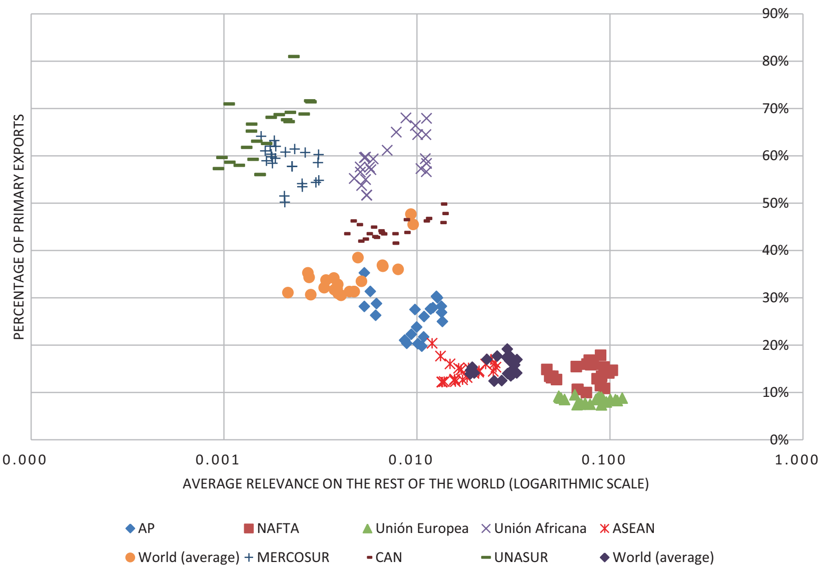


Fig. 6.7 Average relevance of the block on the rest of the world vs. percentage of primary exports

commercial world and have the highest concentration of primary product exports. The MERCOSUR, on the other hand, is the South American block with the greatest impact on the world. It has a low concentration of primary exports, which generates a similar tendency for the UNASUR.

South American regional integration processes can also be evaluated by studying the balance of the industrial (non-primary) trade within each group. Grubel and Lloyd (1975) define equilibrium of industrial trade between two countries when the amounts of manufacturing that both countries sell to each other are equivalent. We generalized this idea by calculating the industrial trade balance between one country of the block and the rest of the block considered as another country, and then we built an index taking the average of that country-block balance for all the members of the block (see Pérez-Oviedo et al. 2016). The more balanced the industrial trade within the group, the more that the integration process generates equal benefits for all its members in terms of industrialization incentives. On the other hand, the more unbalanced the industrial trade within the group, the higher the possibility that the block's manufacture demand is asymmetrically pushing forward only some of its members.

With the index explained above, we find that the ALBA not only exhibits less balanced industrial trade but its index has drastically deteriorated since 2006 (see Fig. 6.8). Although this tendency can be worrisome, as the official creation of the group took place in 2004, it is important to

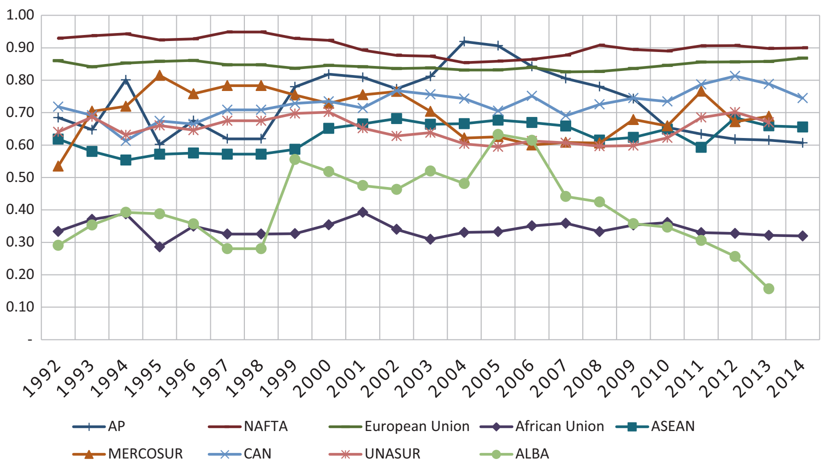
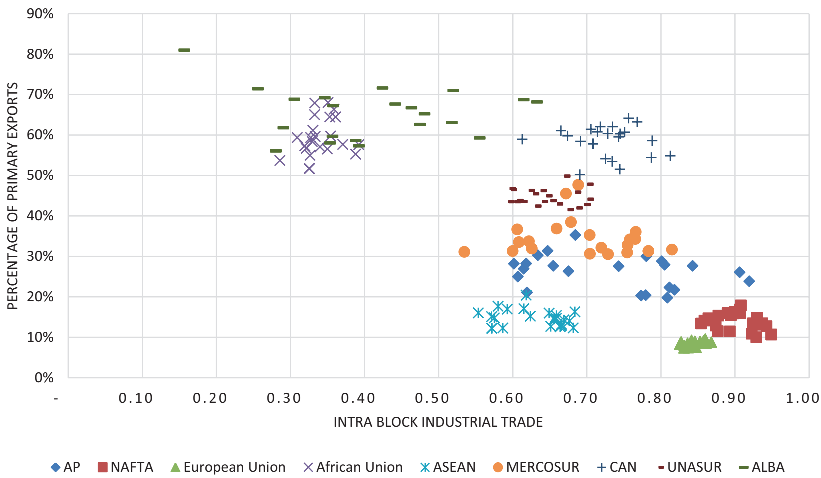


Fig. 6.8 Intra-block industrial trade

note that the ALBA was created to serve mainly political purposes rather than commercial goals.

The CAN and the MERCOSUR show better trajectories (which seem to explain the UNASUR dynamics). Although there is still a gap regarding the balance achieved by trade groups such as the NAFTA or the EU, their integration processes generate similar benefits for all of its members in terms of industrialization incentives (see Fig. 6.8).

Figure 6.9 shows the interaction between the blocks' industrial trade balance and the percentage of export of primary products, noting that



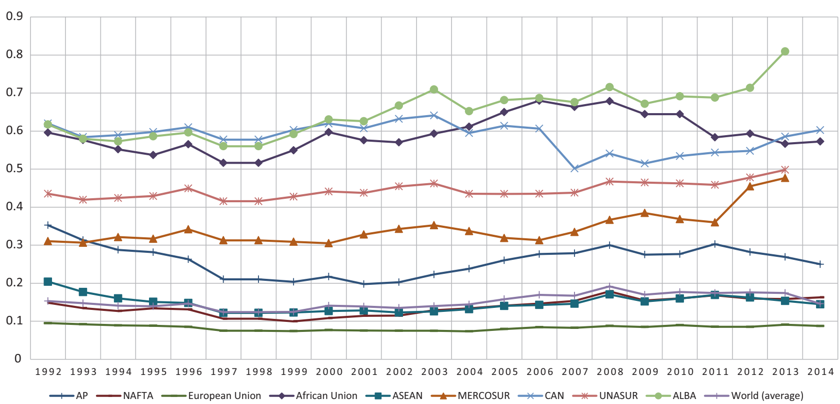


Fig. 6.9 Intra-block industrial trade vs. percentage of primary export

(in general terms) there is a negative correlation between these two. In the case of the South American blocks, on the one hand, the MERCOSUR has the highest potential of resulting in effective regional integration as it shows a considerably balanced industrial trade and does not exceed 50% of exports in primary products. In other words, the MERCOSUR possesses a relatively high level of industrialized exports that are shared evenly among the members of the group.

The CAN, on the other hand, is a regional group that, at first sight, shows a "counter-intuitive" performance due to its high balance in industrial trade within the region and the fact that the proportion of primary products in its exports exceeds 50% of total exports. In other words, the incentive for industrialization originated in its trade structure—although balanced—is not sufficient to get this group out of the primary specialization trap. It could be said that all members of the group share the entrapment in the primary specialization in a balanced way.

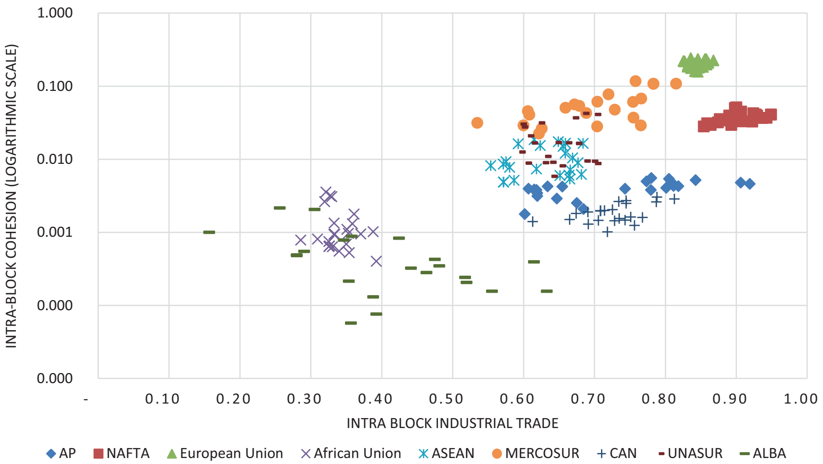
The ALBA shows unbalanced industrial trade that varies strongly between 0.16 and 0.74 (out of 1). On the other hand, its exports are mainly primary goods. Therefore, the ALBA does not possess favorable conditions to foster its members' industrial exports.

In summary, the MERCOSUR presents the most favorable results, the CAN seems to be trapped in balanced primary specialization, and the ALBA seems to be an extremely unbalanced block. These extreme situations ensure the UNASUR ends up in the middle.

Finally, Fig. 6.10 compares the industrial trade balance and the intragroup cohesion level. The MERCOSUR seems to exhibit the best regional performance, probably even better than the AP, because it has the highest levels of cohesion and industrial trade balance. The ALBA is in the worst position. Meanwhile, the CAN shows low cohesion, a high balance, and a low level of industrial trade. Perhaps members of the CAN are strongly tied to the fluctuations of the global centers, with a "similar stagnation" regarding the export of primary products, as mentioned above.

Conclusions

This document analyzes the position and links of the South American countries in the global trade network for the period 1992–2014. It showed the relevance, cohesion, and balance of intra-block industrial trade of the South American integration and trading blocks. For this purpose, a set of new, and more appropriate, network indicators was developed. Using our



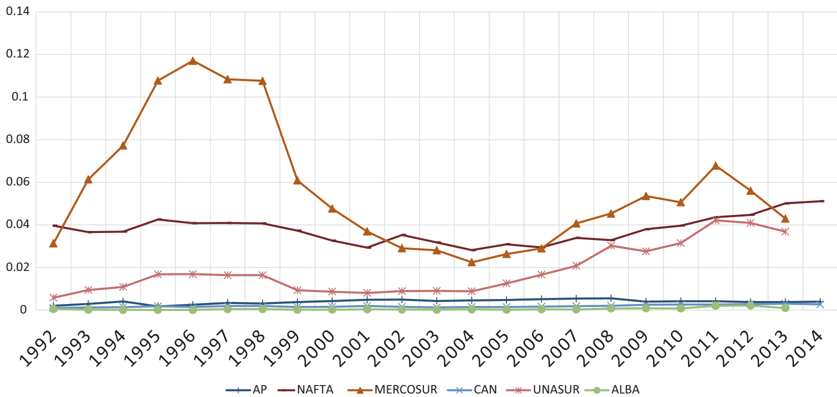


Fig. 6.10 Industrial trade balance vs. inter-block cohesion

indexes we found that the core of the global economy consist of the USA and China, as the main actors, followed by Germany, in a stable position, and France, the UK, Italy, Japan, and the Netherlands, losing their central status but still part of the core.

None of the South American countries can be considered part of the core of the global trade network. These countries show strong and dependent links towards core countries and relatively weak links between themselves. This is true even for Brazil which, however, plays a "sub-core" role in the region. Specifically, the South American countries have a lower commercial relevance among themselves than the relevance that China and the USA have on the region. Brazil is the only exception, since it has a high relevance on many of the other South American countries.

For Colombia, Ecuador, and Venezuela, the greatest influence comes from the USA, even though these countries also experience an important trade influence from China. The Asian giant has a stronger influence on Chile, Peru, and Uruguay. The case of Brazil is very particular because its relation with China and the USA is also very asymmetric, as it is influenced by both countries while its relevance on them is minimal. However, at the same time, Brazil is important for Argentina, Bolivia, and Paraguay. For countries such as Chile, Peru, and Venezuela, Brazil's relevance is behind only the USA and China. Brazil is also important for Colombia and Ecuador. Finally, Bolivia not only receives a greater trade influence from Brazil and Argentina, but the influences from these have grown substantially since 2000. Consequently, it can be said that Bolivia is more oriented toward the Atlantic, and therefore, its integration into the MERCOSUR, which took place in 2016, makes sense.

The relevance index of the USA on the ALBA, which reached levels of 0.1304 in 2013 (the relevance index of the USA on the world was just 0.077 that year), is a result of the group's anti-US rhetoric.

None of the analyzed regional blocks has recorded, during the period studied, the high cohesion index reached by the MERCOSUR in the 90s. The dynamic of these indexes has not been monotonous. The intragroup trade interactions in the South American blocks have weakened from 2004, while the interactions among the members of the group and the rest of the world have strengthened. The ALBA and the CAN show similar position that the African Union, i.e., they have low internal cohesion and more that 50% of their exports are primary goods. The MERCOSUR shows similar cohesion index to the NAFTA but higher primary goods participation in their exports.

In the South American region, the ALBA and the CAN are South American blocks that have less relevance on the commercial world and, at the same time, are the ones with more concentrated export in primary products. The MERCOSUR, on the other hand, is the South America block with the greatest impact on the world, together with a low concentration on primary exports.

In the South American region, the ALBA not only exhibits the least balanced industrial trade but this index has deteriorated since 2006. The CAN and the MERCOSUR show better trajectories, which explain the movement of the UNASUR as a whole. Although there is still a gap regarding the balance achieved by trade groups such as the NAFTA or the EU, their integration processes generate similar benefits for all of its members in terms of industrialization incentives.

In summary, the MERCOSUR presents the most favorable results, the CAN seems to be trapped in balanced primary specialization, and the ALBA seems to be an extremely unbalanced block. These extreme situations make the UNASUR end up in the middle.

Notes

1. The maximum value this index could reach is 144 (the number of all the countries that are part of the network minus one). A country can have, at a minimum, the first highest relevance spot (145–144=1).
2. At the time these calculations were made, 2014 data for Venezuela was not available.
3. NAFTA includes Canada, the USA, and Mexico. The free trade agreement between these countries became valid in 1994.
4. The ASEAN was created in 1967 and is comprised of ten member countries: Malaysia, Indonesia, Brunei, Vietnam, Cambodia, Laos, Myanmar, Singapore, Thailand, and the Philippines.
5. The African Union was formed by 54 African countries and has been functioning since 2001. It includes almost all of the countries of the African continent, excluding Morocco.
6. For the CAN indicators, Venezuela is considered until 2006, when it withdrew from the group.
7. Current members include Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Grenada, Nicaragua, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Venezuela.
8. www.alba-tcp.org.
9. Although Mexico is not a South American country, it is part of the AP and, as such, is part of the analysis for comparative purposes.

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CHAPTER 7

Energy Integration in South America and Global Geopolitics

Carolina Viola Reyes

Introduction

The end of the progressive and post-neoliberal era, that characterized the South American politics and economy during the first decade of the twenty-first century, brought profound changes of how the regional area was perceived, and thus its regionalization processes. This event creates a setting full of uncertainty regarding the direction that social, economic, and political integration and stability will take in South America. However, its cyclical link can provide clues about the direction to follow, considering its close link with accumulation processes on a global scale. When we consider the strategic character of the region, rich in natural resources, we can see that it is impossible to understand the regional dynamics in an isolated form and without contemplating the processes that occur amidst the geopolitics of global capitalism.

Oil and gas have played a fundamental role in the regional integration proposals since the past century. The energetic integration of the region has been a central part of the agenda of South American and LA integration since the 90s, occupying a central position in the proposal of

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hemispherical integration driven by the FTAA, as well as in the proposals of post-neoliberal integration in the first decade and a half of the twenty-first century.

Although until 2015, oil and gas were considered to be a potential engine of regional integration, the drop in hydrocarbon prices in recent years—the so-called end of the commodities boom—contributes to the economic, political, and social crisis faced by the countries that served as pillars of post-neoliberal integration, as a consequence of the proposals of regional integration driven by these parties. The extent of the crisis has led many intellectuals to affirm that the region finds itself at the end of a cycle and to demonstrate, once more, the weaknesses and limitations of the extractivist model as a first pillar of economic integration in South American developmental strategy.

The crisis originated from a combination of events that took place on different scales of the geographic space. This affects regions in a differential form, at the same time alternating the logic of the visualization of the territory.

With a focus on geopolitical criticism, this chapter analyzes the dynamics of the reconfiguration of the geopolitical oil map in South America, in the context of the end of the golden commodities decade. For this purpose, we will identify the power relations and the conflicts generated, in and among, the different scales of spatial analysis: global, governmental, and regional; this analysis will show the limits of post-neoliberal energy integration, facing a crossroads today.

South American Oil in Global Energy Geopolitics

South America is a region with abundant natural resources. Oil is a fundamental source of wealth, which places the region in a central position in global energy geopolitics. The existence of 329 billion barrels of oil reserves has been established, equivalent to 19.4% of global reserves at the end of 2015; with a growing percentage since 2001 (BP 2016). This growth is based on the certification of new reserves found in Venezuela in the Orinoco Belt,[1] in the pre-salt layers, and in deep waters of the Brazilian maritime platform; to which modest certifications of reserves in Ecuador and Colombia are added. At current consumption levels, the ratio of reserves/production is greater than 100 years supply, able to be self-sufficient; it is the regional bloc with the second highest availability of oil, just behind the Middle East (Fig. 7.1).

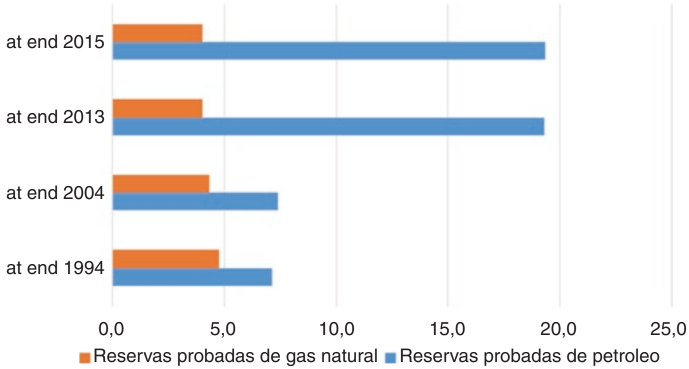

Fig. 7.1 The evolution of the share of South American oil and gas reserves (Source: BP 2016)

Sufficient gas fields are added to the significant crude oil reserves to boost interregional trade. At the end of 2015, 3.9% of global natural gas reserves was accounted for; growth was shown during the last two decades, even though at a slower pace regarding oil, rising from 5.3 trillion m^3 in 1994, to 7.4 trillion m^3 in 2015 (BP 2016).

While these resources are abundant, they are located in concentrated areas. On the one hand, 17.5% of global oil reserves is concentrated in Venezuela, almost 92% of the regional total; its share in gas reserves is less: 2.7% of global reserves, equivalent to 78% of the reserves of the region. Chile, Uruguay, and Paraguay are on the other side; net importers of hydrocarbons (BP 2016). The asymmetry in the distribution of resources determines the needs to consolidate an energy integration strategy that would guarantee the stable and safe supply of energy, in the interest of consolidating a regional development project.

In spite of its potential, the sub-region does not manage to be self-sufficient. This is mainly due to tension and rivalry between countries that have delayed the implementation of supply agreements and joint interconnection projects, on various occasions.

The energy matrix of the region is intensive in hydrocarbon. In 2015, energy consumption was 692.8 million tons equivalent of oil. Oil represented 48% of the total, followed by natural gas at 22%, biomasses at 3%, and carbon at 4.6% (BP 2016). The level of oil and gas consumption has increased during the last decade, in spite of the increase in the consumption of hydroelectricity; the demand for oil and gas in South America is inelastic, in other words, it does not respond to changes in the market price of these products. This explains the subsidies, which have characterized the energy policies of all the producing countries in South America. This policy has remained in place during the neoliberal period, as well as during the post-neoliberal phase of the first decade of twenty-first century. The huge risk that it implies for a government to withdraw a subsidy that, in one form or the other, alleviates other systematic inefficiencies—inherent to the countries that depend on the export of energy—partly explains the persistence of a non-focalized subsidy policy beyond the governments' ideological symbol.

It should be emphasized that during the golden period of oil prices, no significant improvement was registered in terms of the intensity of energy. This data shows the persistence of a matrix that is rich in hydrocarbon, as well as the intense reprimarization process that characterized the "progressive neo-development". This implied that, regardless of institutional design, a progressive increase in activities with a high use of energy and other materials would occur, such as the extraction of natural resources like oil, gas or others that are linked to agroindustry—for example, soybeans in the Southern Cone.

Changes in the Global Geo-Economy

The presence of China in Africa and LA has activated and diversified the geopolitical competition between the main oil consumers in the world: China and the USA, followed by other traditional and emerging economies. Old and new stakeholders compete to secure the supply, based on diverse economic, political, and military-like strategies, which aim to establish favorable relationships with the governments of the supplier countries. This "competition" has consequences in impacted extraction areas, namely locally, in the areas where the resources are extracted.

A study by the IEA identified oil investments made by the Chinese government in 40 countries (IEA 2014). This tendency responds to the "Go Global" strategy that aims to internationalize the Chinese state-owned companies, opening up new markets, improving their competitiveness, as well as incrementing productivity and capacity for innovation; it also brings the geographic and sectoral diversity of Chinese assets abroad. In this strategy, the NOCs take on a fundamental relevance. At the end of 2013, Chinese assets abroad represented 6% of the GDP, a limited share, however on the road to expansion (OECD 2014).

In 2014, Chinese loans in LA exceeded the resources granted by the WB and the IDB put together. The main beneficiaries in order of importance were Venezuela, Brazil, Argentina, and Ecuador (Gallagher and Myers 2014). The internationalization of the Chinese capital is linked predominantly to investment in national resources, as the abundant availability of oil in South America is fundamental for China. This assertion is shown by the volume of resources received by Venezuela, Brazil, Argentina, and Ecuador. All of these are South American countries with oil resources that have established advanced oil sale agreements as a safeguard for their loans.

The Chinese loans do not incorporate political conditions—for the reason they have been received well in a region that is used for political blackmail and for packages with structural adjustments by the Bretton Woods institutions, but they do enter into contracts for services and goods with Chinese companies. In many cases, the contracts for the construction of infrastructure are "turnkey" projects, under the responsibility of the Chinese government, translating into a promotion policy for Chinese exports in LA, through which the resources granted by the Chinese Banks can be transferred to companies in charge of the implementation of the projects.

Between 2007 and 2015, Venezuela received US$65 billion distributed over 17 loans to fund mining, infrastructure, and energy projects; around US$12 million were allocated to the activities of Sinovensa in the Orinoco Belt, improvements in oil production and refining capacity of PDVSA; an important part of the remaining US$50 billion was tied to advanced oil sales contracts. In Brazil, loans rose to US$29 billion distributed over 10 loans, out of which a loan of more than US$10 billion granted by SINOPEC and the CDB stands out, for the development of pre-salt basins; in Argentina loans reached US$19 billion and in Ecuador US$15.3 billion. In the case of Argentina, Venezuela, and Ecuador, the flow of Chinese capital has become a fundamental source of capital, considering the difficulties that they encountered to enter into global capital markets, punished by the country risk assigned to them by rating agencies (Gallagher and Myers 2014).

Today, South America represents 10% of China's oil supply and just a fraction of the supply of carbon and gas that is imported by the Asian giant (CEPAL 2016). However, there is a clear intention from the Chinese government to strengthen these links. This decision is displayed on two levels: a commercial one, led by the Chinese companies and their

CEOs—that have the rank of a Vice-minister with great decision-making capacity and influence in national energy politics—and the relationships that they establish with their counterparts for the implementation of the projects; and another one, led by diplomacy that accompanies the expansion of Chinese capital in the region, establishing cooperation agreements in different areas. This strategy has allowed China to place itself among the top five oil export destinations for Venezuela, Brazil, Argentina, and Ecuador.

There is no registered export of gas from South America to China. However, liquid gas is exported from Asia-Pacific to refineries in Chile, at much higher costs compared to Bolivian gas (National Energy Commission for Nation Development in China). This aspect shows, once more, how far away we are from the consolidation of an effective integration strategy.

The importance of oil reserves in South America, concentrated mainly in Venezuela and Brazil, and to a lesser extent in Ecuador, Colombia, Peru, and Argentina (BP 2016), explains the interest in expanding investments and signing long-term agreements in the region. The Chinese capital gains importance as funders of large infrastructure projects, at the same time guaranteeing China's supply of raw materials under favorable conditions. This has enabled a greater diversification of the destination of South American exports, amplifying their range of possible buyers and allowing them to renegotiate the exchange conditions. However, the quick pace of borrowing has already struck an alert regarding the existence of a tendency towards a new dependency, while the relative benefits of this diversification need to be re-evaluated (Fig. 7.2).

The persistence of this logic of the extractivist visualization of territory is shown in the structure of exports of the South American countries: between 2002 and 2014, the structure reprimarized at around 8% (ECLAC 2015). This scenario is producing the same primary export pattern with China, which still exists with the USA, inherited from the previous century.

It is worth mentioning that the diversification of markets does not mean the questioning of the extraction mode that prevails or the concept of oil and gas as "commodities"; namely a product whose purpose is to feed the production processes in the center of the system. Therefore, this new Chinese–South American relationship deepens the consolidation of the region as extraction territory, with all of the economic, social, and environmental consequences, incurred by this condition (Bunker 1984).

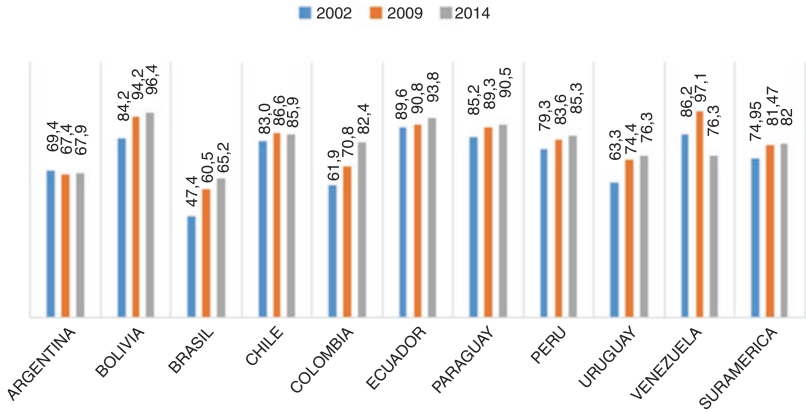

Fig. 7.2 Share of primary exports in total exports (Source: http://interwp.cepal.org/sisgen/ConsultaIntegradaFlashProc_HTML.asp)

The Collapse of Oil Prices

Between June 2014 and June 2015, oil dropped to 70% of its value. Related to oil prices, gas prices also dropped, however, with distinct differences depending on the market. Gas prices are not homogenous as they vary per trade region. The reference markets are: commercialized LNG in Japan, natural gas in the UK, natural gas in Canada, LNG of German exports, Henry Hub in the USA, or related to oil in the OECD (BP 2016) (Fig. 7.3).

Today, the future of oil prices raises a question. While there is consensus they will not reach the levels of the recent past again, predictions from consulting firms and energy departments of the Government and companies change and constantly contradict each other, showing their speculative nature.

The starting point for this analysis is the cyclical nature of the behavior of commodity prices, and in particular, oil prices. This behavior accompanies the crises—which are also cyclical—that characterize the capitalist economic system. It is not the first time that we find ourselves facing an abrupt drop in prices determined by geopolitical events. Oil is a commodity whose price is not determined based on the "fundamentals" of supply and demand. It shows behavior that is extremely sensitive to circumstances and speculative pressure.

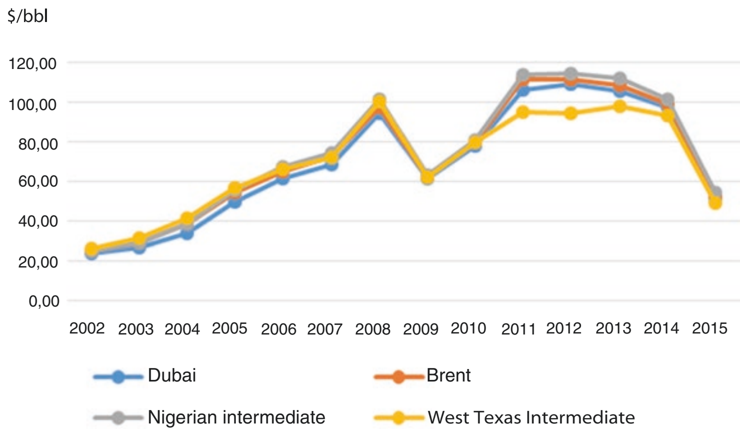

Fig. 7.3 The evolution of oil prices (Source: BP 2016)

The demand for oil has contracted during recent years due to the economic deceleration that affects emerging economies, mostly China, as well as developed economies. This contraction of demand is confronted with a sustained increase in supply, originated by the spectacular growth in the production of shale oil and gas in the USA, as well as in the numerous investments in exploration and development carried out during the period of high prices, when the investment in the sector was highly profitable. This investment flow, as well as the inclusion of energy in the hot points of the security strategy of countries, regardless of their size, considerably expanded extraction horizons. Geopolitical issues, such as the standardization of relations with Iran and its return to the global oil and gas market, or the progressive recovery of extraction in Iraq, may be added.

From the perspective of the producers, the OPEC has not managed to prevent the drop in prices. On the one hand, there is Saudi Arabia's refusal to reduce the injection of oil on the market, interested in cornering the production of shale in the USA, which would be considered unsustainable at such low prices. Several analysts indicate that, in reality, the Saudi drive would not give the desired results. While some small companies have gone out of business, they have been absorbed by the larger companies specialized in extraction in complex conditions (US EIA 2014, 2015).

Hence, we would face a process of auto-purification of the shale sector, more due to its failure than anything else. On the other hand, recent investments in Chile and Argentina indicate that large companies do not have the intention, for the moment, to abandon these projects. Finally, the South American oil economies—Venezuela and Ecuador—and several Arabic countries, need income from oil to keep their economies running, demanding a clear decision from the OPEC.

The drop in prices mainly effected the oil states, meaning those states in which there is a very high share of oil extraction in the GDP (at least 10%), as well as the share of oil exports compared to total exports (at least 40%), putting oil extracting in the center of the accumulation of capital (Karl 1997). According to data from the ECLAC, oil formed a share of 52.3% of total exports in Ecuador and 85.1% of total exports in Venezuela in 2014 (ECLAC 2015). The immense dependencies of these countries upon their oil income cause variations in prices to have a huge impact. This partly explains the change in tendency that occurs and is observed by the governments of the region.[2]

Energy Integration in South America: Facing a Turning Point

The energy integration initiatives experienced in LA have been a sectoral reflection of practices, deployed by the different parties that aim to restructure the South American area, according to dominant development concepts and the role imposed on, and adopted by, the region in the capitalist strategy of unequal geographic development.

> "The asymmetry of exchange, qualified as crucial for the economic logic of imperialism, arise from monopolistic competition. The resulting inequalities adopt a specific spatial and geographic expression, normally as a concentration of privileges and power in some places more than others. (…) the two main initiatives that have been adopted (to preserve their monopolies) are the massive centralization of capital, that claims possession by means of financial power, the economies of scale, market scale and the envious protection of technological advantages by means of patent rights, licenses and rights regarding intellectual property" (Harvey 2003: 86)

In this map of the geopolitics of global capitalism, South America has established itself as an extraction territory, useful for the processes of capitalist accumulation in the center of the system.

South American Energy Integration: The Twentieth Century

From the 70s to the 90s, initiatives in the field of energy were defined by a closed regional logic based on the substitution of imports (ISI), driven by the ECLAC, and financed by the IDB, the IMG, and the WB. This developmental and nationalist strategy emphasized the planning role of the State, as the main player in the industrialization process. The dominant development model favored the large infrastructure projects, with the purpose of improving the capacity of extraction and circulation of raw materials necessary for the process of national, regional, and global accumulation. Large hydroelectric plants and transport infrastructure were constructed: gas pipelines and oil pipelines in Ecuador, Colombia, Bolivia, Argentina, and Brazil. A push was also given for the creation of state-owned oil and gas companies, with the purpose of increasing extraction levels, in midst of a wave of nationalization led by the OPEC member countries. In South America, the Venezuelan state-owned PDVSA fell in 1976, three years after the state-owned CEPE in Ecuador: state-owned companies led the nationalization process, meaning an important capitalization with the public sector's money.

The drop in oil prices in the 80s, caused by the injection of crude oil into the market coming from the strategic reserve of the IEA,[3] affected those countries that had gone into debt during the petroleum boom. The increase is interest rates by the USA FED added to this and sent the debit contracted by South American countries through the ceiling. It was no longer possible to keep the industrialization process running.

The failure of the ISI was "solved" with a new recipe of "expert knowledge" from the international financial institutions. A response for the total opening of a market, the privatization and deregulation of the economies, and the abandonment, by the state, of its planning role in favor of the market; an almost opposite recipe. This model accompanied the globalization process that rapidly expanded at the end of the twentieth century, looking for new markets and temporary area solutions for the crisis of over-accumulation in the center of the system, in territory traditionally excluded from the process of global accumulation.

International and regional credit organizations used the region's needs for funding, to impose a new strategy, conditioning the delivery of resources to restructure national energy policies in production countries.[4] Hydrocarbon was denationalized, state-owned companies weakened;

a process of fiscal and environmental deregulation imposed on the oil sector, upstream activities liberalized, and contracts for exploration and development modified, with the purpose of attracting foreign investment to the sector. This way, energy in South America became a new opportunity for transnational investment and global speculation of commodities.

In a complementary way, the USA presented the Hemispheric Energy Initiative, with the objective of increasing the participation of its transnational companies in the process of the privatization of energy in LA. Since 1990, five meetings have been held with energy ministers in the framework of negotiations of the FTAA and the South American summits.

The hemispheric focus of the energy integration has succumbed amidst increased questioning of the FTAA. The new century will be the scenario for a decision from the South American presidents to move towards the formation of a common South American integration area in which energy will play a fundamental role. The Brazilian leadership in this process is apparent, in particular since the arrival of Lula da Silva. From there on, the discussions shift regarding energy integration of the hemispheric environment into the region and sub-region.

Energy Integration in the Twenty-First Century: Future Limits and Challenges for the Region

This change in focus of energy integration was accompanied internally by a re-nationalization process of hydrocarbon resources, in a certain way reversing the privatization wave that occurred at the end of the twentieth century. This de-privatization was driven by the framework of the ascent of progressive governments in Brazil, Venezuela, Bolivia, Ecuador, and Uruguay; Colombia and Peru kept the open governance model.

This modification of the governance system will allow for increased participation and control of the state regarding oil and gas resources. Venezuela, Ecuador, and Bolivia will renegotiate oil contracts so that the State could obtain an increased income due to the extraction of its resources and, reconsidering the modes of participation, guaranteeing an increased control of Petrobras by the state, through a capitalization of companies with public funding (which also partly came from China) for an estimated value of US$79,000 million (La Nación 2010).

The post-neoliberal model redeems the role of the state as planner, regulator, and engine of the regional integration process, while maintaining the development model based on extraction as a main form of accumulation. This will be the umbrella for the energy integration proposals driven by South American progressivism.

The integration proposal has a funding scheme favoring agreements with various Bretton Woods institutions: the NFC, the BNDES, the BANDES, and China (through its public and development banks). The capital of emerging economies stands out in the funding of infrastructure development for the "post-neoliberal" integration of the sub-region, marking a difference compared to the era during which the funding of infrastructure in the region came from the WB and the IDB.

The importance of oil and gas in the geopolitics of South American integration, and specifically in the creation of a geopolitical bloc, under the umbrellas of the UNASUR and the extended MERCOSUR, has generated numerous analyses about its potential as an integrating engine in the region. This can be seen in the regional projection strategy of Brazil and Venezuela, where 0.9% and 17.9% of global reserves are concentrated; they consolidated into pillars of the regional integration. These leaders did not manage to reach an agreement regarding energy integration in South America, showing substantial differences in strategic political focus that characterized the proposals that they carried forward.

The Brazilian energy integration strategy was formed in the UNASUR, based on the IIRSA,[5] and the creation of the South American Energy Council.[6] The Venezuelan government of Hugo Chavez qualified the regional hemispheric integration project of the USA as unfeasible—in other words, IIRSA, as an axis for the creation of a sovereign energy integration proposal from South America. The integration agenda focused on the improvement of the circulation paths of merchandise that would enable the trade of products with Asia-Pacific would suffer—according to Chavez and other critics, such as Evo Morales—from a capitalist vision for the future of the region. On the other hand, Brazil's leadership, its companies, and development banks imprinted the Brazilian regional projection agenda in the IIRSA. Thus, the mistrust expanded from Venezuela towards the Southern Cone, where the Brazilian sub-imperialist practices had historically imprinted its bilateral relations with asymmetric connotations.

As an example of this asymmetric relationship, we can highlight the trade flows of Bolivian natural gas with Petrobras, repeatedly questioned for being detrimental to the rights of the people and the Bolivian state. Similarly, the asymmetric terms of trade of the energy surplus of the Itaipú Dam is known; the hydroelectric plant is a binational project between Brazil and Paraguay, leaving Brazil with huge benefits, compared to scarce benefits left for Paraguay. In addition to the difficult relationship with the Brazilian giant, there are geopolitical differences with historical roots, such as those that exist between Bolivia and Chile, Bolivia and Peru, or Argentina and Chile. These have shown to be huge barriers for the consolidation of energy integration in South America, avoiding regional self-sufficiency and the creation of interconnecting physical constructions that are necessary to that effect.[7] This situation has limited the integrating potential of energy resources up to today.

An emblematic conflict that seriously affects regional energy security is the one that involves Peru, Bolivia, and Chile; it has its origins in the "Saltpeter War". Between 1879 and 1883, this war, which originated from the dispute between the local bourgeoisie regarding guano and saltpeter, which were both valuable commodities in the global market at the time, resulted in Bolivia's loss of access to the sea. The diplomatic conflict still exists to the present date, and one of its consequences is Bolivia's refusal to supply gas to Chile. The consequences are relevant, as the costs of Chilean supply are very high and are reflected in the energy bills paid by its citizens and its productive machinery.

In parallel to the IIRSA-UNASUR proposal, Chavez presented a counter-proposal of the Petroamerica project. This initiative for integration aimed to coordinate energy policies and the state-owned companies of the LA countries in three sub-regional blocs: Petroandes, Petrosur, and Petrocaribe.[8]

The Venezuelan initiative was presented as complementary to the UNASUR, determining its harmonization on this platform during the 1st Energy Summit on Isla Margarita. In the same location a year later, the Energy Council of the UNASUR was created. Petroamerica put the focus on the formation of the public stakeholders and the states, reserving a fundamental role for them, regarding the future of energy in each nation and region. It aspired to respond to the demand for a sovereign regional integration project that would mean breaking away from the neoliberal past. While the Brazilian and Venezuelan initiatives both agreed to demand a sovereign point of view from the Southern point of the Americas, regarding energy, they differed in their degree of radicalism and the extent of their demands.

Almost a decade later, while entering into a new economic, social, and political context, we can evaluate how these strategies have evolved. We find ourselves facing a turning point, defined by the structural weakness from which both proposals suffer, in other words, the impossibility of overcoming the extractivism and the economic, political, and social pathologies generated.

The stagnation from which the Venezuelan proposal suffers, while facing increasing internal instability, and the profound economic crisis that has submerged the oil giant into chaos since the death of Hugo Chavez, puts its continuity in doubt. The weakness of the Venezuelan political class is indicated by the drop in resources of oil profits, putting its incapacity to overcome its condition of "Petrostate" on the table. Trade with Petrocaribe has declined and will not be maintained during a change in the government; in parallel, the ambitious binational projects such as the Abreu de Lima Refinery in Brazil, and the Pacific Refinery in Ecuador. In both cases, South American funding has been replaced by Chinese funders undermining projects of its potential integration.

In other cases, barriers for the intensification of the process have come from the national interests of the South American countries, such as in the case of the mega-construction of the Gas Pipeline of the South, which aspired to coordinate the gas supply in the Southern Cone. Differences regarding mapping, which reflected the Argentinian, Chilean, and Brazilian geopolitical interests, added to Shell's lobby, for whom the interconnection did not turn out to be good business, slowed down the project driven with force by Hugo Chavez. This project aspired to be the emblem of Petroamerica.

Meanwhile, the integration proposal in the framework of the UNASUR also suffered a setback. The pivot of this strategy is currently facing a profound political crisis that has led to the recent impeachment of President Dilma Rosseuff. The difficulties and the crisis in politics and its institutions are accompanied by the resurgence of a conservative political class that could tend to isolate them from South America, losing the regional projection gained during the last two decades. After a decade of effervescence, due to the emergence of new leadership in the region, that proclaimed to relaunch South America as a geopolitical enabler, and at the same time, an area of synergies and partnerships, the countries close themselves off, to defend their stability in the face of increasing dissatisfaction generated by the economic crisis affecting them today. Oil resources are sold once more to the highest bidder, putting the strategic concerns regarding the utilization of the resource aside, in favor of an immediate logic that supports the generation of immediate income.

Conclusions: The Limits of South American Energy Integration

The geopolitics of oil in the region cannot be analyzed without considering the global implications determined by the physical distance between providers and consumers, the emergence of new poles of global capitalist accumulation, and the growing economic and social political difficulties; namely, within the framework of interrelations and contradictions that occur on different scales of analysis of the regional reorganization of areas regarding oil resources.

These interrelations interfere with intentions and real possibilities, to drive integration projects that favor regional energy sovereignty, over security concerns imposed by global consumption centers beyond South American borders. The location of the region in the geopolitics of capitalism is decisive at the time of implementing policies in this sector.

The region has potential for integration through its enormous energy resources, however to the present date they have not managed to create an energy development project that puts the region in the center of its operations.

In the golden era of oil prices, there were good intentions and several isolated projects were finalized. However, the peripheral location of the region determines that, beyond the pompous discussions about the creation of an autonomous South American bloc with potential to climb up in the global geopolitical game, integration enters into permanent conflict with the different national and immediate interests of its members. These interests express the constraints of local capital, or the need to maintain economic, political, and social stability, which prevail over other long-term strategic concerns.

At this point, it is necessary to show the connection between the increasing instability that affects the South American countries, the drop in commodity prices and the reprimarization of their economies. Primary products represent the majority of exports of the sub-region; low prices on the international market condemn national budgets, and consequently, the real possibilities for investment in the consolidation of the integration process. Similarly, the crisis in oil prices has pushed exporting countries to desperately search for resources, establishing the priority of utilizing its extraction potential as an immediate source of liquidity—as in the case of the advanced oil sales agreements with China—rather than as a strategic tool for regional integration.

Finally, the internal crisis that affects the pillars of post-neoliberal energy integration today creates serious doubts about the continuity of its proposals. A change in Venezuelan politics, as is currently ongoing, will translate into changes in the strategy of the insertion of the country in the international economic system and in the region. In the case of Brazil, the pressure caused by the Petrobras scandal, and the need to promote investment to exploit pre-salt reserves, led to the recent decision to withdraw the fixed participation quote of Petrobras in other fields, completely opening up these reserves to foreign investment. These facts make us ask ourselves if we are facing a new re-privatization phase of energy in South America.

Notes

1. Renamed as Belt by Hugo Chávez in February 2014 by President Nicolás Maduro (Reuters, 18 February 2014).
2. This is the case in Argentina and Brazil; changes are expected in Venezuela and probably in Ecuador.
3. The IEA is the cartel of the oil importer countries. As a result of the two oil conflicts, the countries of the IEA implemented a strategic re-service that would enable them to combat price wars driven by the OPEC countries and to face sudden shortages.
4. The WB launched its "Energy Strategy" in 1992, focused on private investment, commercial orientation of state-owned companies, and new regulatory frameworks (Arelovich 2012: 18).
5. In the project portfolio of IIRSA, there are projects, such as the extension of the oil pipeline in Northern Peru, the gas pipeline in Northeastern Argentina, the gas pipeline of URAPABOL trache 1 and 2, and the gas pipeline Brazilian Aldea (Argentina) – Uruguaiana – Brazil, bordering US$5 billion (IIRSA, n/s).
6. The "Council" was formed during the 1st Energy Summit on Isla Margarita, Venezuela in 2007. Data available on the official UNASUR website. http://www.unasursg.org/es/node/251
7. In this context, we refer to the failure of highly important constructions such as the gas pipelines of the South, prompted by the Petroamerica Initiative.

8. The greatest achievements were obtained in the area of Petrocaribe, where a scheme for oil cooperation was established, for food that would alleviated the energy bill of the Caribbean countries for almost a decade.

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CHAPTER 8

Productive Integration in South America and Its Insertion into GVCs: The Automotive Industry

Uallace Moreira Lima

Introduction

In 2000, the inter-regional trade among Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela totaled US$71,242 billion. In 2014, the trade among these same countries jumped to US$110,773 billion, a 205.5% rise representing an average growth rate of 13.7% between 2000–2014 (CEPAL). Even though that is a considerable growth for trade among South American countries, it is interesting to notice that concealed behind those highly positive results there are regional production structures directed to a notably low level of integration, mostly resulting on a poor use of economies of scale and specialization. It is also possible to notice certain difficulties on development processes for new capacities and production of goods and/or

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specific services with more advanced technology and added value. These issues affect a proper and competitive international insertion of South American countries into global trade.

Such issues become even more relevant when we understand that the international trade is notably marked by a broad productive integration process among countries from the same region so as to obtain, collectively, a more competitive external insertion within GVCs logic. Productive integration is associated to developing the process of fragmenting production into regional bases among international groups enabling an international distribution of work within a certain production chain, where as a counterpart intra-industrial trade fluxes are consolidated and parts, components, and industrial processing are imported while more complex components or final products are exported.

Productive integration represents one of the aspects of the productive globalization process—production internationalization—which is associated to the expansion of FDI and to the contractual relations that contribute to a global production growth. These features are part of new strategies for production internationalization, which consists on industries moving from entities nationally limited to a fragmented business network globally spread, leading companies to engage in the production of certain goods and/or services from conception to final consumption. Such new strategy, which grew stronger due to productive globalization concepts during the 90s, is best known as GVCs and is strictly connected to the process of productive integration, i.e., production fragmentation and integration walk side by side.

According to Estevadeordal et al. (2012) and Baldwin (2013), one of the main features of GVCs is the fragmentation of production that leads to the extinguishment of the need to acquire proper knowledge on every level of any goods production and allows developing countries to associate with a cross-borders cooperative network, sharing production and obtaining expertize in only one or few steps of the production activities within the manufacturing process of final goods. The automotive industry is clearly one of the main industries affected by the transformations on production internationalization. Biesebroeck (2009) suggests that, from a geographical point of view, the global automotive industry, as many others, is in the middle of a deep transitioning process. Since the early 80s, there has been a transitioning process from local national industries, limited to a number of countries, to a fully integrated global industry.

For Sturgeon and Biesebroeck (2009), the analysis of transformations on the automotive industry production allows us to state that the dominating trend for the sector is regional integration, a pattern that has been growing stronger since the early 80s both for political as for technical reasons. For instance, in North America, South America, Europe, South Africa, and Asia the production of regional parts tend to supply final assembly plants that produce to regional markets—mostly. Progressively, major companies of the automotive industry require their main suppliers to be present globally in order to be considered for manufacturing new parts since the vehicles developed in the company headquarters are manufactured in a number of regions, thus deepening and broadening the relation between suppliers and assembly plants. However, according to Sturgeon and Biesebroeck, it is important to consider that the automotive industry is not totally global yet, since there still is production and sales concentration in certain regions, besides not being connected to the strict geography of nation-states or specific locations.

Within such a scenario, the present article aims to analyze how the automotive industry GVC works, trying to understand its dynamics and tendencies taking into consideration the organization of productive processes in South America, starting from the idea that productive integration is a phenomenon with limited occurrence despite the existence of plenty of diverse industrial structures and the notable presence of major multinational companies in the region, especially when dealing with the automotive industry. Therefore, the present article is divided into two sections, in addition to this introduction. In the first section, the automotive industry GVC dynamics and the relevance of productive integration is analyzed. In the second section, the automotive industry production dynamics within global and South American economies is presented, analyzing the productive integration in that region.

The Dynamics of the Automotive Industry GVC

Between 1980 and 1990, the relation between suppliers and assembly plants changed substantially. Companies from Europe and North America struggled to correspond to competition from Japan and other Asian countries. The vehicle manufacturers from North America and Western Europe reduced their level of production within their national markets and started to transfer certain roles, such as producing designs, engines, transmissions, seats—among other interior parts, tires, batteries, etc. to their main suppliers.

Those changes on automotive industry present three trends of convergence for car assembly strategies starting in the 90s, such as: (a) producing where it is sold; (b) designing a common chassis—platforms—capable of receiving adaptations, different levels of finishing, and specific features for local conditions, i.e., market adaptation; (c) using global framework to create a better generic assembly capacity and freedom from producing specific models, seeking greater flexibility for their plants. Because of these three principles, the escalation of global suppliers is the most remarkable feature of the automotive industry beginning in 1990. Several of those suppliers became the favorites of some assembly companies in their global expansion due to their capability to meet the demands of the manufacturers. Among those demands there is a growing need for investment on new productive plants located wherever the manufacturers establish new assembly lines (Torres and Cario 2012).

That new scenario caused the parts industry within these economies to be considerably restructured as a result of a combination of changes in the relation between suppliers and assembly plants, aside from the growing reach of global assembly companies. There was a change in designing, from assembly companies to suppliers, along with the increase of dialog around projects from both parts. Suppliers, previously producing pre-projected parts (e.g., batteries) for several companies during mass production times, began to adopt a personalized production strategy and adapt their products to the needs of specific companies. Similarly, a number of outsourced companies that had worked with projects from assembly companies, started to offer their own design solutions.[1] In both cases, the assembly company determines general performance specifications as well as information about an interaction interface with the rest of the car and the supplier provides a design solution using their own technology (Humphrey 2013). Humphrey (2013) says the production process of the automotive industry started to present the following characteristics:

1. Assembly companies increased the required production scale to share the design costs of the vehicles. However, innovations and designs are still concentrated on the companies' headquarters although they have the possibility of distributing such activities to other companies within the global value chains.

2. Huge global suppliers provide the main systems to the assembly companies, being closer to assembly plants than first level suppliers. These companies demand global reach in order to follow assembly companies to a number of places worldwide. They must be able to design and innovate to provide black-box solutions to their customer demands. Black-box solutions are those created by suppliers using their own technology to meet the performance requirements and interface established by assembly companies.
3. First level suppliers are companies that supply directly to assembly plants. Some of these suppliers have evolved to full global suppliers. First level suppliers must have innovation and design capacity, although their global reach is limited, which is the main difference between them and major global suppliers. In fact, first level suppliers are associated with products from a more intensive sector, technologically speaking, than second and third level suppliers.
4. Second level suppliers are companies that most of the times work with projects provided by assembly companies or major global suppliers. They require expertise on engineering processes in order to meet the cost and flexibility requirements. Besides, the capability of meeting the quality requirements and obtaining quality certification (ISO9000 and most recently QS900) is essential to continue on business. These companies can only supply a limited market, however there are some signs of growing internationalization.
5. Third level suppliers are companies that supply basic products. In most cases, elementary engineering abilities prevail. In that level of most component chains, expertise level and investment on personnel training are limited. At this point within the chain, companies compete mostly over price.

After these characteristics began to prevail in the global automotive industry, it was necessary to take into consideration the criteria used by the assembly plants to select their suppliers involve: pricing, technological quality, and capability. According to Torres and Cario (2012), it is also important to notice that first level suppliers are increasingly accountable for new processes. For example, the trend towards production modularization results in first level suppliers being responsible for manufacturing more complex products, besides becoming bound to follow a *just-in-time* delivery system and sharing research results and developments. Occasionally, first level suppliers are responsible for the coordination of parts and components supplied to second level suppliers. The increase of demand for improvements from first level suppliers has led, on one hand, to the deverticalization of assembly companies transferring a percentage of car assembling and manufacturing to other companies, and, on the other hand, to a vertical integration of first level suppliers through company mergers and acquisitions. Consequently, the transformations on the automotive industry GVC have created two different categories of suppliers, namely: global and local suppliers. In the first category are the major global suppliers and first level suppliers. The difference between the two of them is precisely the global reach of their operation, since a major global supplier has the capacity to meet their clients demand on several markets, whereas first level suppliers frequently limit their operations to a smaller number of markets. Major global suppliers are also accountable for organizing the rest of the GVC, managing second level suppliers, and developing supply systems in different locations, responsibilities exclusively attributed to global suppliers, since first level suppliers do not have a reasonable sized global reach. In the second category are the second and third level suppliers offering car parts in a more standardized fashion and not requiring production synchronization in a global level.

Assembly companies have recently followed a strategy known as *Follow Sourcing* to choose their first, second, and third level suppliers. Such strategy is noteworthy for giving preference to using the same suppliers in several locations as long as such companies present verified global supplying capacity that is, *follow sourcing*—the system where suppliers follow assembly companies to every new location they choose to start marketing. It is a logical consequence for suppliers to be accountable for a growing number of items within the project and for a greater similarity of models among markets (Humphrey 2013). Adopting a *follow sourcing* strategy, assembly companies choose to keep their same suppliers when deciding to introduce a new model or start a new production plant in a new market guaranteeing the components are the same in each of them. Besides, a *follow sourcing* company is also going to be responsible for guaranteeing that the rest of the supply chain follows the assembly company standards. Building a *follow sourcing* relation shows not only a close relation between assembly plants and suppliers, but also evidences that suppliers have started to play a more important role in the automotive industry production process.

Following a more critical approach, Leite (1999) notices that, even considering the positive aspects of productive globalization and production internationalization though the automotive industry GVC, it is relevant to observe the existence of two different forms of relationship between assembly plants and suppliers that constantly implies some risks to those countries where assembly companies and their suppliers are established. The first one is the relationship with suppliers of great volume, which basically produce sub-systems of higher added value, with whom assembly companies establish exclusivity contracts. Those are generally major companies with scale capacity large enough to guarantee both the needed investment for technological updating and improvement and competitive costs. They are classified as *core suppliers*. The choosing of a supplier is conducted through *benchmarking*, i.e., implementing a politic for comparison of prices among a number of suppliers, including foreign companies, based on certain demands of quality and deadlines. Once a company is chosen, assembly companies start to have a more solid relation with it. The second type of relationship is established with commodities suppliers in which assembly plants, instead of establishing exclusivity relations, seek at least three different suppliers simultaneously in order to choose which suits their needs better regarding cost, quality, and deadlines at different moments. According to Leite (1999), the consequences of such strategies are a process of market concentration with elimination of small suppliers, industry denationalization in developing economies and intensification of work conditions within companies.

Fragmentation processes are associated with developing complex supply networks in which a part or component manufactured by a certain supplier can supply several production lines of distinct companies. Besides, that same supplier can acquire parts and components from a wide network of subsidiary suppliers, which have their own supplying contracts established with other manufacturers of parts and components. Production fragmentation, therefore, is able to not only comprehend numerous links within the productive chain but also to largely reproduce each of the many stages of the productive process.

That way, productive integration should be understood as the evolution of the productive fragmentation process to regional bases, groups of countries or worldwide, which can lead to the creation of an international division of work in the cycle of a certain productive chain producing the consolidation of intra-industrial commercial fluxes, where parts and components are imported, final or more complex products are exported, and industrial processing is conducted. However, it is important to notice that, in particular cases, there are circumstances in which an outsourcing process leads exclusively to the building of a local network of suppliers, representing a production outsourcing process without integrative production.

Additionally, productive integration allows not only commercial transactions but also establishes partnerships for building strategic alliances that comprehend a balance between the principles of cooperation and competition, which can take diverse institutional shapes. Three of those forms are noteworthy: (1) Alliances based on joint integration of activities that lies upon an evolution as a more advanced stage within the production chain and goods trading, which would hardly be properly achieved by members individually; (2) Alliances based on additive configurations, i.e., articulating two or more companies of a particular industry in a way that increasing scale, internal marketing widening, and mitigation of competition is possible; (3) Alliances based on a complementary setting, which integrates two or more companies in such manner that allows an agglutination of complementary activities and competencies controlled by each of its members, increasing the their competitiveness. That movement is generally coordinated by large companies partnered with small and medium sized companies, generating commercial and investment fluxes among countries, and it is frequently encouraged by commercial liberation or integrative deals.

An interesting fact to be taken into consideration is that the transformations and expansion of the automotive industry GVC presented here are associated to the strengthening of developing economies, such as BRICS, among other Asian and LA countries, and Brazil and Argentina where a great part of the automotive industry is concentrated. That can be easily observed when analyzing the production indexes of the sector, the foreign direct investment and the activities of these companies in South America. Estevadeordal et al. (2012), Baldwin and Robert-Nicoud (2010), observe that the processes of distribution of GVCs have spread asymmetrically, thus certain regions advanced greatly into global commerce via GVCs, such as some Asian, European, and North American countries, while other countries from regions, such as Africa and LA are still marginal to such processes. Said asymmetrical process, concentrated on developed economies, can be recognized through production indexes and automotive industry integration indexes that are to be discussed in the following topics of the present article.

For LA, the MERCOSUR in particular, productive integration is a phenomenon of limited occurrence, despite the existence of industrial structures reasonably diverse and the remarkable presence of transnational companies within the region. Recently, authorities responsible for decision making in the MERCOSUR relaunched initiatives aiming the promotion of productive integration, however, it seems that, from an economic agent point of view, the remaining obstacles to a working customs union significantly reduce the incentive to developing a regional productive integration, which immensely compromises and limits the efficiency of communitarian initiatives aiming this goal (Machado 2010).

Mapping of the Automotive Industry: Global and South American Production

The average rate of the automotive industry production growth between 2000 and 2015 was 1.1%, mainly recovering from the growth rate drop in 2009 after the international crises. In South America, as shown on Table 8.1, its average growth rate was 2.2%, a value higher than the EU or North American growth rate. However, it is important to say that until 2013, South America presented an average growth rate above 8.0%, figures higher than any other region. This elevated rate was connected to a larger regional dynamism, especially considering the growth of the Argentinian economy, and that the Brazilian economy was showing considerable economic growth. These countries are the main production

Table 8.1 World motor vehicle production—All types—Growth rate total and by region—2000/2015

	2000	*2001*	*2003*	*2005*	*2007*	*2009*	*2011*	*2013*	*2014*	*2015*	*Average rate*
Total Production	3.6	−3.4	3.0	3.6	5.6	−12.5	2.8	3.7	2.9	1.1	1.1
EU	1.0	0.5	6.0	−0.8	5.6	−17.2	3.4	−0.3	5.8	6.1	1.0
North America	0.0	−10.5	−2.9	0.5	−2.7	−32.5	10.4	4.3	28.8	−1.2	−0.6
South America	23.5	1.9	1.5	16.7	15.2	−4.1	−3.3	8.3	−17.1	−20.6	2.2
Asia-Oceania	6.0	−0.2	10.3	3.3	8.7	1.6	−0.8	4.8	3.6	0.8	3.8
Africa	5.0	23.9	38.5	23.8	−4.4	−28.5	12.9	8.5	13.1	16.2	10.9

Source: OICA
North America: USA, Canada, and Mexico
South America: Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela
Asia-Oceania: Australia, China, India, Indonesia, Iran, Japan, Malaysia, Pakistan, the Philippines, South Korea, Taiwan, Thailand, and Vietnam

and sales markets in South America considering the automotive industry. That can be confirmed by observing that the vehicle production growth rate in the region presented negative indexes for 2014 (−18.4%) and 2015 (−20.6%), exactly when the Brazilian economy, as well as the Argentinian, started to face a deep economic and political crisis. Even considering that those two countries represent the major regional markets, the economic crisis in South America that deepened after 2014 in several countries, has affected regional production and sales in the automotive industry.

Another observation about the automotive industry growth rates is that the saturation of existent major markets in Europe and North America, especially after the crisis of 2008, is also associated with an expectation of rapid growth rates in emerging markets that led vehicles manufacturers to transfer their productive activities into new markets, following the changes that restructured the automotive industry production process within a GVC logics, as mentioned previously. Another interesting fact is that the greatest dynamism is found in Asia-Oceania, where the average growth rate is 3.8% and Africa (10%).

The differences among growth rates will be reflected on the involvement of those regions in the total production value of motor vehicles in the global economy, as seen on Table 8.2. South America, up to 2009—when production growth rates began constantly to be above average, also started to present participation gain on total production value, moving from a participation of 3.6% to 6.1% in 2009. However, due to the

Table 8.2 World motor vehicle production—All types—Percentage share by region—2000/2015

Regions	*2000*	*2001*	*2003*	*2005*	*2007*	*2009*	*2011*	*2013*	*2014*	*2015*
EU	29.4	30.6	29.6	27.3	27.0	24.7	22.1	18.5	19.1	20.0
North America	30.4	28.1	26.8	24.6	21.1	14.2	16.8	18.9	23.6	23.1
South America	3.6	3.7	3.4	4.5	5.0	6.1	5.4	5.3	4.2	3.3
Asia-Oceania	30.8	31.8	36.2	38.8	41.9	51.5	50.7	52.4	52.2	52.6
Africa	1.9	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.9
Total participation	95.9	94.9	96.7	96.1	95.7	97.2	95.7	95.9	100.0	100.0

Source: OICA
North America: USA, Canada, and Mexico
South America: Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela
Asia-Oceania: Australia, China, India, Indonesia, Iran, Japan, Malaysia, Pakistan, the Philippines, South Korea, Taiwan, Thailand, and Vietnam

negative growth rates observed during the economic crisis that hit the region, participation fell back to 3.3%, lower than the values obtained in 2000. The highest participation gain in the total production of the automotive industry was noticed in Asia-Oceania, climbing from 30.8% in 2000 to 52.0% in 2015. These figures are related to a loss of participation of more traditional markets such as North America and the EU.

The decrease of participation in the global production of motor vehicles of those two regions is not conjuntural but structural as we observe a constant downward trend in the production growth rate in both regions as well as in the total production participation. Furthermore, the decrease of growth rates and participation are not associated with the drop on the total world vehicle production but with a world vehicle production growth dynamics, along with other non-traditional regions presenting higher production growth rates and increasing evolution on their total production participation. In addition, indicators presented so far suggest that the highest production growth rates, in South America and Asia-Oceania, resulted in a constant growth of their respective participation in all categories—when compared to Europe and North America, while the highest growth rate in Africa, compared to the same markets, do not reflect a considerable growth in its participation in the world vehicle production. However, it is clear that countries from Asia-Oceania present a more solid dynamics than any other region, indicating that such countries have adapted and introduced themselves more dynamically into the automotive industry global value chain than, for example, South American and African countries.

As mentioned before, when analyzing the automotive industry production dynamics individually, as shown on Table 8.3, it is possible to notice that, except for Brazil and Argentina, countries such as Ecuador, Chile, Colombia, and Venezuela presented average growth rates above the South American and the world economy production average between 2000 and 2015. Nevertheless, the low average production growth rate of the automotive industry in Brazil and Argentina, due to their economic crises observed over the past few years, substantially impacted the productive dynamics of the automotive industry in the region. This can be explained by analyzing the productive activity of the sector in the region according to the participation of these countries in the sector production in South America.

Even though some countries such as Venezuela, Ecuador, and Chile presented an average growth rate of vehicle production remarkably above

Table 8.3 World motor vehicle production—All types—Growth rate by region—2000/2015

Country	*2000*	*2001*	*2003*	*2005*	*2007*	*2009*	*2011*	*2013*	*2014*	*2015*	*Average rate*
South America	23.5	1.9	1.5	16.7	15.2	−4.1	−3.3	8.3	−17.1	−20.6	2.2
Argentina	11.4	−30.6	6.1	22.8	26.0	−14.1	15.7	3.5	−22.0	−13.5	0.5
Brazil	23.7	8.7	2.0	14.5	14.0	−1.2	−6.6	11.1	−15.3	−22.8	2.8
Chile	257.3	100.6	−60.6	−7.3	62.2	−26.2	*	*	*	*	32.6
Colombia	209.2	6.1	−8.1	29.1	4.3	−26.4	−32.8	8.8	−7.5	9.7	19.2
Ecuador	*	206.7	−9.5	603.5	3.4	−47.8	8.9	−37.4	−60.7	−19.8	64.7
Uruguay	23.8	−26.9	−97.8	*	*	*	*	*	*	*	−10.1
Venezuela	313.9	−37.8	8.0	311.1	−1.7	−17.3	−1.9	−31.1	−72.5	−7.4	46.3

Source: OICA

average, greater dynamism in the automotive industry production in South America was not observed as a result of this fact, which can be explained by reviewing the figures on Table 8.4 that shows the share of motor vehicle production in South America. In 1999, 98.4% of the automotive industry production in South America was concentrated in Brazil and Argentina; Brazilian participation at 80.3% and the Argentinian participation at 18.1%. In 2015, the scenario was nearly unchanged as Brazil still has almost the same participation of 80.1%, while Argentina slightly dropped to 16.7%. Together, these two countries hold 96.8% of the automotive industry production in South America.

These indicators make clear that from an automotive industry dynamics point of view, the possibility of a larger productive interaction within the region, the productive activity growth, and a larger participation of South America in the international commerce of automotive products depends preponderantly on Argentina, and especially Brazil, i.e., the dynamics of the economies of those two countries and their industrial and external politics strategies are fundamental to promoting a larger productive integration and insertion of South American GVC into the international economy.

Analyzing sales is another available mechanism that can offer a better view on the automotive industry dynamics in the South America and world economy. Some of the reasons found to explain the downward trend in participation of the EU and North America in the global production of motor vehicles, and the simultaneous growth in participation of

Table 8.4 Motor vehicle production—All types—Percentage share by country—2000/2015

Country	*1999*	*2001*	*2003*	*2005*	*2007*	*2009*	*2011*	*2013*	*2014*	*2015*
South America	2.9	3.6	3.4	4.5	4.6	6.1	5.3	5.3	4.2	3.3
Argentina	18.1	11.1	8.3	10.3	13.5	13.3	18.5	16.6	15.4	16.7
Brazil	80.3	85.9	89.7	83.5	80.0	83.0	78.0	80.2	82.1	80.1
Chile	0.1	0.5	0.3	0.2	0.3	0.1	*	*	*	*
Colombia	0.5	1.2	1.0	1.6	2.0	0.7	0.6	1.5	1.9	2.4
Ecuador	*	0.1	0.1	0.9	0.7	0.4	0.6	0.3	0.2	0.2
Uruguay	0.7	0.5	*	*	*	*	*	*	*	*
Venezuela	0.3	0.6	0.6	3.5	3.5	2.5	2.4	1.4	0.5	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: OICA

South American and Asia-Oceania economies are: (1) major market saturation in existent European and North American markets, especially after the 2008 crisis; (2) low growth rate of major traditional markets and rapid growth expectations for great emerging markets, which draw vehicle manufacturers to such promising markets, seeking an expansion on sales.

These two reasons can be verified and analyzed through the motor vehicles sales indexes for the world economy. According to the data on Table 8.5, South America and Asia-Oceania presented an average growth rate above the world average growth rate for vehicles production. The average growth rate in South America was 4.5% between 2006 and 2015 and it could have been even higher, if it was not for the drastic drop on motor vehicles sales in 2014 (−10.7%) and 2015 (−19.8%). As previously mentioned, the drop in recent years is due to an economic crisis Brazil and Argentina are currently going through, which has significantly affects regional sales.

As South America presented a higher average sales growth rate than the world economy average, the region presented an increase of participation percentage on motor vehicles sales in the world market. In 2006, the South American Participation was 5.0%, in 2011 it reached 7.6%, in 2013 it dropped to 7.3%, and after the strong decrease on regional sales in 2014 and 2015, the South American participation on total motor vehicle sales rose back to 5.0%, just as in 2006. As confirmed, the drop is a result of the political and economic crises Brazil and Argentina are currently facing, evidencing once again that the automotive industry in South America is highly dependent on those two countries, which heavily weakens productive integration strategies in the region for creating too strong a relation placed upon two countries alone (Table 8.6).

Such dependency upon Brazil and Argentina, on the sales market, becomes even more evident when analyzing motor vehicle sales indexes among South American countries only, as seen in Table 8.7. Although countries such as Bolivia, Peru, and Paraguay presented average sales growth rates considerably above the world and South American average between 2006 and 2015—while Brazil and Argentina were just above average—sales in South America did not increase sufficiently since the region substantially depends on the growth dynamics of Brazil and Argentina.

From a sales participation index standpoint, as shown on Table 8.8, in 2006 Brazil and Argentina represented 69.1% of the sales market in South America and in 2015 both countries summed to 71.1%. Brazil is the main

Table 8.5 Vehicle sales motor—All types—Growth rate of total sales by region—2006/2015

Regions	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*Average rate*
Total sales	3.5	4.7	−4.6	−4.0	14.2	4.3	5.2	3.9	3.0	2.0	3.2
EU	1.6	1.9	−7.9	−6.4	−3.4	0.0	−8.3	−1.6	6.4	9.8	−0.8
North America	−1.7	−3.0	−15.9	−20.8	10.5	9.8	12.4	7.1	4.2	6.2	0.9
South and Central America	10.6	25.1	8.4	0.0	17.7	8.5	3.4	1.5	−10.7	−19.8	4.5
Asia-Oceania-Middle East	6.5	8.1	2.7	16.5	24.3	0.6	8.2	5.8	5.1	3.2	8.1
Africa	15.1	0.9	−4.6	−7.6	7.9	15.6	8.6	3.3	2.8	−8.8	3.3

Source: OICA
North America: USA, Canada, and Mexico
South America: Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela
Asia-Oceania: Australia, China, India, Indonesia, Iran, Japan, Malaysia, Pakistan, the Philippines, South Korea, Taiwan, Thailand, and Vietnam

Table 8.6 Vehicle sales motor—All types—Participation percentage (%) by region—2006/2015

Regions	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
EU	26.9	26.2	25.3	24.7	20.9	20.0	17.4	16.5	17.1	18.4
North America	29.1	27.0	23.8	19.6	19.0	20.0	21.3	22.0	22.2	23.2
South and Central America	5.0	6.0	6.8	7.1	7.3	7.6	7.5	7.3	6.3	5.0
Asia-Oceania-Middle East	32.0	33.0	35.5	43.1	46.9	45.3	46.5	47.4	48.3	48.9
Africa	1.9	1.9	1.9	1.8	1.7	1.9	1.9	1.9	1.9	1.7
Total participation	95.0	94.1	93.3	96.2	95.7	94.7	94.7	95.1	95.9	97.1

Source: OICA
North America: USA, Canada, and Mexico
South America: Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela
Asia-Oceania: Australia, China, India, Indonesia, Iran, Japan, Malaysia, Pakistan, the Philippines, South Korea, Taiwan, Thailand, and Vietnam

regional market with a participation of 55.8% on the automotive industry sales market in 2006, reaching 67.7% in 2009 and settling on 57.5% in 2015. Argentina is the second major market with a participation of 13.3% in 2006, reaching 13.6% in 2015. Behind Argentina is Chile with a participation of 6.7% in 2015 and Colombia with 6.1%. The remaining countries represent less than 4% of the sales market.

Once again, when analyzing the South American production and sales indexes, it is clear that the production and sales dynamics of the automotive industry in the region rely fundamentally upon the Brazilian and Argentinian economies, leading other South American countries to play a secondary or even insignificant role when it comes to the automotive industry. This scenario increases the difficulties of establishing politics to promote integration process in which several countries would benefit and then reduce asymmetries among members of the same region.

According to Humphrey (2013), what is most remarkable in the changes observed within the automotive industry the past few years is the loss of market—from a production and consumption perspective—that traditional markets went through and the rise of new markets. He claims the way major vehicle manufacturers expanded their operations to developing countries is a key characteristic of the automotive industry after the 90s. To a certain extent, that was propelled by the sales growth in

Table 8.7 Vehicle sales motor—All types—Growth rate of total sales by country—2006/2015

Countries	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*Average rate*
South America	11.6	24.6	8.5	−0.6	19.1	8.2	2.8	2.0	−11.1	−19.8	4.5
Argentina	14.4	22.7	8.3	−20.4	43.4	26.vd5	−6.0	16.1	−36.3	−1.3	6.7
Bolivia	25.0	0.0	5.7	−18.9	266.7	27.3	50.0	6.7	37.9	−30.7	37.0
Brazil	12.4	27.8	14.5	11.4	11.9	3.4	4.6	−0.9	−7.1	−26.6	5.1
Chile	0.0	15.0	9.9	−28.5	67.9	17.4	1.7	9.7	−11.1	−15.8	6.6
Colombia	36.7	14.6	−10.6	−7.1	46.2	3.5	−3.4	0.6	9.5	−13.3	7.7
Ecuador	−3.8	2.5	22.8	−17.7	42.5	5.8	−13.2	−6.3	5.5	−31.2	0.7
Paraguay	0.0	37.5	90.9	−42.9	58.3	57.9	0.0	2.0	1.3	−9.0	19.6
Peru	40.8	55.2	81.4	−16.9	57.0	24.2	27.1	5.5	−7.1	−7.8	26.0
Uruguay	0.0	26.7	31.6	52.0	44.7	−0.1	2.7	8.1	−7.4	−10.1	14.8
Venezuela	19.7	52.3	−37.1	−31.9	−8.3	−3.6	8.2	−24.3	−76.0	−38.0	−13.9

Source: OICA

Table 8.8 Vehicle sales motor—All types—Participation percentage (%) by region—2006/2015

Countries	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Argentina	13.3	13.1	13.1	10.5	12.6	14.8	13.5	15.4	11.0	13.6
Bolivia	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.6	0.5
Brazil	55.8	57.2	60.4	67.7	63.6	60.7	61.8	60.1	62.8	57.5
Chile	5.8	5.3	5.4	3.9	5.5	6.0	5.9	6.3	6.3	6.7
Colombia	5.9	5.5	4.5	4.2	5.2	4.9	4.6	4.6	5.6	6.1
Ecuador	2.6	2.1	2.4	2.0	2.4	2.3	2.0	1.8	2.2	1.8
Paraguay	0.2	0.3	0.4	0.3	0.3	0.5	0.5	0.5	0.6	0.6
Peru	1.0	1.2	2.0	1.7	2.2	2.5	3.1	3.2	3.4	3.9
Uruguay	0.4	0.4	0.5	0.8	1.0	0.9	0.9	1.0	1.0	1.1
Venezuela	6.1	7.4	4.3	2.9	2.3	2.0	2.1	1.6	0.4	0.3
Total participation	91.3	92.7	93.2	94.0	95.3	94.9	94.8	94.8	93.8	92.1

Source: OICA

developing markets, as evidenced by the indexes shown in the present study. In addition, the increase of competition on domestic markets led companies to adopt new production strategies spreading development costs of selected vehicles and parts—as seen in the first section of this article—since there was an elevated concentration of such activities in the USA, the EU, and Japan before the 90s. After spreading production to new markets, it was noticed that North American and European manufacturers intensively directed their activities to LA while most of the Japanese manufacturers focused on Southeastern Asia.

It is undeniable that there is a distribution progress on the automotive industry GVC, as evidenced by the indexes. However, those indexes also point out the fact that such activity distribution process is still mainly reduced to certain specific markets, as Asia, Europe, and North America when compared to South America. It is worth noticing that the activities concentration process aforementioned in those regions coincides with a production concentration process in a small number of companies, companies originally from those very countries in which vehicle production is concentrated. According to data from OICA, if we take into consideration the participation of the 15 major automotive companies, the participation of those companies in 1998 represented 82.3% of the total production, falling to 82.3% in 2006 and maintaining this percentage until 2012. Even considering that there was a reduction on production concentration in the

15 major companies when they moved from 88.3% in 1998 to 82.4% in 2014, these numbers provide evidence of a great market concentration in this sector with total production concentrated on a considerably small number of companies. If we take into consideration the companies nationalities, all of them are from the main productive markets of the automotive industry, such as the American, European, and Asian markets, which partially explains the automotive industry production concentration on these regions.

This situation confirms the conclusions of Humphrey (2013), Colovic and Mayrhofer (2009), and Schimid and Grosche (2008) that the geographical distribution of vehicle production and sales in developing countries has not been followed by an ownership distribution on the assembly sector. Globally, the automotive industry remains concentrated and represented by a considerably small number of companies responsible for a significant share of production and sales. Although there have been some new actors on the assembly sector in the last 20–30 years, until the end of the 90s,—including companies like Hyundai in the Republic of Korea and Proton in Malaysia—after the 90s, the insertion of new companies into the market is virtually nonexistent, except for Chinese companies.

Although the major automotive manufacturers have broadened their reach in a growing number of markets, their traditional markets remain important for each of the nine major companies, vehicle production remains strongly concentrated in their own regions and home countries. For instance, Honda produced 57% of their global production within their home country/region in 1997. As for North American and European countries, sales were equally concentrated in their home countries/regions. GM, Ford, Volkswagen, and Fiat sold an average 63% of their vehicles in domestic markets until the end of the 90s. As for the two French manufacturers, PSA (owner of Peugeot and Citroen) and Renault, the concentration is even more preponderant revealing an absence of a globalization strategy from Peugeot, and an incapacity for establishing a viable presence in the North American market for Renault. The only companies selling more than 50% of their vehicles abroad were the Japanese manufacturers—Toyota, Nissan, and Honda (Humphrey 2013).

Such dynamics—the automotive industry dynamics in the world economy—affects activity in South America directly, especially when regarding the productive integration process and its contribution to a more competitive insertion into world commerce.

From the standpoint of automotive companies based on South America strategies, the internal market is still the major variable directing investments and production of the automotive industry with low external market insertion, as to exportation expectations. For example, taking into consideration the main manufacturers from South America—Brazil and Argentina—in 2014, Brazil exported only 10.6% of its total production and 89.4% was destined for its internal market. Of those 10.6% of exported vehicles from Brazil, 65.6% was destined for Argentina and the remaining units were sent to other South American countries. Argentina, on the other hand, has a production directed to the external market. In 2014, 58.0% of the production was destined to exportation and 42.0% to the internal market. Of those 58.0% of exported vehicles from Argentina, Brazil was the major destination receiving 84.9% of the exportations (data from ANFAVEA and ADEFA).

On the other hand, vehicle importation is considerably predominant and the contraction or expansion of vehicle importation in the region is better connected to a conjuntural scenario of economic growth and favorable exchange rates to importation than structural changes characterizing a "process of competitive substitution of importation." This also suggests that the opening process of South American economies resulted in a larger internationalization of the sector although, at the same time, it evidences the fact that the models produced in the region have a restricted market, they are exclusive, and they use low embedded technology in addition to having one of the highest vehicle prices in the world, which prevents the country being internationally competitive in this sector and leads to these products directed for South American exportation only. According to Negri (2010), the production fragmentation of intra South American companies follow a rationale of reducing the number of models in each plant and seeking specialization and scale gains, similarly to international standards, with assembly branches sharing the production of models and versions of certain models in Brazil and Argentina, so as to capture scale economies. This strategy intensifies the relation between assembly companies in Brazil and South America.

In addition, it is important to notice that an analysis of the supply chain shows that parts and components importation from the USA and Europe is conspicuous throughout all countries, especially in Argentina, which already had a supplier park. This situation is minimized in Brazil due to the existence of a developed supplier park that is being restructured to meet assembly plants demands, although there seems to be a commercial deficit.

The incorporation of the local industry to global production brought a number of changes on production processes due to the decrease in the number of direct suppliers and the reduction of local engineering, since research, development and design, and components standardization, previously undertaken by specialized centers, led to a corresponding decline on adaptation efforts in emerging countries (Santos Medeiros Martins 2001).

Another important fact to be considered in order to understand the limited action of automotive companies in South America which focus their activities only in their own region is to analyze the external commerce indexes of automotive products. Even though it can still be identified a concentration of sales and production of the automotive industry in the original markets of each company, that should not overshadow the fact that there has been some significant changes. The regional integration process started in the 60s in North America with a free flow of vehicles and components between the USA and Canada, while in Europe, Ford and GM started to integrate their operations in 1970. In both integration processes, the production systems gradually started to be defined as regional. The vehicles and components were designed and produced for a region as a whole, as well as individual plants becoming responsible for full regional production, producing parts such as engines and components to every partner in the region. In Europe, Ford and GM were not the only companies to integrate their assembly plants with Spain, but also Volkswagen buying Seat and integrating it to its European production system, using common components and platforms for seats, promoted a process of spreading in the automotive industry production (Humphrey 2013). This new dynamic of the automotive industry on GVCs is associated with company strategies of production processes fragmentation and allocating productive activities in several countries and regions generating GVCs that recreate the international division of labor in the world economy. One can come to such conclusion analyzing the production indexes of the sector in different regions, including foreign trade.

According to WTO data,[2] the exportation of automotive products[3] rose from US$571.3 billion in 2000 to US$1,295.3 trillion in 2012, a growth of 126.7%, which indicates the development of international trade and the expansion of the automotive industry GVC. The only moment automotive products exportation values dropped was in 2009, due to the world financial crisis. However, there seem to be a constant growth trend between the years 2000 and 2012. A regional analysis allows us to confirm that Europe is not the region with the highest exportation values in the automotive products industry. Exportations from Europe to the world rose from US$271 billion in 2000 to US$663.9 billion in 2012, a growth of 133.9% in 12 years. It is also relevant to notice that European exportations are basically concentrated within Europe itself, i.e., it is mostly a intra-regional foreign trade, indicating the high level of concentration of automotive GVC formation within the company's own region or country. Such a scenario does not omit the growth of European exportations to other regions during those years, such as exportations to Asia, North America, Africa, the Middle East, or South and Central America.

The second leader of automotive products exportation is Asia. Asian exportations of automotive products to the world rose from US$112.7 billion in 2000 to US$338.5 billion in 2012, a growth of 200.5%—higher than the European growth percentage. Different from Europe, Asia does not concentrate most of exportations within Asia itself, for there is a larger distribution to other markets, such as North America and Europe. That is a consequence of a stronger presence of Asian companies in world markets, especially in Europe and North America. It can be also observed that there is trend in Asia of exportation growth to all regions, such as North America, Europe, the Middle East, South and Central America, Africa, and the Commonwealth of Independent States (CIS).

North America occupies the third position on the world's automotive exportations leadership. North American exportations rose from US$128.4 billion in 2000 to US$269.9 billion in 2013, a growth of 110.1% in 12 years. North American exportations are highly concentrated within itself, with a low volume of exportations to other regions, such as Asia, Europe, or South and Central America. This foreign trade characteristic of the USA might be associated with a higher presence of American companies in other markets distributing their production through several other regions, influencing the foreign trade dynamics.

OMC data (Medeiros 2010) concerning LA is only available from 2000 to 2006 and there are no indexes for the region after 2006 since it does not present relevant data for the world automotive industry figures, economically speaking, for the countries in LA are not in the top 15 largest exporters and importers of automotive products. Between 2000 and 2006, LA participation in the foreign trade of products was not exactly relevant but it was increasing from an exportation of US$571.3 million in 2000 to US$1.015 billion in 2006, growing 77.9% in 6 years. These figures were significantly below the growth of the global exportation of automotive products, as well as below the growth of aforementioned producing regions. LA exportations are centered in North America, as most of the companies acting in LA are from North America, thus amplifying the relation between assembly plants and suppliers from those two regions. The exportations to Europe and LA itself are significantly smaller, which makes those regions not relevant for the automotive sector of LA.

The indexes confirm the assumptions of Estevadeordal et al. (2012), and Baldwin and Robert-Nicoud (2010), which stated that one of the main features of GVCs, particularly the automotive industry GVC, is the production fragmentation that leads to not being required to acquire competences in all aspects of production of certain goods and allows developing countries to associate themselves to a transnational cooperation network, sharing production and specializing in only one or two steps of the productive activities involved in the manufacturing of final goods. This type of expertise, according to the researchers, allows developing countries to participate in a new strategy of international division of labor. However, the researchers note that the GVC distribution processes are being organized asymmetrically, with some regions substantially developed on their global market insertion via GVCs, such as some Asian countries, Europe, and North America. Meanwhile, countries from other regions, such as Africa and LA, are still extrinsic to that process, such as Brazil, Argentina, and other South American countries.

According to Medeiros (2010), asymmetrical integration and insertion into GVCs present risks to economically weaker countries, as seen in South America. For example, an excessively asymmetrical regional and productive integration can be followed by a decline on the capacity of importing from more fragile economies and by a crescent commercial deficit, broadening payment balance restrictions of a certain economy, and paralyzing the required investments to technological advancements. Overcoming such stalemate requires that the productive integration is followed by inducing macroeconomic stimuli to those countries with a lesser degree of development, in such a way that it is fundamental to consider by which means a productive and commercial integration in a certain geographical area can be a greater incentive to productive diversification, structural changes, and technological progress than a general insertion into the world economy.

Therefore, states Medeiros, considering the debility of global external markets for the region, the formation of a customs union in South America with reduction of most intra-bloc taxes and the adoption of a common external tax promoted a fast expansion of the market chain among countries within the region (observant of the stagnation of external markets, a high index of regional trading), especially for the automotive industry and, most recently, a significant direct investment growth originated from countries of the trade bloc. However, and opposite to what was established in Asia, the great weakness of inducing structural mechanisms and prevailing macroeconomic characteristics limited the possibilities of a broader economic integration, which made the MERCOSUR an "incomplete" and "imperfect" customs union in which the needs imposed by external crises had precedent over the long term arrangements directed towards the bloc consolidation.

One of the mechanisms available to analyze the productive integration among countries is the input-output model. The fragmented production can be seen as a particular kind of input-output relation between imports and exports that tends to increase the imported content of exports in relation to added value. This issue is especially important to the growth trajectory of South American countries and their regional integration, thus allowing us to analyze potentialities and synergies promoted by regional and global trade for the growth of national economies, taking into consideration that, even if there is a quid pro quo, there is no mechanical and automatic determination between the growth of trade and the growth of the economies (Medeiros 2010). Considering this perspective and the indexes in Table 8.9 of automotive products input-output, one can state that in South America there is only a single relevant integration process between Brazil and Argentina, since Argentina consumes US$243 million of sector products for their automotive industry production. In fact, with that consumption, Argentina has Brazil as their main automotive products suppliers, even being above the EU, the USA, Asia, and Russia.

As for Brazil, the automotive industry is supplied by a broad network of suppliers established inside the country consuming US$11.558 billion. The products arriving from Argentina total US$368 billion, which is below the US$1.344 billion coming from the EU, US$912 million from the USA, and US$421 million coming from Russia. That is to say, regarding automotive products, Brazil demands more products from the EU, the USA, and Russia than from Argentina, which does not mean there is no integration between the two main manufacturers of the South American automotive industry; it means Argentina depends much more in Brazil than the reverse.

Table 8.9 Intercountry input-output—Database for 2005—In millions of US$

Description		*ARG*	*BRA*	*CHL*	*COL*	*ECU*
Country/ Regions	*Products*	*Motor vehicles, trailers and semi-trailers*	*Motor vehicles, trailers and semi-trailers*	*Motor vehicles, trailers and semi-trailers*	*Motor vehicles, trailers and semi-trailers*	*Motor vehicles, trailers and semi-trailers*
ARG	**Motor vehicles, trailers and semi-trailers**	974.8	368.3	0.0	11.2	2.0
BRA	**Motor vehicles, trailers and semi-trailers**	243.0	11,558.9	0.0	35.8	71.3
CHL	**Motor vehicles, trailers and semi-trailers**	3.7	12.0	1064.8	10.2	0.7
COL	**Motor vehicles, trailers and semi-trailers**	0.0	0.5	0.0	193.8	29.2
ECU	**Motor vehicles, trailers and semi-trailers**	0.0	0.0	0.0	0.3	66.6
URY	**Motor vehicles, trailers and semi-trailers**	12.9	4.4	0.0	0.1	0.0
VEN	**Motor vehicles, trailers and semi-trailers**	0.2	1.0	0.0	5.8	10.5
Mexico	**Motor vehicles, trailers and semi-trailers**	8.2	61.6	0.0	7.3	0.0
USA	**Motor vehicles, trailers and semi-trailers**	42.2	912.8	0.0	208.2	70.3
Canada	**Motor vehicles, trailers and semi-trailers**	1.2	21.9	0.0	13.0	0.0
EU27	**Motor vehicles, trailers and semi-trailers**	104.1	1344.4	0.0	39.8	30.7
China	**Motor vehicles, trailers and semi-trailers**	2.7	26.6	0.0	10.3	13.4
Rest of Asia	**Motor vehicles, trailers and semi-trailers**	74.4	421.0	0.0	76.9	14.6
Rest of World	**Motor vehicles, trailers and semi-trailers**	92.3	77.0	0.0	117.2	101.2
Total intermediate consumption		**4133.4**	**41,416.1**	**1832.4**	**1598.3**	**590.2**
Taxes less subsidies on products		**127.9**	**0.3**	**3831.7**	**130.9**	**110.5**

(*continued*)

Table 8.9 (continued)

Description		*ARG*	*BRA*	*CHL*	*COL*	*ECU*
Country/ Regions	*Products*	*Motor vehicles, trailers and semi-trailers*	*Motor vehicles, trailers and semi-trailers*	*Motor vehicles, trailers and semi-trailers*	*Motor vehicles, trailers and semi-trailers*	*Motor vehicles, trailers and semi-trailers*
Freight and Insurances		**48.8**	**230.9**	**0.0**	**33.3**	**27.2**
Intermediate consumption at purchaser's prices		**4310.1**	**41,647.4**	**5664.1**	**1762.6**	**727.9**
Value added at basic prices		**4230.9**	**9683.2**	**11.2**	**340.7**	**135.5**

Source: Instituto de Pesquisa Economica Aplicada (IPEA)/CEPAL

According to Medeiros (2010), the integration between Brazil and Argentina in the automotive industry sector must be comprehended in a scenario in which, after a decade marked by strong intra-regional trade expansion and conflicts of interest between Brazil and Argentina—due to changes on exchange rates and macroeconomic regime, a special regime of trading was created at the beginning of the millennium, where tax reductions over parts, components, and domestic content were included, along with the establishment of mechanisms of bilateral compensation. The automotive industry, constituted essentially of multinational subsidiary companies from foreign regions specialized in both assembling and supplying parts and components, started to build a vertical distribution of work and new productive clusters in southeastern Brazil and northern Argentina, where Brazil established itself as a net exporter of parts and components produced by global companies subsidiaries, which explain Argentina's remarkable dependency on Brazil.

Another interesting fact is that Table 8.9 makes clear that having Brazil and Argentina as the main productive and sales markets leads the integration process of the automotive industry in South America to exist essentially between those two countries, leaving the other countries completely out of that process.

This situation evidences the need to ponder over politics to promote a greater integration among South American countries and their insertion into the global market of the automotive industry, overcoming regional limitation. After that, even recognizing there were newcomers in the

2000s, the automotive industry of South America is led by four major companies: General Motors, Ford, Fiat, and Volkswagen. These four companies compete among themselves in practically every segment of vehicles available for consumption in the domestic market. This situation propitiates an environment where the productive chain dynamics are strongly influenced by major companies with multinational capital associated with multinational companies, their global suppliers. Therefore, thinking a greater integration in South America means discovering how to make those companies invest more in the region in order to increase their productive capacity and integrate further the countries into their activities, besides directing their production to external sectors overseas, which would require more competition in the sector in order to reach more developed markets.

Conclusion

There has been in the past few decades a considerable growth of trade among South American countries. However, the production structures of the countries within the region indicate a low level of integration that leads to a poor use of economies of scale and specialization, as well as difficulties in the process of developing new capacities of producing improved goods and/or services with higher technological intensity and added value, which affect a competitive international insertion of South American countries into world trade.

Particularly regarding the acting dynamics of the automotive industry, the debate on the automotive industry transformation in the world economy evidences that suppliers started to be fundamental to assembly companies on their process of global expansion, especially because of the capacity for meeting the requirements of the manufacturers. Among such requirements, the need for investment on new productive plants placed wherever the manufacturers establish new assembly lines has been considerably frequent. The criteria used by the assembly companies to select their suppliers involve, basically: pricing, technological quality, and capacity. There are four levels of suppliers distinguished according to their capacity to meet the assembly plants requirements: (1) major global suppliers; (2) first level suppliers; (3) second level suppliers; (4) and third level suppliers.

It is also important to recognize that developing markets are drawing more investments and most of the vehicles manufacturers place their production plants in these regions. Nevertheless, they transfer their R&D activities to those regions—to a lesser extent, generally some regions have limited themselves to entering the automotive industry GVC as third level suppliers. That can be frequently identified in LA countries. On the other hand, in certain countries from Asia and Europe, there are major first level global suppliers providing main systems to assembly plants and being closer to them than second and third level suppliers. First level suppliers are the companies that provide directly to the assembly plants, considering they have design and innovation capacities. Second level suppliers are companies that frequently work with projects provided by the assembly companies or major global suppliers, requiring expertize on engineering processes in order to meet the cost and flexibility requirements of automotive companies.

Regarding these transformations, it was verified that the automotive industry of South America had an increase of installed production capacity, their productivity grew significantly with investments on process technologies and products, the costs of assembly plants reduced after the opening to external competition for the auto parts sector bringing better prices and quality, the produced vehicles became more technologically advanced, and the industry expertize on the popular cars segment guaranteed that the ideal scale for each plant was achieved.

Generally, the data presented concerning the automotive industry show that there actually is a growth on the productive capacity during the 2000s, with higher revenues and participation of the automotive industry on industrial GDP.

However, the internal market remains as the main variable on directing the investments and production of the automotive industry in South America with a low insertion in the external market from an exportation perspective. This also suggests that the process of opening South American economies promoted a deeper internationalization of the sector, although at the same time it indicates that the models produced in the region have a restricted market, low embedded technology, and are exclusive.

When the production of the automotive industry in South America was analyzed here, it was particularly clear that its activities are concentrated predominantly in Brazil and Argentina, in such a way that the complete dynamics of the sector depend fundamentally on those two countries. Therefore, the integration between Brazil and Argentina in the automotive industry sector must be comprehended in a scenario in which, after a decade marked by strong intra-regional trade expansion and conflicts of interest between Brazil and Argentina—due to changes on exchange rates and macroeconomic regime, a special regime of trading was created at the beginning of the millennium, where tax reductions over parts, components, and domestic content were included, along with the establishment of mechanisms of bilateral compensation. The automotive industry, constituted essentially by multinational subsidiary companies from foreign regions specialized in both assembling and supplying parts and components, started to build a vertical distribution of work and new productive clusters in southeastern Brazil and northern Argentina, where Brazil established itself as a net exporter of parts and components produced by global companies subsidiaries, which explain Argentina's notable dependency on Brazil. Consequently, the productive integration of the automotive industry in South America materializes between Brazil and Argentina, which objective is to provide to its respective internal markets and export to their own region.

The dynamics of the automotive industry in South America evidences that it is fundamental to conceive a larger integration in South America for the sector with the participation of other countries besides Brazil and Argentina. In order to do so, attracting new companies for the sector, giving incentive to broaden the production so as to meet the internal market needs, and widening internationalization through an external insertion into markets overseas—if not articulated with changes of strategies of companies to internalize the development of R&D and Science and Technology (S&T)—will keep the sector vulnerable and incomplete, considering that, despite the recent trend of increasing expenses on R&D outside the headquarters, including on subsidiary companies in developing countries, a great number of those activities, including patent registering, is still highly concentrated on headquarters and subsidiaries located in developed countries. In Brazil, that becomes even more problematic when we observe that there is no national assembly companies and the auto parts sector was high denationalized.

One of the main challenges is, therefore, making the automotive industry have a more competitive external insertion, increasing its participation on exportations as a production goal, and reducing the strong dependence on its internal market. Besides, making these companies expand their investments in the region is another challenge, directing resources to the building of R&D and S&T centers in countries from the region internalizing their decisions and producing products with more intensive technology.

Notes

1. It is important to notice that the insertion of countries into different levels of the GVC is connected to a set of functions performed by companies through their supply and production contracts. Being that so, Cruz-Moreira and Fleury (2003) systematized an industrial modernization typology where it is possible to better understand the hierarchy of activities hired companies can be responsible for within a value chain:

   1. OEA (Original equipment assembly): *Maquiladoras*: (a) they receive specifications about products and productive processes; (b) receive unfinished input and components; (c) perform simples assembly activities; (d) return the product to the client for other processing; **2. OEM (Original equipment manufacturer):** Full package suppliers: (a) they receive specifications about the product; (b) develop specifications about the production process; (c) manage buying and logistics; (d) deliver finished products with the client's logo; **3. ODM (Original design manufacturer):** Full package suppliers with design capacity: (a) they perform design activities and product specification; (b) either produce or outsource their production; (c) manage the supplier's chain; (d) eventually decide about commercialization; **4. OBM (Original brand manufacturer):** Full package suppliers with their own brand: (a) they perform creation and branding activities; (b) perform design and product specification activities; (c) manage the supplier's chain; (d) decide about commercialization processes; **5. GB (Global buyers):** Global buyers: (a) they do not produce; (b) perform creation and branding activities; (c) perform design activities and product specification; (d) outsource production; (e) manage the supplier's chain; (f) decide about commercialization processes. According to Cruz-Moreira and Fleury (2003), in order to reach superior levels, companies need to develop learning processes that allows them to promote innovation and to strengthen their competences. Other researchers believe that upgrading, in this context, can be achieved by improving (1) processes and (2) products, developing new competences and functions—known as "functional upgrading" (3), or even using acquired knowledge for sector diversification.

2. WTO. *International Trade Statistics.* (Several Years). *International Trade Statistics* is a yearly journal published by OMC with indexes providing a world trade panorama.
3. The definition of automotive industry products comes from the classification Standard International Trade Classification (SITC) 781, 782, 783, 784 and 7132, including: 781—Passengers automobile and other vehicles mainly created to transport people (except vehicles designed to public transportation), including trucks and race cars; 782—Automobile vehicles to transport merchandise and for special uses; 783—Motor vehicles (n.e.p.); 784—Parts

and accessories for automobile vehicles and tractors; 7132—Piston engines with internal combustion, for propelling vehicles; Other transportation equipments (SITC group 713, 785 and 786 division, except sub-group 7132) includes: 713—Piston engines with internal combustion and its parts (n.e.p.); 785—Motorcycles and bicycles with or without engine; 786—Tows and semi-tows; other vehicles (non auto-propelled); transportation recipients specially designed and equipped.

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CHAPTER 9

The Regional Political Economy of Knowledge and Environment

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The chapter is divided into four sections. The first examines the development structure of the so-called knowledge gaps in South American countries. The second analyzes the related international norms and regulations, from a global agency point of view. The third introduces the economic gaps in intensive research activities, regional invention, and innovation, with a particular focus on energy consumption and efficiency gaps. Finally, the conclusions are presented.

The Development Structure of the Knowledge Gaps

The leading interpretations regarding the insertion structures in the international division of labor of a country are generally based on, or are derivatives of, the theory of comparative advantage of David Ricardo (1817) and relative factor endowments (capital, land, and labor) proposed by Heckscher-Ohlin (Heckscher 1919; Ohlin 1933). These models of international trade have been widely criticized for simplifying the complex

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reality, given that they do not include the transaction and transportation costs, or geopolitical factors, taking on the idea of perfect markets (Falconí 2013).

Beyond these limitations, the neotechnological approaches (Posner 1961; Hufbauer 1966) justify the comparative advantages that are created based on the capacity of the countries to innovate.[1] For Krugman and Obstfeld (2001), for example, countries engage in international trade due to convenience and necessity. Thus, it would be ideal to export goods produced with high levels of productivity, and import goods with less efficient production processes. According to the authors, what prevails is an international division of labor, where rich countries must be the suppliers of intensive goods in research and development (industrial and technology), while poor countries must keep supplying commodities, food, and minerals.

Such form or structure of international insertion represents an obstacle to reduce the knowledge gaps (KG), due to its limited endogenous process in the assimilation and dissemination of knowledge that may boost innovation. This topic was initially observed by Sunkel for whom "the primary export sector becomes the critical component of the capacity of accumulation and innovation" (Sunkel 1987: 45). Before, and in line with the theoretical center periphery approach of Prebish (1959), Cardoso and Faletto (1969) maintained that technological dependence is generated by the production processes concentrated in industrialized countries. Consequently, the insertion pattern and specialization of the region in abundance of natural resources and unqualified labor are perpetuated, which ultimately does not stimulate productive diversification with greater technological content, even during the boom in commodity prices (Gudynas 2009).

Indeed, this segmentation creates more benefits in the countries of the North than in the countries of the South due to the fact that this type of industrialization brings about productive connections, facilitates specialization, and generates more opportunities to develop new products and processes. Moreover, in the long term, the terms of trade deteriorate (Prebish 1959, 1950; Singer 1950). In other words, the ratio between the unit prices of the export of commodities and the import of industrialized goods reduces. In this way, the aforesaid limitations have made it possible to challenge the theory of comparative advantage proposed at the beginning of the nineteenth century.

In this sense, in the middle of the last century, the ECLAC proposed the concept of ISI (Prebish 1950, 1959), in other words, to substitute imports by locally produced goods. However, the proposal did not manage to reduce the dependency of the LA countries, but it only industrialized those countries that had already completed the first phase, or that already had industries for the consumption of non-durable goods (Furtado 1970). Moreover, the policies of the neoliberal school based on commercial liberalization, started in LA during the mid-70s, and, as a result, the different multilateral, sub-regional, and bilateral agreements have progressively led to an increase in economic primarization based on the export of primary products.

Under the premise of rethinking the "international insertion pattern of the region" (ECLAC 2009: 14), a pattern is searched for that would enable a boost in knowledge creation, and at the same time make way for innovation and the creation of new products and processes. This is a greater regional relative autonomy where the LA thinking should prevail as an alternative to a specific type of globalization that generates greater opportunities for the rich countries.

In that regard, the accelerated growth of China, although it is not the root cause, highlights the structural deindustrialization problem of the region, making it necessary to prioritize "the management and quality of innovation and, above all, its effects on environmental sustainability and social integration" (Phillips 2007; ECLAC 2016a: 5).

Historical evidence shows that knowledge is boosted through endogenous development (Romer 1986; Lucas 1988). The endogenous notion suggests that growth is stimulated by improved technologies that originate from their internal potential and the international decisions of investment in R&D of the agents of each economy. The production of knowledge responds to the resources and funds that facilitate R&D, while the supply of ideas directly depends on the number of researchers (Romer 1990), and the latter on R&D expenditure.

However, rich countries invest more in R&D than poor countries. This situation facilitates the specialization of economies according to their intensive use of knowledge. In poor countries, there is a higher share of less intensive activities, as compared to technology, while in rich countries, the opposite happens. Due to this dynamic, the knowledge spillover process is accelerated in rich countries (ECLAC 2010). Therefore, there are two problems: the deindustrialization and reprimarization.

As it can be seen in Fig. 9.1, LAC (even just South America) belong to the capitalist periphery in the deindustrialization process. Clearly, a lower share of industry in GDP has regressive effects on specialization, which has brought about a strong “reprimarization”, which is an increased share of primary goods in the commercial structure, as shown in Fig. 9.2. Thus, there is a structural reduction in the capacity of poor (South American) countries to integrate successfully in the global economy (Lall 2000). The fact is that the income generated by mining activities in LAC is not transferred to sectors that are linked to knowledge. As recognized by ECLAC (2013), the foreign direct investment also does not make a relevant contribution to the creation of new activities with high technological content.

In fact, these asymmetrical relations or unbalanced development structures are inherent to the LA political cycle, something that is observed more firmly since the boom in commodity prices, especially since 2002. Without a doubt, this behavior affects the capacity to generate increasing returns, given the weak capacity to absorb, incorporate, and generate greater technological learning. Ocampo (2005), for example, had already emphasized that industrialization increases productivity as a response to improvements in the division of labor and technological advancements. A contradictory point is that LA countries export raw materials at a lower cost and import the same primary goods with high technological content at very high costs.

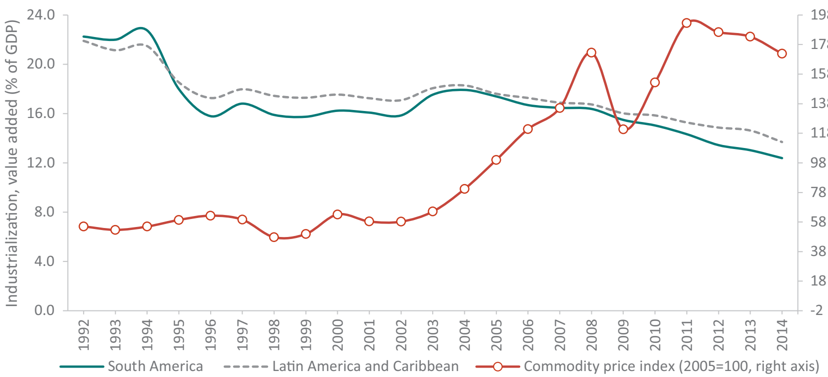

Fig. 9.1 Industrialization (value added % of GDP) in LAC and South America, 1992–2014 (Data do not include Paraguay between 1994–2004 or Venezuela in 2013 and 2014; Source: World Bank and International Monetary Fund (2016))

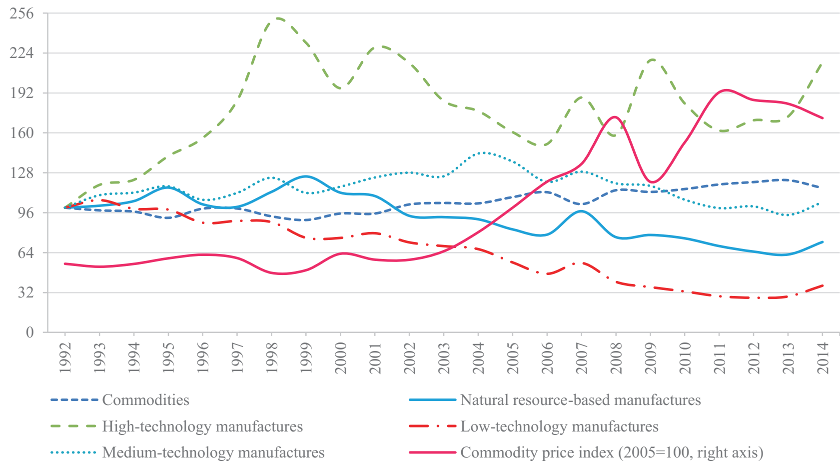

Fig. 9.2 The export structure of South America by technological intensity index 1992 = 100 (Data do not include Suriname in 1993, Guyana until 1996, and Venezuela in 2014; Source: UN Comtrade-Database and International Monetary Fund (2016))

International Norms and Global Development Agency

As we have already analyzed, the dependence of the countries of the South is generated by the international division of labor, which creates advantages for the industrialized countries and obstacles for the countries that export commodities. In this context, there is an unfavorable, unequal, and unfair international order, which configures the same trade structure of the nineteenth century. In this sense, the agreements on the TRIPS of the WTO, the FTA, the BIT, and the WTO Regulations, stand out, among others.

In the case of the TRIPS, they establish the inclusion of patents of all inventions, limiting the possibility of utilizing sectoral policies that the rich countries had in their historic moments (Roffe and Santa Cruz 2006). Figuratively, Chang (2002) emphasizes that the countries of the North "kick the stairs that helped them rise". For example, imitation, together with policies for industrial development and education, facilitated the development processes of countries such as Japan and South Korea. Consequently, in poor countries, the TRIPS generate a loss of legislative flexibility and active policies in health, nutrition, education, and industrial development (Roffe and Santa Cruz 2006).

On the other hand, this regulation has been an important step towards the patentability of life (Rodríguez 2005). Article 27 (subparagraph 3b) of the TRIPS enables the creation of patents of microorganisms and biological procedures. This shows an important advancement in terms of privatization and commoditization of living beings. In fact, in terms of intellectual property, this multilateral agreement did not satisfy all of the expectations of the rich countries. As such, the negotiations of the bilateral treaties with significant emphasis in terms of intellectual property, among others, with LA countries[22] continued. In this context, the free trade agreements and the bilateral investment treaties (TRIPS plus) include provisional ones that intensify the protection related to pharmaceutical patents, data protection, and genetic resources. On the other hand, the agreements grant access to biodiversity and traditional knowledge and they even pursue to illegally create patents for plants and animals. These provisions violate the legal principles of the TRIPS,[3] the European agreement on patents, and the Decision 486 (Common Industrial Property Regime) of the CAN that do not consider living beings as an invention.

However, many of the patent applications and patents are the result of illegal access and use of biodiversity and traditional knowledge. The case of the Ayahuasca patent, a medicinal plant used by the Amazon communities of Ecuador for several decades, is not a unique situation. According to Schuler (2004), the Ayahuasca was patented in 1986. In November 1999, due to pressure from the indigenous communities of the Amazon, this was revoked. However, the revoking was then overruled in 2001.

In this regard, Gómez et al. (2008) warn that the USA claims to register biotechnological inventions without any requirement to declare the origin of the biological, genetic, or traditional knowledge resources. At the same time, they create commitments that impede the access to sanitary or commercialization permits before the patent expires. The free trade agreements of the USA with other countries aim for the different applicable legislations in poor countries to be adapted to their legal system, especially in terms of intellectual property (Gómez et al. 2008).

According to the UNCTAD (2007), the member countries of the WTO, in addition to the obligations imposed by the TRIPS, should also comply with the provisions of the Paris Convention of 1883 regarding the Protection of Industrial Property, with the Berne Convention of 1886 for the protection of Literary and Artistic Works, and with the rules of

Agreement on Intellectual Property in Integrated Circuits, currently administered by the WIPO.

Of course, there have always been proposals from the countries of the South to protect their resources, life forms, and traditional knowledge. However, the rich and industrialized countries have established alliances amongst themselves to prevent changes that do not suit their interests.

On the other hand, the climate agreements do not recognize property rights on the atmosphere. There remains absence of a court that would sentence the damages and losses caused by the rich countries through climate change. Therefore, the industrialized countries, responsible for the greatest part of environmental pollution do not comply with their obligations to reduce greenhouse gas emissions and to mitigate the effects.

At the Paris Summit, no actions were established to reduce the effect of the greenhouse gases. Moreover, the intellectual property rights restrict the development and transfer of technologies to poor countries.

Consequently, there is a paradox of free access to the environment versus the privatization of knowledge. The paradox is that the rich countries charge for their technology while countries of the south provide environmental goods free of cost, such as the absorption of CO_2 by natural sinks (forests and oceans) and this deepens the knowledge gaps. The ecosystems supply vital services to humanity: maintaining the atmosphere and climate regulation; water cleaning, control of hydrological cycles, reduction in floods and droughts; protection of coastal ecosystems through coral reefs and sand dunes; conservation of fertile land; reduction of parasites in cultivations; pollination of plants; human nutrition with added value, such as water.

The greatest free contribution is the knowledge that is included in nature. The plants that serve as food and as medicine have been plundered and investigated *in situ* without permission and have been purchased by rich countries at ridiculous prices. This is called biopiracy (Shiva 1997; Tedlock 2006; Finetti 2011). Afterwards, they have returned in the form of patented industrialized products (food and medicine) at high prices. This is one of the main causes of inequality on the planet, and of the increase in the number and extent of knowledge gaps. Behind this protected knowledge of intellectual property rights, rich countries aim to generate earnings in the framework of a monopolistic market, and thus, this knowledge is no longer a public (non-rival and non-excludable)[4] good. Sachs (2015) mentions that companies invest in R&D to make a profit, and not to solve the problems of the poor or the environment.

According to Carrillo (2006), 80% of biological diversity on the planet is located in developing countries. However, in more recent times, a substantial part of patented international medication in rich countries is a product of biopiracy against poor countries, of the plundering of their biodiversity (Shiva 1997).

Structural Knowledge Gaps

Activities related to knowledge start with R&D, followed by invention, innovation, adoption, and distribution of practices and technologies (Gault 2006). As mentioned by the OECD (2004), the intensity of R&D in different countries can be seen through indicators such as R&D expenditure (as % of GDP) and the number of researchers focused on producing new knowledge. Strictly speaking, theory and ideas are not considered to be innovation, but they are fundamental for its development (Bell 1973). Meanwhile, the knowledge gaps between the rich countries of the North and LAC countries are mostly shown by the number of published articles and the number of patent applications (Gault 2006). The OECD (2015) emphasizes that patents are products of R&D. However, the intellectual property rights, commercial brands, copyrights, and trade secrets are modern mechanisms to protect this knowledge (Gault 2006).

According to ECLAC (2010), the difference in productivity (GDP per employed person) is due to the speed at which rich countries innovate and distribute technology, compared to the capacity of poor economies to absorb, imitate, adapt, and innovate. The reality of this situation is that poor countries are inefficient in their production processes.

According to data from the World Bank (2016), LAC countries registered stagnation in productivity up to the year 2002. After that period, in reaction to the commodities boom, productivity slightly increased. However, these improvements turned out to be insufficient for the reduction of the region's inequalities compared to rich countries. Between 1991 and 2015, the gap with the USA increased from 2.9 to 3.6 times. Similarly, regarding Japan, it increased from 2.3 to 2.4; while for South Korea went from 1.1 to 2.3, and compared to the EU from 2.2 to 2.5 times. Conversely, countries such as China, due to their accelerated increase in R&D and as a consequence of knowledge production, reduced their knowledge gap with LAC from 0.1 to 0.7 times during this period.

However, the improvements in labor productivity are also a result of the greater control that workers have of indirect energy (incorporated into the machines) or direct energy (fuel or electricity needed for their operation). The necessary energy for the generation and maintenance of knowledge is added to this.

This result was already observed by Cottrell (1955), when he mentioned that productivity increases with an increase in the available energy consumption per capita. The higher productivity of workers in the USA compared to Europe was explained by their higher consumption of energy per capita (Boretsky 1975). For the USA, it was also shown that labor productivity of manufacture workers is related to the consumption of energy per hour of work (Cleveland et al. 1984). These authors also showed that when the oil price (in real terms) was lower than real salaries (in relative terms), oil substituted work, and labor productivity increased, and vice versa. This same result was found for countries as diverse as Ecuador (Falconí 2001), Spain (Ramos-Martin 2001), China and India (Velasco-Fernández et al. 2015), and countries of the EU 15 (Sorman and Giampietro 2013).

The higher the productivity, the greater the economic growth of those countries (World Bank 2016). As a consequence, data from the same source (World Bank 2016), reveals that the average per capita income of countries in the region in 1960 represented 36.2% of the income of the USA, but for 2015 it fell to 27%. Similarly, the proportion of income compared to Japan went from 43.5% to 21%, while compared to the USA it decreased from 36.2% to 27%. On the contrary, South Korea's income in 1960 represented 30.3% of the income of a LAC person. Today, the income of a LAC person represents 37.2% of the income of a Korean person.

According to ECLAC (2016b), the persistence of gaps in economic growth deepens the segmentation and falling behind from the developed world, creating difficulties to finance other dimensions of development, such as knowledge. Between 2000 and 2012, according to the indicators of the World Bank (2016), the average growth rate in R&D in China was 6.6%, 5.3% in South Korea, 1.2% in the EU, 0.9% in Japan, and 0.6% in the USA. LAC had a annual growth rate of 2.8%, which enabled a decrease in distance with most countries, however there is no convergence with countries such as South Korea and China, whose gap between 2000 and 2012 went from 3.9 to 5.3 and 1.6 to 2.5 times, respectively. In 2012, on average, LAC invested 0.76% of their GDP in R&D, an amount that is below the global average (2.2%) and the rich countries (2.5%).

As shown in Fig. 9.3, in spite of the prolonged boom in commodity prices (2003–2011), the evolution of R&D expenditure of most South

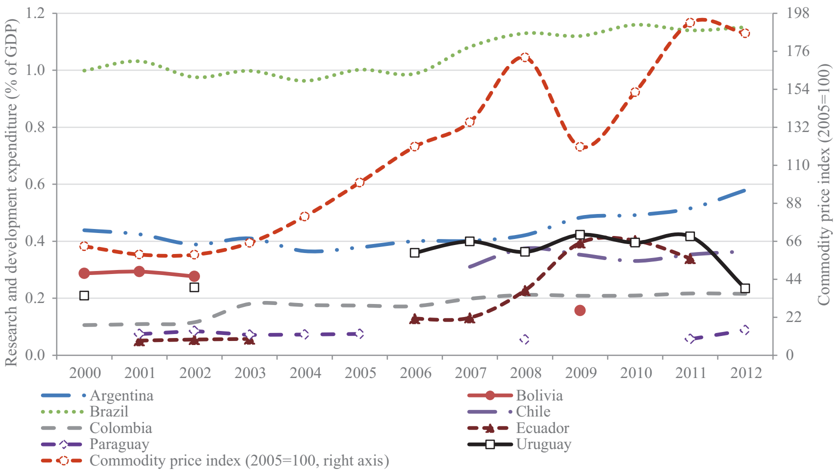

Fig. 9.3 Evolution of R&D expenditure (as % of GDP) in South American countries and the commodity price index, 2000–2012 (Source: World Bank and International Monetary Fund 2016)

American countries shows little importance in innovation, science, and technology. Countries such as Argentina, Brazil, and Ecuador increased their levels of investment. However, in economies such as Chile, Colombia, Paraguay, and Uruguay, the proportion of this expense remained unchanged, while Bolivia reduced the size of investment.

This divergence can also be seen through R&D expenditure per capita (2010 US$). For example, the expenditure of a LAC person in 2000 and 2012 represented 12.5% and 7.7% of the value assigned to a Korean person, respectively. At the same time, this investment was 29 and almost 20 times (respectively) less than the expenditure of an American or Japanese person. According to Huňady and Orviská (2014), countries that spend more on R&D have a greater number of researchers in charge of creating new knowledge (see Table 9.1).

In this regard, the proportion of public expenditure in basic education represents another obstacle in the region's development. In 2011, LAC assigned 14%, the EU 20.8%, Japan 23.5%, and the USA 20.9%[5] (World Bank 2016).

Moreover, the generation of capacities represents another important factor for scientific and economic development. Therefore, the higher

Table 9.1 Expenditure in R&D and researchers dedicated to R&D

Countries or regions	*R&D expenditure per capita (constant 2010 US$) by year*				*% R&D expenditure*	*Researchers in R&D*[a]
	2000	*2001*	*2008*	*2012*	*2012*	*2012*
Japan	1205.3	1253.2	1504.9	1459.6	3.3	5083.7
USA	1180.7	1158.3	1365.8	1388.5	2.8	4018.6
South Korea	329.3	380.7	651.2	934.5	4.0	6361.6
EU	527.6	552.9	639.3	682.8	2.0	3336.2
East Asia & Pacific	120.9	127.1	174.2	208.6	2.6	1575.4
Brazil	87.2	86.7	119.3	133.0	1.2	[b]698.1
China	15.8	21.8	55.0	101.7	1.9	1035.9
LAC	41.2	38.7	61.0	72.1	0.8	[b]524.4
World	168.6	169.9	192.0	212.7	2.2	[b]1268.4

Source: World Bank (2016)
[a]Per millon people
[b]2010

education system plays a fundamental role in the world. As shown by the Shanghai ranking (ARWU 2016), in 2015, of the 500 highest rated universities, only 10 were located in LA, and 5 in Africa. This reality differs among countries, as 6 are located in Brazil, 4 in South Africa, 2 in Chile, and only one each in Argentina, Egypt, and Mexico.

Additionally, in LAC, the proportion of the labor force that finishes university was 17.3% in 2012. While in the EU, Singapore, and the USA, this number was 29.6%, 29.4%, and 32.5% respectively (World Bank 2016).

These differences have asymmetric effects on the knowledge base. The number of scientific articles and the amount of patent applications show considerable lags regarding invention and innovation. According to the same source (World Bank 2016), the number of articles in scientific and technical publications of 78.1% of the countries in the world is located below the global average. In other words, 304 publications per one million inhabitants: in North America this number is 1338, in the EU 1192, in LAC 138, and only 21 in Sub-Saharan Africa.

The outcome of this situation is that the Northern countries are those with the highest focus on intellectual property. According to the World Bank (2016), in 2013, 10% of the countries with the highest and lowest income produced 45% and 0.12% of scientific articles, respectively.[6] As a consequence, when considering the number of publications per country, during the last 27 years, there are no substantial improvements in the Gini coefficient. On the contrary, during this year, 65% corresponded to the EU (27.7%), the USA (18.9%), and China (18.4%). LAC only represented 3.9%.

Nonetheless, the Gini coefficient measured in per capita terms, decreased from 0.828 to 0.652 between 1986 and 2013.[7] This drop is due to the important increase produced by China, which went from 2 to 296 publications per one million persons.[8] During this period, the distance of the Eastern Asia and Pacific countries compared to LAC increased by 6.5%. While the gap between high-income countries and Sub-Saharan African countries increased by 48%.

The gaps in invention and innovation are also shown by a low number of patents in poor countries. Zachariadis (2003), Ulku (2004) and Bayarçelik and Taşel (2012) show that research and development expenditure has a positive effect on the number of patent applications.

As shown by WIPO (2015), the number of patent applications tripled between 1985 and 2014. A higher number of applications is concentrated in Asian countries, going from 37.1% in 1985 to 60% in 2014. The conditions in North America remain favorable, with an average growth of 5.2%. The inequality compared to areas such as Oceania, LAC, and Africa remain worrying due to their marginal proportion, even though its growth rate was positive during the last 29 years. Conversely, there is a negative growth rate of 0.2% during this period in Europe (see Table 9.2).

In spite of the positive growth in most countries, over three quarters of the requests (76.4%) were processed in only four economies in 2014. 34.6% in China, 21.6% in the USA; 12.2% in Japan, and 7.8% in South Korea. Germany requested more patents than all of LAC. As a consequence, the gaps do not stop growing over time. Between 1990 and 2014, the gap regarding the USA rose from 8.7 to 9 times. While the gap compared to South Korea grew from 1.3 to 3.3 times. However, the difference with emerging countries such as China is more pronounced, as it rose from 0.5 to 14.5 times.

During the commodities boom (2003–2011), the LAC countries show three kinds of behavior. On the one hand, the number of patent applications as well as the number of articles in scientific and technical journals increased in countries such as Brazil, Costa Rica, Uruguay, and Trinidad and Tobago. In other countries such as Argentina, Chile, Colombia, and

Table 9.2 Patent applications per region

Regions	*Number of applications (thousands)*		*Proportion (%) of applications*		*Average yearly growth rate of applications*
	1985	*2014*	*1985*	*2014*	*1985–2014*
Africa	14.2	14.9	1.5	0.6	1.2
Asia	342.1	1,607.5	37.1	60.0	5.6
Europe	404.7	346.2	43.8	12.9	−0.2
LAC	15.2	64.1	1.6	2.4	5.8
North America	142.8	614.3	15.5	22.9	5.2
Oceania	4.0	33.9	0.4	1.3	16.1
World	923.0	2,680.9	100	100	3.8

Source: WIPO (2015)

Mexico, the number of scientific articles increased, while in countries such as Ecuador, El Salvador, Guatemala, Haiti, Jamaica, Paraguay, Peru, and Venezuela, both indicators remained unchanged.

According to the World Bank, R&D expenditure in LA is not focused on applied R&D. As a result, fewer patents are produced compared to the production of the OECD and of the Asian tigers. This situation occurs, in spite of the fact that R&D can have a greater effect on poor countries than on industrialized countries (Lederman and Maloney 2003).

The knowledge gaps point out the differences in energy consumption. When estimating the Gini coefficient for 94 countries for which there is information for the year 1990 and 2013, the level of concentration of energy consumption per capita increased from 0.53 to 0.56. In other words, the rich countries consume increasingly more energy than the poor countries. According to the World Bank, in 1997 and 2011 energy consumption in poor countries represented 9.4% and 7.7% of the consumption of rich countries, respectively. As such, only the countries with specific levels of R&D expenditure and energy consumption have been able to reach development levels and labor productivity levels that allow them to "subsidize" activities related to education, research, and innovation in terms of energy.

However, in terms of energy efficiency (energy consumption related to real GDP) there is not only a gap between high income and low income countries, but there is also an increase in this gap over time. According to the World Bank, it went from 4.1 to 5.1 times, from 1971 to 2011. One of the main reasons for this phenomenon can be found in the relocation of companies that make intensive use of resources, towards developing countries (Velasco-Fernández et al. 2015). At the same time, a lot of energy efficiency technologies are not adopted, even when they are useful for consumers and companies (Jaffe and Stavins 1994).

Conclusions

The analysis presented in this chapter shows that there are growing knowledge gaps between rich countries of the North and poor countries of the South. There are various convergent causes, of very different origins, that explain these knowledge gaps. On the one hand, those causes arise from the distinctive innovation system of the countries of the North. On the other hand, the causes arise from the structural failures of the countries of the South themselves, in particular of the LAC countries. Among the structural failures, the following stand out: (1) the weak international insertion of the countries of South, as suppliers of raw materials and food; (2) a process of deindustrialization, resulting in weak productive connections and scarce linkage with the innovation system; and (3) an asymmetric international order that establishes norms and regulations that favor rich countries, and at the same time, does not recognize the supply of knowledge of the natural wealth coming from the countries of the South. Additionally, there is a lack of suitable public policies to promote the system of science, technology, and innovation.

Knowledge and innovation gaps between rich countries and South America, as well as LAC, show growth over time and have not decreased in spite of the boom in prices of commodities and food. Nevertheless, three possible scenarios prevail, that could mark the trajectory of gaps in the future. First, to maintain the current trajectory that would imply the deepening of the gaps. Second, to reduce the gaps by investing in education and R&D, or provide a big boost. This implies injecting more resources (public and private, the last are tax incentives) that aim to fulfill basic needs (public health, energy, food).

However, the improvement of knowledge inevitably brings along an increase in the consumption of energy and materials. It is not by coincidence that the economies that are stronger in knowledge, such as the USA, Japan, Germany, and recently Korea or China, are those which have higher consumption levels, as well as more developed industrial sectors. This unsustainable behavior drives a third scenario, which would not imply an emulation of what these rich countries have done. One should not forget that the generation, maintenance, and use of knowledge are intense in natural resources and demand a particularly high level of development, which tends to come from an increase in the consumption of natural resources. Economic growth will always imply a greater use of resources, in spite of all the initiatives for efficient use that are being implemented, or all of the programs that promote recycling (Schaffartzik et al. 2014).

If the knowledge gaps between the rich and the poor countries keep increasing, the latter will not be able to break away from dependency. If the knowledge gaps are reduced, by producing a surplus of extractive exports, it will be possible to buy knowledge and to surpass it. However, the ideal thing would be to move away from a model of accumulation that is unsustainable in the long term. Unlimited growth is guaranteed by the decrease in the cost of goods, which stimulates demand and brings along more growth.

Lastly, there is the option of programed obsolescence. The moment that a new product is introduced on the market, its successor is already being developed. The technological gap grows and becomes unbridgeable. These gaps should not only be reduced, but ancestral knowledge should also be recovered, depreciated by the idea of modernity in a globalized world that is almost undifferentiated among cultures.

Notes

1. The neo-technological approaches distinguish two models: theory of technological gap (Posner 1961; Hufbauer 1966), the topic of this research, and the theory of the product lifecycle.
2. According to Correa (2004), the bilateral investment treaties with intellectual property contents and intellectual property agreements were common in the 80s.
3. According to Art. 27 of the TRIPS, member countries can exclude plants and animals from patentability.
4. "If knowledge were a non-rival good, it would be distributed quickly, imitation would be at almost zero cost, as a consequence less resources would be invested in its production" (Velazco-Fernández et al. 2015: 84).
5. There is a similar difference in the investment in secondary education.
6. 10% of the countries with the most and least wealth had an income higher and lower than 37,500 and 500 (US$), respectively.
7. Without China, the Gini coefficient decrease from 0.788 to 0.711 between 1986 and 2013.
8. In 2013, the proportion of China's population represented 19% of the world population.

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CHAPTER 10

Cities in the South American Development: Bogota, Lima, Quito, and Santiago in Regional Frame

Luis Fuentes and Gustavo Durán

Introduction

The city is where the results and contradictions of regional development are depicted and observed; such as growth, wellbeing, inequality, and informality within a determined global position. The protagonism acquired by urban settlements has once again driven the debate about the importance of urban policies and the management of metropolitan areas in many places in the world. As indicated by Harding (2005), the study of city governments, especially of the connections between the local, regional, national, and supranational levels of the public sector, becomes strategic,

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given that its governance is in the center of the relationship and the balance between the urban competitiveness and social cohesion, principle objectives of public action. Today, in LA, priorities have been linked to urban policies that correspond to a "classic" development agenda (infrastructure, services, education, health, etc.) as well as those that arise in a new context of urban evolution (security, mobility, citizen participation, etc.).

South America is not an exception to this. It is one of the regions with the highest level of urbanization in the world (80%), with almost one third of its population residing in cities of more than one million inhabitants (ECLAC 2014). These factors intensify the visibility and the importance of the metropolitan government. Above all, if we consider that, in addition to the classic South American development problems (informality, inequality, lack of infrastructure, wellbeing, among others), there are other complexities, which are the product of the insertion of its countries in the global stage (migration, organized crime, illegal trafficking, and others). In relation to this, several experiments have been carried out since the 90s, in terms of urban policies with important and positive effects on the public sphere. Some of these are the cases of public transport policies in Lerner's Curitiba, citizen culture and public transport in Mockus', and later Peñalosa's Bogota, and lastly, the interventions in the poor neighborhoods of Fajardo's Medellin.

Taking the context of the region-city ratio in South America and the different metropolitan administration models that reflect this ratio into consideration, and using this as a reference point, the objective is to analyze the forms of administration and management of the metropolitan areas of Bogota, Lima, Quito, and Santiago, while facing urban challenges. Through this research, we aim to find similarities and differences in institutionalism that operates in these geographic areas and their responsibilities in terms of competitiveness and economic development, transportation and infrastructure, spatial planning, social development, and the environment.

Why these cities? The justification that makes the comparison between these cities attractive is that they are the capitals located within South America known as the Andean region. Historically, the South American countries with earlier and more advanced urbanization processes were those on the Atlantic coast, exposed to an intense exchange with Europe. In the present day there is a globalizing shift that marks the region converting the Pacific coast into a strategic zone in terms of global trade, reflected in the relevance of the main cities of the region. Today, three regional urban agglomerations of more than ten million inhabitants can be distinguished, located in the Atlantic zone. However, according to the UNU (2014), by 2030, Lima and Bogota will already be incorporated into the select group of large metropolitan agglomerations in South America.

The study of metropolitan institutionalism recognizes a multiplicity of inputs for discussion going from the financial environment and management instruments to the impact of community stakeholders in decision-making processes, among others, as well as the study of institutionalism and its development dimension related to the agency structure and context. In our case, the discussion will take place from the point of view of institutionalism and responsibilities, as a way to determine the characteristics and the administration models assigned to different cities in this analysis, as a response to a complex and conflictive globalization process as well as the internationalization of the South American cities.

The chapter is in four parts, besides this current section for introductory purposes. In the second section, theoretical models for the management of urban areas are described, as well as a brief historical overview of those that have predominated. In the third section, a short description and definition will be given of the metropolitan areas that are analyzed, putting emphasis on determining the units of strategic management that integrate these geographic areas. In the fourth section, institutions and their power over the metropolitan areas of Bogota, Lima, Quito, and Santiago are analyzed. Finally, a comparison is made using the main results of the study. These concerns take place in a broader context, related to the regional challenges considering the different development structures that define and characterize the LA region.

The Challenge of the Metropolitan Government

From a historical and pragmatic perspective, authors such as Lefevre (2000) and Bourne (1999) have presented the metropolitan development structure to express that the discussion has revolved around the necessity and the benefits of two opposite metropolitan political organization models. On the one hand, the consolidated or “metropolitan” model in which governments, services, and relatively strong regulatory entities exist, and on the other hand, the “decentralized” (or local) model in which municipal governments maintain their autonomy and authority, and where there are no metropolitan governments or regional authorities with popular mandate (Bourne 1999). According to Bourne (1999), the constitutions of metropolitan governments in North America go back to the 50s, and a large part of these were vertically imposed by provincial governments, while in Europe, between 1960 and 1980, the solution to the issue of governability of cities, was imposed by the USA.

In LA, the debate is more recent than in North America and Europe. However, structural factors emerge that mark the complexity of the South American cities as well as the emergence of new social stakeholders, formal and informal forces, youth unemployment, organized crime, migration, and refugees, within productive fragmentation and a fragmented infrastructure. The relevance acquired by the market and the regional and global connections that tend to alter the balance in power relations between the central government (the State) and local governments (Municipalities) and civil society, in the administration of the territory, must be added to these factors.

Several tendencies mark the main challenges for the region's development structures. Urban growth, especially of informal settlements, where approximately 20% of the population lived in 2014 (UN 2016) continues to be a significant problem given the social consequences that it brings about. Another emerging issue that affects the productivity of cities and the quality of life is mobility, given the growth in demand, which according to the CAF will increase by 150 million additional daily travelers between 2010 and 2020 only. The risk linked to environmental sustainability also transforms into another relevant aspect of urban management.

According to Borja and Castells (1997), in LA, the political democratization and decentralization processes of the state revalued the role of cities and local governments. However, the limitations of these processes, the social effects of adjustment policies added to the inequalities and inherited marginality, the deficits in infrastructure, and the weakness of the sociocultural framework, slowed down the emergence of cities as protagonists but not as a problem of regional development.

In light of this situation, studies such as the one carried out by Rodríguez and Oviedo (2001), of ECLAC (2001), following the guidelines of the UN,[1] identify four government structures forming a South American "hybrid" management model of metropolitan areas.

According to the authors, these management models are not static and there can be transitions from one typology to the other, due to the different development dynamics that occur in reality. In this sense, the international impact enables the detection of three types of change that can affect metropolitan governments. First, on a jurisdiction level, due to the extensive growth of the cities in the territory. Second, in the management model, from an inter-municipal model to a supra-municipal model and vice versa. Third, in the government model, since the government bodies emerge at an historic point in time, product of a political and social process, they can also disappear in another one; this empiric ascertainment is a good reflection of the consolidation of a heterogeneous regional model that ranges from neoliberal metropolitan management (open to trade and entrepreneurship) to neo-developmentalists (redistributive policies).

Rodríguez and Oviedo (2001) identify more alternatives, but like other researchers, they go further into the analysis of two typologies of metropolitan administration models and their derivatives, the supra municipal and the inter-municipal, in terms of opposite forms of institutional organization. In this regard, they propose a descriptive analysis scheme shown in Table 10.1. In this table, the differences between the models can be observed, regarding the links with other areas of political power, their legitimacy, funding, and jurisdiction, placing the metropolitan development structure in a geographic context. Examples of the supra municipal model on an international level would be London or Toronto. On the contrary, examples of the fragmented are French urban communities such as Lyon.

The Definition of the Metropolitan Territory of Bogota, Quito, Lima, and Santiago

One of the main difficulties in analyzing the cities in this study relates to their physical delimitation, an issue that is increasingly more complex according to the specialized bibliography (Mongin 2006; Dematteis 1996). In spite of this, it is necessary to establish certain limits that define what it is that we are referring to, when we speak of the metropolitan area of Bogota, Lima, Quito, or Santiago. For this reason, and considering that each of the countries to which these cities belong have distinct criteria to define when we speak of a city or a metropolitan area, we have chosen to consider delimitation from a legal point of view, facilitating analysis from different perspectives.

In the case of Colombia, the metropolitan areas have legal recognition from the highest legal body in the country. The PCC of 1991 recognizes metropolitan areas as a need generated by urban growth, when it states:

> "… when there is an economic, social or physical relationship between two or more municipalities, giving the conjunction the characteristics of a

Table 10.1 Government models of metropolitan areas (Source: Rodríguez and Oviedo 2001)

	Models			
	Supramunicipal		*Intermunicipal*	
Characteristics	*Under the authority of the central government*	*Autonomous*	*Autonomous linked with the central government*	*Autonomous Fragmented*
Links with other areas of power	It is part of the regional or provincial government Local dependent municipalities	Immediate power between the central, provincial and regional government or the municipalities	Association or cooperation of all municipalities of an area	Association or cooperation of some of the municipalities of an area
Political Legitimacy	Appointment or election of regional authority Regional assembly of indirect elections	Direct election of the metropolitan mayor and assembly, by popular vote	Indirect election of the representatives. The mayors and councilors of the municipalities are the ones who elect	
Financial Resources	Central government resources	Financial autonomy	Under the authority of the municipalities or the central government level	
Jurisdiction		Different and precise jurisdiction	Different and variable. It depends on the agreements and coordination of the municipalities	

> metropolitan area. They can organize themselves as an administrative entity in charge of programming and coordinating the harmonic and integrated development of the territory placed under its authority; rationalize the supply of public services, under the responsibility of those who form part of it, and if it is the case, offer several of these services together; and carry out improvement works of metropolitan interest " (Art. 319 of the PCC).

Besides this general regulation, the PCC defines a special regime for Santa Fe de Bogota, the capital of the Republic, and of the Department of Cundinamarca, organized as a District Capital (D.C) (Art. 332 of the PCC). So, in the case of this research, the metropolitan area of Bogota is territorially represented by 20 localities that jointly form the administrative unit of Bogota, D.C. This territorial unit has a surface area of 177,598 hectares, representing 0.15% of the national territory, of which approximately 25% (around 45,000 hectares) correspond to the urban area with the rest categorized as rural area, according to the Higher Mayor of Bogota D.C. According to the National Administrative Department of Statistics, Bogota D.C. contributes around 22% to national GDP. On the other hand, according to the 2015 census, the Colombian capital has a population of 6,840,116, which represents 16% of the total population of the country, being Colombia's political, cultural, and economic center.

Peru's case is different from that of Colombia, given that the PCP of 1993 does not establish the possibility for the constitution of metropolitan areas, However, Art. 198 establishes a special measure for the capital:

> "The Capital of the Republic does not integrate any regions. It has a special regime in decentralization laws and in the Organic Law of Municipalities. The Metropolitan Municipality of Lima exercises its competencies within the area of the Lima Province."

In the other cases, the organic laws of the municipalities establish coordination mechanisms, integrated by the district mayors of the respective jurisdictions, who coordinate the plans, programs, projects, and budgets of the municipalities of the province.

In that sense, the metropolitan area of Lima comprises the large conurbation of Lima including the agglomeration of the Callao Province. This means that administratively, it consists of 49 districts, 12% belonging to Callao and the remainder to the Lima Province. The study area corresponds to a surface area of 281,100 hectares, which represents 2.7% of the surface area of the country, and the urban area is comprised of approximately 66,000 hectares. Regarding the population, there is a concentration of 8,482,619 inhabitants, which is equivalent to 33% of the national population (INEI 2005).

In the case of the metropolitan district of Quito, the Special Law of the Metropolitan District of the year 1993 led to the creation of the metropolitan district, but with various gaps, which they attempted to correct in the elaboration of the constitution of 2008. As such, Quito comprises 31 urban parishes and 34 rural parishes. In total, these add up to a surface area of 406,696 hectares, which corresponds to 1.8% of the national territory; with a population of 2,239,191 in the year 2010 (INEC 2010), equivalent to 15.5% of Ecuador's total population.

Chile represents an exception to the previous cases, due to the fact that the PCCH does not make any reference to metropolitan areas as territorial spaces within the national regulations. The only reference to metropolitan areas by the highest legal body is in Art. 123 regarding local administration, which only establishes formulas for inter-municipal coordination.

The law to which Art. 123 of the PCCH refers, is the Constitutional Organic Law regarding Regional Government and Administration (Law 19.175), where metropolitan areas are posed as "the territorial extension formed by two or more population centers that are united with each other by constructed areas and that share the use of different infrastructure elements and urban services" (Art. 109). In this way, the spaces are defined for Regional Governments in terms of public services and a Regional Council for Municipal Action is created for the planning and coordination of local action and common issues.

The most relevant legal or judicial references to metropolitan areas, for the purposes of this research, as it allows us to delimit, is the Metropolitan Area of Santiago, which is found in the General Urbanism and Construction Law (Decree with Force of Law 458). In this legal body, it is established that in terms of intercommunal planning, metropolitan areas correspond to the units that exceed 500,000 inhabitants. In this sense, and according to the intercommunal planning unit of the city of Santiago, the MRPS, with the modification made in 2006, the metropolitan area of the city corresponds to the sum of the 52 municipalities that form the Metropolitan Region of Santiago, taken as a reference here.

Institutions and Their Responsibilities in Bogota, Quito, Lima, and Santiago

Relevant Institutions in the Metropolitan Area

The main territorial entities constitutionally recognized in Colombia, Peru, Ecuador, and Chile differ in number and scale. In addition, from an administrative perspective, there are differences in the recognition of the geographic areas of the capital as special zones. In the cases of Colombia and Peru, the capitals of the republic are recognized as "Bogota, D.C." and "Metropolitan Municipality of Lima", respectively; while in Chile, Santiago is not recognized as special territory, but rather it follows the current administrative regime of the rest of the territory.[2] In the case of Ecuador, a special law created in 1993 led to the creation of the metropolitan district of Quito (Table 10.2).

In Chile, Art. 110 of the PCC, establishes that, for the internal government and administration of the State, the territory of the Republic is divided into regions (under the responsibility of a designated Intendant) and these are divided into provinces (under the responsibility of the desig-

Table 10.2 Political administrative division and number of units in Chile, Colombia, and Peru (Source: Self-elaborated, based on the Political Constitutions of Chile, Colombia, Ecuador, and Peru. The number of units (in parentheses), was obtained from the respective National Statistics Institutions or Departments)

	CHILE	*COLOMBIA*	*PERU*	*ECUADOR*
Type of Government	Unitarian	Unitarian	Unitarian	Unitarian
Political Administrative Divisions	1. Nation	1. Nation	1. Nation	1. Nation
	2. Regions (15)	2. Departments (32)	2. Regions (0)	2. Regions (7 y 2 metropolitan districts) 3. Provinces (25) 4. Counties (224)
	3. Provinces (53)	3. Districts (10)	3. Departments (24)	5. Parishes (1035)
	4. Communities (346)	4. Municipalities (1.101)	4. Provinces (195)	
		5. Indigenous Territories	5. Districts (1.834)	

nated governor). For the purposes of local administration, the provinces are divided into communities (under the responsibility of a mayor and a communal council, elected by popular vote). Each one of these geographic levels possesses an organizational representation with a structure and several specific functions and responsibilities in the territorial area, of which the regional and communal levels are the most relevant. Regarding the central government, the President of the Republic is the Head of State and of the Government. The central government is comprised of Ministries and Ministerial Regional Secretaries, the Regional Intendants, the Provincial Governments, and the national public services created for administrative functions.

On a regional level, the Regional Council and the Intendant are the ones who are responsible for the higher administration of the region of the country, in accordance with the Constitutional Organic Law for Regional and Governments and Administration (Law N° 19.175). To exercise their functions, they count on legal staff specialized in public law; they have their own assets and responsibilities as conferred upon them by the Law.

On a local level, the municipalities are the entities where the local administration of the communities resides, according to the Organic Law of Municipalities. The municipalities are autonomous corporations of public law with legal status, and their own assets, able to exercise the rights, to undertake obligations, and to be represented.

In Colombia, according to Art. 286 of the PCC, the following are territorial entities: departments, districts, municipalities, and indigenous territories. Each one of these has autonomy over the management of its interests, and within the limits of the Constitution and the law; having authorities elected by popular vote, in order to fulfil their particular objectives, and those demanded by the central government. For this study, special attention should be paid to the entities named “districts”; those that correspond to territorial areas that have a characteristic that enables them to stand out or that differentiates them from the others, such as political, historical, touristic, cultural, industrial, environmental, harbor-related, university-related, or border-related importance. At present, there are 10 districts in Colombia, and for this research, the most relevant is Santa Fe de Bogota, D.C.

The District Capital, Santa Fe de Bogota, has a special regime indicated by the Constitution of the Republic. It is administered by a Higher Mayor and a District Council elected by popular vote. Its political, fiscal, and administrative regime is determined by the Constitution, the existing provisions for the municipalities, and by the Decree Law 1.421 of 1993 (Special Regime for Santa Fe de Bogota, D.C.). The administrative structure of the District Capital incorporates the central sector, the decentralized sector, and the localities. The mayor of the locality is designated by the Higher Mayor, as defined by Decree Law 1421 that establishes the political, administrative, and fiscal regime under which the localities of the cities operate.

Regarding the central government, the President of the Republic is the Head of State, the Head of the government, and the highest administrative authority. The national government is formed of the President of the Republic, the Cabinet Ministers, and the Directors of the administrative departments.

In Peru, according to Art. 189 of the Constitution, the territory of the Republic consists of regions, departments, provinces, and districts, whose boundaries are established and organized by the government on a national, regional (regions and departments), and local (provinces and districts) level. It is important to explain that two special territories exist in this context: the Lima Province and the Callao Constitutional Province, which are governed by a special statute. In the case of this research, they are the most relevant since together, they form the metropolitan area of Lima.

The Metropolitan Municipality of Lima, the political-administrative unit that has jurisdiction over the Lima Province, has a special regime, granting it powers and competencies of a Regional Government (Art. 198 of the PCC, and 33 of the Law for the Decentralization of Bases). So according to this, the Mayor of Metropolitan Lima exercises responsibilities of the Regional President, as the executive body, and the Metropolitan Assembly of Lima exercises competencies and functions of the Regional Coordination Council as an entity for consulting and coordination. A special legal regime is recognized for the Metropolitan Municipality of Lima, whereby it takes on corresponding functions of regional governments in the form of an exception, without creating its own region, producing an integration of municipal functions (on a metropolitan level and on a local government level) as well as a regional function, in the same entity, based on different regulations (Municipality of Lima 2014).

On the other hand, the Callao Constitutional Province has a political-administrative constituency of a special regime: being a province, it has regional autonomy, with a Regional Government (the Callao Regional Government). The Regional Government has political, economic, and administrative autonomy regarding the issues of its jurisdiction and they coordinate with district municipalities without interfering in their functions and responsibilities. The basic organic structure is comprised of the Regional Council as a policy-making and fiscal body, the President as an executive body, and the Regional Coordination Council comprised of district mayors and by representatives of civil society, as a consultative body and the coordination with the municipalities, with the functions and responsibilities defined by the law. Exceptionally, as established in Art. 43 of the Law of Bases for Decentralization, the Regional Government will share territorial jurisdiction with the Provincial Municipality and will exercise the jurisdiction and functions permitted by the law.

In turn, the Lima Province and the Callao Constitutional Province are subdivided into districts, each one with its own district municipality. The Organic Law of Municipalities governs these institutions where it is established that these are legal entities of internal public law, with economic and administrative autonomy regarding the issues that are under its jurisdiction.

Meanwhile, in the central government, the President of the Republic fulfills the functions of Head of State and Head of Government and directs governmental politics. The executive power consists of the President of the Republic, the Council of Ministers, and the autonomous constitutional entities.

In Quito's case, the current constitution of Ecuador stipulates in Art. 242, with respect to the organization of territory, as well as in Art. 10. of the COOTAD, that there are regions, provinces, counties, and rural parishes, and they can also form special regimes, for environmental conservation, ethno-cultural, or population reasons. The last case, population, is the reason for the existence of metropolitan districts as a special regimen when the population has more than one million inhabitants.

With regard to the administration, according to the ADGs Art. 238: The decentralized autonomous governments will enjoy political, administrative, and financial autonomy. All the ADGs will have legal privileges with respect to its jurisdiction, with the exception of parishes that are only regulatory.

In the case of autonomous regions, it should be clarified that in Ecuador, they still have not be able to consolidate this organization level in spite of being inscribed in the constitution of the republic, due to a substantial clash of interest (Table 10.3).

Table 10.3 Main characteristics of the metropolitan administration models of Bogota, Lima, Santiago, and Quito (Source: Self-elaborated based on the analysis of different laws and interviews)

	Type of Metropolitan Administration Model	*Main Responsibilities of the Metropolitan Institutionalism*	*Funding*
BOGOTÁ	Supramunicipal	Broad responsibilities in the areas of economics, territorial planning, infrastructure, transport and environment.	Own resources obtained by means of taxes and possibility to go into debt.
LIMA	Intermediate model, institutionally and spatially fragmented	Exclusive and mostly shared responsibilities in the areas of economic development, territorial planning, infrastructure and environment. Several authorities for the coordination of decisions with limited decision-making power.	Own resources and transfers from the central government. Transfers by means of compensation funds and possibilities to go into debt, with control from the central government.
SANTIAGO	Intermunicipal linked to the central government	Exclusive and shared in the areas of territorial planning, education and health	Own income and transfers from a central level. Mostly of the municipalities depend on the Common Municipal Fund
QUITO	Metropolitan Municipal Model	Jurisdiction over the planning of land, management of basic services, transit and transport	Own resources obtained from taxes, fees, and the possibility to go into debt with guarantees from the central government

Principal Responsibilities on a Metropolitan Level

The four cases analyzed show different institutional arrangements for territorial administration. While they do not fit perfectly with the models described in literature, they are similar to different proposed alternatives.

Bogota's administration falls under a supra municipal model with an autonomous metropolitan municipality, and local municipal governments that are wholly dependent on the Higher Mayor of the city. To exercise their broad responsibilities, the municipality has a fiscal regime where taxes, levies, fees, and surcharges can be established, determined, and charged, in the areas of industry and trade, urban property (urban property tax), surcharges on gasoline, property appraisals for public improvement works, construction, and tolls.

Regarding their responsibilities, there are broad responsibilities in five areas of metropolitan development: economic development or competitiveness, transportation and infrastructure, territorial planning, social development, and the environment, which mainly originate from Decree Law 1421 of 1993, which describes the special regime of Bogota, D.C.

For example, in the areas of competitiveness and economic development, the mayor's office has broad responsibilities. Among the most important are the design and implementation of the economic and social development plan, and the plan for public works, implemented using their own budget. This is why the degree of autonomy in decision-making regarding investment is quite high. Another relevant responsibility in the area of competitiveness and economic development is tax management of the municipality and the possibility to create, remove, and merge public establishments and industrial and commercial companies, and to authorize the constitution of companies of mixed economies, as well as participation of the District in other entities in the form of associations. Furthermore, the mayor's office has responsibilities corresponding to the establishments of regulations and the audit of the real estate industry. They also have the possibility to issue debt and to authorize debt quota for its decentralized entities, which grants the possibility to obtain funding to engage in large urban projects and to not depend on the transfer of funds from the central government.

It also has broad responsibilities in matters related to transportation and infrastructure and in terms of territorial planning, through the General Plans for the PPT. Another important responsibility in this area, which in some way shows the control over the territory and its local authorities, relates to the capacity to divide the District's territory into localities, to assign authorities and jurisdiction, and to ensure its functioning and its resources.

Contrary to the previous case, the administration of the metropolitan territory of the Peruvian capital is more complex. This is because there is a fragmentation of responsibilities, institutionally and spatially. In this respect, it is important to remember that Lima's metropolitan area is fragmented from an administrative perspective, by Lima's government that governs over Lima Province, and the Regional Government of Callao, with jurisdiction over the Callao Constitutional Province. Besides this geographic fragmentation, there is an overlap of institutions, most apparent El Callao, where two institutions (Regional and Provincial Municipality) have jurisdiction over the same geographic space. Next to these institutions, there are district municipalities that correspond to local governments, with jurisdiction over the districts that divide the Lima Province from the Callao Constitutional Province.

The jurisdiction of the Municipality of Lima, which governs the Lima Province, is defined by legal entities, namely: The Organic Law of Regional Governments and the Organic Law of Municipalities, where, besides regular jurisdiction (Lima's Municipality is equivalent to a Regional Government and a Provincial Municipality), these legal bodies grant additional responsibilities to the Lima's Metropolitan Municipality. The same happens with the Callao Constitutional Province, which, as mentioned has two institutions, a Regional one and a Municipal one. Besides this, the majority of legal bodies grants exclusive, shared, and delegated responsibilities[3] with other institutions, which complicates the management of this territory even further.

Next to this institutionalism, there are metropolitan coordination authorities, such as the Metropolitan Assembly; the consultative and coordinating body of Lima's Metropolitan Municipality responsible for the coordination of the efficient execution of tasks, the development of plans, as well as compliance with the objectives of the Metropolitan Municipality, the functions of the Regional Coordination Council as a consultative and coordinating body, and those stipulated by the Law. Furthermore, there are advisory bodies such as the Metropolitan Planning Board, the Metropolitan Coordination Board, and special Advisory Commissions. These entities do not have project funding mechanisms which is why, in practice, decisions are left in the hands of the institutions that possess the resources to carry out these projects.

From the perspective of the tax regime, the income of the Regional Governments comes from moveable assets and real estate property, assignations and transfers from the central government, economic rights that are generated due to privatization or granted concessions, resources assigned by the RCF, and resources that are a product of financial operations and loans and regional taxes. Additionally, Lima's Metropolitan Municipality possesses other tax sources, due to the Municipal Organic Law, such as: urban property tax, "Alcabala" tax,[4] vehicle property tax, taxes on non-sports public spectacles, and gambling taxes. In addition to these local taxes, the municipalities receive resources from the MCP.

Santiago de Chile's case is different from all the previous cases. According to the models reviewed in literature, in spite of having a regional government, the responsibilities of this public entity are weak to the extent that it is the representation of the President and its ministries in the region, due to which its autonomy remains contingent upon the objectives of politics. Moreover, this institutionalism can be characterized as a decentralized or inter-municipal model, where the municipalities exercise authority in matters related to urban development by means of responsibilities and areas related to territorial planning and several other public services.

From the point of view of funding of these institutions, in the first case, the Regional Government of Santiago is funded by transfers from central government, as it has neither its own income nor the possibility to go into debt. Art. 69 of the Regional Administration and Government Law specifies the wealth of these institutions.

In the case of the Municipalities, Art. 13 specifies the forms of funding for these local institutions. Some of the most important ones are moveable assets and real estate property; the contribution granted by the regional government; income generated by the participation in the common municipal fund; vehicle registration certificates, trade patents, among others.

Regarding the responsibilities of regional governments, in terms of the control of processes of territorial transformation, they are restricted, with the exception of matters related to urban regulation on a regional and intercommunal level. Specifically regarding the responsibilities in the area of economic development and competitiveness, they do not have an exclusively relevant responsibility; only a shared level.

From the point of view of territorial planning and development, the municipalities have the instruments for the elaboration and application of the urban regulations related to the use of land, construction characteristics, road systems, and green areas; as well as the application of regulations related to urbanization on a national level.

The social level, is where the municipalities, perhaps, have the most relevant responsibilities (however shared), since they are in charge of managing education, however, with important restrictions depending on the resources of the central government and rigid regulations. In a shared manner, they also possess jurisdiction over the primary systems: healthcare, social assistance and jurisdiction, tourism and sports, and recreation. Finally, regarding the environment, the municipalities have responsibilities related to the cleaning and adornment of the community, which is one of the few areas in which the municipalities have exercised the possibility of association, granted by the law in Art. 137.

In Quito's case, the special law from the year 1993 led to the creation of the Metropolitan District, with various gaps, above all in terms of jurisdiction, which they attempted to correct in the elaboration of the constitution of 2008, through the functional de-concentration (Art. 254), which is part of the special regime and indicates that the Metropolitan District can create zonal administrations with the purpose of improving the management capacity, unlike Lima's decentralized model, where the administrations are elected by popular vote, which in the end can be a disadvantage for the unitary management of the city.

When speaking of the responsibilities of the metropolitan district, we should remember that it concerns a special regime and, according to the constitution in Art. 266, they have the jurisdiction that corresponds to cantonal governments and all that is applicable to provincial and regional governments.

Regarding funding, the COOTAD handles this in its Arts. 270, 271, and 272, where it is established that the metropolitan district of Quito is funded by means of transfers or assignations from the central government, as determined by law, which depend on the size of the population, unsatisfied basic needs, and administrative goals. They also have their own resources obtained by means of fees, taxes, fines, and they have the possibility to go into debt, with guarantees from the central government.

Under this panoramic scenario of institutionalism of the four metropolitan areas analyzed, in practice, there is a series of hidden aspects that affect the territorial governability understood as "the capacity of the government of a territory to guide and conduct processes, with the objective of responding to social needs and demands, in a legitimate and effective way"

(Pírez 2005). Several of these aspects relate to the role of the stakeholders. Among these, key relationships are established on a public level, among different entities of the central, metropolitan, and local government. Another relevant aspect relates to the economic units and their role within the economics of the city and their capacity to exercise power, and the public, an emerging and fragmented stakeholder, increasingly decisive in the development of territories. The relationships between these stakeholders are measured by a series of rules provided by the described institutionalism, where its role in the exact balance of the power relations among the stakeholders is key. Thus, emphasis on the government and on the balance of power among the stakeholders under similar institutionalities can constitute precarious balances in metropolitan governance (Fuentes et al. 2016).

Thus, the aspects that determine the existence of the governability of a territory are defined by legitimacy, stability, efficiency, and coordination (Perrozi 2016). In the case of the cities in the study, these elements create different scenarios. For example, in the case of Santiago, the legitimacy of the metropolitan authority is void as it no longer exists and, furthermore, the large urban projects are led by national authorities or diluted into a number of stakeholders. While in the case of Bogota, the legitimacy is established by the direct election of the Mayor, and by the role that the authority has in the leadership of the city's large projects.

Other possible examples are given by the coordination between the different stakeholders. For example, in Lima, the complexity of institutionalism, territorially fragmented, and fragmented between the different levels of the government, makes the coordination between these stakeholders complex, which can have an influence on the processes of the transformation of the territory (responsibilities, resources, etc.), while in other cities, such as Quito, where the coordination is institutionalized, this relationship is more fluid and effective.

Conclusions

In general terms, the four analyzed cities, reflect the different variants of metropolitan administration models described here. Bogota's case is similar to the model characterized as consolidated, metropolitan or supra municipal, and Santiago is similar to the decentralized or inter-municipal model. Lima would have an intermediate model between the two extremes with an intermediate coordination entity; however, spatially and institutionally fragmented, and the metropolitan district of Quito is similar to the theoretical supra-municipal model, but in Ecuador this is referred to as a metropolitan municipal regime.

In the first case, a type of metropolitan government is observed, with great responsibilities in practically all matters of urban interest that grant it capacities to have greater control of change processes and transformation of territory, and they have instruments and responsibilities, to generate policies that steer these transformations towards the objectives, on towards a specific idea of the city. It is possible to classify this institutionalism as "promoter" (Orellana et al. 2012), as besides trying to deliver high-quality public services to the general public and its users, preferably with a supplier-customer approach, they have the possibility to undertake and develop projects with public meaning (Transmilenio, metro, among others), prospectively associated to private projects under corporate entities, with the purpose of influencing urban and territorial development, so that the private initiative is in harmony with the vision of the municipality. In this sense, the possibility to anticipate demand differentiates them in a relevant way than that which would be a subsidiary institutionality (typically neoliberal).

The administration model of Lima's metropolitan area is quite fragmented and complex to analyze. As anticipated, they are at an intermediate level regarding the metropolitan administration models reviewed in the literature, however its complexity and overlap of tasks and responsibilities makes it impossible to link to any particular model. The findings of this review confirm the conclusions made by Rodríguez and Oviedo (2001) in the sense that the law does not establish criteria for its management, nor for the connections between the different institutions that administer the hydrological resources, the use of land, biological resources, or contamination, in spite of the problems that make the comprehensive and urgent treatment of the environmental management of Metropolitan Lima imperative; the law also does not establish a form for the structure of the governance of the city, adapted to the demographic dimension of its provinces, the complexity of the metropolis, and the nature of those problems that should be under the responsibility of an entity with a specific mandate. This dilutes with the concurrence of multiple institutions and a fragmented jurisdiction. Finally, the law also does not resolve, in an effective way, the relationship problems between the multiple institutions with jurisdiction over the city, with which one could speculate, through hypothesis, that with respect to metropolitan power, the decisions and interests predominate for the municipalities with greater resources, and in the case of concentrations of social groups of high income.

In Santiago's case, it is possible to establish that, in spite of the fact that the metropolitan administration models could be qualified as inter-municipal or decentralized, the dependency of these local institutions with respect to the central government is very important. In the metropolitan area of Santiago, a high number of public and private institutions converge, which take action in the city, with very different interests. Among this multiplicity of interests, it is impossible to come to a consensus regarding a city Project, and it is even more difficult to direct actions with relation to the metropolitan area under common objectives that seek to improve the competitiveness of the city and to generate a higher degree of cohesion. In terms of decisions regarding investment and control of territory in the communities with fewer resources, these are subject to the interests of the private sector and of the central government (through the different entities that take action). It is worth mentioning that the legislation and the exercising of the responsibilities of public institutions with jurisdiction over the metropolitan area of Santiago, is carried out under a subsidiary scheme where private initiatives play a key role in the processes of territorial transformation, in investments in terms of infrastructure, equipment, or housing. However, as we know, private initiatives only emerge when there is necessary and secure demand for investment projects, and therefore, generating and carrying out a city project in this sense, does not fall under this functioning scheme either.

Finally, for the Metropolitan District of Quito, we can say that it is related to an autonomous metropolitan model in the strict execution of its jurisdiction established by the constitution of the Republic of Ecuador, without it affecting the allocations granted by the central government for the formation of its budget, for which several criteria are considered, such as population size, and one of the most interesting ones, the execution of the budget that has been developed according to the annual planning of the district. Due to its autonomous character, there is no major government interference, except in the case of mega-projects that require additional direct financial collaboration, and as guarantee for international loans.

Thus, theoretically, taking into consideration the different metropolitan administration schemes that were reviewed, the institutionalism of Bogota and Quito are those which, theoretically, are in better condition to carry out urban management in accordance with the new described objectives, where urban competitiveness, social cohesion, and environmental sustainability are horizons that are to be reached. Both cities have a "promoter" public institutions approach to territorial development, and fit better with the new management objectives in this global area, than a "subsidiary" institution, to the extent that it can respond better to that expected from a city in a world where urban jurisdiction prevails.

This is not the case for the metropolitan management models of Lima and Santiago. First, there is a convergence of different stakeholders, with distinct interests, making it impossible to carry out a city project, and the leadership is diluted among the different institutions that take action in the city in an uncoordinated way. On the other hand, the disagreement between the geographic space and the institutions that take action in the territory, make integrated urban management of urban development impossible.

However, the four cities face the "difficulty of the scale", since the territorial transformation processes do not adapt themselves to the scale in which the different forms of metropolitan administration are established. In many cases, institutionalism remains "over" and "under" the scale of agglomeration, which would generate conflicts between the different stakeholders that intervene in the transformation processes, and it does not adapt to the urban environment, as a dynamic process, and in constant physical and functional transformation of the territory. This become complex, especially when considering the characteristics of LA cities, where urbanization (formal and informal) advances at high speed, in many cases, faster than the public policies. This has intensified to the extent that these countries are strengthening their insertion processes in international markets, generating economic dynamics that intensify social inequality and spatial segregation, among other issues that affect the region's development models of the region.

While the four countries represent different development models with different emphases, their (global) threats and (internal) weaknesses are relatively similar. In spite of the fact that all of the cities present institutional differences, it seems that the homogenization forces of globalization and the market are stronger than the regulatory public actions, in any form. Therefore, metropolitan institutionalism represents a factor of low incidence, to generate conditions for the social-territorial balance in the economic, physical, and social development and transformation of the cities in this study (Fuentes and Orellana 2013).

Notes

1. *Metropolitan Governance* of the UN (1995).
2. While the constitution recognizes Easter Island and the Juan Fernandez Archipelago as special territories, for the purposes of this study, such a situation is not relevant.

3. Aquellas que, conforme a Ley, son delegadas a una entidad pública distinta de la titular de la responsabilidad con la finalidad que sean ejecutadas con mayor eficiencia. La responsabilidad frente a los ciudadanos no se delega (Ley N° 26922 Marco de Descentralización).
4. The Alcabala tax charges for the transfer of real estate property against payment or for free, whichever may be its form or method, including sales with reservation of title. The taxable amount wll be the value of the real estate property, determined for Urban Property Tax purposes. The applicable rate is 3%, charged to the buyer. The following are exonerated from this Tax: the tranfer to goods related to the concession of public infrastructure impovement works and public services according to the terms of the concession; as well as equity transfers as a result of mergers, divisions or any other type or reorganization of state-owned companies, in the case of private investment state-owned companies.

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CHAPTER 11

Global and Regional Political Economy of Migration

Alejandro I. Canales

Introduction

Even though international migration forms part of the priority axes of the social agenda and modern politics, its analysis and debate are defined and restricted by a set of ideological and political preconceptions as well as by theoretical methodological perspectives that skew and distort its understanding. One of these weaknesses corresponds to *methodological nationalism*, which is the underlying factor behind a large part of the social and political thinking of our era. Consequently, the Nation State would restrict its territorial borders, forming an entity of analysis, observation, and theorization valid in itself, transferring this identification to all of the categories of analysis of social reality. As such, the processes that go beyond the national environment, in this case migrations, are conceptualized as international processes and relations, namely, *between* nations, and not as components of a global process (Canales 2002).

The fact is that within globalization, the national social space has been passed through and reconfigured by a complex system of networks and

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local-global relations, developing into the de-territorialization of social life (Appadurai 1990). International migration directly reflects this situation configured by its own structures of inequality. In the traditional vision marked by methodological nationalism, international migration represents flows that are external and foreign to the Nation State.

However, in the current globalization framework, migration does not only represent an external factor to society but also an internal process, intrinsic to its own structure as a global society, at least a dual sense. Migration forms a structural and *structuring* factor of the inequality of development in modern societies, and where society has expanded its limits beyond territorial borders of its formation as a Nation State. In other words, in the same way that the receiving society globalizes, migration stops being an external phenomenon to it, to form part of the system of local-global relations generated and driven by the same factors that configure it as a global society (Canales 2015a).

Thus, the study of migration in global societies should be focused on the development structures that connect the global with the regional and the local, or similarly, on the fact that the development structures of LA and South American migration, for example, cannot be apprehended from visions and categories of the so-called methodological nationalism but from the regional and local forms taken on by the reproduction of LA Society. For that purpose, we propose a theoretical reinterpretation of modern migration understanding it as development structures of the reproduction of our LA societies.

This text proposes to analyze migration from the approach of the ***reproduction*** of society. This concept refers to the capacity of self-organization (autopoiesis) of society, incorporating the dynamics, rationalities, contradictions, and functionalities stemming from the most diverse processes, agents, and structures of which it consists, and that allow for, and enable, its reproduction in time and space.

The analytical model is centered on investigating the forms in which international migration (and South American migration, in particular) contributes to, and participates in, the reproduction of society of our time. Thus, three analytical axes support the model, each referring to a particular environment from where we analyze the contribution of migration in the reproduction of modern society, namely:

- Migration in the reproduction of the population (Demography),
- Migration in the reproduction of capital (Economics), and
- Migration in the reproduction of social inequality (Class Structure).

Demographic Dynamics in Destination Countries

In the case of the destination countries (mainly the USA and European countries), migration allows for the demographic gap to be filled simultaneously generated by two demographic phenomena, namely: the decline in fertility rate within the framework of the Second Demographic Transition, and the aging process of the population as a result of the end of the First Demographic Transition.

The Second Demographic Transition is a model proposed by van de Kaa (1987), to explain the impact of the processes of individualization of social and family life on the demographic dynamics in European societies at the end of the twentieth century. Specifically, two types of demographic consequences are indicated that would have this phenomenon of individualization in postmodern societies. On the one hand, a change in the composition and dynamics of homes and families, and, on the other hand, a decrease in birth and fertility rates. In the first case, the traditional nuclear family model has become phased out, imposing a variety and diversity of union and family standards, in particular, the increasing number of people who live alone, as well as single-parent families, recomposed families, and another great variety of households (Herrera Ponce 2007).

In the second case, the data are telling. By 2015, the global fertility rate in Europe was at an average of 1.56 children per woman, varying between 1.3 children per woman in Spain and Greece, 1.8 in the UK, and 2.0 in France. Similarly, in the USA, the fertility rate was only 1.86 children per woman in 2015 (Canales 2015b). In both cases, in Europe and in the USA, it concerns levels far below the level of demographic replacement. These low fertility rates indicate a radical transformation in behavior and attitude towards children and the decline that manifests in a greater delay in the age of having a first child, in an increase in mothers with just one child, and an increase in couples and women who do not want to have children (Bongaarts 2001).

On the other hand, the ageing process is the change in the composition and structure of the age distribution of the population, where the cases of Germany, Spain, and the USA mark the new shape of the structure of the age distribution of the population, which greatly differs from the classic pyramid shape. The fact is that these tendencies lead to an absolute and relative reduction of young people in the population giving rise to an unfavorable situation regarding demographic dependency, and this impacts negatively on the capacity of economic reproduction of the population (Cooke 2003). In European countries, such as Germany, France, the UK, Italy, and Spain, as well as in the USA, the senior adult population has gone from representing less than 12% of the population in the 70s, to almost 20% currently. As a result, the Ageing Index has almost doubled in these countries, going from a ratio of at least 60 senior adults for every 100 children in the 80s, to a ratio of more than 120 senior adults for every 100 children currently.

This change in the structure of the age distribution of the population generates a significant demographic deficit of young people, which creates room for international migration that would fill these gaps caused by the aging of the population in developed countries. In the case of the USA, for example, between 2000 and 2013 the native population aged 15 to 49 reduced by 10.8 million people. On the contrary, the Hispanic population of the same age range increased by 9.9 million people, while other minorities did so by 5.8 million people. A similar situation occurred in Spain as in the USA. While births in Spain reduced by almost 2.0 million people, international immigrants of this age range increased by 3.7 million people (Canales 2015b).

These data show how in the USA, Spain, and other developed countries in Europe, migration from peripheral countries has contributed to filling the demographic gap created by the dynamics of these populations. However, this process has a consequence; that in the medium and long term, a virtual demographic replacement of the population in these countries would take place, where the native population must share its current privileges with the emerging ethnic and migratory minorities.

In the case of the USA, for example, in 1970, the demographic prominence of non-Latin white people was undeniable, representing 84% of the total population. By the year 2010, however, this prominence reduced, representing less than 65% of the total population. Similarly, it is predicted that by the year 2050, the number of non-Latin white people will reduce to only 46.3% of the total population; no longer being the absolute majority. On the contrary, the high volumes of LA migration, together with their higher birth rate, pose an opposite situation. While in 1970, they represented less than 5% of the total, by 2010, they reached 16% and the prediction is that by 2050 they will represent at least 30% of the total population (Canales 2015b).[1]

If these distinct growth dynamics continue, Latinos will no longer be an ethnic minority, becoming the second relative majority, relativizing the traditional demographic prominence of the non-Latin white population.

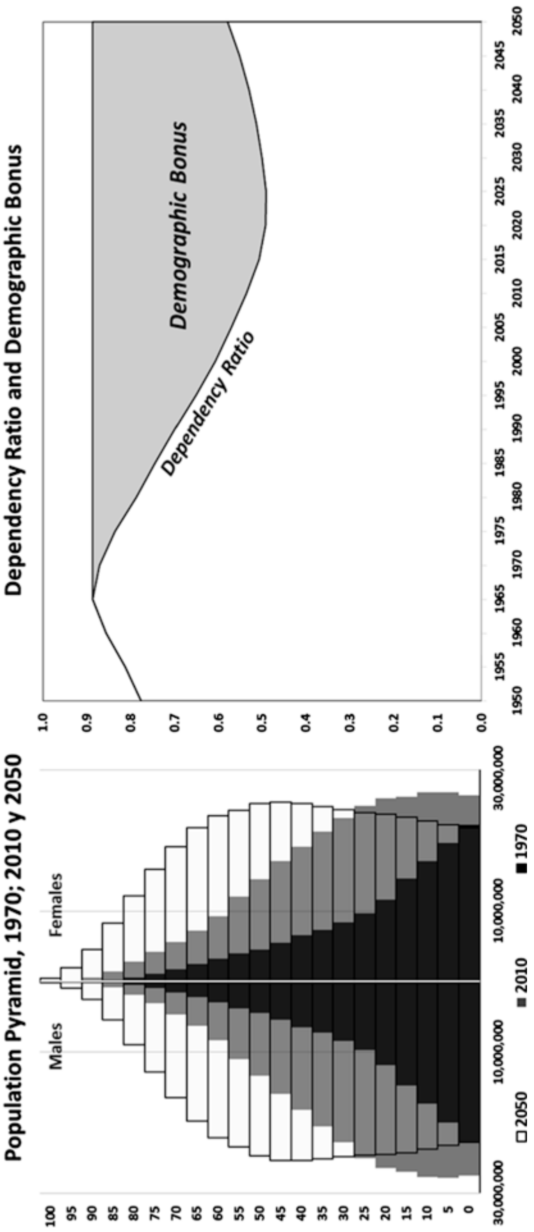
It concerns a process of demographic *replacement*, which is already apparent in several states of the American Union. The typical case is that of California, where non-Latin white people represent only 36% of the population, already being surpassed by the population of LA origin that represents 37.4% of the total population.[2]

Demographic Dynamics in the Countries of Origin

In the countries of origin, we are in the last phase of Demographic Transition, prior to the aging of the population (Guzmán 2002). In this phase, there is a reduction in the absolute and relative volume of the child population, as well as an increase in absolute and relative terms of the population of active age. Similarly, the senior adult population remains at low demographic amounts, even if it grows in absolute terms. This situation is reflected in the shape that is adopted by the age distribution structure. While by 1980, the child population (under 14 years of age) represented 40% of the population, by 2015, its participation has reduced to only 26%, and it is predicted to keep declining in such a way that it will reach less than 18% by 2050. On the contrary, the population of active age (15–64 years) shows an opposite tendency, passing 56% in 1980 to 66% currently. The senior adult population in turn, while their population increased from 4% to 8% in this same period, it concerns a much smaller component that does not yet manage to have an impact on the age distribution structure of the LA population.

This combination of demographic tendencies has led the Demographic Dependency Index to show a continuous and systematic decrease since the 70s, due to which the weight of the inactive population will be less in the subsequent decades, in relation to other historic situations. The dependency level will only start to recover as of the 30s of the present century, although it will remain far below its historical levels. Due to these characteristics, this peculiar situation has been called the *Demographic Bonus*. This emphasizes the favorable situation in dependency relations and the economic weight implied by this substantive relative reduction in the population of inactive ages (Redonde and Garay 2012) (Graph 11.1).

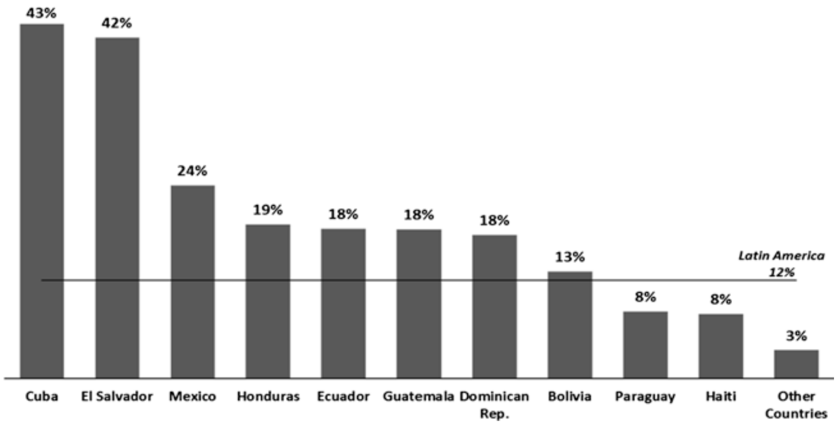
This absolute and relative increase in the population of active and fertile ages, has given rise to a demographic increase, which in many cases, neither society nor the economy of our countries is capable to absorb. In



Graph 11.1 LA (Latin America). Population pyramid and demographic bonus

this context, international migration creates a form of export of this demographic bonus to First World countries, which on their part, experience an opposite demographic regime, characterized by a structural situation of a population deficit of young and actives ages. In this sense, international migration in general, and in particular from South America and LA, creates a system of complementary demographics where the deficit situation of the central countries is compensated by the demographic surplus that still exists in our counties.

In the case of LA, for example, it is estimated that between 2000 and 2010 only, the migration of the population of active age (15–64 years) towards the USA and Spain represented an export of around 12% of the demographic bonus generated in the region during these years. This situation is even worse in the case of countries with high migration levels. In the case of Mexico, for example, the export of the demographic bonus reached 24% in this period. Similarly, in Honduras, Ecuador, Guatemala, and the Dominican Republic, migration represented a loss in population of around 18% of its respective demographic bonus. The extreme cases are those of Cuba and El Salvador, where it is estimated that 43% of their demographic bonus has migrated to the USA and, to a lesser extent, to Spain (Graph 11.2).



Graph 11.2 LA (Latin America), 2000–2010. Export of demographic bonus by country migration rate of working age population (%)

Towards a Global Regime of Demographic Reproduction

Migration is a form of the transfer of the *demographic bonus* from peripheral countries to developed countries, allowing for an adjustment in the demographic imbalance that is generated in the countries of origin and destination. In this way, the demographic surplus in the first countries flows to compensate the demographic deficit in the developed countries.

In the case of the sending countries, migration contributes to the reduction of the pressure that the demographic surplus puts on the economic structure and labor markets. Similarly, in the destination countries, migration contributes to the reduction of the imbalance in their local demographic reproduction regime generated by aging and the reduction in the birth rate of the native population.

However, this global system of demographic reproduction is not exempt from tension and contradiction. On the one hand, the consequence in the destination countries is that the massive extent of immigration can lead to a virtual *demographic replacement* of the native population by immigrants and their descendants, transforming with it, the ethnic and migratory composition of the population (UN 2001). In this respect, the current situation in the state of California allows us to illustrate this theory of demographic replacement (Fig. 11.1).

Specifically, as can be seen in the current age pyramid of the resident population in California, out of the young people under the age of 50, Latinos outnumber non-Hispanic white people by more than 45%, while the situation is the opposite for people over 50, where the number of white people almost doubled compared to Latinos. The relevant part of this information is that while white people still form the majority in the elderly levels, it concerns the population that is leaving the demographic pyramid. On the contrary, Latinos predominate in the younger strata, and consequently indicate the composition of the population that will prevail in the following decades[3] (Graph 11.3).

Meanwhile, in the origin countries, we should not forget that just as with any bonus, the demographic bonus also has an expiration date, which will have a serious social and economic impact when it arrives. In the specific case of LA, the estimates of the CELADE[4] indicate that the population growth of the active age had already reached its maximum in the

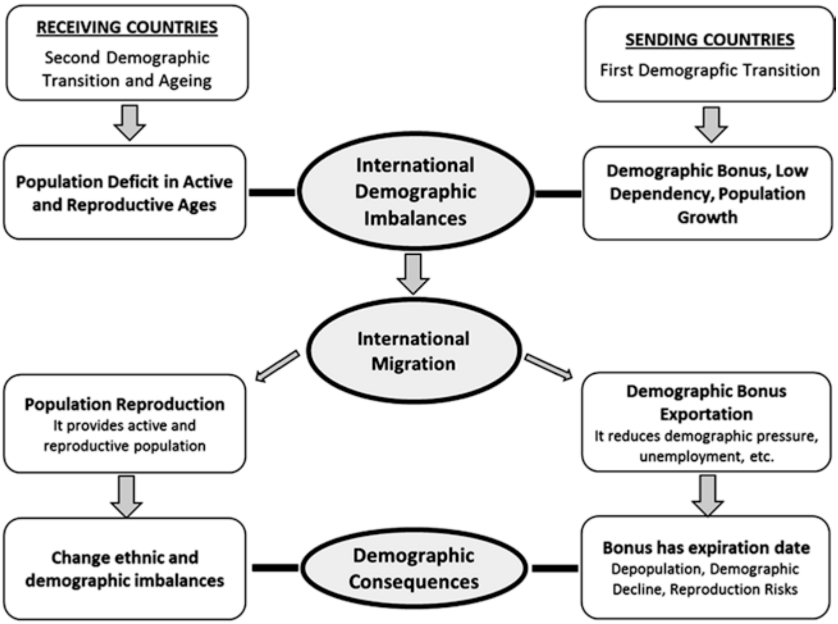


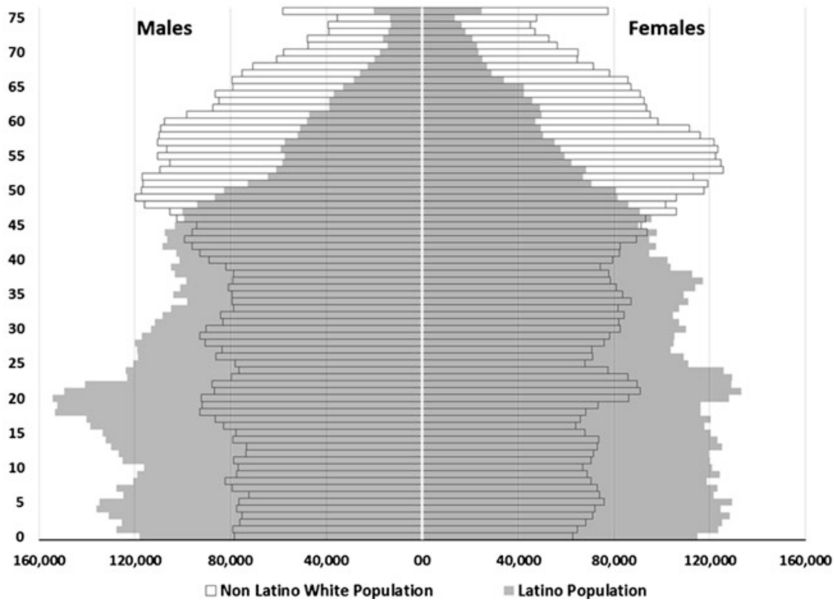
Fig. 11.1 International migration and global regime of demographic reproduction

90s, when it grew to around 3.1 million people per year, starting a quick and sustained descent since then, to the extent that by 2040, a reverse cycle of an absolute decrease in the population of active age will commence.

In this context, maintaining the current rates and volume of emigration in the medium term will negatively impact the dynamics of the population, putting not only its growth at risk, but also its capacity for intergenerational replacement.

Migration, Labor, and Reproduction of Capital

Migrations generate a double process of economic transfers. On the one hand, they are a transfer of labor force from the communities of origin to developed economies. On the other hand, the remittances and other



Graph 11.3 California, 2015. Population pyramid of non-Latino white and Latino origin population

goods and services sent by migrants represent a transfer in the opposite direction that contributes to the social reproduction of the immigrants, their families, and their communities of origin. This double system of economic transfers links the reproduction of the migrant labor force in the places of origin, to the reproduction of capital in the destination societies, contributing in this way to the reproduction of capitalism as a global economic and productive system.

Migration, Labor, and Capital

All economies function as a circulation system with two flows in opposite directions. On the one hand, the circulation of material (goods and services), and, on the other hand, the flow of money (income, revenue, etc.). This model is precisely called the circular revenue flow and is used to analyze the revenue flow, and by those means, the conditions for growth in economic activity, as well as the distribution between the different economic agents (Samuelson and Nordhaus 2010).

From a structuralist perspective, we can use the same operating model of the economic system to link the areas of consumptions on the one hand, with the production areas on the other hand, classifying both of them in the process of the reproduction and accumulation of capital. In this sense, we can understand the functioning of the economy as the complementarity of two different moments:

a) *The Productive Moment:* corresponds to the production, both of the production resources and intermediate consumption resources (machines, input, raw materials, technology, etc.), as well as the production of goods and services for the end consumer. In this process, the capital *consumes* the labor force, meaning, it extracts the part from it that has value for capital: labor, which is nothing but the capacity of the employee to use other production modes, inputs, etc. in the production of goods and services, which may allow enhancement of the initially invested capital.
b) *The Reproductive Moment*: corresponds to the individual (and household) consumption process of previously produced goods and services. Through this process, individuals do not only satisfy their needs (neoclassic perspective), but also reproduce themselves, and in this way, reproduce their own labor force on a day-to-day basis (structuralist perspective). While for individuals, this individual consumption model represents an act that does not yield anything else besides the satisfaction of their needs, for capital, on the other hand, it represents a productive moment, as it corresponds to the production and reproduction of the labor force.

This general operational model of the capitalist economy will be revisited for the analysis and understanding of the role of migration in the reproduction of capital in the current context of economic globalization. In this respect, we argue that international migration represents a mechanism that allows for a link between the productive moments (of the valorization and reproduction of capital) in destination countries, and reproductive moments of the labor force in the origin countries. The following chart shows the theory that we want to develop (Fig. 11.2).

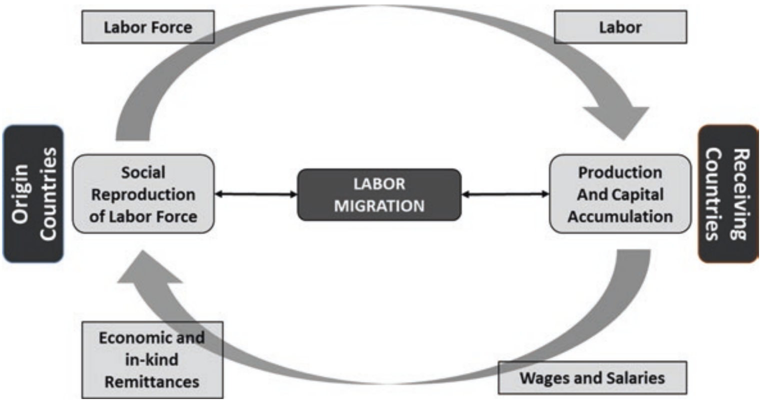


Fig. 11.2 Labor migration and reproduction of capital

This link between productive and reproductive moments can be analyzed based on the role of migration in the configuration of labor markets in the global economy. Due to its configuration, it concerns global labor force markets, where the spatial link between the reproductive moment of the labor force and the productive moment of capital, preferably (and sometimes exclusively) occurs through migration and the social, cultural, economic, and political mechanisms and processes, that it activates in its development and its continuous path. This peculiar territorial configuration enables the reproduction of the labor force, on the one hand, and the reproduction of capital, on the other hand, to each develop in different areas and locations, with distance between them, without any major connection generated by the migration of the labor force itself.

In this context, with globalization, capital has been able to relocate the reproductive moments of the labor force beyond national borders and consequently, has enabled the social reproduction of the labor force to be disconnected from the entire social and political system that connected the employee with the capital in Fordist and industrial capitalism through the State, politics, and the most diverse institutions that structured the capitalist societies of the developed world throughout the twentieth century.

However, this disconnect, between both moments of accumulation of capital, is only apparent and conceals the true role of labor migration as a linking mechanism between both moments that support the accumulation of capital in the global economy.

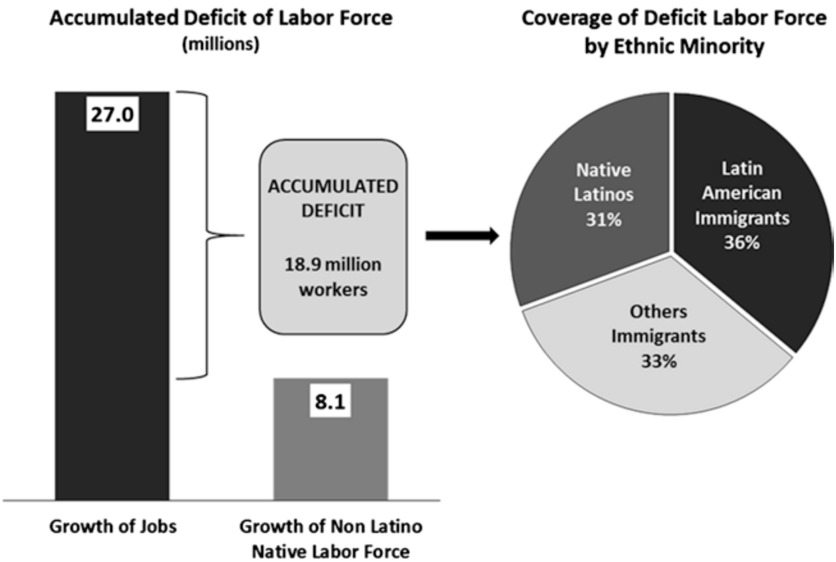
In relation to the productive moment, the increasing importance of labor immigration in developed countries should be noted, in the context of a chronic population deficit in active ages as a consequence of the structural imbalance that occurs between the supply of jobs generated by economic growth and the demand for labor that can be provided by the demographic dynamics of the central countries.

In this regard, the data for the USA are significant. Between 1995 and 2016, the economic growth of this country generated a net increase of 27 million jobs, a number that represented an increase in jobs of more than 22%. However, the low birth rate and the aging of the native non-Hispanic population ensured that the local demography could only contribute a net growth of just 8.1 million workers, including occupied and unoccupied workers, even with the large increase in feminine activity. This imbalance in the demand for jobs and the supply of labor force is manifested in a permanent and structural deficit of labor that had to be bridged by the contribution of labor immigration coming mainly from LA and South American countries (Graph 11.4).

In fact, labor immigration between those years allowed for 69% of this deficit to be covered, with an almost equal distribution of LA immigrants, and immigrants from other parts of the world. Similarly, the Latino descendants in the USA (second and third generation immigrants) contributed 31% to the coverage of the labor deficit.

The contribution of labor migration to the reproduction of capital can also be measured through the contribution to economic activity and the growth in GDP. Between 2000 and 2015, GDP in the USA increased by 30%. The workers of white non-Latino origin, even when they represented more than 62% of the occupied population in 2015, contributed only 41% to the growth in GDP. The remaining 59% was contributed by the different ethnic and migratory minorities. The case of LA immigrants stands out, who, in spite of only representing 8% of the occupied population in 2015, contributed 16% to the growth in GDP, a proportion that increased to 30% when taking into account the contribution of their descendants born in the USA.

These data indicate that, without the contribution of the migrant workers, the growth capacity and the generation of economic surplus would be highly depleted, putting the accumulation of capital at risk, as well as the reproduction of the economic system, and in particular, the hegemonic and dominant position of the economies of the developed world.



Graph 11.4 USA, 1995–2016. Accumulated deficit of labor force and coverage by ethnic minorities

Regarding the reproductive moment, migrations operate in two different and complementary ways. On the one hand, they provide the monetary and economic resources that are necessary to maintain household consumption, and in this way, maintain the social reproduction of the labor force. On the other hand, migration consolidates the network system and social capital that, together with enabling the migration process itself, give material and symbolic support to the social reproduction of the migrants, their families and communities.

In the case of remittances, it is estimated that LA reached almost US$600 billion between 2005 and 2014, equal to 60% of direct foreign investment during the same period (FOMIN 2015). At a macroeconomic level, its impact and relative weight are very variable, and depend significantly on the productive capacity of each country. In Mexico, for example, remittances represent less than 3% of GDP, in spite of being the main receiver of remittances, with an annual amount of over US$23 billion. The situation is very different in the case of Haiti, where remittances represent almost 25% of GDP. There are similar situations in El Salvador, Guatemala, Honduras, and Nicaragua, where remittances represent between 15% and 20% of GDP, depending on the year in which it is measured.

At a microeconomic level, remittances essentially represent a salaries fund. As such, its function is essentially to finance the consumption and social reproduction of migrants and their families (Canales 2008). This allows us to understand the behavior of sending remittances, regarding their multiplicity and reoccurrence, and regarding the amounts sent.

Mexico's case allows us to illustrate this essential characteristic of remittances. In 2014, the US$23.5 billion received in remittances, corresponded to more than 80 million transfers, consisting of an average of US$300 each (BBVA 2015). This low volume shows us that each remittance sent is actually a flow essentially oriented to sustain the daily household expenses, fulfilling the same economic and social role as any salary or work pay: the reproduction of the labor force, on a daily level, as well as in intergenerational terms.

Similarly, in most cases, remittances represent ordinary and recurring household income that forms the family budget together with other sources. In that regard, Mexico's case can help us again, to illustrate this point. On the one hand, the income per capita of the households receiving remittances is similar to that of the non-receiving households, controlled for the type of location and rural or urban environment. However, while in households that do not receive remittances, salaries tend to represent 70% of monetary income, in households that receive remittances, salaries drop to 30% of family income. Instead, they receive remittances than represent an average of 40% of household income (Canales 2011). These data illustrate the fundamental role of remittances as a source of funding of social and daily reproduction of migrant households.

Besides remittances, migration generates a second mechanism that substantiates social reproduction of the labor force for global capitalism. Through migration, a system of social and family networks is activated, which are based on principles of solidarity and reciprocity and enable the reproduction of migration in the form of a so-called cumulative causation process (Massey 1990). Traditionally this process has been analyzed and understood as a form of reproduction of migration as a social process, and thus of migrants, their families, and communities. In our case, we would like to turn this mechanism around to focus on the reproduction of the migrant labor force.

With the social reproduction of the community and families, there is not only a reproduction of people, but also of the social position in a particular context of economic and labor relations. While from a demographic and sociological perspective, we see social networks and their transnationality as a strategic social reproduction of the population of the families and/or the community, from the perspective of the reproduction of capital, we see these same mechanisms as a social and demographic basis for the reproduction of the migrating labor force in the current context of economic globalization.

In other words, social and family networks of migrants do not only represent a sociocultural mechanism of its direct reproduction, but through them, they also contribute to the reproduction of migration as continuous and recurring flows of the labor force for capital.

While at a microsocial level, we understand and theorize social networks as mechanisms for the auto-reproduction of the migrant and their family, on a macrosocial level, this same process can be understood and theorized as the social reproduction of the labor force, and thus of the relative position of labor migration with regard to the accumulation of capital in the global economy.

In summary, as workers, the migrants participate to a double extent to the capital accumulation process. On the one hand, they become part of productive activities for capital, contributing to the creation of value (GDP), and in this way, the accumulation of capital. On the other hand, they form a particular class, whose reproduction is based on the salary that they receive directly from the capital, as well as on their social and capital networks, which besides strengthening migration as a social process, contribute to resolve the reproduction of migrants as a labor force for capital.

Migration, Class Structure, and Social Inequality

In these times of globalization, the social reproduction processes that previously defined local (national) spaces now form part of the global (transnational) spaces where the set-up of the class structure and social subjects has de-territorialized. In this process, international migration creates a global field where local reproduction environments of social classes intersect and relate to each other, creating a system of social stratification that transcends and runs through national borders. The following chart allows us to illustrate this global interconnection of local social reproduction spaces (Fig. 11.3).

As we can see, migration connects the social reproduction process of the native population in the destination places with the social reproduction of the population in the communities of origin.

- On the one hand, the work of immigrants contributes to sustaining a way of life and a consumption pattern of the population of the middle and upper class in receiving societies. Through this, migration turns into support for the social reproduction of these populations and of its relative position in the class structure.
- On the other hand, remittances and social and family networks, besides being a perpetuation migration mechanism, are also a social reproduction mode of migrants and their families and, therefore, of their subordinated position within a social and class structure at a global level.

In the end, it concerns the connection between the mechanisms and social reproduction processes of different social classes, and therefore, of

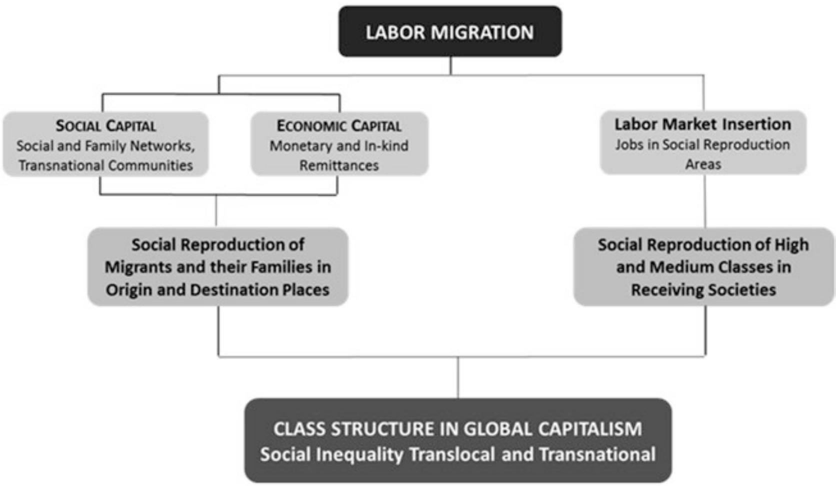


Fig. 11.3 Labor migration and class structure in global societies

the reproduction of a system of global, social and transnationalized inequality. Subjects and populations that apparently do not have any link or direct contact (the families of the migrants in the places of origin, on the one hand, and the population of the middle and upper class of the destination places, on the other hand), are linked by labor migration that represents a hinging mechanism, connecting the reproduction of both populations, socially very different and, territorially speaking, distant from each other. This double process creates new forms that are adopted by the class structure in global capitalism, which, unlike in previous phases, is also based on a growing ethno-stratification and racialization of social inequality.

In the previous section, we described how economic capital (remittances) and social capital (social networks) form two of the pillars through which the social reproduction of migrants and their families takes place. Similarly, we indicated that while on a micro-social level, social networks as well as transnational communities form a mechanism that reproduces the social process of migration, on a macro level, this same process reproduces the social position of migrants in the social structure. Thus, for example, through social networks, migrants access jobs and occupations, housing, social life spaces, through social networks (Sassen 1995) but it concerns social fields where the same social situation is reproduced, characterized by its condition of socioeconomic vulnerability and political subordination with scarce negotiation power towards the State and other subjects and social classes.

Taking the above into consideration, in this section, we wish to go into depth regarding the role and function of migration and migrants in the social reproduction of the native population in destination societies.

Migration and Social Reproduction in Destination Societies

In terms of the organization of jobs, globalization has meant a growing polarization of the occupational structure as well as a greater segmentation of labor markets (Sassen 2007; Castells 1996). This has led to an increase in occupations and labor activities located at the extreme ends of the occupational stratification. In this respect, the data for the USA and Spain allow us to illustrate this theory.

In the first case, between 2000 and 2012, economic growth was not equal for all occupation strata. While directly productive occupations (manufacturing and such) lost 6.4 million jobs, on higher management levels (executives, professionals, etc.) and on lower occupational levels (social reproduction tasks), 8.6 million and 5.6 million new job positions were generated, respectively.

In the case of Spain, there is a similar tendency. On the one hand, there is a decrease in employment in directly productive occupations, which in the same period meant a loss of 770 thousand jobs, to which 480 million were added from the construction sector. On the other hand, occupations at higher management levels and professional services positions increased by 1.3 million. Similarly, employment at lower occupational levels (domestic services, caretaking, cleaning and maintenance, among others) also increased by almost one million new job positions.

That said, the relevant part of this polarization is that the growth of the occupational extremes appears to be linked. The expansion of the occupations at the top of the occupational structure, together with their high level of purchasing power, generates a greater demand for work in services and for qualified personnel (interior designers, various professional services, communication and transportation networks, amongst others) as well as for personnel with low qualifications (personal and social services, and caretaking). Both cases concern jobs that focus towards maintaining the life and consumption patterns of these new professionals and executives, generated by information economics.

This polarization of occupations is the basis for the consolidation of the new forms taken on by a socio-occupational stratification, where the ethnic and migratory condition acquires an increasingly dominant role. In this respect, various studies document the growing role of immigrants in diverse economic activities oriented towards the social and daily reproduction of the native population, particularly of the medium and high social strata (Vershuur 2007; Herrera 2005). We refer to jobs such as domestic service, at the peak of the industry of caretaking and assistance of vulnerable groups (the elderly, children, the sick, among others), maintenance and cleaning jobs, as well as many other personal services (food preparation, restaurants, gardening, among others).

It concerns different occupations referred to proximity services, or services for the reproduction of daily life. The most paradigmatic case is that of domestic service, but it is not the only one. With this, we can indicate the creation of a system of transnational maternity, which can also be extended to the so-called transnationalization of the caretaking industry (Ehrenteich and Russel Hochschild 2004). It concerns a set of activities and occupations oriented towards taking care of sick people, children and the elderly, food preparation, cleaning and maintenance, among others, increasingly filled by migrant workers.

The commercialization of domestic services is not new in capitalist societies. The new part in the current situation is that, in developed countries, the massive demand for these type of workers occurs in the context of social and demographic changes that we have already indicated. The demographic aging, the massive integration of women into the labor market, the changes in the formation and structure of homes, the reduction in fertility rates, among others, drive the increasing demand for workers who dedicate themselves to these tasks. Similarly, native women who previously dedicated themselves to these activities are decreasing in number, as they increasingly opt for less compromising jobs and enjoy a higher valuation and social prestige, and therefore better salaries and work conditions (Parella Rubio 2003).

This situation manifests in a structural imbalance between demand and supply in this labor market, creating space for immigrant women arriving from peripheral countries to incorporate themselves into these types of markets in the central countries, carrying out tougher domestic tasks, such as cleaning, maintenance and taking care of people, among others (Escrivá 2000).

This growing demand for immigrants to work in the so-called reproductive and personal services, leads to an emerging form of a social division of work, that adopts a transnational form, and is based on a form of "transfer of inequalities in class and ethnicity" (Parella Rubio 2003: 15). In fact, the emancipation of native women from developed countries who have freed themselves from chains that tied them to domestic chores and reproduction environments, has actually transferred these conditions of subordination and vulnerability to immigrant women who require this income for their own social reproduction, and who are forced to disregard their own liabilities and reproductive responsibilities of their families who have stayed behind in their countries of origin.

In this context, it is not surprising that a process of *ethno-stratification* arises (Catarino and Oso 2000), or a *racialization* of reproductive services (Hondagneu-Sotelo 2007), i.e., of a socio-labor differentiation based more on ethnic-migratory factors, than on the labor credentials of each person. In this respect, the data for the USA allow us to illustrate these processes of the *racialization* of occupations.

On the one hand, we can see that the occupational structure is clearly differentiated according to the ethic-migratory condition. While in occupations at higher levels of the occupational hierarchy (directors, professionals, executives) the participation of white non-Latin workers predominates (69%), in the occupations at the lower strata of the occupational structure (domestic service, caretaking, cleaning and maintenance, food preparation, among others), the participation in this demographic group drops to only 48%.

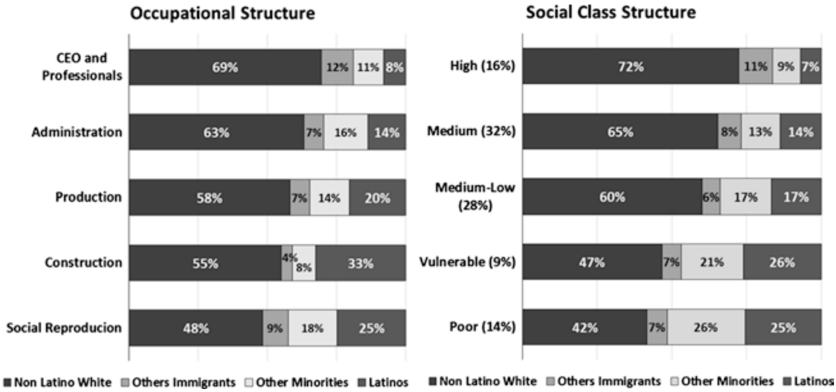
On the contrary, demographic minorities show an opposite labor integration. The case of the workers of Latino origin (first and second generation immigrants) stands out, who while representing 16% of the labor force, only obtain 8% of the high position jobs of the occupational structure. However, they represent 33% of construction workers, and 25% of workers in personal services and social reproduction activities of the native population.

These data indicate that the occupational polarization in the case of the USA, adopts the form of an ethnic differentiation, establishing differentiated occupational segments for each demographic group according to its ethnic and migratory condition.

It would seem that the occupational integration of each worker is determined more by their ethnic origin than by their merits and productive and labor credentials.

This racialization of occupations also has its counterpart in the form taken on by the social inequality and income distribution in the USA. While white people represent 72% of the population in the highest social stratus, Latinos only represent 7%. On the contrary, in the strata with lower income the opposite occurs. In this case, the population of white origin represents only 42% of the poor population and 47% of the population in a vulnerable situation. However, Latinos and other ethnic minorities (mainly Afro-Americans), represent 51% of the population in a situation of poverty and 47% of the population in a situation of economic vulnerability (Graph 11.5).

These data show how social inequality in the USA acquires a *racialized* form, where the ethnical and migratory condition tends to be an essential factor for determining the social and economic position of individuals in class structure and in income distribution. It concerns a situation that shows the level of ethnic and migratory discrimination that characterizes the actual social structure of this country.



Graph 11.5 USA, 2016. Occupational and social class structure, by ethnic minorities

Conclusions

In this text, we have presented an analytical model based on three axes from where we can understand and theorize the role of migration in the reproduction of modern society. We refer to migration as a structuring factor of (i) the reproduction of populations, (ii) the reproduction of capital, and (iii) the reproduction of class structure and social inequality.

From a demographic perspective, migration creates a system of complementarity that connects the patterns of demographic reproduction in the origin and destination places. In the countries of origin, migration represents an escape valve, while facing a demographic bonus that the local economy is not able to fulfil. In the destination countries, migration enables the demographic gaps to be filled, that are left by the ageing of the population and the reduction in births resulting from the advancement of the second demographic transition.

From an economic perspective, we understand the role of migration from three complementary points of view: (i) on the one hand, migration is essentially labor, and therefore, a mechanism for the supply of labor force for capital; (ii) similarly, it is not simply the migration of one single worker, but of a group of workers that are socially vulnerable and inserted into precarious, flexible, and unstable jobs; (iii) finally, the remittances that are sent by the migrants, are salary transfers that enable the reproduction of their families. In this way, migration contributes to closing the circle of the reproduction of capital, sustaining the connection between the local reproductive moment (the labor force in local environments) with the global productive moments (work and labor insertion in the destination economy).

Finally, the role of migration in the reproduction of class structure and social inequality is seen as a connection between the two moments. On the one hand, by means of insertion in occupations of the social reproduction environment in destination places, migrants contribute to maintaining the reproduction of the population of the middle and higher class in these societies. On the other hand, remittances and social networks activated with migration represent a reproduction strategy of these migrants, their families and their communities.

The integrated vision of these three moments (demography, economics, social classes), allows us to reach a higher level of understanding of international migration, understanding it as a component and author of the reproduction of modern global society.

However, this same model for the understanding of migration allows us to identify the risks and tensions that accompany it and imprint it with a substantial level of uncertainty. Specifically, we can indicate at least three dynamics that can come into existence in its limits and risk areas that need to considered and theorized.

On the one hand, migration from peripheral countries, in particular from LA countries, is based on the conditions of the generation of a population surplus resulting from the incapacity of the local economic dynamics to absorb the population growth in active ages that generates the demographic bonus. However, as we have seen, the Demographic Bonus, as with any bonus, has an expiration and collection date, which in the case of the South American countries is about to expire within a few decades. In this context, the risk for our societies is that by maintaining the current rates and volumes of migration, the reproduction of our own populations will be seriously compromised.

On the other hand, the demographic situation in the destination countries also creates substantial tension with regard to the implications and consequences of migration. Considering the high degree of advancement in the level of aging and the low birth rates, it is highly probable that migration would end up being the basis of an ethnic replacement process, where the current condition of demographic improvement of the native population, makes way for a situation of demographic balance that has never been seen before, and whose social, political, and cultural consequences are unimaginable. This situation of demographic replacement already occurs in several North American states such as Texas and California. In the latter, we can see that there is already a situation of co-existence of two large minorities, Latinos on the one hand and non-Hispanic white people on the other hand. It concerns an unprecedented situation, expected to extend to the entire USA during the next decades. A similar situation is predicted for the cases of the main European countries of destination of migration.

Finally, the changes in the economic and productive structure of the central countries, enhanced by the new information economy and globalization, lead to a polarization of occupations, which is the basis for new forms adopted by the class structure and social inequality in advanced societies. In fact, the data show how social stratification stops being a strictly economic phenomenon, to transform into a system of ethnical and demographic inequality. Currently, there is a virtual process of *racialization* of class structure in developed countries, where immigrants and their descendants tend to occupy the lower strata of the social structure, while the local native population tends to be concentrated in the upper strata. This creates a situation of ethnic and migratory discrimination that goes against the most basic principles of fairness, equality, and respect for human rights that should support the entire modern democratic State.

Notes

1. Coleman documents similar tendencies (2006) in the case of seven European countries (Austria, England, Denmark, Germany, the Netherlands, Norway, and Sweden), where by 2050, the population of migrant origin will represent between 24% and 36% of the population.
2. The other 27% divides among Afro-Americans, Asians, Aboriginals, and other minorities. Data from the Current Population Survey, March Supplement of 2015.
3. It worth mentioning that the most recent data of demographic projections of the US Census Bureau indicate that this current situation of demographic replacement and replacement and age distribution that is currently occurring in California, will extend to the entire country during the next decades (Canales 2015b).
4. CEPALstat, http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/Portada.asp

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CHAPTER 12

Organized Crime, Security, and Regionalism: The Governance of TOC in LA

Daniel Pontón and Tomás Guayasamín

Introduction

The emergence of TOC as a new global threat has generally been the scope of international security studies, a result of the connotations that this phenomenon has for world peace. Illegal trafficking of drugs, weapons, persons, and money laundering form part of a strongly interrelated clandestine world. This setting has enabled the creation of a regional functional agenda that has prompted the progressive integration of subregional and regional mechanisms aimed at fostering cooperation and exchange of police information focused on the prevention and repression of crime, especially on a strategic level. This basis has supported international governance against TOC (Andreas and Nadelmann 2005), whose purpose, amongst other things, is to contribute to the protection of liberal peace and the development of nations (Duffield 2007).

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As highlighted by Payne (2005: 62–72), it is important to note that governance is a term used in political studies to define change processes in "the rules of the game" of a global government. On a security level, this concept has proliferated in various academic works that had the objective of developing analytical frameworks for the multiplicity of topics and players related to production security on different levels: global, regional, and national (Adler and Greve 2009; Kirchner and Domínguez 2011; Breslin and Croft 2012). This has been encouraged in a particular way and on a regional level, due to the high interdependence of the States regarding the (often conflictive) management and handling of topics of shared regional interest, such as TOC. In the case of LA, this change in "the rules of the game" has created a concept of regionalism for the control of TOC under influence from the USA, whose origin goes back to the historic presence of the trafficking of drugs, weapons, and people between these two regions (Tokatlian 1991).

From this point of view, it has been possible to interpret the regional governance system against TOC as a dual taxation scheme, sustained by a permanent game of cat and mouse. In other words, on the one hand, the idea is maintained that the world of the good will end up subsuming the world of the bad, and on the other hand, the theory that the bad will be able to win from the good is latent because at the end of the day it is the livelihood of time and space of the protection and international cooperation scheme.

Along the same lines, it is worth mentioning that an element of the governance term is that it allows for the incorporation of non-governmental players in the decision-making game, as well as a system of informal rules that impacts the public policy formation process (Fontaine 2010). In the case of TOC, these informal systems form part of a clandestine world that involves intelligence services, criminal groups, and certain forms of political violence (Cox 2002). In spite of this, little is known about the interaction and functioning of these players and their influence in politics and the TOC issue.

Therefore, this document will contribute to the understanding of this relationship between the formal and informal world, analyzing the role of police agencies of international cooperation in the regulation of TOC on a regional level. It will be argued that the role of these agencies takes place in a "gray area" that is characterized by a complex and dynamic intersection of informal practices where the determination of what is legal and what is illegal becomes vague. While this complex regulation system is partly adaptive to transformations of this criminal world, it also has an active and dominant role in the morphology and regional semantic interpretation of TOC.

In the first place, this paper will analyze the cooperative experiences of the police authorities that have taken place in the region. A brief description is given of the institutionalism created to combat transnational organized crime, specifically focusing on proposals from the LA area. For this purpose, the scope of the sub-regional and regional agencies in charge of police control and their role within the security agencies of these states will be analyzed. Afterwards, the governance of TOC will be analyzed as a complex category where the role of police agencies will be analyzed and their active influence through informal mechanisms in the regulation, reproduction, and interpretation of TOC in the region. Finally, a case study will be presented regarding the proliferation of the drug trafficking industry in the Southern Cone, as a result of an undisclosed and explanatory process of the management of TOC. Regarding the case of informal practices, inferences will be made for the case study through the "evidence" obtained from journalist sources, qualified interviews, and reports, due to the fact that the activities of these agencies take place in a clandestine environment (Giménez 2012).

Police Governance Against TOC in LA

The global expansion of TOC has meant that police aspects have been given a fundamental importance in international studies. This interest has been accompanied in parallel with the identification of threats and axes of common governmental action; specifically aimed at stimulating coordination, regulation, and control of countless transnational activities, such as trafficking of weapons and technology, art and antiques, amongst others (Andreas and Nadelmann 2005: 5). According to Gerspacher and Dupont (2007), the cooperation of agencies in the police framework has the purpose of mitigating the actions of criminal groups that use the opportunities of globalization, state weaknesses, and the global demand for illegal goods and services. For this reason, studies of international governance regarding TOC are based on a complex bureaucratic system of police cooperation that aims to adaptively respond to the dynamics of the transnational criminal world (Andreas 2013) and to shape the "good global government" (Andreas and Nadelmann 2005; Duffield 2007).

Inevitably, it results in a specialization of these topics in the offices that formed the basis for the creation of intelligence agencies in the region. Those that stand out are the INTERPOL; the CISC in Canada; and, due to the region's historic relation with drug trafficking, the FBI and DEA in the USA, which have also been the main source of global financing for the fight against TOC (Emmerich 2016). The US Southern Command can also be included in the system, in spite of having a direct link with its military peers in each country and being the direct expression of the militarization of the TOC problem, its work is categorized by their own army of global police (this phenomenon has been named the "police of the military world").

The institutional flourishing of the region also became more important following the 11 September 2001 attacks, when the war against TOC reached a central status within the security agenda of the USA, and with it, a subsequent frontal fight against international terrorism (Andreas and Nadelmann 2005). Since then, international cooperation in terms of police incremented and was focused on bilateral and multilateral financial, technical, and doctrinaire assistance, to strengthen state capacity regarding control and supervision of the region (Neild 2005). In other words, governance against TOC has been based on the historic, hegemonic, and realist interpretation of the USA, aiming to find balance and sustainability in the region, while facing an anarchistic criminal world (Bagley et al. 1991; Tokatlian 2001).

During the last decade, there has been a change in LA in the correlation of powers that generated a discontinuation or an attenuation of the influence of exterior power from the USA in the region. This generated the activation of various projects to strengthen the integration, in terms of security, on a regional and sub-regional level. Despite this, according to Benitez 2014, the influence of agencies from the USA is still considerable on the level of exchange of information and technical support. As a result, the concept of "complex interdependence" has been introduced, managed by Keohane (1988) and Keohane and Nye (1988) to understand the system of control in LA. Based on this definition, the strategic interests between the states, their intentions, and capacity to influence and to prevail in a certain way in the international context have formed the criteria of governance against TOC in the region.

From this perspective, and while intelligence activity in LA follows a slow and laborious path towards industrialization, we will interpret several experiences of regional police cooperation that certainly represent key elements for the study of formal structures of the fight against crime. Thus, for this study, we identify the AMERIPOL; the SISME; and, on a bilateral level depending on the participating countries, the areas of cooperation named: COMBIFRON, Security Committees, or Defense and External Relations Commissions, as the most relevant experiences in terms of cooperation and exchange of information of the police in LA.

On a hemispheric level, AMERIPOL was created as a mechanism to overcome asymmetries through the education and promotion of technical scientific assistance, the exchange of information, criminal investigation, and legal assistance (AMERIPOL 2012: 2). Its organic structure consists of 29 police forces from 26 countries and 21 permanent observing agencies. They have a Center of Hemispheric Prospective and Security that monitors crimes on a regional scope and a System of Exchange of Police Information, which enabled the execution of the operation "Without Borders" against organized crime in June 2016 as a joint enterprise in 13 countries of the region (AMERIPOL 2016).

Meanwhile, the cooperation in terms of police and public security in the framework of MERCOSUR and Associated States was institutionalized through different meetings of Ministers of Internal Affairs. In 2004, this forum established SISME, inspired by its European counterpart of the *Schengen* Agreements (Ugarte 2005). Since then, the tool has been perfected for the exchange of information through "national nodes" that operate via telematics and that can be used to detect police incidents, consultations of vehicles, weapons, or individuals with charges or warrant for arrest or prison (Ugarte 2009). Currently, SISME interconnects national databases of 10 countries, which has made it possible, for example, to carry out operation "SPARTACUS" in 2012, an initiative against human trafficking that led to the rescue of 365 victims and the arrest of 197 individuals (INTERPOL 2013).

On a bilateral level, binational mechanisms for the exchange of information facilitate mutual trust through a joint analysis of the issue in common border areas. This has enabled the existence of instructions, operational procedures, security passbooks, and communication systems in case of possible border security incidents, in order to establish actions for quick solutions at borders. In general, the composition of members mostly consists of the highest authorities of the Communication, Intelligence and Military, and Police Counterintelligence Units.

An important point, in any case, is that this bureaucratic instrument for the fight against TOC suffers from a weakness for international studies: its analysis lies in the state sphere as a basic and homogenous police entity, based on power relations. Furthermore, it supports research in a structure of an international system that is close to positivist epistemology, materialism, and methodological rationalism (Buzan 2014). As a consequence, TOC has been interpreted as a type of "low intensity war" in which power ends up adapting itself to face the conflicts generated by TOC or otherwise, and that this practice enables the recreation of these conflicts for specific political or geopolitical purposes.

Based on these coordinates, while there is no majority consensus yet, advanced academic debates maintain that studies regarding police governance against TOC should differ from classic security and defense studies that are only centered around the state. On the contrary, the analysis should focus on the philosophy of "social defense" (Baratta 2004: 37), in other words, as a natural response of international society to unwanted behavior and activities, where the regulations and institutions are of universal application to guarantee essential conditions for the existence of the entire society (Buzan 2014). With this in view, and following Deflem (2000: 748), police agencies should maintain relative autonomy regarding the police centers of their states, so that the international police system can operate beyond certain interests and political needs of one single state, and eventually even influence the appreciation of the states regarding the issue.

In this regard, and while it has been said that police action is functionally carried out through regulations and procedures established with prior political concurrence included some cases of undercover intelligence operations; the fact remains that there is a degree of informality and discretion as a part of the *habitus* of this world. In effect, the use of this underground system by the players forms part of a complex "gray area" that ends up also being an active element in the management, dynamics, and configuration of a clandestine world with limited access to civil society.

The TOC as a Complex Category and "Gray Governance"

During recent years, a series of visions has emerged that aims to distance itself from the classic perspectives of TOC in international studies based on the taxonomy between the good and the bad. Based on the understanding of TOC as a complex category, an interrelationship with various axes is clearly manifested, namely: political, economic, and cultural that contribute to the—often vague—explanation of their regulatory framework (Andreas 2013; Grasa 2016; Seranno and Toro 2005). In this sense, as we described, certain paradoxes exist for the understanding of this phenomenon.

The first paradox is based on the dimensioning of this criminal world. In other words, the measurement or valuation of TOC almost always represents a vague field due to the clandestine and informal nature of its activities, distancing it from the classic system of formal measurement of the legal world (Fernández Steinko 2008). Therefore, unlike with the legal or formal economy, a cumbersome field is generated that makes it difficult to set this economy as a subject of study, without a doubt, it leaves it exposed on a highly speculative level, not exempt from political and corporate interests in its geopolitical appreciations. A second paradox can be found in the expansion and internationalization of prohibitory laws on a global level (illegal trafficking of weapons, drugs, people, etc.) that have most certainly strengthened the dynamics of the viability and reproduction of TOC (Andreas 2013; Andreas and Nadelmann 2005).

Apart from a certain confusion, and based on the traditional contributions Edwin Sutherland wrote in the book *The White-Collar Criminal* (1940), a third paradox can be seen in the interrelation between illegal earnings that feed TOC and the value system of anarchist capitalism and of the perpetual profit of the business world (Gambetta 1993; Andreas 2005). Finally, a fourth paradox is found in the direct relationship between TOC and the advantage of opportunities and risks of globalization, such as the commercial world, technological breakthroughs, financial liberalization, migration or marginality, among others; as aspects that have strengthened TOC in its real, as well as potential, capacities (Levi 2005; Bagley 2003; Simons and Tucker 2007; Willians 2005; Forgione 2010; Sansó Rubert 2011; Krause and Suzuki 2005). Regarding the last point, it is, therefore, not surprising that there is a contradiction of a “double standard” within the political groups that promote the openness of the market in order to maintain the benefits of globalization, on the one hand, with those who demand a greater state presence to control or to inhibit TOC by means of better supervision, on the other hand (Berdal and Serrano 2005). Therefore, managing the “dark side of globalization” is to set the standard of understanding a schizoid system that reproduces and repudiates itself.

It then becomes feasible to confirm that this complex category also has implications for the understanding of control systems that tend to adapt to the dynamics of this criminal world, but that form part of its reproduction at the same time. As suggested by Cox (2002), it is a relationship that juxtaposes principles that are conflicting as well as symbiotic, which leads to an agnostic interpretation regarding its nature and political/normative purposes but explanatory in its functioning.

Under this scheme, the hinging element of materialization of this complex interdependence is configured by the police cooperation agencies. As we have seen, unlike the central state view, these agencies act as a community with an intra- and interstate character, whose institutionality has relative independence from police control, which in the end is represented in the hard nucleus of the management of TOC, because it adapts, reproduces, and provides meaning to the interpretation of this criminal world. In effect, this concept has always been a police interpretation regarding a specific type of criminal *modus operandi*. While the analysis of this phenomenon has historically brought topics of international trade, migration, and xenophobia together, it becomes much more complex in the context of economic globalization. The origin of this concept was coined by police agencies in the USA to describe and treat the appearance of Italian-Americans in the USAs in the 20s (Fernández Steinko 2008). Based on this police vision, the idea of TOC has regressed to this model of organization as an ideal type. Nonetheless, these organizations are not always stable in time and space, making it more difficult to analyze them as a study object. In practice, TOC is a concept with serious legal application problems given that many crimes that are committed by these organizations are already contemplated in the legal codes through other legal entities. As a result, many countries refuse to incorporate them as a legal category.

As a consequence, a concept that surged and was internationally developed under police semantics, has led to the growth of international police bureaucracy of global reach (Andreas and Nadelmann 2005). This type of "global colonization of the police world" has been interpreted as the "thin blue line", in which police control issues play a fundamental role in the governmental management of capitalist societies to handle topics concerning daily life such as common crime, drug trafficking, and other types of economic offenses (Young 2006; Gardland 2006).

However, the active element of this police underworld is far from a formal system. In reality, it concerns a complex system of "gray areas" where the limits between what is legal and what is illegal become vague (Schultze-Kraft 2016). This system governs the informal, the underground, and the clandestine (functional for some and dysfunctional for others) (Saín 2014). It constitutes the materialization of this contradicting system; meaning that on the one hand, it contributes to the regulation and control of TOC in an adaptive way, and on the other hand, it favors the morphology, escalation, and reproduction of TOC in LA and its political interpretation. In other words, from a constructivist perspective, it is an informal system molded and molds this complex criminal world.

This "gray governance" can be found on the one hand, in the effective materialization of a system of "criminal governance" that aims to mediate between the tactical and strategic interests of the states, and the interests of criminal groups (Arias 2006 quoted by Schultze-Kraft 2016). An example of this relates to the network of alliances and disputes among illegal actors that operate in the TOC economies, when at the end of the 80s, Colombia found itself in a fratricidal struggle between the Medellin and Cali cartels. The police and the Colombian military, together with various intelligence agencies from the USA, joined forces to stop the violence whose genesis goes back to competition in the cocaine market in the main capital cities of the world. As such, while the Orejuela brothers, the drug lords of the Cali cartel, had around 3000 people working for them around the world, in the form of "sleeper cells", in charge of opening legal businesses and living the most normal possible lives, Escobar, the head of the Medellin cartel, negotiated with high level state officials, such as members of parliament and judges (Salazar 2012). Both cartels had spy and counter-spy offensives, which over time led to betrayals on both sides. In this regard, according to an interview published in a report of the *BBC* newspaper regarding William Rodríguez, one of the heirs of the Cali cartel, it was publicly stated that the cartel managed by his father was helping the authorities for a long time, financially as well as with information, and that "they were an important bastion of the fall of Escobar." (BBC 2014)

Likewise, there are other enigmatic cases, such as those specified in the research of the journalist Anabel Hernández in her book *Los Señores del Narco* [The Narcos] (2010). Through her book, she reveals how the Mexican cartels managed to count on the support of high-level federal agents, such as the Judicial Police, the Prosecutor's Office, and the AFI. The Zetas, for example, took advantage of the relationship that they had with several officers of the Mexican military and the Prosecutor's Office to detect the position of their enemy, Osiel Cardneas, ex-leader of the Golfo cartel. A persecution and war provoked by the possession of land was also the liberation between the criminal organization "La Federación" [The Federation] with the cartels of the Golfo and the Zetas; in this case, the ex-leader of La Federación, "El Chapo Guzmán", while he received protection he administered suitcases filled with dollars from officers. As a result, somebody from the Golfo cartel made an allegation at the Prosecutor's Office, who confirmed that certain elements of the AFI were members of the Zetas and, instead of putting them at the disposal of the public ministry, they were handed over to a criminal organization (Hernández 2010: 403–414).

Other enigmatic cases in the region that show the reach and forms of operating in an informal manner by these agencies are those that took place in El Salvador, when a structure of drug traffickers that included judges, policemen, and fiscal officers was dismantled (Diario1 2014). Other examples are the flagrant cases of the DEA when they asked the authority of control in specific countries to allow certain shipments through, in order to be able to study the drug trafficking routes, and to follow up on certain organizations (Saín 2014:130). We can continue providing more examples of actions that show the complex relationship of activities that combine formal and informal procedures, which definitely decipher a form of management of legal economies.

In parallel, another area of this "gray governance" is the system of alliances and disputes that exists between police agencies. Unlike the way in which this world is looked at as a community of harmonic cooperation centered on customs, traditions, and police ethics, the contrasting reality is that this system also emerges with a complex environment of interagency, intrastate, and interstate disputes. In this sense, some of the frequent criticism of the most famous organizations of the North American intelligence community—the CIA and the FBI—can be useful for this investigation. As is well known, J. Edgar Hoover, Director of the FBI for more than 48 years (1924–1972), despised the mandate of the CIA, and accused them of not sharing information. Another event took place in 2012, when the surprising withdrawal of David Petraeus as head of the CIA, due to careless messages from his lover, was associated with an FBI filtration. The competition between both agencies became even more intense during high commotion events such as the assassinations of John F. Kenney and Martin Luther King, or, more recently, the events of 11 September 2001, where there were cross-accusations of bad performance and unskillfulness. A similar situation is confirmed to exist in a general way between the National Police and its peers at the Military, or between the Investigation Police of Chile and the Carabineros, amongst other cases. Nevertheless, it is in this system of competitive disputes where the regulatory capacity and the hegemonic influence of regional police cooperation, such as the DEA, emerge.

From this perspective, as it is an informal world, anarchy plays a fundamental role in this system where improvising and contingence certainly form part of this world. However, the need to regulate this confusing world has resulted in strategic advantages for agencies in the USA with respect to the capacity of the global and regional regulation of TOC. However, this supremacy is far from being only a formal scheme or material based on the technical and financial cooperation as sometimes considered from a realist perspective.

In general, this regulatory supremacy is established through an informal system of doctrinarian influence that was developed based on the historic heritage of international cooperation in police training that has transcended political conjunctures of the region. While the livelihood of this supremacy is sustained by financial and formal technical support, this affinity, confidence, and doctrinarian or ideological empathy with all police agencies in the USA allows for the follow-up and guidance of a large network of informants from the police, judges, fiscal agents, unions, and other strategic and tactical actors related to the control of drug trafficking. This has given them comparative advantages in the management of these intelligence communities. Paraphrasing Emmerich (2016) "the central archive of the DEA in El Paso, Texas (El Paso Intelligence Center) is the most powerful source of information on the global drug trafficking and money laundering level, where all the information coming from the 86 offices scattered throughout the world converges." This situation is reflected by the control of the management of information, which, for many sub-regional and local agencies, is managed in a fragmented way.

A sample of the informal influence of this police and military underworld can be observed during the last decade in LA. In spite of the emergence of Bolivarian governments (Venezuela, Bolivia, and Ecuador) that have marked a political distance from technical and financial cooperation with the USA, this did not result in a large impact in terms of security, but rather, in various cases it increased police productivity regarding the capture and decommissioning of drugs (UNODC 2012; OEA 2016). The Ecuadorian Minister of Internal Affairs, José Serrano, received an award, in 2016, from the DEA for his efforts in the fight against drug trafficking (El Comercio 2016). There have also been recurring practices of cooperation between the agencies in the USA and the Cuban agencies for the interdiction of drugs in high seas of the Caribbean, in spite of the rupture of relations between these two countries for over 50 years.

Another example is that of the Ecuadorian-Colombian COMBIFRON, where the capture of various Colombian drug traffickers took place in Ecuador as a result of fluid police cooperation, in the midst of a rupture of relations between the two countries due to the attack on Angostura in 2008. Similarly, in 2015, in spite of political hostility between Colombia and Venezuela, their police agencies carried on with the exchange of information to neutralize a criminal alias "Megateo", one of the most wanted criminals of the country, who was involved in drug trafficking and transnational organized crime.

As such, regulatory informal interagency capacity operating within the criminal world is considered to also have an effect on these institutions in influencing the political interpretation of the criminal phenomenon. Thus, we think that, in spite of the creation of various unilateral and multilateral organizations for the measurement, monitoring, and analysis of the criminal world, such as the UNODC and the State Department, which have applied methodologies of systematic estimation, annually applied to measure the impact of drug trafficking, this exercise will always be a highly speculative topic and of interpretative police advantage with its own solution strategies. Therefore, the regulation capacity also consists of a hegemonic influence within the epistemic LA communities on this phenomenon.

Ultimately, this police underworld based on a system of alliances/disputes and the informal regulatory capacity is conceived as a new form of understanding the complex interdependence of the governance system of TOC. The magnitude or influence of this informal governance system directly relates to the proportionality and escalation of TOC on a regional level.

In Conclusion: The Case of the Southern Cone

Mauricio Macri's triumph on becoming President of the Republic of Argentina in 2015 has meant a significant political change in this region during recent years. His government has put an end to the *Kirchnerist* leadership that had politically managed Argentina since 2003, under an intended progressive line of a leftist developmental state. This political triumph of *Macrism* has been interpreted by many as the symptom of change in the correlation between the forces in the region that became concrete in the year 2016, the impeachment of Dilma Rousseff by the Brazilian senate, the loss of the referendum for the indefinite re-election of

President Morales in Bolivia, the Venezuelan crisis, and it will probably be an important tendency in the presidential elections in Ecuador in 2017.

Within this context, the fight against drug trafficking has been one of the priorities for the new Argentinian government. In effect, from the start of its management, the plan "Argentina without Drug Trafficking" was established, which aimed to form a frontal fight against this scourge inside this country. This situation has emerged as a need to strengthen control as it faces the emergence of the threat of the drug trafficking industry in Argentina during recent years (El País 2016). For this reason, among the proposals of this new government, the goal is to strengthen contact with the DEA and the FBI to strengthen the fight against TOC aimed at improving the internal protection and the border security of this country. This situation was consolidated with the historic visit of the President of the USA, Barack Obama, in mid-2016, during which topics regarding security and drug trafficking played a central role on the agenda.

Historically, Argentina's position, together with other countries of the Southern Cone, has been marginal in the problem of drug trafficking. Unlike the Andean Region (the main producer of cocaine on a global level), the topics related to the drug problem were treated from the perspective of public health, facing a growing increase in the consumption of narcotic substances and psychotropic drugs. In the 90s, this phenomenon started to be associated with the growing urban youth crime, as was characteristic in LA countries during the last 30 years and thereby an issue of management and interpretation by the local police. Nevertheless, the geopolitical role of this country in facing the drug trafficking situation was perceived internationally as a place of destination and marginally in passing.

Halfway into the first decade of the twenty-first century, the role of Argentina, like the other countries of the Southern Cone, began to change. As of this moment, variations are observed in the levels of drug seizures of these countries, that register a change in status, from a destination country to a transit country. According to the OEA (2016), drug seizures in Argentina increased from 3.06 tons of cocaine in 2004 to more than 12 tons in 2009. This situation is also associated with changes in the global demand, which enhanced the role of the Southern Cone as an exit route for drugs coming from Colombia, Bolivia, and Peru towards Africa and later Europe (UNODC 2013).

Meanwhile, during recent years, in Argentina the refinement of cocaine has been an important characteristic of the drug trafficking industry of this country. This is a product of various laboratories for the refining of this alkaloid in various Argentinian cities such as Buenos Aires, Rosario, and Córdova. There are no estimated figures regarding the value and quantities that this practice represents, but it is assumed that a major component of the drug produced in this country is for internal use, whose raw materials (base paste) come from countries, such as Bolivia and Paraguay, via land or sea through the Paraná River. An important topic to highlight in this case is the practice of urban production of cocaine, which had not been seen since the end of the 80s in Colombia, when the production of drugs had been moved to the countryside. Likewise, there is evidence for the participation of Argentina in the provision of ephedrine, mainly used for processing synthetic drugs. This situation is associated with the resurgence of certain levels of urban violence and important assassination cases of entrepreneurs, assumed linked with this illegal business. For example, according to the *Semana* newspaper (2016), Rosario registered 257 homicides in 2013, which is 40% more than in 2012, with a death rate of 22 for every 100,000 inhabitants.

The reasons for this escalation of the problem, in the framework of conflictive politics, were attributed to the permissiveness of the government prior to Cristina Kirchner (El País 2016) and the unilateral decision to cut off ties with the DEA in 2011 (Emmerich 2016). Nonetheless, given the scheme of contact and influence of the DEA with the distinct police agencies of specific countries, these changes appear to be increasingly associated with transformations in the dynamics of the criminal economy of drug trafficking. In this sense, a geopolitical analysis of TOC as a complex category is based on the existence of a high systematic relation on a territorial level in the analysis of the effects of this problem. For example, the denominated "global effect", or the displacement effect of drug trafficking proposed by Bagley (2012), is nothing more than a systematic demonstration that tells us that what a country ends up doing is not without direct and indirect consequences on other countries. Therefore, the accusations of the operations of Colombia and Mexican mafias, amongst others (Semana 2016), are no more than a result of the undesired or marginal effects of the partial successes of the regional police against TOC, which the police agencies aim to regulate under a scheme of "criminal governance".

Other important aspects that play a role in the proliferation of the escalation of an issue such as TOC should not be ruled out. For example, the geographic factor (size of the remote territory that makes control more complex) without a doubt, complies with a substantial part of this dynamic. Similarly, it is also important to consider the economic and commercial boom of certain areas in Argentina, a result of the commercial soya boom that boosted the emergence of economic informality. This, associated with high levels of exclusion and social poverty, is constituted at actual breeding grounds for the proliferation of these criminal activities in the population. In addition, there are problems with the control and the proliferation of institutional corruption as triggers of this issue. However, these factors do not appear to be the center of analysis of a complex topic reaching systematic perspectives.

For this reason, Argentina's case represents the classic example of this type of "gray police governance". In other words, on the one hand, it is presented as adaptive to the regional dynamics of transformations of this criminal world, but at the same time, it also indicates the active role of these agencies within the configuration and morphology of this regional dynamic. Moreover, police governance plays an important role in the semantic interpretation of this issue on a political level. It is not without reason to think that the declaration made by the UNODC, placing Argentina as the third drug exporting country on a global level in 2013, came from an interpretation of statistics of police productivity based on drug seizures (cocaine) due to its place of origin (UNODC 2013).

Despite the biases of this information, which was later reported by the Argentinian government and subsequently recognized by the UNODC in the same year (Chequeando 2013), the fact is that this declaration has helped to position the new era of this country in its fight against drug trafficking and TOC. It remains to be seen what the consequences are of its transformation and escalation.

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CHAPTER 13

The South American Regionalisms: A Shift or the Return of Economic Integration?

Cintia Quiliconi and Raúl Salgado Espinoza

Introduction

Regionalism in South America in the twenty-first century has been observed in various forms and it has been academically developed into a great variety of approaches. This investigation proposes that the fact that there are many types of regionalism in the region demonstrates that we can mainly speak of a regionalism *à la carte* in a world of various regionalisms and uncertainty of the "benefits" of globalization.

In the context of a regionalism *à la carte*, international actors of regionalism behave selectively and, according to their preferences, they choose the type of regionalism required for their action in an behavior of "forum shopping" (Hofmann and Mérand 2012). In the same way as political international actors look for their appropriate field for action, researchers tend to choose one appropriate approach according to their topic of interest and the objectives of their investigation.

First, LA states see in the proliferation of regionalism an expanding menu of opportunities for the representation and positioning of their interest (Quiliconi and Salgado 2017). Second, there is no homogeneity

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in the interest of each country across the South American region. Moreover, there is a variety of, and contrasting ideological factors influencing, the behavior of the South American states. Some of them have maintained the interest in a neoliberal model of development and the previous close relationship with the main actor in North America—the USA. Hence, the influence of the USA has played mainly a backseat role during the period of the boom of the commodities (2002–2012), allowing some key actors in South America, such as Brazil and Venezuela, to play a prominent part for the period of the boom leading the creation of new regional organizations such as the UNASUR and the ALBA. This has had, as a result, a variety of regionalisms, whereby the regional agenda increased its issue areas from traditional trade issues to new collective concerns such as security, infrastructure, energy, and democratic governance, amongst others. This phenomenon has been called regionalism *à la carte* and has already been developed in previous works (Hofmann and Mérand 2012; Quiliconi and Salgado 2017).

Despite the increasing number of regional organizations in South America, and in LA as a whole, the strategic bilateral trade agreements between the USA and the EU with LA countries have constantly increased, maintaining in those countries the prominent role of the USA and the EU. The action or inaction of these two main actors of international politics has influence on regionalism and globalization in South American states. This is the situation we see nowadays in South America, with the difference being that some new regional institutions are debilitated while the prominent role of extra-regional actors is being restored by new right-wing governments at the same time as a globalization backlash is taking place. In this sense, this investigation seeks to answer the following questions: Which factors best explain the presence of a regionalism *à la carte* in South America? What economic and political challenges are confronting South America in the age of post-boom commodities? How does the new international political spectrum affect opportunities for South American regionalism?

This study has been based on secondary studies about Latin and South American integration and regionalism, published in the twenty-first century, on the observation of recent behavior of the USA and the EU, and on official documents regarding the various foundational treaties of LA regional organizations as well as on documents of trade agreements between the USA and the EU with South American states. These data have been analyzed employing a qualitative content analysis technique. This analytical process has enabled us to reinforce our thesis that the phenomenon of regionalisms in South America can, at best, be referred to as regionalism *à la carte* whereby the new governments have the possibility to return to the old instruments of regionalism or revive the recent ones depending on the agenda they are trying to advance. In the context of regionalism and globalization, key international actors such as the USA and the UK appear to torpedo the principles of globalization despite these being promoted by them in the 90s and the beginning of the 2000s generating a new and changing international setting for the region.

In order to develop this argument, the chapter contains three sections. The first section focuses on those factors that best explain the existence of a regionalism *à la carte* in South America. The second section explores the economic challenges for regionalism in South America in the age of post-boom commodities, and the third section presents some reflections of the impact the new globalization backlash in the present international political spectrum might entail for the South American region. Finally, a short conclusion closes the chapter.

Factors that Explain a Regionalism *à la carte* in South America

The fundamental ideas that underpin a regionalism *à la carte* are: an evident increase of the number of regional international organizations; they differ in their aims; each of them includes different areas or agendas of cooperation; there is no organization that includes all of their objectives in a single project; international regional actors (mainly states) choose and employ the regional organization that includes areas of cooperation of their particular interest (Hofmann and Mérand 2012; Quiliconi and Salgado 2017). Hence, this institutional isomorphism (Dabène 2009) can also be seen as fields of action for the international regional actor whereby the national interest plays a fundamental role.

This study has helped to identify the presence of most of these factors in the process of regionalism in South America in the twenty-first century. First, the regional trade liberalization of the 90s and the beginning of the 2000s resulted in an unprecedented expansion of intraregional cooperation and trade interactions that were the prelude for a third wave of regionalism in the whole of LA.

This third wave of regionalism was motivated by two main new trends in the region: the overlapping interests of leftist governments with high political and ideological motivation acted as an important encouragement for the creation of alternative institutions to the open regionalism ones, being the ALBA in 2004, the UNASUR in 2008 and the CELAC in 2010. The creation of these regional initiatives was also empowered by a period of boom of commodities and by a back-seat role taken by the USA in the region. This was a period that has been described as "post-liberal regionalism" (Sanahuja 2012). Other authors call it "post-hegemonic regionalism" (Legler 2013; Riggirozzi and Tussie 2012; Briceño 2017).

On the other hand, the Pacific Alliance was created in 2012 as a result of trade rapprochements of countries led by right-wing governments, when the low prices of commodities started affecting the local economies, left-oriented governments were struggling to remain in power, and China and the Asia-Pacific were definitely consolidated as important trade partners for South America, despite the end of commodities bonanza. Hence, it could be envisaged as the beginning of a period of post-boom commodities in the region in which trade integration returns to the regional agenda.

This can be seen as one of the reasons why some authors (Nolte and Wehner 2013, Leví Coral and Reggiardo 2016) do not consider the AP as part of post-liberal regionalism. Notwithstanding this, it could be said that its creation has also political motives given that one of the aims of this initiative was to constitute a platform to negotiate in the Asia-Pacific. Most of these new agreements are characterized by a predominant political and strategic agenda rather than traditional trade integration objectives. Scholars such as Quiliconi (2013) suggested that the hemisphere was divided between two opposite models of integration (Atlantic versus Pacific), or in some cases even three (revisionist, anti-systemic, and open integration) (Briceño Ruíz 2013).

In addition to the intergovernmental regional organizations created in the twenty-first century, there are further regional and subregional organizations such as the SICA, the LAIA, the CAN, and the MERCOSUR, which, despite the creation of these new instruments of regionalism, have transformed their fields of cooperation to adapt themselves to the new circumstances and are still of fundamental importance for their members. The MERCOSUR is a good example of the shift in its agenda: the creation of the Structural Convergence Fund, The Social Institute of MERCOSUR, and the Institute of Public Policy in Human Rights are examples that show this new trend of embracing new cooperation topics besides trade. Hence, they can also be included as part of the process of regionalism and integration in twenty-first century South America, and as part of the menu of regionalism *à la carte*.

A comparison of some of the main aims of the four regional international organizations created most recently (the ALBA, the UNASUR, the CELAC, and the AP) enabled us to identify this kind of regionalism in South America. The difference in the number of members (see Table 13.1)

Table 13.1 Regional organizations created in the twenty-first century and their diversity of aims

Regional Organizations & full members	*Some differences in their explicit objectives*
ALBA: 11 member states from the Caribbean and South America, including Bolivia, Ecuador, and Venezuela	To unify members' capabilities and strengths in order to produce structural transformations and the necessary system-network for an integral development
	To defend the independence, self-determination, and identity of their members
UNASUR: all 12 South American states	To create a space for integration and a cultural, social, economic, and political union among the peoples, prioritizing political dialogue, as well as social and educational policies.
	To promote the political dialogue, the South American integration, and its world projection
	To support social and human development, eradicate poverty, and overcome inequalities in the region
	To consolidate a South American identity
	To protect biodiversity, water resources, and ecosystems
	To promote cultural diversity
	To cooperate in the area of human security and exchange information and experiences in the field of defense
CELAC: 33 member states from LAC, including all 12 South American states	To promote and project a harmonized voice of LAC in the political discussion about the big topics and the relevant events, regionally and globally
	To become the regional interlocutor in international conferences and meetings
	To become a mechanism of dialog and agreement for the strengthening of the social, economic, and political links among its members
AP: Chile, Colombia, Mexico, and Peru	To promote the free movement of goods, services, capital, and people
	To boost the growth, development, and competitiveness of their economies
	To become a platform of economic integration and world projection with emphasis on the Asian Pacific

Source: Own elaboration on the basis of the foundational treaties and declarations of the ALBA, the UNASUR, the CELAC, and the AP already shows a fundamental basis for the explicit objectives (those being in the Treaties, Agreements, or Foundational Declarations). At the same time, it allows us to infer further implicit objectives. However, here only the main differences in their explicit objectives will be explored, in order to understand the presence of a regionalism *à la carte* in South America.

These explicit objectives differ particularly between the AP and the three other regional organizations. As shown in the following table, whereas the aims of the AP focus on the economic mechanism of integration and economic development, the other three regional organizations place emphasis on the political dialog, as well as, social and human development.

Although the ALBA, the UNASUR and the CELAC place emphasis on political dialog as a mechanism for international projection, all three endeavors play a diverse role in extra-regional politics. For example, the ALBA has as an aim to influence the change of international structures and establishes anti-capitalist aims, the UNASUR aims to construct a South American identity, and the CELAC aims to become a regional interlocutor for its members with extra-regional international actors.

Moreover, this table shows that none of these regional organizations contains all possible aims of the four organizations referred. Hence, the South American regionalism of the present decade cannot be considered as a single project, despite the fact that the Treaty of the UNASUR suggests using the experiences of the CAN and the MERCOSUR, implying a convergence of these two, but the organization has systematically avoided the task of combining both trade agreements. It also includes a variety of further areas for cooperation based on positive integration. Namely a new regional integration based on political issues, promotion of regional interdependencies, and cooperation in various sectoral areas such as infrastructure, finance, security, education, and democratic stability, among others (Sanahuja 2010) but avoiding the topic of consolidating trade integration between the CAN and the MERCOSUR. In contrast to the economically driven regionalism of the AP, the three other new initiatives are embedded in a "re-politicization" (Dabène 2012) of LA in which the overlapping existence of economically and politically driven regional initiatives reflects the alternative ideologies that have prevailed in the region and that ended up creating a complex geopolitical map of variable geometry in which various alternative projects coexist (Sanahuja 2014).

This variety of regional organizations with different aims has also opened up a new menu of alternatives and complementary fora to pursue their particular national objectives. The discriminating employment of each regional organization can vary according to the political tendencies of the governments and the main objectives that have been established in each institution. On the one hand, this phenomenon shows the institutional flexibility for action, existing for the different state members of the various regional organizations and for further regional actors.

On the other hand, regional actors also have a variety of ways in which to activate themselves strategically and choose the international organization from the menu for positioning their national interest. Hence, the unitary South American national state or further international actors cannot bring the great majority of policies and interests to a single regional institution. For example, when Ecuador had its political impasse with Colombia in 2008, as a product of the Colombian bombing in Ecuadorian Angostura, Ecuador took the case to the UNASUR and not to the CAN in the hope to find some support and solutions. Similarly, the regional health agenda advanced in the UNASUR while cooperation in education or migration took place under the MERCOSUR umbrella sometimes involving associate members, as happened with the MERCOSUR Residence Agreement that started as an Argentinean policy and diffused to MERCOSUR members first and other South American countries later on.

Hence, South American regionalism presents *à la carte* options where each country has the possibility of selecting according to its national interests. In that sense, membership does not imply a necessary use of the institution. Some countries may opt out of some policy domains strategically choosing what agenda to address in each institution or to evade participating in those organizations that do not offer a real return.

This was the case in the last summit of the CELAC in Punta Cana, Dominican Republic, in January 2017 when the Argentinean, Brazilian, and Mexican presidents did not attend the summit, demonstrating a disinterest in the organization. However, these states have the possibility to go back to employ the organizations whose objectives are concordant with the interest of the governing powers. In the cases of Brazil and Argentina, there are possibilities of restoration and strengthening of the fields of action within the MERCOSUR and also a deep discussion about the importance of the MERCOSUR joining the AP.

Finally, this third wave of regionalism has been referred to by different authors, as post-liberal regionalism (Sanahuja 2012); as an emergent neo-regionalism (Allard 2013), as post-hegemonic regionalism (Riggirozzi and Tussie 2012; Legler 2013; Briceño 2017), as New South American

Regionalism (Vivares 2014a, b), as multilateral regionalism (Saltalamacchia Ziccardi 2014, 2015), as modular regionalism (Gardini 2015), as declaratory regionalism (Jenne and Schenoni 2015), and, the finally proposed, axial regional integration approach employed by Nolte and Comini (2016) to explain the policies and strategies of Argentinian governments in the context of the construction of the UNASUR. None of these proposals can be completely considered as a theory of regionalism, but they are ways and approaches to explain and understand the phenomenon of proliferation of intergovernmental regional organizations in the LA region given different responses to new political and economic situations in the region.

This has had, as a consequence, another phenomenon and has an academic character. It is related to the theorization of South American regionalism. As mentioned above, academics have developed a great variety of approaches and ways of explaining LA regionalism. Hence, the debate on regionalism and integration is colonized with a varied menu of approaches in an *à la carte* form. The student and scholar of regionalism has to decide from this menu which perspective to employ according to their interest, topic, and the type of regional institution to be studied. First, this shows the richness of the area of study that is well-established and developed IR debate in the region. Second, it demonstrates the academic efforts being made to offer instruments for analysis. However, none of these approaches includes all the types of regional institutions of the region. This is also another reason for calling the South American regionalism as *à la carte* (Quiliconi and Salgado 2017).

Return to the Beginning: Economic Challenges for Regionalism in South America in the Post-Boom of Commodities Cycle

The current regional situation appears uncertain due to two main trends at the regional and hemispheric level. On one hand, at the domestic political level the end of the political cycle of left-wing governments in key South American countries, i.e., Argentina and Brazil, poses big questions of which country will lead regionalism in the subsequent years. In this sense, the change from a left-wing to a right-wing government in Argentina poses impairments on South American Regionalism given that the new president has so far avoided attending any summits of the UNASUR or the CELAC and has publicly declared intention to join the AP and sign preferential agreements with the EU and the USA. In a similar vein, Brazil, after Dilma Rousseff's impeachment, has also experienced a turn to the right that has expressed similar interests to the new Argentinean government in terms of its regional integration preferences. In summary, political crises in Brazil and Venezuela, *vis á vis* the arrival of right-wing governments in Argentina and Brazil, have left South American regionalism without any leader to encourage deeper levels of cooperation regarding political issues.

On the other hand, the "populist revolts" of 2016 that conveyed the Brexit in the UK and Donald Trump's election in the USA have set new standards in terms of integration, putting an end to an era characterized by bilateral hectic-deal making of trade agreements (Rodrik 2016). This did not create a big problem for South America several years ago particularly because within the LA region, with the exception of Mexico and Central America, South America has been on its own since the beginning of the commodities boom at the beginning of 2000s in which, for many countries, China became the biggest trading partner, and the USA played a back-seat role. However, the end of the commodities boom in 2012, in combination with the end of the left-wing cycle, is leaving South American regionalism underfinanced and leaderless. Nonetheless, it would not be fair to blame the change in politics of the governments for the problems South American regionalism is experiencing. A common sign after a decade of political amalgamation in the majority of the South American countries is that the level of intraregional trade has stagnated despite cooperation possibilities in many areas.

As Quiliconi (2017) argues, the expansion of trade relations between Asia and LA has reoriented the local production factors towards sectors that encompass less value added products, discouraging intraregional trade and participation in global/regional value chains. The reorientation towards a neo-extractivist model of development has made the LA economies much more dependent on the export of commodities. This dependence has had a direct impact on intraregional trade flows and, in turn, has hindered the influence that regional trade integration had back in the 90s.

This lack of economic incentives to consolidate economic regionalism, due to the shift toward a partnership with Asia and particularly with China, has more recently been followed by the lack of leadership to support regionalism in South America. Brazil has mostly been a reluctant leader but its uneven involvement in the UNASUR ended with the impeachment of Dilma Rosseff in mid-2016. This new political situation left the UNASUR without the support of three of its most earnests proponents, i.e., Argentina, Brazil, and Venezuela. The new Brazilian government quickly aligned with the North and abandoned any type of regional endeavor except for its intention to join the AP. Argentina, in turn, with the change of administration from Fernandez de Kirchner to Macri, also took a similar path joining the AP as an observer and showing a clear lack of interest in any South American endeavor, except for the MERCOSUR, where it has recently joined forces with Brazil to exclude Venezuela due to its breaches of the agreement. Finally, Venezuelan leadership in the UNASUR has been declining given the deep domestic crisis this country has been facing.

In summary, the region is going through a transition phase in which regional integration in its pure economic sense has taken a backseat due to a decade of reprimarization of South American economies that took away any incentives to support intraregional trade. Most of these economies favored political regionalism under the UNASUR creating a new platform to address new topics but leaving aside the trade agenda of the old instruments of integration such as the CAN and the MERCOSUR and losing the impetus of their initial and primary objectives. This view is concomitant with the proposal of Briceño Ruíz (2017: 77–78) who suggests that: "there is a consensus that the logic of regionalism was transformed in the first decade of the new century. Conversely to the era of hegemony of open regionalism, free trade is not central to many regional initiatives such as ALBA and UNASUR."

The abandonment of the trade agenda is due to the high dependency of the region on commodity exports having sharply increased, particularly in South America, where raw materials exports currently represent around 40% of the total value of exports to the world, while at the end of the 90s they were only around 25% (CEPAL 2014). However, this situation began to stagnate in 2012, but many South American countries have already shifted their production towards those commodities and have become less diversified in terms of production and, in turn, highly dependent on the price fluctuations of these products (Quiliconi 2017).

Even though 2017 is the year in which LA is expected to emerge from the recession that began at the beginning of this decade, growth forecasts are negative. Particularly as the international scenario does not seem to aid a recovery since the USA and Europe are facing nationalist revolts that encourage protectionism. In addition, many LA countries face important domestic challenges. Ocampo (2017) points out that Venezuela's ongoing political and economic crises are the most important, and that

Brazil is not yet positioned for a strong recovery from its recession and faces a weak political situation.

On the other hand, Argentina is still fighting high inflation and fiscal deficits. Finally, to complete the picture, Ecuador is in a delicate situation due to falling oil revenues and the lack of a monetary policy due to its dollarized economy in a region where most countries have already depreciated their currencies. Clearly, this situation directly affects the level of commitment that South American countries have towards regionalism. As we pointed out before, the lack of leadership in many of the regional initiatives has become one of the most common characteristics in a regionalism *à la carte*. In this context, Malamud (2017) suggests that regionalism has receded and diversification or *à la carte* regionalism has not paid off in a context in which US hegemony has receded. Paradoxically, China appears as the only counter hegemon capable of exerting leadership in South America.

Summing up, it could be said that in a situation of a contested international neoliberal order, poor regional leadership, lacking economic resources and weakness of the instruments of regionalism and integration set up by left-oriented regimes, the other options on the menu for cooperation, trade, and integration can be reconsidered and revitalized in South America.

The Present International Political Spectrum and the Globalization Backlash

As part of the wave of globalization of the 90s, many PTAs between the USA and countries from the South took place and continued to be arranged in the first decade of the twenty-first century as a way of deepening the export-oriented strategies propelled by the neoliberal policies, which were supported mainly by the USA and the EU. Those PTAs have particularly intensified in the 2000s with the characteristic of crossing the North-South divide. This is one of the factors of regionalism in the twenty-first century and which was referred to in a previous investigation as neoliberal regionalism reloaded (Quiliconi and Salgado 2017). In LA this particular development was crystallized by the creation of the AP that gathers those countries that have active joined the trend of North-South preferential trade agreements.

This development created the impression that globalization was still spreading at the beginning of the present decade. However, this globalizing development experienced two big backlashes in 2016. First, the UK voted to abandon the EU through a close referendum, and most recently, Donald Trump's election in the USA. As Riggirozzi and Tussie (2016) claim, Brexit is revitalizing a conventional argument that links regional integration to loss of sovereignty, and to markets, and normative regulating flows of people, which might be the case in terms of tariff liberalization but not necessarily generating incompatibility with a revitalization of state power in other governance spheres that the EU has encouraged. Nonetheless, the loss of sovereignty vision prevailed in the UK favoring Brexit.

This regionalism backlash has left open questions in terms of its meaning for the LA region as many countries have already signed PTAs with the EU. Other countries within regional organizations, such as those members of the MERCOSUR, have recently revived the need for such agreement. Particularly, since the impeachment of Dilma Rouseff and her replacement by Michel Temer *vis-à-vis* the election of Mauricio Macri in Argentina, the interest to accelerate trade talks between the MERCOSUR and the EU is evident. However, given the complexity that these negotiations experienced since they began in 1998, it is clear that, without the UK the EU continues to be an interesting market for the MERCOSUR, but for the EU the MERCOSUR does not seem to be a priority. In this context, the revitalization of trade discussions within the MERCOSUR is the result of a new appetite for trade deals, with the recent political shift towards the right in Brazil and Argentina, showing again a new chosen menu in the regionalism *à la carte* in the region.

This new appetite to encourage trade deals has recently encountered pitfalls at the international level. As we pointed out before, globalization backlash in the UK and the USA poses new challenges for regionalism and open international trade. The active role of the USA as the promoter of bilateral PTAs might have ended after Trump's nationalistic speech favoring protectionism of the North-American market. In that sense, a slow trade growth, as well as economic and financial decline, signifies a big risk for the LA economies. As Ocampo (2017) explains, USA protectionism—or even the start of trade wars—is now a real possibility. Moreover, Trump's threats centered not only on China, but also on Mexico, where firms have already started to reduce investments and cancel plans to expand output to serve the USA market, shows the beginning of a globalization backlash. Particularly, Trump's promise to renegotiate the NAFTA could begin a domino effect that could be felt throughout LA, as many other bilateral free-trade agreements between the region's countries and the USA are essentially NAFTA's offspring. In this context, the MERCOSUR countries that were also interested in signing a bilateral agreement with the USA face a new unfavorable scenario.

Particularly, Trump's abandonment of the TPP opened the door for China to push its own brand of trade in a very dynamic region. In that sense, President Xi Jinping recently said, at the World Economic Forum, that China would defend globalization against populist forces that want to end free trade (World Economic Forum 2017). As Trump has pledged to renegotiate NAFTA, and even CAFTA, that can turn to be an enormous source of leverage for China in LA.

In this sense, Trump's suspension of the TPP has generated two different reactions: first, the explicit intention of many countries to advance TPP negotiations even without the USA and second, a good receptivity to president's Xi proposal to add them to the RCEP[1] and eventually a FTA of the Asia Pacific (Serbin 2016). China is eager to participate in bilateral and multilateral trade deals, as a way to deepening reform and opening up its own economy *vis-à-vis* its involvement in the BRICS Development Bank that gave institutionalization to the group and still has the potential to challenge traditional multilateral organizations (Quiliconi and Kingah 2016). China has also reinforced its presence in LA under the umbrella of what they have called "comprehensive cooperation" and "strategic association" in a document presented in 2016 in which they ratified the strategic importance of the region for Chinese global projection.

Conclusion

South American regionalism is experiencing a phase of uncertainty and lack of homogeneity. The period of the boom of commodities and the contrasting ideological factors of the governments in power have motivated the creation of a variety of regional international organizations that make up a menu of regionalism *à la carte* whereby political actor (states) can behave as being in a "shopping forum". Some states with right-wing governments have maintained a close relationship with the USA and have signed commercial treaties with it and with the EU enabling these actors to play a more prominent role in the region in subsequent years. On the other hand, regional organizations created during the domination of the left-wing governments such as the ALBA and the UNASUR appear to be in decline and are showing a tendency to play a back-seat role in the South American regionalism due to a financial and political crisis affecting the whole region and the return of right-wing governments. In this context, the South American regionalism is best explained as a regionalism *à la carte*. This means that regional political actors focus on policies and areas of cooperation that encompass the interests of the governments in power. For this reason, actors choose the regional institution that has as an aim such concomitant objectives; as there is no single organization that includes all of their objectives in a specific project. Not even the CELAC and the UNASUR, which include all the South American states, have the same explicit objectives. Moreover, in the context of regional leadership, economic decline and weakness of the instruments of regionalism and integration set up by left-oriented regimes, the other options from the menu for cooperation, trade, and integration, such as the AP and the MERCOSUR, can be strengthened and revitalized.

Finally, in light of the present economic nationalism, isolation, and protectionism of two big global players, the USA and the UK, both globalization and regionalism are experiencing a challenge. First, US President Trump´ s protectionist ideas and threats centered not only on China, but also on Mexico, show the beginning of a globalization backlash. President Trump's decision to renegotiate NAFTA could start a domino effect in the USA-LA relationship, as most of the bilateral free-trade agreements between the USA and other LA countries are based on the ideas of expanding NAFTA to the South. On the other hand, the Brexit has put the efficiency and stability of the EU and their relationship with extra-regional actors into question. In this context, the MERCOSUR and Andean countries that have signed or were also interested in signing a bilateral agreement with the USA as well as with the EU face a new unfavorable scenario of uncertainty as well as a redefinition of their regional and global projection.

In summary, the region is facing three big changes simultaneously. First, the end of the boom of commodities cycle poses deep economic challenges to support South American regionalism. Second, the end of the pink tide leadership that supported South American political regionalism during the 2000s poses new tests to these initiatives. Finally, the beginning of a globalization backlash in two of the traditional guarantors of the neoliberal economic order reshuffles priorities in the region and opens up new spaces for Chinese influence in South America. It is still early to diagnose whether post-liberal or post-economic regionalism will survive these deep challenges but it will definitely be deeply affected facing these deep changes.

Notes

1. RCEP is a proposed free trade agreement between the ten member states of the ASEAN that gathers Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, and the six states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea, and New Zealand). RCEP negotiations were launched formally in November 2012 at the ASEAN Summit in Cambodia.

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CHAPTER 14

Africa: Clues About the Tendencies of the Global South

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The South has risen at an unprecedented speed and scale … By 2050, Brazil, China, and India combined, are projected to account for 40% of world output in purchasing power parity terms …
The changing global political economy is creating unprecedented challenges and opportunities for continued progress in human development. (UNDP 2013)

As a central feature of "global" development, including both MDGs and now SDGs, African "development", both applied & analytic, was at a significant conjuncture mid-decade in the symbolic year of 2015 (Shaw 2015): what prospects/directions post- or beyond-2015 (www.post2015.org) until 2030 (Cilliers and Sisk 2013) if not the AU's symbolic 50th anniversary in 2063 (www.agenda2063.au.int): can the African political

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economy continue to aspire to being "hopeful" rather than "hopeless", as *The Economist* has come to articulate in a revisionist rethinking (Kararach et al. 2015)?

Such concerns are becoming ever more salient as the global economy slows in the middle of the second decade of the new millennium: from crash in commodity prices 2014–2015 to China's devaluation of the renminbi in August 2015, now reinforce by Brexit, Trump, and the never-ending Eurozone crises (see first section below): who are the shorter-/longer-tem winners and losers among states, sectors, companies, generations? Beyond a "statistical" to a developmental "tragedy" (Johnston and Jerven 2015): the real drama of 2015? Ian Taylor (2015a) is very skeptical that Africa is rising.

The above opening citation from the 2013 UNDP HDR on the rise of the "global" South brings together global change/governance, and human development/security to which I would add transnational relations/regulation and regional relations/institutions (inter-governmental/formal and otherwise)/development (Shaw et al. 2011). Apparent

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African growth and the attraction of FDI/ETFs/SWFs to the continent also raise awkward issues around data and methods: how can Africa have a burgeoning middle class when its data suggest is it impoverished and failed to reach MDG goals, at least in the aggregate (Jerven 2015)?

Controversially, arising out of a SFU Vancouver conference on African data, in mid-April 2013, Morten Jerven (2015) has suggested that African data are rubbish, which has not endeared him to African statisticians … but has served to generate a healthy, interdisciplinary debate about Africa, coedited with Deborah Johnston (Johnston and Jerven 2015) on the "statistical tragedy" of Africa … and, in 2014, the WB did indeed recalculated upwards the GDPs of Ghana, Kenya, Nigeria, etc.

Discourses on African & Global IR/Development

At independence, now over a half-century ago, African international relations and foreign policy were largely monopolized by new, jealous, albeit problematic, "sovereigns". Today, a quarter-century after the end of the

Cold War, cross-border connections are increasingly non- or extra-state, from the APP (www.africaprogresspanel.org) to the West African Commission on Drugs (www.wacommissionondrugs.org/), through Kofi Annan (www.kofiannanfoundation.org) and Mo Ibrahim Foundations (www.moibrahimfoundation.org). Similarly, peoples, goods, and ideas, legal/legitimate or otherwise, flow across borders with minimal regulation, as indicated by the Ebola virus "crisis" in 2014–2015; the regular delivery of "ghat" to Somali communities (at least, the men) around the Horn; the cross-border networking of Islamic fundamentalists connected to Al-Quaeda/Boko Haram, especially in West and East Africa (e.g., US Embassy bombing, Westgate attack, etc., in Nairobi); inter- and intra-religious tensions between, say, Sunni and Shiite, orthodox Christians (such as Anglicans and Catholics) as well as heterogeneous Coptic/Orthodox churches, and the "born-again" as the latter, Pentecostals, proliferate throughout the Global South, especially in LA, Africa, etc. …

Meanwhile the notion of "global IR" is beginning to gain traction, initially advocated by Tickner and Waever (2009) and now espoused by the leading IR professional association, the ISA (www.isanet.org), as its theme for its February 2015 annual conference: "Global IR and Regional Worlds: a new agenda for international studies". Asia is generating interesting comparative analyses and debates (Acharya 2009). I am especially pleased that my two coedited collections on African IR have gone into revised paperback editions mid-decade (Dunn and Shaw 2013).

I build on the increasingly familiar and compatible concepts of "the transnational" (Findley et al. 2014, Mukherjee-Reed et al. 2012) and "global governance" (Harman and Williams 2013; Roger and Dauvergene 2016) as together they advance analysis of transnational African relations and regulation symbolized by the KP and EITI, and now the APP (www.africaprogresspanel.org). The subsequent articulation of an AMV, in turn, advances the notion and prospect of an "African Agency" (Brown and Harman 2013) reflective of unanticipated and unprecedented growth prospects generating a broader range of policy options in Africa as elsewhere in the Global South: from MDGs to SDGs?

Symbolic of a hopeful Africa was the advocacy by the UNECA of an African "developmental state" at the start of the second decade of the century (2011, 2012), reminiscent of the activist role of the UNECLA of dependent development in an earlier era: an African variant of earlier Asian NICs with *dirigiste* regimes. Moreover, in 2016, the ECA began to consider the prospects of "developmental regionalism" (Adejumobi and

Kreiter 2016), from SADC to TFTA, and on to CFTA? These obviously need to be distinguished from the many classic "fragile" states (Brock et al. 2012) concentrated on the continent (www.foreignpolicy.com). In short, there are several "Africas", just as the Global South is hardly homogeneous (Bergamaschi et al. 2017; Modi 2011).

This stark contrast—between Botswana and Mauritius on the one hand, and DRC and Somalia on the other—poses difficulties for a singular approach to both analysis and practice/policy (Kararach et al. 2015). So, what is/are development/development policy/development studies in 2015 with the rise of the BRICS/EMs/FMs but also the persistence of fragile states and local to national inequalities with implications for sustainable human development/security given rise of fundamentalisms/radicalisms? A special report from the *Financial Times* (2015), on the continent, asks whether Africa can "bridge the development divide". Similarly, *The Economist* (2015a) leads its Middle East and Africa section from Lokichar, in the distant north-west of Kenya, on how "Wild, ancient and oil-rich Turkana shows how fast the continent is changing" under the title of "Oil in the cradle of mankind: a glimpse of Africa's future".

Furthermore, given the ubiquity of "private" regulation, such as fair trade/organic certification (Hudson et al. 2013), even developmental states do not really/authoritatively control burgeoning new sectors such as mobile phones/finance, broadband internet, brands/franchises/logistics (particularly South African), ATMs (SWIFT is a non-state network controlled by the world's banks (www.swift.com), etc. And, a range of non-state rules on conflict-free minerals, diamonds, fish, forests, symbolized by the FSC, the KP, Isealalliance (www.isealalliance.org), the MSC, etc., set limits on statist or presidential ambitions even corruption and capital flight/money-laundering).

Finally, the first decade of the twenty-first century was that of the BRICs/BRICS, especially China and India, leading Jan Nederveen Pieterse (2011: 22) to assert that the established North-South axis is being superseded by an East-South one, especially in the second decade of the twenty-first century, that of the MINT/MIST or "emerging economies":

> "… the rise of emerging societies is a major turn in globalization … North-South relations have been dominant for 200 years and now an East-South turn is taking shape. The 2008 economic crisis is part of a global rebalancing process."

The Post-2015 Global Political Economy

To situate post-2015, this paper juxtaposes a set of parallel/overlapping perspectives to consider whether the several "worlds"—from North Atlantic/Pacific and on to eurozone PIIGS versus "second world" (Khanna 2009) of BRICS/CIVETS/MINT/MIST/VISTA—have grown together or apart as global crises and reordering have proceeded (see myriad heterogeneous analyses, such as (Cooper and Antkiewicz 2008; Lee et al. 2012; Pieterse 2011; WEF 2012; O'Neill 2011). The continent enjoyed a surge in FDI to almost US$90 billion in 2014, according to a report from Di Intelligence in the *Financial Times* mid-May (2015), concentrated in sectors such as energy (Hicks 2015), real estate, and communications (de Waal 2015), and in more mature FMs such as Egypt, Kenya, Morocco, and Mozambique.

The world monetary system is now triangular—the euro (Daianu et al. 2014) and renminbi as well as the US$ (Vermeiren 2014)—but global growth is largely a function of another trio of markets—China and India as well as the USA …

As global investment in the BRICS and other EMs peaked (Armijo and Katada 2014), Africa became the continent with the most promising FMs. Its growth trajectory will outlast that of the BRICS even if the risks are greater; so continent-wide and country-specific ETFs proliferate (e.g., Market Vector Africa Index ETF by Van Eck Global and South Africa's first from the JSE (www.jse.co.za) at the start of the new century, now over 20 available). In 2013–2014, Africa's performance was enhanced by the financial and telecommunications sectors rather than energy or mining and SMEs rather than large-caps. It is increasingly able to attract new sources of finance such as non-traditional donors (Sumner and Mallett 2012) such as the Gulf states, Korea, and Turkey, SWFs, and global pension funds, remittances from myriad diasporas, and new foundations such as Annan, Clinton, Gates, Ibrahim, etc. As indicated below, FDI reached US$50 billion in 2013. As a result, the continent has spawned a growing number of indigenous economic/financial advisors/consultants such as DaMina (www.daminaadvisors.com) and Franie Leautier's Fezembat Group (www.fezembatgroup.com) …

The Third International UN FFD (FFD3) gathered in Africa's inter-state center—i.e., Addis Ababa—in mid-July 2015, following the first pair of events in Monterrey (2002) and Doha (2008), as part of getting beyond 2015 to SDGs (www.un.org/esa/ffd), especially the SDG summit at the

UN in New York City around the annual General Assembly in September 2015. However, some in global civil society may be a little optimistic about sidelining the Bretton Woods IFIs (Caliari 2015) as the BRICS/EMs have their own stake in evolving multilateralism post-2015 (Besada and Kindornay 2013). For the commentary on why/whether FFD3, see Yusuf Bangura's paper post-UNRISD: www.unrisd.org/road-to-addis-bangura.

The JSE is one of the world's top 20 stock markets playing an increasingly continental role and being part of the BRICS alliance and the BRICS bank; its index stood around 50,000 mid-decade having risen from 5000 two decades earlier. The JSE can increasingly claim to be the regional financial hub, advancing FMs throughout the continent.

Emerging Worlds/Regimes?

Each proposed grouping of, or acronym for, EMs & FMs embodies slightly different sets of assumptions/directions/implications; PWC expanded the "Next-11" of Goldman Sachs (i.e., 15 without South Africa) to 17 significant EMs by 2050 (Hawkesworth and Cookson 2008): what implications for transnational governance? Also, Laura Carsten Mahrenbach (2013) put EM and EP together for her case studies of Brazil and India (2/3 of the IBSA (Stuenkel 2015)), combining their roles in both international economy and global diplomacy.

Symptomatically, the initial iconic acronym was proposed at the start of the new century by a leading economist working for a global financial corporation—Jim O'Neill (2011) of Goldman Sachs (www2.goldmansachs.com) —who marked and reinforced his initial coup with celebration of its first decade. As he noted at the start of the second decade, global restructuring has been accelerated by the simultaneous decline, of not only the USA and UK, but also the southern members of the Eurozone. Many now predict China to become the largest economy by 2025, having overtaken the USA in purchasing power parity (PPP) terms by 2015, with India to catch-up with the USA by 2050 (Hawkesworth and Cookson 2008: 3). PWC (2013: 6 and 8) suggests that:

> "The Emerging 7 countries (E7) countries could overtake the Group of 7 countries (G7) as early as 2017 in PPP terms … the E7 countries could potentially be around 75% larger thEmerging Markets, Emerging States: Globalan the G7 countries by the end of 2050 in PPP terms …"

> "By 2050, China, the USA, and India are likely to be the three largest economies in the world …"

But, Stuart Brown (2013: 168–170) notes that there are competing prophecies about the cross-over date when China trumps the USA, starting with the IMF advancing such a transition (transformation?) to 2016 (cf. Kiely 2015).

As the G8 morphed into the G20 (Cooper and Antkiwicz 2008) a variety of analysts/agencies attempted to map the emerging world, including Parag Khanna's (2009) "second world" and Fareed Zacharia's (2011) "rest": for example:

a) the WEF's GRI advanced by a small state caucus centered on Qatar, Singapore, and Switzerland (Cooper and Momani 2011) (for a readers' guide to GRI see www.umb.edu/cgs/research/global_redesign_initiative);
b) the *Constructive Powers Initiative* advanced by Mexico (www.consejomexicano.org/en/constructive-powers), which brought older and newer middle powers together (Jordaan 2003) such as the old anglo-Commonwealth with *inter alia* Indonesia, Japan, and South Korea;
c) the *Emerging Powers Policy Forum* for "established" powers' partnerships with emerging "global swing states" (Kliman and Fontaine 2012), orchestrated by the German Marshall Fund for the USA (www.gmfus.org) (Kliman et al. 2013);
d) at the end of 2012, from both sides of the pond, the US National Intelligence Council produced *Global Trends 2030: its alternative worlds* (GT 2030) (www.gt2030.com) identified four "megatrends", such as "diffusion of power" and the "food, water, energy" nexus; a half-dozen "game-changers"; and four "potential worlds" from more to less conflict/inequality, including the possibilities of either China-USA collaboration or of a "non-state world";
e) Chatham House in London reported in *Resources Futures* (Lee et al. 2012: 2) with a focus on "the new political economy of resources" and the possibility of global natural resource governance by "Resource 30" (R30) of major producers/consumers, importers/exporters (www.chathamhouse.org/resourcesfutures): this comprised the G20, including the BRICs, but not BRICS (i.e., no South Africa), plus Chile, Iran, Malaysia, Netherlands, Nigeria, Norway, Singapore, Switzerland, Thailand, United Arab Emirates, and Venezuela.

Other agencies/think tanks/consultancies that also make regular predictions/scenarios include CIGI at Waterloo (www.cigionline.org) and the Munk School at the University of Toronto (www.munkschool.utoronto.ca); BCG, McKinsey (www.mckinsey.com), Deloittte, etc. … and the Secular Forum at PIMCO, however discredited the brand (www.global.pimco.com/EN/insights/pages/secular-speakers.aspx)

And, in the case of the most marginal continent—Africa—its possible renaissance was anticipated at the turn of the decade by BCG, CGD, McKinsey et al (Shaw 2012), with the *Economist* admitting, in January 2011, that it might have to treat Africa as the "hopeful" rather than "hopeless" continent. Meanwhile, as already noted, the supply of development resources is also moving away from the old North towards the BRICS (Chin and Quadir 2012; Sumner and Mallet 2012) and other new official OECD/ODA/DAC donors such as South Korea and Turkey, plus private foundations such as Gates, FBOs, remittances from diasporas, SWFs, and novel sources of finance such as taxes on carbon, climate change, emissions, financial transactions, etc. (Besada and Kindornay 2013).

In turn, especially in Africa, "contemporary" "global" issues—wide varieties of ecology, gender, governance (de Waal 2015; Henley 2015; Jensen 2015), health, norms, technology, etc.—have increasingly confronted established analytic assumptions/traditions and actors/policies leading to myriad "transnational" coalitions and heterogeneous initiatives/processes/regulation schemes as previewed in Bernstein and Cashore (2008); Dingwerth (2008); these impact prospects for economic, environmental, health, and natural resource governance in Africa, as elsewhere.

Such extra- or semi-state hybrid "global governance" increasingly challenges and supersedes exclusively interstate international organization/law (Harman and Williams 2013). African IR has always been quite transnational or non-/semi-state: it is becoming more so as the continent's non-state sectors—centered in the worlds of civil societies (Africa Civil Society Secretariat; www.askafricanow.org) and companies (e.g., Sub-Saharan African Chamber of Commerce (www.ssachamber.org), and the Corporate Council on Africa; www.africacncl.org) — expand. African Business Schools have proliferated this century to augment the trend away from the state (www.aabschools.com) and public administration/policy; they are increasingly ranked globally as by the *Financial Times* such as those in Lagos, Pretoria, and Stellenbosch.

Emerging Economies/States/Societies?

> Africa's economy is growing steadily. Last year average growth was 3.9% and it is set to accelerate this year … FDI is helping to spur growth. It is expected to reach US$55 billion in 2015, 20% higher than in 2010. Inflows of capital are increasingly focused on less resource-rich countries as investors target the continent's booming middle classes. The amount of investment into technology, retail, and business services increased by 17% between 2007 and 2013. FDI is also becoming a two-way affair. Last year, Africa's outward investment hit US$11.4 billion, up nearly two-fifths since 2011–2012. ("Investment in Africa" box *The Economist* 2015b)

The salience of "emerging markets", especially the BRICS and other political economies in the second world, has led to debates about the similarities and differences among emerging economies/middle classes/multinational companies/states/societies, etc., informed by different disciplinary cannons; e.g., by contrast to Andrea Goldstein (2007) on EMNCs, Pieterse (2011) privileges sociologically-informed emerging societies. In turn, especially in IR, there are burgeoning analyses of emerging powers/regional and otherwise (Flemes 2010; Jordaan 2003), some of which might inform new regionalist perspectives, especially as these are increasingly impacted by the divergence between BRICS and PIIGS. In turn, they inform and advance alternative definitions of, and directions for, development post-2015 (Grant et al. 2014).

Despite the US subprime and EU euro crises at the start of the twenty-first century, FDI in Africa continues to grow, reaching US$50 billion in 2013, more than double ODA, primarily from outside the OECD: China, India, and Malaysia, and myriad SWFs and SOEs. The drivers are increasingly services for the burgeoning middle class (e.g., banking, real estate, retail, telecoms, tourism, etc.) plus food and energy (www.un.org/africa/osaa). *The Globe & Mail* (2015) suggested that "Africa's clicking".

However, the continent's ranking in the latest Global Competitiveness Report/Index from the WEF (www.weforum.org) is not overly impressive or reassuring, at least compared to the BRICS: the top ten is led by Mauritius (#39 globally), followed by South Africa (#56), Rwanda (#62), and Botswana (#74), with #10 being Lesotho (#107 globally); by contrast, the top of the BRICS listing is China (#28) and the lowest India (#71), with the remaining trio being in the fifties (as above, South Africa # 56). The bottom of the competitiveness index, like that for fragile states, is monopolized by Africa: between #132 and #144: Guinea, Chad, Mauritania, Angola, Burundi, Sierra Leone, Burkina Faso, Mozambique, and Malawi .

With new energy discoveries and investments, a second tier of oil producers has emerged after Nigeria and Angola: Equatorial Guinea, Congo-Brazzaville, Gabon, South Sudan, and now Ghana, with Uganda (Mbabazi 2013) eager to join (Hicks 2015). LNG is now exported from Nigeria, Equatorial Guinea, and Mozambique, with the latter possibly able to challenge the dominance of Qatar and Australia by 2020. And, by mid-2014, the World Bank planned to launch a US$ 1 billion fund to map the continent's mineral resources to advance the AMV (www.africanminingvision.org), though all such expenditures have been slowed down by declining commodity prices over the last 18 months.

Varieties of Development

"Development" was a notion related to post-war decolonization and bipolarity. It was popularized in the "Third World" in the 60s, often in relation to "state socialism"—an official euphemism for one party even one man rule—but superseded by neoliberalism and the Washington Consensus. Yet the NICs then BRICs pointed to another way, by contrast to those in decline, like fragile states (Brock et al. 2012); such "developmentalism" (Kyung-Sup et al. 2012) has now even reached Africa (Hanson et al. 2014, UNECA 2011, 2012). However, while the "global" middle class grows in the South (Dayton-Johnson 2015), increasingly, major cruise-line companies—such as Carnival, Royal Caribbean, and Norwegian—sail out of Shanghai and Singapore, as well as Miami, so do inequalities along with NCDs such as cancers, heart disease, and diabetes.

Nevertheless, Africa has advanced as well as benefitted from mobile technologies, from cell phones to mobile finance such as M-Pesa, developed in Nairobi at its iHub, its mini-MIT, Waterloo or Cambridge (UK). IBM opened a research lab in Kenya's capital mid-decade and now, in 2015, a trio of Kenya's major universities is to build a basic laptop computer, for over one million schoolchildren, with an initial US$ 170 million from the government.

Given the elusiveness as well as limitations of the MDGs (Wilkinson and Hulme 2012), the UN has been debating and anticipating post-2015 development desiderata (www.un.org/millenniumgoals/beyond2015) including appropriate innovative forms of governance (Campbell 2013) as encouraged by networks around INGOs (www.beyond2015.org) (de Waal 2015) and think tanks (www.post2015.org). Aid is now about cooperation, networks (Smith and Reilly 2013), or alliances (Ritchey and Ponte 2014) not finance, as a range of flows is attracted to the Global South including private capital, FDI, philanthropy/FBOs, remittances, let alone money-laundering (Shaxson 2012); ODA is a shrinking proportion of transnational transfers (Brown 2011, 2013: 24–28). Meanwhile, given such dramatic global reordering (Henley 2015), the varieties of capitalisms, state and non-state, proliferate.

Varieties of Capitalisms

The world of capitalisms has never been more diverse: from old trans-Atlantic and trans-Pacific to new—the Global South with its own diversities, such as Brazilian, Chinese, Indian, and South African "varieties of capitalisms". Andrea Goldstein (2007) introduced emerging market MNCs in the IPE Series, including a distinctive second index—five pages of company names of EMNCs (see next paragraph)—and Andreas Nolke (2014) has developed such comparative analysis of EMNCs in the middle of the second decade. And, in the post-neoliberal era, SOEs, especially NOCs (Xu 2012), are burgeoning. Both US/UK neoliberal, continental/Scandinavian corporatist, and Japanese/East Asian developmentalist "paradigms" are having to rethink and reflect changing state-economy/society relations beyond ubiquitous "partnerships" (Overbeek and van Apeldoorn 2011). Furthermore, if we go beyond the formal and legal, then myriad informal sectors and TOC/money-laundering/OFCs are ubiquitous (Findley et al. 2014).

For the first time, in the "Global Fortune 500" of (July) 2012, MNC HQs were more numerous in Asia than in either Europe or North America. There were 73 Chinese MNCs so ranked (up from 11 a decade ago, in 2002) along with 13 in South Korea, and eight each in Brazil and India. Each of the BRICS/EMs hosted some global brands: Geely, Huawei and Lenovo (China), Hyundai, Kia and Samsung (Korea); Embraer and Vale (Brazil); Infosys, Reliance, and Tata (India); Anglo American, De Beers, and SABMiller (South Africa), etc. On 20 June 2015, *The Economist* based on Boston Consulting Group data reported that, "private wealth in Asia overtook that in western Europe in 2014 and is set to overtake North America by 2016". It also noted that, "by 2021 it (China) will overtake America as the world's wealthiest nation". And, in the August 2015

Fortune Global 500 listing, China had almost 100 companies identified (98 actually) (www.fortune.com/fortune500)!

Reflective of African growth prospects, as already noted in (i) above, by 2013, there were over 20 ETFs on sale at the JSE. Market Vectors' Africa ETF invested most in Egypt, South Africa, Nigeria, and Morocco, especially in: banking, breweries, and cement (www.vaneck.com). Many of its largest investments are Nigerian: First, Guaranty Trust, United and Zenith banks, and Nigerian Breweries. Meanwhile, the increasingly diversified (in both products and locations, let alone markets) Nigerian Dangote Group cement empire, owned by the continent's richest man (at US$25 billion), is expanding into a dozen African economies, from Senegal to Ethiopia, into pastas, salt, and sugar, from cement, logistics, and real estate (www.dangote.com), just as global cement giants, Lafarge and Holcim, agreed a proposed merger. Also, in the first half of 2014, Nigeria announced that it had recalculated its GDP—now almost double the previous level (to over US$500 billion), so, leap-frogging South Africa—but the supposedly ubiquitous energy sector is now down to 14% GDP, less than half of previous estimate. This reflects growth sectors such as mobile telecoms and Nollywood (1.4% GDP from nothing) plus manufacturing (7%). The main sectors leading to this recalibration were telecoms and trading.

The pair of dominant economies in SSA is unquestionably Nigeria and South Africa yet, despite being increasingly connected, they display strikingly different forms of "African" capitalisms and governance. Nigeria, including its mega-cities, Lagos and Ibadan, is a highly informal political economy with a small formal sector (beer, consumer goods such as soft drinks and soaps, energy, finance, telecommunications, etc.). By contrast, despite its ubiquitous shanty-towns, South Africa is based on a well-established formal economy centered on mining, manufacturing, farming, finance, services, etc. Both have significant diasporas in the Global North, especially the UK and the USA, including Nigeria's in South Africa, especially Jo'burg, remitting funds back home. Since majority democratic rule, South African companies and supply-chains, brands, and franchises have penetrated the continent; initially into Eastern from Southern Africa, but now increasingly into West Africa and Angola. Transnational relations in Africa, as elsewhere, are increasingly subject to transnational regulation, including fair trade, by multi-stakeholder groups and supermarkets to MNCs, including SOEs in agriculture, energy, mining, and telecommunications (Mukherjee-Reed et al. 2012).

New Regionalisms

The proliferation of states along with capitalisms post-bipolarity has led to a parallel proliferation of regions (Haastrup and Eun 2014), especially if diversities of non-state, informal even illegal regions are so considered rather than just traditional inter-state organizations. Also, the eurozone crisis concentrated in the PIIGS has eroded the salience of the EU as a model (Dosenrode 2015), leading to a recognition of a variety of "new" regionalisms (Flemes 2010). In turn, inter-regionalisms have proliferated from those around the EU and the ASEAN towards novel multi-lateralisms around emerging donors—e.g., China-African FOCAC (www.focac.org), Japan's parallel TICAD (www.mofa.go.jp)—and a proliferations of focused arrangements ex-China, such as the AIIB, (www.aiibank.org) Chang-Mai Initiative (CMI) and CMI Multilateralization, SCO (www.sectsco.org), and now the BRICS' Bank (wwwbrics6.itamaraty.gov.br; www.thebricspost.com).

These can now be claimed to include instances of "African agency" (Brown and Harman 2013) like South African franchises and supply chains reaching to West Africa and the recently formalized Trilateral FTA among the COMESA, the EAC, and the SADC (T-FTA) (Hartzenberg et al. 2012) along with older/newer regional conflicts such as the GLR plus the regional as well as global dimensions of, say, piracy off the coast of Somalia (ACBF 2014). Such piracy has proliferated and intensified off West Africa too, as oil generates illegal as well as legal supply chains; so-called "bunkering". In addition, Africa is installing pipelines as well as broadband cables in the Sahara, coast of West Africa, and, soon, East African oilfields (Hicks 2015). As climate change increases, the continent is likely to need water pipelines too. Together these erode any claims to Africa hosting "gatekeeper states": GVCs, hubs, logistics, etc., all part of "development" in 2015, are largely defined by "private" interests and rules.

ACBF published a formal evaluation of African regionalism in 2004 but was limited to inter-state arrangements. With the AfDB, it is undertaking a more comprehensive evaluation mid-decade (details to be added from ACBF draft and consultation in mid-2015). Moreover, Chatham House in London is organizing a conference on "Advancing Inclusive Insurance in Africa" in late-September, in Nairobi (www.chathamhouse.org)

Also, mid-decade, emulating China and its AIIB, AfDB, donors, and African companies have established "Africa 50" for the continent to finance its own infrastructure through indigenous developers and investors. (www.africa50.com) …

"New" Non-traditional (In)securities

Africa may have been growing at an unprecedented rate in the twenty-first century but it has also had to confront a range of unanticipated and unfamiliar security challenges (Hentz 2014). Such NTS threats and myriad novel and orthodox responses (Peter 2014) stretch from drugs, gangs, and guns—citizen insecurity?—to fundamentalist or radicalized jihadist networks, loosely connected to global al-Quaeda or "Islamic State"; e.g., Al-Shabaab in the Horn (Webersik 2014) and Boko Haram in West Africa (Akinola 2015).

The former, drug supply chain has been recognized through the WACD (www.wacommissionondrugs.org); the latter—terrorist threats—through media and regional military responses. WACD (2014) published its report on "Not Just in Transit" in mid-2014 and a variety of analyses, confidential and otherwise, have been produced about the dangers of "radicalization" in both East and West Africa (Harman 2014). Al-Shabaab generates particularly difficult dilemmas for Kenya and neighbors, such as Djibouti and Ethiopia, given its established Somali citizens, especially around "little Mogadishu", the Eastleigh suburb of Nairobi (Carrier 2015). The mix of immediate and distant diasporas as sources of remittances along with ideas and weapons presents policy challenges for states and NGOs, let alone global franchises such as Western Union and MoneyGram (Farah and Dini 2014) and now Dashabili.

And, given seemingly exponential climate change, increasing recognition of the emerging nexus of "water-energy-food"/land is likely to generate novel forms of tension, juxtaposing so-called "global" issues (see next section) and NTS (www.water-energy-food.org; www.weforum.org). However, Africa could be in the *avant garde* in responding to global warming, especially this *el niño* year with regard to renewable energy, especially CSP, which turns sunshine into steam and then electricity. Yet, the continent at present has more unconnected people than other regions, including South Asia: according to the latest APP report (mid-2015), 600 million lack access to grid electricity. According to *The Economist* (2015c):

> "In 2010–2012 Nigeria's renewable power production posted the world's fastest growth, at more than 15% a year … Africa is leading the embrace of this idea (CSP): it hosts six of the ten biggest CSP plants being built around the world."

Emerging "Global" Issues

A growing number of global issues is increasingly recognized to be arising in Africa as in the rest of the Global South as well as resulting from excessive consumption/pollution in the North as NCDs, such as diabetes. In the immediate future, these issues will include environmental and other consequences of climate change and health viruses/zoonoses. They will also extend to myriad computer viruses and cyber-crime (Kshetri 2013). In response, the Gates Foundation (www.gatesfoundation.org), with others, has advanced the GAVI (www.gavialliance.org) and the AGRA (www.agra-alliance.org). The ubiquity of the Gates Foundation in African development this century, especially health and now agriculture (Moran 2013), is symptomatic of burgeoning transnational relations on the continent which trump established inter-governmental institutions such as the WHO or the FAO. Africa post-2015 will be different, but not necessarily as anticipated in UN debates around SDGs (www.post2015hlp.org; www.post2015.org; www.beyond2015.org). Similarly, the continent will benefit from the US$200 million GIFof four OECD donors (Australia, Sweden, the UK, and the USA) plus the Omidyar Network, intended to improve the lives of the world's poorest people.

Some suggest that we may be running out of basic commodities, like energy (Klare 2012) and water plus food and land, let alone REEs. Finally, after recent global and regional crises, the governance of the global economy is at stake: the financialization syndrome of DBRAs, derivatives, ETFs/ETNs, hedge and pension funds, SWFs, etc. (Overbeek and van Apeldoorn 2011).

The prospects for new African energy regions have receded as the global commodities crash intensified mid-decade (www.africa-energy.com), especially the promising eastern African energy region from South Sudan through East Africa to northern Mozambique (www.eac.int/energy): when will ambitious plans for extraction, pipelines, LNG, etc. now get underway post-2015 (Hicks 2015)? Moreover, what prospects for the peripheries of such emerging regions, such as Somalia with its ubiquitous and connected diasporas? (www.eaenergyforum.org)

Informal and Illegal Economies: From Fragile to Developmental States

Emerging out of an increasingly wired world with its very visible and ubiquitous mobile "poles" and underground/undersea broadband wires, proliferating mobile technologies increasingly facilitate the informal and illegal as well as otherwise. The "informal sector" is increasingly recognized in the "discipline" of "anthropology", etc. (Hirschfield 2015) as the "illegal" in IPE (Friman 2009), informed in part by the annual SAS (www.smallarmssurvey.org), now joined by Andrew Feinstein (2012) on *The Shadow World: inside the global arms trade* (www.theshadowworldbook.org) and the saga of the IRB on at least one US campus and OFCs documented in Findlay et al. (2014) (*Global Shell Games: experiments in transnational relations, crime, and terrorism*) (see www.globalshellgames.com): how a score of "consultants" made 7000 solicitations in 180 countries about how companies could be successfully established in a tax haven despite G7/8, FATF, media exposure, etc.; i.e., in this project, IRB approved misinformation of mistruths).

Similarly, TOC is increasingly transnational with the proliferation of (young/male) gangs from myriad states (see Knight and Keating (2010): 274–300). In response, the fields of African development and global studies, as well as IPE, need to develop analyses and prescriptions from the established informed annual SAS and LA, then Global Commissions on Drugs and Drug Policy/Health (www.globalcommissionondrugs.org); and now, at the start of a new decade, onto Ideas Google with respect to the illicit (www.google.com/ideas/focus.html). As supply chains shifted away from Central America and the Caribbean towards West Africa in response to the "war on drugs", the Kofi Annan Foundation created a pre-emptive West African Commission on Drugs (www.wacommissionondrugs.org); another instance of emerging African agency (Shaw 2015), in this instance, encouraged by the IDPC (www.idpc.net). Together, these lead towards the UN's global conference on drugs set for April 2016 orchestrated by UNODC (www.unodc.org) and the Open Society (www.opensocietyfoundations.org).

Varieties of Transnational Governance

Just as "governance" is being redefined/rearticulated (Bevir 2011), so the "transnational" is being rediscovered/rehabilitated (Dingwerth 2008) following marginalization after its initial articulation at the start of the 70s by Keohane and Nye (1972): they identified major varieties of transnational relations such as communications, conflict, education, environment, governance, labor, MNCs, religions, etc. Moreover, Stuart Brown (2011) updated such perspectives with a more economics-centered framework that included civil society, remittances, etc. EITI (www.eiti.org), along with the Mo Ibrahim governance index (www.moibrahimfoundation.org), impact any African claims to gate-keeping.

In turn, we would add contemporary transnational issues such as brands and franchises; conspicuous consumption by emerging middle classes; world sports, such as the FIFA and the IOC; global events from World Fairs to Olympics and world soccer; logistics and supply-chains (legal and formal and otherwise); mobile digital technologies; new film centers, such as Bollywood and Nollywood including diasporas, film festivals, tie-ins, etc.; new media, such as Facebook and Twitter. However, such heterogeneous transnational relations/perspectives including KP, EITI, and the AMV deserve further attention in terms of their contribution to governance in Africa and elsewhere post-2015.

The "third sector" of civil society and think tanks has been developing on the continent along with its economies, companies, supply chains, etc., especially in the fleeting decade of commodities' boom; it now justifies its own handbook (Obadare 2014). This is particularly the case for higher education, some of which, especially burgeoning business schools, is now for profit, and related networks of policy developers. In an era of mobile, hand-held IT devices, Africa's infrastructural deficit is no longer an obstacle to continental collaboration in the social sciences from more traditional CODESRIA (www.codesria.org) and OSSREA (www.ossrea.net) to more innovative AERC (www.aercafrica.org) and, now, PASGR (www.pasgr.org). Many national think tanks have been advanced by support and connections from ACBF (most members of the AU) (www.acbf-pact.org) and IDRC's global Think Tank Initiative, which has assisted 18 in SSA supported by Gates and Hewlett Foundations and Western ODA from the Dutch, Norwegians, and the UK (www.thinktankinitative.org) (Smith and Reilly 2013). And the continent can boast its own regional top 50 along with others in the established Penn State think tank rankings; almost 10% of the total 7000 of such agencies are located in Africa (www.gotothinktank.com): SAIIA, ISS, AERC, CODESRIA, ACCORD, AISA, CCR, etc. (see listing of websites at end) now encouraged by "Africa 50", APP, GIF, etc.

Just as the UNECA has advocated Africa advancing towards developmental state ambitions, so annual reports from the APP (www.africaprogresspanel.org) have begun to define African issues, advancing a form of African agency: e.g., 2013 on "Equity in Extractives: stewarding

Africa's natural resources for all", then "Grain, Fish, Money: financing Africa's green and blue revolutions", and in mid-2015, on how Africa can turn climate challenges into opportunities. In brief, Africa has some of its ideas about post-2015, such as the AMV, reflecting is own desiderata and possibilities after a decade of more of sustained growth.

Some of the global INGOs are now based in Africa as well as elsewhere in the global South (e.g., CIVICUS (www.civicus.org), which generates is own civil society index and produces is own annual report on the sector (2014). In addition, almost all of them work on the continent, now including some from elsewhere in the Global South, such as BRAC from Bangladesh now in five states in Africa: Liberia, Sierra Leone, South Sudan, Uganda, and Tanzania (www.brac.net). Yet, CIVICUS (2014) still ponders whether such changes really advance global governance in a sustainable way (www.civicus.org).

Global Governance and African IR by Mid-Century?

In conclusion, I juxtapose four changes that may impact the global governance of "development" in policy and practice in Africa and the rest of the Global South, post-2015, reinforced by the crash in commodity process and China's devaluation of the renminbi in 2015:

a) exponential global restructuring via heterogeneous regulatory regimes in myriad areas, from economics and ecology to diplomacy and security (Armijo and Katada 2014; Besada and Kindornay 2013; Overbeek and van Apeldoorn 2011);
b) a shift in the direction and concentration of supply chains away from South-North towards South-East (Pieterse 2012; Ritchey and Ponte 2014);
c) continued evolution in heterogeneous, hybrid, multi-stakeholder communities to incorporate SOEs, SWFs, pension funds, ETFs, etc., especially from the BRICS and other EMs/FMs (Besada and Kindornay 2013; Mukherjee-Reed et al. 2012; Sumner and Mallett 2012);
d) in response to inequality and alienation, further escalation of radicalization/fundamentalisms leading to redefinitions of human/citizen security and global citizenship post-2015: unanticipated, non-explicit SDGs?

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CHAPTER 15

Conclusions

Ernesto Vivares

This concluding chapter extends and assesses the critical theoretical and methodological discussion taken up in the introduction, in light of the collective works presented by the authors of this collection. Accordingly, the quest for this collective edition has focused on how a South American IPE and regionalism may attempt to account for the orientations of national and regional development in a time of uncertainty about the conflictive change of the post-1945 liberal world order.

We started this journey discussing where the major findings of LA IPE end, including research on the historical structures of inequality, unsteady regional development, and international insertions in the current unsettled post-war Neoliberal Order. The collective endeavor demanded undertaking a multidisciplinary and eclectical, theoretical, and empirical study about South America in order to evaluate, adapt, and adjust regional knowledge for the new realities of change, in relation to the regional historical caveats or major regional features mentioned. This involves focusing on existent theoretical and methodological tools concerning regional structural issues, identifying and deconstructing conceptual cages as well as adjusting regional knowledge as a critical *aggiornamento* via a critical and constructive dialog with Western and non-Western approaches. This

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chapter continues the analytical discussion of the introduction and sets out key related findings.

Three Key Empirical Distinctions of South America

The central premise of these works is that Latin and South America are part of, shaped by and shape the Americas, which is the location of the world's hegemonic power. This puts in perspective how the region has followed different paths of reconfiguration in light of, and in relation to, the transformations of the hegemonic and post-1945 liberal order. This present world order has increasingly turned into four different overlapping and intertwined configurations: (1) Powerful industrial-military states; (2) International neoliberal institutions (3) Central and peripheral regions; and (4) Networks of complex informal economies and underground worlds, each of which, playing a role in the diversification of the historical links and insertions of a South that has become global. The reconfiguration and remapping of the Americas and LA have historically followed the pattern of North American attention or diversion towards international conflicts, when North America is focused on international issues of hegemonic attention the region move forwards substantive regionalisms. Today, adding to that, more specifically, the region is further reshaped by the return of South-East Asia and the decline of the EU. A setting where summing to the past historical regional issues, there are new ones challenging academics from the South to research and explain.

On the grounds of historical, empirical, and analytical evidence, a second research criterion in this book has been that the category "LA" is a conceptual cage consisting of several different LA. They share few languages although are very different to one another in their configurations, conflicts, and international insertions. Thus, what really helps the research is to split the cage of "LA" into three major, complex Political Economic configurations, differentiating these in terms of development on the basis of their relations with the hegemonic world order and formal-informal development configurations: (1) Mexico, which, in institutional and political economic terms, can be considered part of North America configurations; (2) Central America and the Caribbean; and (3) South America. The next concept issue that needs to be addressed is that these three regional settings are the result of the reconfiguration or remapping of the Americas as part of the world liberal order instead of LA isolated internal changes. These different configurations have been tied to the relations of the region with the world order and hegemon, where each one of these LA regions present configurations and structures of development that shape rather different regional identities. They are socio-historical configurations, different capitalisms, different underworlds, and varied structures for shaping different political economic settings and borders. The LA regions are constructed, deconstructed, and re-constructed around different axes of development by states and one state actor, defining a formal and an informal region, regionalism as well as regionalization. To think of the condition of a region as homogeneous, in terms of institutional convergence, is a rational conceptual cage that can only lead to sophisms.

One Regional IPE or Three IPEs?

Certainly, LA's regions, regionalisms, and world political economic order occur simultaneously as regional developments adapt, contest, and coexist with globalization creating all time winners and losers. We can agree with the fact that former ideas of LA growth, development, and regionalism are marked strongly by top-down approaches, formal Political Economic perspectives, institutional incentives, and aims of market integration. While this is not an academic sin, it is not sufficient to deal with the oscillations of the region or its Gramscian shifts from right- to left-wing orientations and then back again. South America as a region is crossed by a wide range of different overlapping sovereignties at several levels, the setting for a sort of Global South medievalism around a metropolis with different regional political projects and structural configurations, fragmented national-states, informal regional settings, and sub-regional social forces. All may be considered a regional complex of development, but they are also conflict and security axes defined by geo-social historical structures of development with particular links in the international order, creating a setting for multilevel international insertions. Organized crime works on levels distinct to those of formal trade and finance, although some points may permeate them. We can say something similar about informal and solidary economies in relation to migrations or between technology and primary economies.

In South America, different overlapping sovereignties exist, laying out different structures of unequal and unsteady development. In order to analyze this, for analytical and empirical reasons, it may help to split the wider notion of IPE into three major dimensions. In other words, into three Political Economies of Regionalism and Development for the South: The formal, informal, and that of its whole and complex international insertions, which cannot be reduced to formal economics and official diplomacy. Unquestionably, there is a great deal of significant contributions concerning what might called "formal IPE" and it has been, and played, a central role to the study and comprehension of the field in order to understand its dominant political economic nature. Nonetheless, the same cannot be affirmed about the academic understanding of the informal world of Southern regions and their heterogeneous and unsteady global insertions. As a matter of fact, the IPE's epistemic communities from the South have not consistently concentrated their efforts and focused their research agendas on unpacking the informal regional world and even more in their relations with undercover worlds and security, the undeniable dimension and distinction of the South American regional IPE. The great challenge is how to use multidisciplinary, ontologically, and methodologically eclectic and critical approaches in relation to the dominant concepts and methods, which challenge scholars from the South. Something similar happens to the research in the relation between the formal and informal regional worlds with their international insertions as they are usually based on the regional-global academic theoretical relationships. We know how energy can be central both to maintaining balanced fiscal budgets and to supporting wide ranging social access for mass populations in developing countries, but we rarely relate them to geopolitical global-regional games and struggles or consider how to take the measure of these balances.

However, the above mentioned multidisciplinary differentiation of IPEs must be complemented with another flexible conceptual and critical conceptual matrix as sharply opened and defined by different authors (i.e., Thorp 2012; Bonilla and Long 2010; Bøås et al. 2005; Saguier and Brent 2015; Söderbaum 2013). The region can be understood as playing a central role as a frame of state and non-state actions in the South and the North as their part of the world order, a configuration together with states and international institutions. Thus, as the world order shifts and shakes, regions also move and enter into geopolitical economic reconfigurations as demonstrated by Ikenberry (2011). In addition, they have become crisscrossed by varied structures of development and social forces with different orientations (Katzenstein 2005). Regions possess identities but they are fundamentally constituted by historical amalgams within certain dynamic boundaries consisting of formal and informal complementary structures of development, social configurations, and collective imaginaries and ideas.

Perhaps, one the most dominant conceptual cages in the field is both the focus on regions as state-led and inter-state regional institutional frameworks, and the melting of any notion of region into the meaning of formal economic integration. However, there are not “natural”, “ahistorical”, “homogenous”, unified, or top-down regions; those notions are only useful in approaching “formal regions”. Historically, however, it is more integral and eclectic to view regions as diversities of historical, political, economic, cultural, and social constructs. According to the literature, regions are closer to the notion of socio-historical regional constructs, with their own orientations and links within a sort of hierarchy to a given world order (Braudel 1979; Söderbaum 2012). It follows that in a globalised neoliberal economy and institutional order, regions have become less attached to spaces and more to cross-border institutional settings, underground work, and virtual networks.

Regionalism thus consists of both formal and informal political projects, whose ideas, values, and policies aim to a create a region or type of world order, where different governments may share these in opposition to others within a given region, but this may also be pursued by different organized crime groups, terrorist, or para-governmental networks. Therefore, in a region, there are necessarily several regionalisms coexisting and struggling with each other. Regionalism does not necessarily mean positive “benign regionalism” or “integration”, it can mean the opposite, as the different experiences have contemporarily shown in the African Sub-Sahara, Syria and Iran, Colombia and Mexico. On the other hand, to reduce regionalism to institutionalization and economic integration is to enclose it in a rationalist conceptual cage, leaving out of any research central dimensions of the analysis. Formal and informal regionalism is a flexible and eclectic concept that allows us to analytically link formal and informal IPEs horizontally in a given region. In other words, regionalism is part agency and part structure, defined by the dynamic between the whole (region), and its parts (nations), and informal or underground realities. Hence, formal and informal regionalism can be seen as a particular configuration of social forces that are bound within a region and are functional to a specific global order in the reproduction of reality. Regionalisms are material structures and capabilities, processes, ideas, and institutions, which do not determine regionalization but define conflict and development and the creation of opportunities and the imposition of constraints.

Regionalization, finally, is "the substantive [and structural] process [generated by state and none-state actors] that leads to patterns of cooperation, integration, complementarity and identity within a particular cross-national geographical space" (Söderbaum 2003: 22). Finally, integration refers to the outcomes of regional agency as well as the encounters and dynamics between different regionalist political projects of regionalization, which can complement or oppose regional integration according to the structures and substantive processes that give them sense and orientation. These three elements constitute the basis of the IPE of regionalism; and not one can be understood without the others but each holds its own value as an independent research focus.

Unequal and Unsteady Structures of Development

There is a long tradition in the IPE literature, mainstream and LA, concerning the meaning and the role of structures in relation to regional development and international insertion. This literature, however, focuses mainly on the measurement of the interactions between formal institutionality of politics and flows in economics. Contributions have been vast and significant, but often leave out important dimensions of the national and regional life from the research in their interactions and impact of one upon another. We know that formal economics are formal because they are the reality that is measured, but what about those realities that we do not officially measure and have deep impact and live within the umbrella of the informal economics and development in the region? Why leave them out when they, in case of the South America, represent an average of the 55% of the entire regional development? What are the informal productions linked to regional inequality, political instability, and unsteady structural global insertions? This book has not presented unified or common analytical answers to those questions, but it holds that a new multidisciplinary, critical, and eclectic IPE approach may give us a fuller account than the partial formal realities in regional politics and economics of South America.

This work pays specific attention to the IPE focused on the structures of development, and structures that have been considered historically in the research as centrally bound to major regional issues (inequality, political instability, and unsteady global insertions). The empirical contributions here have presented work around the notion of unequal structures of development and global insertion. Each chapter, given its diverse disciplinary approach, has taken that notion within their specific disciplinary perspective, aiming at studying the domestic implications and international links, creating a mosaic of IPE multidisciplinary South American insights.

The book has departed from the hypothesis that what explains the different and diverse orientations of national and regional, as well as the setbacks of development, rests on the resilience of the different historical, unequal, and unsteady structures of the region. We define them as material, institutional, and ideational configurations that work across the formal and informal domestic development with their own settings of international insertion. Oil and gas, knowledge, organised crime, trade, and finance have their own singular international links; they overlap and coexist and they define a unique regional configuration functional to an order of things.

Historically, LA has been a region of peace but not of democracy and citizen security, where development cuts across regional security, in geopolitical economic terms. Security, for instance, is and has been for decades, the first major structural continental issue for the North American hegemon. LA can appreciate the fact that the US Southern Command (SOUTHCOM) operated exclusively for the region, dedicated to building partner capacities and fighting organized crime. Security can be studied as an unique dimension but also in relation to regional disequilibrium such as inequality, political instability, and international position. Security can be also be approached in relation to the role of cities and metropoles in the region, to the environment and even development finance.

Development finance is another example of a key structural regional issue, although these days, by large, is more dependent of Washington. Historically, regional development finance has shifted from one order to the next, and the same in terms of economic sources. The structure has been demonstrated by the significant contributions from LA scholars such as Stephany Griffith-Jones (1984) and Leonardo Stanley and Jose Fernandez, Chap. 5 in this book. This structural issue is the case of why economics or politics, isolated and domestically focused, cannot provide the answers to major structural configurations that frame the apparently contradictory developments and orientations of the region.

To sum up, LA's structures of development exist and have proved to be powerfully resilient, despite decades of neoliberal and developmentalist changes and reforms. Nonetheless, the resilience of these structures of development have been matters almost forgotten in the Political Economy scholarship of the region, despite the fact that these have played key roles in the success and failures of LA regional development. In that sense, we consider that any framework for a research agenda of LA regional development must account for these premises in relation to their assumptions as well as their theoretical and methodological approaches.

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[1]Note: Page number followed by ‘n’ refers to notes.

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