

A stylized world map composed of a grid of dots in various shades of gray, with several dots highlighted in red. The map is centered behind the title text.

# Global Shifts and Changes in Latin America

**FRANCISCO ROJAS ARAVENA**

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- The economic rise of the developing world has brought new global actors to the international stage and the system is moving towards a post-hegemonic model. In Latin America global power shifts are marked by a sharp reduction in the relative presence and influence of the United States, the increased presence of new global actors, particularly from Asia, and the emergence of Brazil as a potential global and regional power.
- The region is characterized by political democracy and peace between states, but faces challenges from social inequality, violence, corruption, and transnational organized crime. The foundation of CELAC in December 2011 is an attempt to overcome political fragmentation and strengthen the region's voice by establishing mechanisms for political coordination among all countries in the region. Agreements and joint efforts between Brazil and Mexico are essential for its further consolidation.
- The major global economic trend that has had a profound impact on the region has been the rise of emerging Asia, and in particular that of China. The economic growth of many countries in the region is tied to China's growth and its demand for commodities. This tends to prioritize the production of primary goods at the expense of manufacturing. The policy challenge is to manage the countries' natural resources in such a way that they turn out to be a blessing rather than a curse for long-term development.





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## 1. Global Shifts

### 1.1 Changing Power Relations in the International System: An Overview

During the past quarter of a century, the international system has entered into an accelerated process of change, which affects important international actors and superpowers, as well as smaller countries. The first cycle of this process began with the end of the Cold War, and produced the most important modifications to the international system in the last 50 years. The disappearance of the Soviet Union and the socialist bloc gave way to the emergence of a global power of apparently incontestable strength. During this period, United States (US) policy sought to prevent the emergence of other powers capable of challenging it.

Barely a decade later, a new cycle began with a surge of asymmetrical threats. The crisis unleashed by transnational terrorism on September 11, 2001 changed the priorities of the global power once more, giving maximum precedence to security. On that day, a new vulnerability became evident, one on which traditional military power had no effect: the superpower could be attacked in its own territory. This situation caused the US to become involved in two wars that dragged on for years. Likewise, the stalling of the multilateral system and the weakening of the United Nations (UN) were apparent. As a result, this second cycle was characterized by the war against terrorism and the militarization of the world power's international responses.

Over the last few years, a new cycle appears to be starting. The economic crises of 2008 began in the US, deeply affected the European Union (EU), and have resulted in global consequences that continue to this day. Power relationships in the international system are changing rapidly. Plans for global government are not working out as expected, and this has led to a recurrence of crises and situations of instability. In addition, the lack of predictability weakens relationships of harmony and cooperation among the principal international actors—states, intergovernmental organisms, businesses, NGOs—and impedes the provision of global public goods by international organizations and other entities with specific international functions.

Global trends over the past 25 years attest to these changes in power relations, which occur within an international environment marked by deep mistrust. High global and regional interdependence further complicates the current scenario; the predominant traits of which are uncertainty and the need for trust.

### 1.2 Towards a Post-hegemonic Era

The global system is moving towards a post-hegemonic model. Bipolar and unipolar power structures have come to an end. In their place, a multipolar system has developed, one in which the power relationships between actors, old and new, have yet to become clear. As a result, there now exists a weak global and regional institutional structure. This complex transition affects capacities for the management and efficiency of responses—some urgently needed—to global challenges.

The current global economic crisis has generated additional changes to the global system, which continue to develop. With its origins in the developed North in 2008, the global crisis has turned into a systemic crisis; it is the worst of its kind since the 1930s and has strong political, social, and military consequences, as well as repercussions in terms of multilateralism. This is a crisis of the West that profoundly affects the US and the EU. However, the visions and policies put forth by these two actors to confront the crisis and other global challenges have become increasingly divergent. This constitutes a significant unforeseen change; for more than six decades prior to this crisis, coordination and cooperation were major characteristics of transatlantic relations.

Meanwhile, multilateralism is on the decline. Global multilateral institutions stagnate, incapable of reaching agreements that might allow for responses to urgent global challenges—such as the nuclear issue, the environment, the financial and food crises, and humanitarian disasters. Global risks are getting more significant and transnational issues increasingly weighty (Beck 2008: 334). There exists, however, no agreement on an agenda for reforming the multilateral system—or its principal organization, the UN—and this weakens the capacity for global governance. The attempt at such governance through the creation of the G20 has not worked beyond some initial measures to manage the global financial crisis. The G20 does not have the necessary tools for

developing such a broad agenda and dealing with such pronounced differences.

One of the lessons that can be learned from this cycle of transformations and the emergence of new centers of global and regional gravitation is that no state, not even a global superpower, is capable of directing or dominating the international system. Responses to transnational challenges must be coordinated, associated and multilateral with a strong emphasis on cooperation and consultation. Only on such a base can a consensus be reached that will lead to global governance and reduce global risks and their regional manifestations.

Many of these phenomena are »intermestic«: simultaneously international and domestic. Climate change and the economic and food crises, for example, have widely varying effects on different parts of the world, but they also affect the entire community of nations and their citizens as a whole. The political elites and the societies have witnessed the disappearance of some countries and the rise of others; something similar is occurring with the global actors. Within the domestic domain, equally critical processes can be observed. Transnational phenomena generate discontent, yet traditional responses to them become nothing other than additional problems, rather than solutions to new challenges. Capitalism is global, but elections and the political offerings of democracies—which continue to be nations with strong local roots—are not. This causes great dissonances and growing mistrust of political leaders and political institutions.

In this transition of the international system, significant agreement still has yet to be reached on new concepts that might permit us to understand the processes under way and develop visions for dealing with them. The lack of agreements, certainties, and shared paradigms hinders the possibility of coordinating public policies that address the new global context. Without such agreement, it will be impossible to establish links of mutual responsibility in affairs of a global and regional nature, and without a conceptual framework, no common perspective can exist with regard to actions that should be taken. This has a profound bearing on strategies, programs, and positions that might allow for the formation of blocs of power, political coalitions, and multinational accords with which we could move forward toward a world that is post-occidental and post-hegemonic. Such a world might indeed have global risks of a transnational nature, but

the emergence of new actors would be accompanied by new visions and values.

### 1.3 Some Significant International Changes

The economic rise of the developing world has brought new global actors to the international stage. These include China and India in particular, and the »BRICS« (Brazil, Russia, India, China, and South Africa) in general (Haibin 2013). During the 1990s and before, the principal economies in the world were those of the developed countries. Since 2000, developing nations have become the world's economic motor, a trend that will increase in the coming decades and one that will be accelerated by the crisis of the developed countries (ECLAC 2012).

The rapid rise of China as a main global power is one of the most important changes of the 21st century. This has resulted in a power shift in the Asia-Pacific Basin in commercial, financial, investment as well as strategic-military terms. Tensions in the Diaoyu Islands,<sup>1</sup> for example, are not only expressions of nationalism but also of China's advance and military clout within its zone of direct influence (Power 2012: 9ff). Consequently, the economic relevance of the Atlantic has considerably diminished. The US has established its principal interests in the Asia-Pacific region. For some, China is once again occupying the dominant position it had in the international system before the rise of Europe (Peña 2013: 381; Rosales and Kuwayama 2012).

The advent of a new, rapidly growing middle class in China, India, Russia, Brazil, Mexico, and Indonesia is another of the most significant economic and social factors in this context of global changes (UNDP 2013; Mladinic 2012: 89ff). This has had a strong effect on economic growth and has also produced changes and increased demands on world markets (more automobiles, durable goods, and food). In Latin America, social inequality dropped in 13 of the 17 countries between 2000 and 2009 (Grynspan and Paramio 2012: 306).

The financial and economic woes that began in the US in 2008 have strongly affected Europe, where a profound crisis of identity and a loss of faith in its development model can be found, which even threatens the exist-

1. The Japanese name for these small islands is *Senkaku*.

ence of the euro. This crisis profoundly affects the two economic motors of the West: the US and the EU. A third motor on the global scale, Japan, has been stalled since much earlier. The political visions of the US and the EU on how to address global challenges, including the current crisis, have become increasingly divergent. The EU is fragmented and polarized; there are no common policies and consolidated leadership offering a European or global view of the future. Spain, Greece, Italy, Ireland, and Portugal find themselves at the heart of the financial and economic turbulences and are showing signs of ruptured social and national cohesiveness. This situation will not improve any time soon. In Latin America, it took 25 years; in the case of Europe, the healing process could take two decades (*El País* 2012). For many Spanish and other European-based telecommunications, energy, banking, and construction firms, possibilities for recovery rely on the growth they currently show in Latin America and other emerging markets, now the source of their principal earnings.

Street demonstrations and civil wars in the Middle East have changed political structures and power elites, giving way to the revolutions of the «Arab Spring», which are still evolving. Pronounced anti-Western—especially anti-US—feelings and strongly theocratic Muslim-Islamist political organizations are emerging and gaining strength. Within this context, Iran's nuclear program and its radically anti-Israel policies, as well as Israel's response, have created a situation of significant military escalation.<sup>2</sup> The current conflict in Syria is also a factor here. The UN Security Council finds itself paralyzed, unable to take effective action, even in terms of humanitarian aid. This region's instability affects oil prices and has an impact on the global economy.

The powers that have traditionally had the most influence within the international structures since World War II have not yet found any satisfactory formulas for integrating emerging players, or for making the new states that are demanding changes in the balance of power stakeholders in the process. Global institutions are bogged down in the big topics, but a new global institutional structure is needed in order to achieve better world governance. The G20 once appeared to be an alternative, but it has not managed to make any important advances beyond

the accords reached in Pittsburgh in 2009. It is certain that if the G20 does not resolve global institutional problems, it will be necessary to find a way for the United Nations to create a common vision for addressing the wishes of the world's countries—within a context of globalization—which tends to reaffirm diverse identities. For the moment, no proposals for change in multilateral institutions have emerged, nor has there been any action towards forming an agenda for dealing with the most important global topics. Much to the contrary, there is notable immobility.

## 2. Principal Changes and Major Trends in Latin America

In this period of global uncertainty, Latin America has also gone through significant transformations; realignments of power and changes in the global system have had direct consequences on the region. These include a reduction in the relative presence and influence of the US, especially in southern Latin America. The main geopolitical change is the emergence of Brazil as a global and regional power. One-third of the population of Latin America and the Caribbean lives in Brazil, which generates 43 percent of the region's GDP. Both of these factors confer more political, economic, and strategic autonomy to Brazil itself as well as to the entire region. This strengthened the position of all of the countries of the region relative to the hegemonic power and with respect to actors from outside the region, such as the EU.

This has also allowed for a growing presence of other global actors in Latin America. Historically absent from the region, the emerging economies of the Asia-Pacific region—such as those of China and India—are becoming increasingly important in commercial and economic terms. Both of these developing powers have recognized CELAC as the representative body for Latin America and the Caribbean. Moreover, Russia, also having recognized CELAC as the organization that represents the region, is showing renewed interest in strengthening its diplomatic ties to the region (Pavlova 2011: 57ff). Other actors, such as the United Kingdom (UK), are also looking at the region with interest, and doing so independently of the EU. Iran is a new actor that has made an important space for itself in Latin America, mainly because this has been the country's way of responding to globalization, and because Iran has found some commonalities with a

2. The other region in which there has been a dangerous escalation of tensions directly related to the nuclear question is the Korean Peninsula.

number of Latin American political regimes. Tehran has been an emerging power in its own region, but it has not neglected global connections. This extra-regional actor is here to stay, although its presence bears more symbolic than commercial weight, in the form of a strategic political challenge to the US, the hegemonic power in the region.

After another half-decade lost between 1998 and 2002, Latin America returned to the growth path in 2003, but progress was interrupted again in 2009 due to the global financial crisis. Yet, the effects of the crisis have been less severe than expected. As a result, the region has experienced continued growth during the past two years, and indications are that this trend will continue, although at a somewhat slower pace.

In general terms, standard-of-living indicators in Latin America show improvements. The average life span is up to 73.4 years and, except for in Haiti, infant mortality has decreased. The region's countries find themselves among those with middle to high human development. Latin America has shown that it was much more prepared this time to confront an international financial crisis than it has been in the past. According to the Economic Commission for Latin America and the Caribbean (ECLAC), poverty indices for the region have continued to decline (although at a slower rate) even in times of crisis, dropping from 31.4 percent of the population in poverty in 2010, to 30.4 percent in 2011. It should be pointed out that the poverty index dropped from 48.4 percent in 1990 to the 2011 level.

Also, the political and ideological spectrum has broadened in many countries, without having an effect on the desire for coordination in the region. Within CELAC, »Unity in diversity« is the slogan that the presidents of the member states have taken up. As in other regions of the world, anti-US sentiments have increased, especially in the countries of the south, despite this actor's absence and notable lack of attention to the region. This created a space where the ideologic vision of the Bolivarian Alliance for the Peoples of Our America (Spanish: Alianza Bolivariana para los Pueblos de Nuestra América or ALBA) could express itself strongly.

Latin America has two principal political assets: (1) it is a region with fairly stable democracies and effective democratic electoral processes; and (2) it is a zone of peace and

free of nuclear weapons. In the 21st century, democracy characterizes Latin America and the Caribbean, and democratic administrations established through open, transparent elections are the rule (UNDP/OAS 2010: 260). The electoral results of 10 presidential elections during the period 2009–2010 have been recognized by electoral authorities as well as by different actors from different political systems. For example, both the coup against President Manuel Zelaya of Honduras during the dawn hours of June 28, 2009 and the political tension around the administration of Ecuadorean President Rafael Correa on September 30, 2010 were unanimously rejected by the countries of the region. Besides the debate over the legality, form, and speed of the overthrow of Paraguayan President Fernando Lugo, the incident brought significant reactions of repudiation, especially in the south, where it is generally considered a »parliamentary coup«.

Within the framework of the Organization of American States (OAS), the countries of the region have remained committed to the Inter-American Democratic Charter.<sup>3</sup> This document declares that the peoples of America have the right to democracy and are obliged to promote and defend it. Democracy is essential for the social, cultural, and political development of the people. Apart from the cultural component, democracy is also composed of social and economic elements, and it must be created and consolidated as a democracy of citizens.

Peace between states reigns in Latin America, although there still remain important territorial disputes, whose origins date from the days of the setting of borders in the 19th century (Aravena 2012: 19ff). Other differences—having to do with questions of maritime boundaries and the environment—arose during the 20th century. The majority of these cases are in abeyance, and many have been resolved by democratic governments via direct negotiations. In the cases in which they have developed into explicit conflicts, the governments involved have sought resolution through judicial means. The International Court of Justice has resolved more than six such cases. It is improbable that this means of handling disagreements is going to change, and the chance of military conflict is very remote. Those states that are equipped with well-established armed forces have developed activities and initiatives as part of their confidence-building measures

3. Available at: [http://www.oas.org/charter/docs\\_es/resolucion1\\_es.htm](http://www.oas.org/charter/docs_es/resolucion1_es.htm) (last accessed on 30.10.2013).



in the interest of conflict prevention. Though many of these are formalities, they nevertheless comprise a useful instrument in this field.

The principal danger for peace and for the people of Latin America and the Caribbean is not that of war between states, but rather violence, especially homicides. The region is one of the most violent in the world; homicide in Latin America and the Caribbean is pandemic, according to the definition of this term by the World Health Organization (WHO).

A recent report by the World Bank points out that the total population of Central America is approximately equal to that of Spain (World Bank 2011: 40). Yet in 2006, Spain reported 336 homicides (fewer than one per day), while Central America reported 14,257 homicides for the same period (nearly 40 per day). According to this figure, more people in the subregion currently die violently than during the armed conflicts there in the 1980s. And the situation is worsening; in the northern triangle of Central America and in certain *barrios* of Rio de Janeiro and Bogota, juvenile genocide is occurring. The number of dead young people in Honduras is higher than 270 per 100,000 inhabitants.<sup>4</sup> Latin Americans are victims of this other kind of war, and violence continues to be a systemic problem for the region. Security is the number one worry of its citizens.

Social inequality is the main problem and the great challenge of Latin America and the Caribbean, and societies are fragmented on account of it. The region is the most socially unequal in the world—not the poorest, but the most socially unequal. Informality and unemployment produce long-term effects, one of which is young people referred to as »ni-ni«, who neither attend school nor work. Studies by WHO show a correlation between social inequality and violence. Social mobility in the region is low, especially for indigenous peoples and those of African descent. The exclusion and »invisibilization« of certain sectors of society increase inequality, and social polarization has created a new configuration, one consisting of those included and those excluded. Social inequality leads to the negation of and the failure to recognize society's most vulnerable sectors—among

them women, the elderly, children, indigenous peoples, and people of African descent. These situations of social inequality and exclusion generate hostility within the citizenry toward the rule of law and democracy.

A related problem is that of corruption. In societies of high social inequality and low social mobility, people seek means of escape, illegitimate ways to achieve recognition and inclusion. Corruption is eating away at the region's political systems, and the majority of countries in the region show poor performance in terms of institutional transparency. The culture of legality is on the decline, and along with it respect for the law. Practices are being established that consolidate systems of impunity. The erosion of the rule of law opens up the possibility of transnational criminal networks, and the direct consequences of these in the region is the increasing consumption of drugs, as well as violence and corruption in order to gain impunity.

The connections between social inequality, violence, and corruption create ever greater opportunities for transnational organized crime, through the establishment of lawless zones in countries in the region—that is, places in which the state monopoly on the use of force does not exist. In Latin America and the Caribbean, there are no »failed states«,<sup>5</sup> but there are »failed zones« where the legitimate authority of the state does not reach, and this further decreases security and inhibits human development.

### 3. Global Shifts and Transformations in Latin America

#### 3.1 Latin America in the International System

In Latin America and the Caribbean, no viable proposal has been made to approach these transformations of the international system, outlined in chapter 1.2. Nor does a shared perception exist of the changes needed to democratize the global power structure. Latin America is a macro-region containing two subregions whose tendencies vary in multiple ways: northern Latin America, led by Mexico and including the countries of Central America

4. For more on this subject, see Enrique Gomariz (2011): La devastación silenciosa: Jóvenes y violencia social en América Latina, in *Documentos sobre Gobernabilidad y Convivencia Democrática*. San José, Costa Rica: FLACSO/AECID.

5. In the index of failed states published by *Foreign Policy*, Haiti occupies seventh place and is showing tendencies that may place it outside of the »top 10«. No other country in Latin America and the Caribbean appears among the 60 most vulnerable.

and the Caribbean; and the south, made up of the countries that form the Union of South American Nations (Spanish: Unión de Naciones Suramericanas, UNASUR). The financial crisis and its repercussions have deepened differences between these two subregions. The north is closely tied to the US through commerce, investments, and migration, while the south has diversified its links and consolidation with the Asia-Pacific region—especially with China—via commerce and investments.

The quantitative weight that Latin America had when the UN was formed has drastically diminished: in 1945, the 22 countries of the region represented slightly more than 40 percent of the 51 members at the time. Today, the 35 Latin American members total less than 20 percent of the 193 countries belonging to the organization. Without effective regional cooperation or a shared vision on the promotion of global public goods, the role Latin America and the Caribbean play in the world will not be a significant one. Moreover, on its own, the emerging power of Brazil is not ready to form part of the group of countries that sets the rules of the global game.

Three Latin American nations—Mexico, Brazil, and Argentina—belong to the G20, but they have not been able to coordinate among themselves, and Latin America is not represented as an overall entity at the G20. No previous dialogue exists among the three countries mentioned—or among the rest of the nations of the Latin American region—for addressing global topics discussed and negotiated at the G20 and other global fora.

The first step to take in order to change this situation is to seek institutional structures capable of taking into consideration the new realities of power. On the regional front, proposals for coordination have followed one after another, but the majority of these have only attained a subregional reach. The creation of the Community of Latin American and Caribbean States (Spanish: Comunidad de Estados Latinoamericanos y Caribeños, CELAC) in December 2011 is an attempt to establish mechanisms for dialogue and coordination, in order to provide a voice for the whole of Latin America.

During two decades of profound changes to the international system, Latin America has been consolidated as a democratic region; the Democratic Charter adopted by the OAS made this clear in 2001, and it is still the case. It is worth pointing out that this process took place in a

complex context marked by US unilateralism. The current, greater level of regional autonomy has been made possible by the absence of the US. This means, that by directing its attention elsewhere—to other regions of the world to which it gives higher priority—Washington has opened up more room for maneuver in Latin America.

The nature of the region is one of countries that have common characteristics, despite their differences. The most important commonality is that of democratization. A second common element is the development paradigm in response to the failure of the Washington Consensus and its dire consequences, especially the dismantling of the welfare state (Judt 2010: 256). The region adopted a policy based on experience and good practices, which aims to establish macroeconomic balances and promotes social policies at the same time.

Besides these political and economic commonalities, one can also observe a new way of confronting global and regional processes in Latin America after the end of the *pensée unique*. Regional autonomy has been seen both in the positions taken with regard to the US intervention in Iraq, and in the search for options to avoid an escalation of military tensions with Iran.

Relations with the EU have become more symmetrical, as was evidenced in the CELAC-EU summit in Santiago, Chile in January 2013. This could favor cooperation between the two regions in a multipolar world (Grabendorff 2012: 24ff). Apart from anything else, European countries in crisis might learn from the experience and good practices of Latin America in overcoming their financial and economic crises. The main recommendation here is that economic restrictions alone do not lead to recovery. There are three lessons to be learned: the fallacy of «expansionary austerity», the enormous social cost of policies involving tightening without palliative measures, and finally the severe damage caused by mistaken diagnoses (Gratius and Sanahuja 2013: 144ff).

From the outside perspective of international actors, in Latin America, worldwide changes are primarily associated with the emergence of Brazil as a regional and global power. As a member of the BRICS, Brazil is the strongman of South America, and as the sixth largest economy in the world, it is also a key player in the global economy. Mexico is also found among the world's 10 largest economies, and the new government of the In-

stitutional Revolutionary Party (Spanish: Partido Revolucionario Institucional, or PRI) will seek to reposition the country as a regional and global actor.

### 3.2 Regional Leadership: The Role of Brazil

Since the government of Fernando H. Cardoso, Brazil has played an increasingly decisive role in Latin America and the Caribbean, and this tendency was strongly reinforced under the administration of Luiz Inácio Lula da Silva. Brazil began to assume increasing responsibility in 2000 and since 2007–2008, has established itself as a regional leader—a result of its high economic growth (about 6 percent) and its newfound international financial independence (FLACSO 2007: 154). Until recently, Brazil's belonged to the fastest growing economies in the world. It is a member of the BRICS and also of the lesser-known IBSA (India, Brazil, South Africa) grouping. These are all countries that are aiming for more prominence in multilateral organizations and in global politics, through the affirmation of their sovereignty.

The success of Brazil's leadership has depended on a stable regional context, which has allowed it to make progress in the international arena. This has caused Brazil to take an interest in promoting the socioeconomic development of its neighboring countries and in exercising a consistent policy of acting as a moderating influence in the region. This has been done at low political cost, generally through diplomacy that is active but cautious (Tokatlian 2013: 25ff). Brazil avoids involvement in regional conflicts, instead assuming the role of conciliator when they arise. It has also changed its relationship with the rest of South America, not only in terms of economic interdependence, but also increased political responsibility (Serbín 144).

One of Brazil's goals is to consolidate its position in South America. In order to do so, it has developed a state policy that seeks to create cohesion in this subregion, under its leadership. In light of this, Brazil promoted the creation of the South American Summits (Cumbres Sudamericanas), which served as a basis for the subsequent formation of UNASUR in 2008 (Cardona 2012: 283ff). This bloc was established with a distinct political profile, under strong Brazilian leadership and with a clear international orientation centered on the need to coordinate common positions within forums of global governance. The initia-

tive is driven by a concept of unity aimed at strengthening the notion of regional sovereignty when dealing with international powers. Another Brazilian initiative was to convene the Summits of Latin America and the Caribbean (Spanish: Cumbres de América Latina et el Caribe, CALC) in 2008, which targeted integration and development. Brazil has also shown determined support for the establishment of CELAC.

Nevertheless, Brazil has yet to consolidate its leadership in the region. A primary challenge is the significant gap, which currently exists, between worldwide recognition of its leadership and the only partial regional acceptance of it. During the 1980s and 1990s, Brazil gave higher priority to its ascent into the international community than it did to its regional performance and presence. Only since the creation of the Southern Common Market (Spanish: Mercado Común del Sur, or MERCOSUR)—and more recently, that of UNASUR—has the country begun to lend increasing importance to South America as a platform for a more effective global agenda. Internal challenges that Brazil faces include the differences between its developing north and more developed south, social inequality and poverty, a low level of access to education and the spread of epidemics, especially HIV/AIDS.

Unlike Venezuela, Brazil is critical of Washington's policies without being anti-US. In the face of Hugo Chavez's influence in the region, the US has tried to create a balance by strengthening its ties with Brasília. This has not been easy. Brazil criticized the establishment of US military bases in Colombia and the US position on the crisis in Honduras. Other sensitive issues have been the Brazilian position on Iran's nuclear program, and—along with Turkey—its search for ways to ease tensions with Iran, both of which have rankled the US government. The redefining of US priorities after the attacks of September 11, 2001 had a negative effect on US-Brazilian relations, because Brazil has always rejected the notion of a »War on Terror«. In addition to this, Brazil also rejects »global espionage« by the US.

Furthermore, the growing number, importance, and development of trans-Latin American businesses—the majority of them Brazilian and Mexican—must be underscored. Of particular significance is the role of Brazilian companies in the areas of infrastructure (Odebrecht), energy (Petrobras), and air transportation (Embraer S.A.). In addition, it is worth mentioning that Brazil is also a

manufacturer of arms and military training and reconnaissance aircraft.

### 3.3 Regional Leadership: The Role of Mexico

Throughout history, Mexico has been a leading country in Latin America. Less than 30 years ago, the country was considered a paragon of international success. It was the first in the region to join the Organisation for Economic Co-operation and Development (OECD), and its membership in the North American Free Trade Agreement (NAFTA) demonstrated its capacity for multilateral dialogue.

Nevertheless, Mexico's leadership in the region has been neither constant nor long-term. The country has shown attitudes towards its leadership role that range from complete indifference or total abandonment to intense diplomatic activity with specific countries on particular issues. Since the 1980s and the debt crisis, two important changes have been observed in Mexican foreign policy. The first is the relinquishment of any strategic vision that integrates the political and economic dimensions of Mexico's international role. It should be noted that measures for addressing the debt crisis with the backing of the US gave Mexico little room for maneuver in terms of political and economic foreign policy (Moreno 2010). The second change is Mexico's gradual and constant distancing from South America. The administration of Vicente Fox also demonstrated a cooling of relationships with the rest of Latin America, primarily as a result of political confrontations with Venezuela and Cuba. The Felipe Calderón administration sought to compensate for this by strengthening Mexico's presence in Central America.

Mexico's leadership can mainly be observed in the areas of economic relations and multilateralism. A 2008 study on emerging trans-Latin American businesses showed that 85 of the most prominent 100 companies were either from Mexico or Brazil, as were 35 of the 50 most profitable ones (Santiso 2008). One key to Mexico's economic leadership is its ownership of important oil reserves. Its power in this area is relatively minor, however, since to a great extent it supplies the US and its own internal market. Mexico is not a member of the Organization of the Petroleum Exporting Countries (OPEC), but acts in accordance with OPEC strategies. Mexican oil is of significant importance, however, within the subregion. As part

of the peace efforts undertaken in Central America and the Caribbean during the 1980s, Mexico cooperated in the area of energy with 11 other states in the subregion. The basis of this cooperation was the 1980 San Jose Accord, which also involved Venezuela.

Mexico has also exercised its leadership in the region through multilateralism. The country was the founder of the Rio Group and has been at the vanguard on the issue of controlling arms proliferation, initiating the Treaty of Tlatelolco in 1967, which made a nuclear-free zone of Latin America and the Caribbean.

Mexico has indeed shown some limitations, however, in exercising regional leadership (González and Pellicer 2011: 342). One problem is the close relationship that the country maintains with the US. This is viewed with distrust, especially by Brazil, where it is thought that any link with Mexico will mean the direct entry of the US into MERCOSUR affairs (Serbin 2008: 140). Günther Maihold sums up Mexico's situation well when he states that the impossibility of the country's assuming regional leadership is due to this bi-regional identity. On one hand, it is geographically and economically part of North America; on the other, its roots are in Latin America. Thus, this uncertainty as to Mexico's identity represents one of the main hurdles to the consolidation of its leadership (Maihold 2010: 112). Another factor with a similar effect is that Brazil has taken over the political space that Mexico once occupied in Latin America.<sup>6</sup> Even so, Mexico has worked to better position itself in the region over the past decade. Some examples of these efforts include the initiation of the Mesoamerican Project (formerly the Puebla-Panama Plan, which includes the area stretching from Mexico to Colombia), and the creation of CELAC. When newly elected in 2012, President Enrique Peña Nieto announced that he would seek to reposition the country within the international system.

### 3.4 A New Regional Coordinating Body: The Creation of CELAC

The foundation of CELAC in December 2011 is an attempt to establish mechanisms for dialogue and coordination, in order to provide a Latin American voice, and to

6. México pierde liderazgo regional, in *Terra*, October 25, 2010; available at: <http://www.terra.com.mx/noticias/articulo/982958/Mexico+pierde+liderazgo+internacional.htm> (last accessed on 30.10.2013).

fill the void that previously existed in this regard. Regional and national sovereignty have been staunchly reaffirmed, and support for greater policy space for the countries of the region has been strengthened. A certain consensus exists within Latin America and the Caribbean to attempt to create a new form of regionalism and integration in the region (Serbín 2011).

CELAC has been recognized as a global interlocutor by other regions and powers. Efforts by the CELAC troika have earned recognition from chief international actors and, at the same time, promoted intense attempts at regional coordination. Agreements and joint efforts between Brazil and Mexico are essential if this long-awaited Latin American achievement is to be consolidated.<sup>7</sup>

### 3.5 Global Economic Trends and Their Impact on the Region

In this context of increased autonomy and sustained economic growth, Latin America has become an area of considerable interest for foreign investments. This increases the potential for autonomous development through the diversification of investment sources and opens up commercial opportunities with new partners.

However, the major global economic trend that had a profound impact on the region has been Asia's growth, and in particular that of China (King et al. 2012). Globally, China has become the actor with the strongest influence on the interaction between global and regional developments.<sup>8</sup> China also plays a key role in Latin America—especially in South America. The economic growth of many countries in the region is tied to China's growth and its demand for commodities.

7. For more on this, see: Francisco Rojas Aravena (2012): *Escenarios globales inciertos. Los desafíos de la CELAC*. San José, Costa Rica: FLACSO-Secretaría General; Oneida Álvarez Figueroa (2012): *La celac: Nuevo actor regional en América Latina y el Caribe. Avaluos y obstáculos para lograr su consolidación*, in *Anuario Integración* 9. Buenos Aires: CRIES; Antonio F. Romero: *Los desafíos de los procesos de integración en América Latina: las propuestas de la CALC y la CELAC*, in Francisco Rojas Aravena (ed.): *América Latina y el Caribe: vínculos globales en un contexto multilateral complejo*, op cit., 221ff.

8. According to OECD calculations, by 2060, China's GDP will be three times that of the Eurozone. Today, China's GDP is already greater than that of the Eurozone, and it will outstrip that of the US by 2016. China will finally recover the place it occupied in the 15th century as the world's largest economy. Nicolás Marticorena's report, based on OECD data, appeared in *El Mercurio*, Santiago, Chile, November 10, 2012 B-4.

During the past decade, the growth of China and India and of the Asia-Pacific region in general, has resulted in a strong demand for primary goods from the region, and this explains the rise in commodity prices since 2000. Chinese development has become a determining factor in the growth rates of its principal Latin American partners (Sevares 2011: 35ff). Each percentage point of growth in the Chinese GDP means 0.4 percent of GDP growth for its partners in Latin America and the Caribbean. This trend will continue in the medium term, according to ECLAC estimates, which forecast a long cycle of exports at prices higher than historical averages.

While this appears to be good news for economic growth in the region, this trend also presents a key challenge as it reinforces the shift in the composition of Latin American exports towards agricultural products and mineral resources, fostering a renewed emphasis on the production of primary goods, particularly in South America.

In 2000, China absorbed barely 1 percent of total regional exports; by 2010, it was buying 8 percent of the total. Asia as a whole with a 18 percent share is overtaking the EU's third place position for exports from the region, (ECLAC 2012). Overall however the big picture in terms of export destination is heterogeneous: South America is commercially linked to China and the rest of Asia, the Caribbean to the EU, and Mexico and Central America to the US. The level of intraregional trade remains relatively low—barely 19 percent for the whole region. Only for eight of its countries (Argentina, Paraguay, Uruguay, Bolivia, Ecuador, El Salvador, Guatemala, and Nicaragua), regional exports represent more than 40 percent of their total exports (Rosales 2012).

Over the past decade, economic trends in Latin America have also brought about new experiences and best practices, such as the accumulation of healthy monetary reserves, which have served well for addressing the global financial and economic crisis. Anti-cyclical policies have prevented the crisis from worsening social conditions in the region, or increasing poverty or social inequality. However informality remains a huge problem in Latin America, one that is exacerbated by global phenomena related to the outsourcing and splitting up of production in global value chains.

Global changes related to different economic trends in the US and China affected different regions in Latin America

differently. Whereas remittances from labor migrants to countries in the north of Latin America have dropped, due to slowed growth in the US, there is a continuous increase in exports of primary goods to China mainly from countries in the south. As a result, the region tends to become even more fragmented and differentiated internally between north and south. In addition, proposals for more coordination along an east-west divide have been emerging, pulling together countries bordering either the Pacific or the Atlantic basin. This brings about difficulties in regional political coordination and in defining effective proposals for integration within Latin America and the Caribbean. CELAC seeks to establish this coordination for the entire region.

At the same time, successful regional responses in other areas such as climate change, food crises, and increased organized crime can only come about if all the diverse actors involved share in the definition and implementation of joint courses of action. For such courses of action, the building of public policies is necessary, as is the definition of the regional public goods one wants to promote with regard to the issues that must be addressed jointly.

#### 4. Global Shifts: Challenges and Opportunities for More Inclusive Development in Latin America<sup>9</sup>

Throughout its recent history Latin America has tried diverse models for achieving development. Some of these emphasized the importance of economic growth or the preeminence of equality, while others stressed autonomy, the linkage between internal and external markets, or the defining of the nature of political and economic relations between countries and the roles assigned to the state.

The ECLAC school of thought served as the intellectual guide for the period after World War II to the 1980s, and it is impossible not to mention Raúl Prebisch when speaking about ECLAC, the state, and development. His economic-structuralist vision dominated the debate on development during this period. His work made possible an understanding of the causes and the structural nature of Latin American under-development. The theory of dependence and the concepts of »structural heteroge-

neity« and »peripheral states« were manifestations of a newborn knowledge that Latin America began to have about itself (Dosman 2010).

This changed dramatically during the 1980s. The debt crisis and the resulting »lost decade« in terms of growth in the region provoked a new change in the model. The market began to occupy center stage replacing the state, which became minimalist and neoliberal. The policies of the Washington Consensus of the 1980s and 1990s became rigid laws imposed on the various governments under pressure from the US and international financial organizations. The internationalization of production created serious unemployment problems and altered labor markets and international divisions of labor (Gabetta 2012: 164ff).


The neoliberal paradigm was based on strengthening the market as the only appropriate mechanism for allocating resources; on reducing the state in order to limit its intervention and preserve its autonomy against the demands of various groups; and on the prioritization of price stability, fiscal balancing and the opening up of the international market (Bodemer 2004: 32). This implied controlling the fiscal deficit and promoting privatization and deregulation.

Today, we find ourselves once again in times of change. One legacy of the current international financial crisis is the general agreement on the need to leave the Washington Consensus behind and move more in the direction of a model in which the state and policy acquire a central role once again. Nevertheless, there are differences in the ways countries attempt to achieve development. In Latin America and the Caribbean, some rely mainly on trade (especially those who make up the Pacific Alliance), while Brazil places its internal market first, and others (the ALBA countries, for example) lean more towards autarchy or self-sufficiency.<sup>10</sup> Aside from which route to choose, the key is to harmonize growth, sustainability, distribution, and inclusion within a context of truly democratic societies.

Stability and growth in Latin America and the Caribbean today are primarily due to the exploitation and export of natural resources. These have been major driving forces

9. Francisco Rojas Aravena (2011): *La década latinoamericana. Hacia el desarrollo regional. El Estado que necesitamos*. San José, Costa Rica: FLACSO Secretary General: 96.

10. On the ALBA group, see: Josette Altmann Borbón, ed. (2011): *América Latina y el Caribe: ALBA: ¿una nueva forma de integración regional?* Buenos Aires: FLACSO/TESEO/Fundación Carolina.



particularly in South America. One fundamental challenge for most of the countries in the region, therefore, consists of managing their natural resources in such a way that they turn out to be a blessing rather than a curse for their long-term development. To achieve this, it is necessary to overcome the effects of the »resource curse« expressed in strong (overvalued) currencies (and the resulting difficulty of exporting non-primary goods), in the volatility of prices, and the negative impact on job creation. With regards to this panorama, Joseph Stiglitz recommends following the route of sustainable development; that is, consistent reinvestment of export surpluses. Other necessary measures include the adoption of a competitive exchange rate, the development of a stabilization fund and of careful investment policies, the prohibition of over-indebtedness, and the fostering of transparency. Yet this might be insufficient, and therefore policies that provide for the proper management of these natural resources are needed. For this it will be necessary to design transparent public bidding mechanisms, open processes for contract renegotiation, and levy taxes on extraordinary earnings among other things. It will also be crucial to develop local industries, establish training programs, and make significant advances towards manufacturing in primary-goods-producing countries.

To summarize, it is important to achieve a dynamic comparative advantage (Stiglitz 2012). The financial opportunities brought about by the export of commodities should therefore serve the countries in the region to strengthen national capacities for innovation, to create quality jobs, and to adopt diversification measures that reduce the dependence from raw materials and create strong back- and forward linkages within the economy. In other words, it will be necessary to lean towards the development of policies associated with the four factors set forth by the president of the Development Bank of Latin America, CAF, namely stability, efficiency, equality, and environmental balance. This will enable a »structural change for equality« (García 2012), which is the most important value to achieve through specific public policies (Barcena 2012). Transforming the management of natural resources into a blessing will become an essential part of the new role of the state.



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### About the author

**Francisco Rojas Aravena** is Rector of the University for Peace (UN) in Costa Rica. He served as Secretary General of FLACSO (2004–2012) and holds a PhD in Political Science from the University of Utrecht (Netherlands) and MS in Political Science from the Latin American Faculty of Social Sciences (FLACSO).

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