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**Key words, terms, concepts, names:** Globalization; Human Capital; Import Substitution Industrialization; Prebish-Singer thesis; Purchasing Power; Stakeholder Theory; Economic Commission for Latin America and the Caribbean; General Agreement on Tariffs and Trade; International Monetary Fund; Raúl Prebish; World Bank.

*Globalization and Development: A Latin American and Caribbean Perspective* (2003) is a study of the process of globalization in the economic, political and cultural spheres, focusing mainly on the economic developments. Understanding the process as being multidimensional in nature, the authors, José Antonio Ocampo and Juan Martin, the Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) and the Special Advisor to the Executive Secretary respectively[i], analyze globalization as a historic event realized in three well-differentiated phases, which prove, that it is not an irreversible process. The authors define globalization as "the growing influence exerted at the local, national, and regional levels by financial, economic, environmental, political, social and cultural processes that are global in scope" (Ocampo & Martin, 2003, p.1); a process in which dynamics are based on inequalities of various types. Globalization poses great opportunities, but also great challenges, and the unevenness of the international arena makes it hard for sustainable development to occur without the intervention of proper international institutions. Developing countries, especially those of Latin America, should adopt a positive standing on the issue of globalization, and work together to take advantage of the opportunities it offers.

Many years have past since this book was published in the early 2000's, and although it lacks the more current statistics and data, the theoretical analysis, its implications and the trends the authors observed are still valid, and so is the "positive agenda" they proposed. It is on their analysis and recommendations that this essay is based, adding to their original themes the latest developments and the newest trends in Latin American development.

## Globalization: The Author's Analysis and Proposals

### History and Dimensions

As noted above, Ocampo and Martin understand globalization as a historical and multidimensional process. In the historical sense, three stages are defined. The first stage, from 1870 to 1913, was mainly the result of the industrial revolution and the technological advances that contributed to lowering the costs of transportation (Ocampo & Martin, 2003, p.2). The Gold Standard, imposed by the British Empire gave stability to the international financial system, providing capital with a great deal of mobility. Labor enjoyed a higher degree of mobility as well, with thousands of migrants moving from Europe and Asia to America (Ocampo & Martin, 2003, pp. 88-89). The interwar period reverted the path toward international integration, the Gold Standard was abandoned and the main economies of the world closed their borders to both trade and migrations. The developments that occurred during this period demonstrate that globalization is not an irreversible process. From the ashes of World War II, however, emerged a new world order and a renewed desire for international integration, especially through trade. In this second phase of globalization, capital and labor flows were highly regulated and attached to their countries of origin. National macroeconomic regulation regimes coexisted with a slow liberalization of trade supported by the General Agreement on Tariffs and Trade (GATT). Two other institutions, the International Monetary Fund (IMF) and the World Bank, called the *Bretton Woods Institutions,* completed the picture of an understanding of integration through international negotiations. In the 1970's the oil crisis gave rise to a new economic understanding, one that also changed the characteristics of globalization. Neoliberal flexibility replaced Keynesian macroeconomic management (Hytrek & Zentgraf, 2008, pp. 5-9) and the liberalization of markets gave increasing importance to capital mobility. Labor mobility, however, remained constrained (Hytrek & Zentgraf, 2008, p.3).

Economic globalization has, as noted, evolved in phases, but there are other noneconomic dimensions of globalization. Ocampo and Martin encompass these noneconomic dimensions into two categories: Ethical and Cultural, and Political. The former refers to the spread and trend toward global acceptance of human rights and certain ethical principles in a process that ECLAC calls "globalization of values" (Ocampo & Martin, 2003, pp. 7, 14). This aspect of globalization tends to be in conflict with the economic dimension. While the latter seeks to build freer international markets, imposing the principles of competition and efficiency, the former is pushing towards the recognition of principles that "reflect the values of economic and social equality [and] solidarity" (Ocampo & Martin, 2003, pp.7-9). On the other hand, the cultural aspect of this dimension is also at odds with the actual trends of globalization. As this process provides more avenues for the diffusion of cultural manifestations, the spreading of certain cultural traits through the global media[ii] often comes at the detriment of other, more traditional identities which are excluded from participation in a technology-based process (Ocampo & Martin, 2003, p.10, 13-5).

The Political dimension refers to the global acceptance of and advocacy for democracy and processes of democratization. As the authors noted:

Political discourse is being shaped by and acceptance of the principles of pluralism, alternation of power, division of the power of the state, election of authorities as a basis for legitimacy, and a recognition of the majority combined with respect for minorities, and these principles have begun to be applied much more widely (Ocampo & Martin, 2003, p. 11).

This dimension too conflicts with economic developments. As a distinctive feature of the third stage of globalization, markets typically have greater sway than governments and the result, especially in developing countries, is a state with almost no means to cope with the negative externalities that can emerge from the functioning of the economy.

**Asymmetries of the International Order**

Ocampo and Martin are particularly concerned (following ECLAC's theoretical tradition) with the asymmetries of the international order. Raúl Prebish, the first Executive Secretary of ECLAC, noted as early as the 1950's what seems to be very obvious today: there is a clear division between developed and developing countries which is intrinsically related to production and the terms of trade. Prebish and ECLAC embraced a structural vision of the problems of development, praising that the countries of the "centre," the industrialized and wealthy, gained more from trade since they can produced high value-added goods, whereas the countries of the "periphery" suffer from a great degree of vulnerability as they depend on the production of raw materials and food, mainly to be sold to the "centre" (Philips, 2004, p.23). At the core of this issue is an imperfect *transference* of productivity from the periphery to the centre due to the gap between prices of raw materials and final goods (Philips, 2004, p. 24), a phenomenon that is conducive to capital and technological concentration in the centre. This issue is know as the "Prebish-Singer thesis", and in Prebish's words: "The advantages of technical progress have been mainly concentrated in the industrial centres and have not directly extended to the countries making up the periphery of the world's economic system" (Prebish, 1959, p. 8).

Even today, developing countries (those making up the periphery of the world economy in Prebish's argot) are faced with a global field that seems to be tilted in favor of developed countries[iii]. The corollary of the Prebish-Singer thesis is the first basic asymmetry of the world order that Ocampo and Martin observed: there is an "extreme concentration of technical progress in the industrial countries" (Ocampo & Martin, 2003, p.112). This concentration has given these countries a considerable advantage in the world economy as they can apply new technologies in the design, development and production of high-value-added goods. The waves they ride, however, barely stir the waters of the developing countries, which depend on their purchasing power in order to get that technology to their shores through trade[iv]. Technical progress drives economic growth, and this growth travels through the system in three other forms besides trade, as Ocampo and Martin noted: indirectly, as economic growth in the center creates demand for the raw materials of the periphery; by outsourcing of so-called *mature industries;* and "the possible participation of developing countries in the most dynamic production domains" (Ocampo & Martin, 2003, p. 112). In any of the four cases, the process is rather slow. There is always a time lag from the moment a new technology breaks through and the moment in which it starts being applied by developing countries in the process of production. Following the Prebish-Singer thesis, the price of capital and technology intensive goods always rises faster and decreases slower than the price of primary-sector goods, meaning that in general, developing countries have less access to the products of the industrial countries due to a diminished purchasing power. Another crucial factor is, of course, human capital. Innovation requires highly trained workers and an efficient educational system; in developing countries there's a lack of the latter and skilled workers tend to be outnumbered by unskilled ones (Ocampo & Martin, 2003, p. 114).

The second asymmetry, greater macroeconomic vulnerability, has its origin in the particular path that developing countries have gone through. As the developed world built the foundations of the a new world order based on macroeconomic management coupled with freer trade, Latin America embarked on Import Substitution Industrialization (ISI) as its own route to a *balanced* development. The Great Depression and lower access to the European and the United States' markets after World War II hindered the growth of the region. These exogenous factors, coupled with the very powerful domestic trend of population growth, contributed to set a new economic policy goal: full-employment development (Philips, 2004, pp. 44 - 45). But the chosen path could not overcome the challenge posed by the traditional oligarchic exporters of primary-sector goods nor could it cope with the economic developments of the 1970's at the international level. What would have been an industrialization process of two stages never reached its final phase mainly because Latin America could not fund its own development projects to begin with: exports where necessary to bring the basic capital needed for the industrial production, and national markets were not big enough to generate sufficient demand. The ISI policies implemented resulted in indebted states, unable to meet their citizen's demands, and inefficient, unprofitable and uncompetitive private and national companies.

The international switch from the "Taylor/Ford paradigm" (Ocampo & Martin, 2003, p. 47) to more flexible capitalism (Neoliberalism) was implemented as the *panacea* for the region's debt crisis. The implications of this change came in the form of new conditions to finance development. The IMF and the World Bank instituted the Structural Adjustment Program as part of a renewed role in an international system that had lost its originally agreed-upon characteristics:

This new duty, which was not contemplated in the Bretton Woods accords, was the promotion of economic liberalization in developing economies, based on the assumption that their structural rigidities were caused by excessive state intervention. Like others before it, this new shift in the responsibilities of the Bretton Woods agencies did not arise from explicit negotiations but was instead a response to changes in the ideologies and power relationships prevailing at the global level (Ocampo & Martin, 2003, p. 68).

The sudden privatization of key industries hitherto sheltered from foreign competition and deregulation of the financial system divested the state of exerting sovereignty and implementing effective anti-cyclical economic policies. In the absence of state regulation, capital flows enter to developing countries when the international economy is running smoothly but during a recession these flows are suddenly constrained, effectively hindering the possibility of steady growth and development. Evidence of this particular event is presented by the recession of 2001, when foreign investment dropped considerably. Recent experiences with the recession of 2008 provide even more support for this observable trend. According to the *Statistical Yearbook for Latin America and the Caribbean* published by ECLAC in 2010, net foreign direct investment dropped from $95,537.3 million in March 2008, to $66,276.1 millions in July 2009 (p. 163, tables 2.2, 4.4).

The third asymmetry has already been mentioned a couple of times and has its origins in the interwar period and the second phase of globalization: low labor mobility with respect to capital. Migration in the 19th century, as opposed to migration today, flowed from developed countries to the developing ones. When European workers left their industrialized countries and colonized America's fertile land, the United States, Brazil and Argentina where promising although undeveloped territories. During this "era of mass migration" (Ocampo & Martin, 2003, p. 88) as it is known, the migrant work force fueled economic growth in the new world and stabilized wages at both sides of the Atlantic, as Asian and European workers satisfied the demand for labor in America (Ocampo & Martin, 2003, p. 89). Today, however, the word migration brings to our minds the images of Latinos crossing the desert to get to the United States, or Africans trying to get to Canarias or Ceuta in rafts, risking their lives for opportunity. Both the United States and the European Union, the main destinations of today's flows, have strict migration restrictions in place to try to curb the flow of illegal migration[v].

Another type of migration is occurring today, one that is sponsored by developed countries. In tandem with the flows of unskilled (and often undocumented) labor, there is a "selective brain drain" (Ocampo & Martin, 2003, p. 93) going on. Encouraged by special programs put in place by developed countries, brilliant professionals abandon their home countries in the periphery for job opportunities available to them at the centre. Thus, the centre effectively closes its doors to those with the greatest propensity to emigrate (unskilled labor), but facilitates the entrance to those that could contribute to the development of their homeland. Migration is more important today than ever, as the remittances workers send to their countries become more significant for developing economies. In 2009 alone, $58.8 billion in remittances were sent to Latin America and the Caribbean, a very important figure although it represents a decline from the $69.2 billion sent in 2008 (Maldonado, Bajuk & Watson, 2010, p.3).

**The Future is Ours: A Positive Agenda**

These asymmetries have kept developing countries, and especially those in Latin America, from realizing the opportunities that the multidimensional process of globalization promises: economic integration and growth, respect for human rights worldwide, enhancement of internal democracy via international organizations, etc. There is a lot at stake here, as these promises are more than just evanescent goals or statistical data, they represent opportunities for the enhancement of the quality of life of millions of people. For that reason, Ocampo and Martin propose the adoption of a "positive agenda for the construction of a new international order" (Ocampo & Martin, 2003, p. 129). This agenda would have three key objectives: "the provision of global public goods; the correction of the global order's asymmetries in the areas of finance and macroeconomics, production, technology, and factor mobility; and the consolidation of a rights-based international social agenda" (Ocampo & Martin, 2003, p.130). All three objectives depend on actions at the national and international level.

Ocampo and Martin expressing ECLAC's stance on the issue as well see the provision of global public goods like peace, eradication of pandemics, sustainable development (Ocampo & Martin, 2003, p.158-9), and the defense of democracy as crucial due to the uneven effects that wars, infections, hunger and lack of freedom cause in the world, costing more to those who have less. Although global in scope, "the provision of global public goods is [and should be] accomplished through the efficient operation of networks of various types of institutions rather than by individual agencies" (Ocampo & Martin, 2003, p. 131). All countries should support the efforts for the provision of these goods in the basis of "common but differentiated responsibilities" (Ocampo & Martin, 2003, p.131), meaning that countries should contribute in proportion to their resources.

To ensure that developing countries are going to be able to take advantage of globalization's opportunities, efforts must be done to overcome the three basic asymmetries of the actual global order. The transmission of *growth impulses* from the centre to the periphery must be enhanced to allow developing countries to 'catch up' with those that are already developed, or at least get closer. International agencies such as the IMF and the Word Bank should give space to the developing countries to apply countercyclical policy measures when needed, just as the industrialized countries do. Furthermore, labor mobility and workers' rights should be enhanced and protected, as it equates wage levels across borders, and contributes to balancing income levels, the same way it occurred during the first stage of globalization (Ocampo & Martin, 2003, pp. 163-74).

Lastly, the new international order must be based on human rights. As noted by the authors, "economic, social and cultural rights, together with civil and political rights, form an indivisible, interdependent whole" (Ocampo & Martin, 2003, p.175). Despite the recognition of this fact, not all men and women enjoy all of these rights, and it will require a great deal of political will and a considerable economic effort to ensure that these are enforced worldwide. The enforcement of these rights must transcend national boundaries and should be the result of a coordinated effort of all nations rather than the responsibility of the nation-state.

A striking feature of Ocampo and Martin's proposal is the need for coordination at the international level, especially in the form of regionalization. As early as the late 60's, ECLAC proposed the creation of the *Asociacin Latinoamericana de Libre Comercio* (LAFTA, in English) a short-lived project that pretended to enhance the development of the ISI policies in region (Phillips, 2004, pp. 46-7). Following this tradition, the authors argue the advantages of regionalization on the basis that "countries with similar levels of development can take advantage of specialization economies for intraindustry trade [ and] lower transaction costs allow smaller firms to participate in intraregional trade" (Ocampo & Martin, 2003, p.152). For economic integration to really work, the harmonization of regulatory systems is crucial, a process that is easier to accomplish when taken on by countries with economic similarities. Cultural and political similarities also contribute positively to the enhancement of the process of regionalization. Latin America has a lot to gain from harmonizing efforts and consolidate free trade at the regional level, since it is "a region that shares a culture, a history, and perhaps a common fate" (Ocampo & Martin, 2003, p. 156). Mercosur, Plan Puebla-Panama, *Secretara de Integracin Econmica Centroamericana* (SIECA, in English), and many other regional organizations are already in place, and through their organized efforts the region is gradually establishing great tools for integration and development.

At the national level, the strategy for the accomplishment of the three objectives has four points: (a) macroeconomic policies designed to reduce vulnerability and facilitate productive investment, be that national or international (Ocampo & Martin, 2003, pp. 139-41); (b) implementation of strategies for developing systemic competitiveness, acting within sectors of the economy and encouraging innovation diversification and the creation of linkages (Ocampo & Martin, 2003, p. 142); (c) priority of the environmental agenda through the allocation of government resources and "creating a link between environmental sustainability and economic development" (Ocampo & Martin, 2003, p.147); and lastly (d) highly active social policies, especially in education, reduction of unemployment and the creation of safety nets for all citizens with the objective of enhancing the region's human capital (Ocampo & Martin, 2003, pp. 148-51). This positive agenda can only be implemented, and its three key objectives can only be achieved through national and regional actions. However, at the global level some changes are needed as well. Globalization is a process that has evolved without an adequate set of institutions to oversee it. The Bretton Woods Institutions are remnants of an older stage of globalization, designed on a different set of principles than those that govern today's globalization, and thus need to be renewed to cope with the new challenges. New rules of global governance need to be adopted by a world that is no longer bipolar. Accountability needs to be ensured at the global level, and to address this issue, the authors suggest to apply the principles of the stakeholder's theory of corporate management to institutions such as the IMF, which decisions can affect, undemocratically, the lives of millions of people (Ocampo & Martin, 2003, pp.137-8). Participation of developing countries in the decision-making process is also fundamental to distribute the power more evenly across the board and for "placing limits on the power of the most influential countries" (Ocampo & Martin, 2003, p. 138).

**Globalization in the Region Today**

Ocampo and Martin's analysis has proven to be valuable and accurate, although constrained by its date of publication. The latest global recession in 2008 caused important changes in the structure of the global economy and global decision-making. An apparent balancing of powers is taking place as Brazil, Mexico and Argentina play leading roles not just in the region but also in important international institutions such as the G-20.

Today, the economies of Latin America and the developing countries are growing faster than the industrial economies as the result of the recession and the changes in the structure of the global economy. For Latin America, however, there are two very different trends of growth, as explained by Alejandro Izquierdo and Ernesto Talvi in *One Region, Two Speeds?* (2011): those countries that heavily rely on the industrial economies and those who have extended their market share to other developing countries; the "Mexican" and "Brazilian" clusters respectively (p. vii). These two differentiated paths result in a portion of the region's countries growing faster and more sustainably than the rest:

Brazilian-type countries, being net commodity exporters, with low exposure to industrial countries in terms of exports of goods and servicesand much to gain from larger investment demand in response to low world interest ratesare the clear winners. On the other hand, Mexican-type countries, mainly net commodity importers and highly exposed to trade in goods and services with industrial countries, are likely to face substantial challenges, in spite of the fact that they too stand to gain from lower world interest rates (Izquierdo & Talvi, 2010, p. 10).

The countries in the "Mexican cluster" have not been able to overcome a very important asymmetry: macroeconomic vulnerability. Mexico, Central America and most countries of the Caribbean make up this cluster, and all of them are closely tied to the United States. Mexico, Guatemala, El Salvador and Honduras rely heavily on remittances and trade from the US and thus are prone to suffer the effects of the slow recovery and the constrained demand for raw materials. On the other hand, the "Brazilian cluster" has been somewhat successful in overcoming this asymmetry. History has shown many times the negative effects of complete dependence on commodity exports, and Brazil, more than any other country in the region, experienced it with cotton, coffee and sugar cane.[vi] However, these countries have avoided the risks of exporting commodities via diversification and extended economic relations with other developing countries, proving the effectiveness of open markets and free trade. Raul Prebish would be proud of the Brazilian cluster's results: industry is growing fast and it is being financed by exports of primary-sector goods.

Technological concentrations and restricted mobility of labor are still major obstacles in the region's path to development. Advances in the other two key objectives of the positive agenda proposed are modest, and in some cases, non-existent. The region faces enormous challenges for the provision of public goods, and greater efforts will require greater political will and more generous economic contributions. Peace and security, especially in the northern region of Latin America, are needed more than ever, however regional efforts such as the Merida Initiative are not able to cope with the magnitude of the problems. Similarly, sustainable growth and the provision of healthcare and education, fundamental public goods for the development of any country, seem to be stagnant.

It cannot be denied that there is a lot that still needs to be done. Inequality, not just in income, but in access to basic services is still crushing the dreams of development for a great portion of the population. The new structure of international markets, however, seems to indicate that this new decade will be the decade of developing countries, and that Latin America, unlike in the past, will live up to the challenges posed by globalization. The path is not an easy one; those countries in the "Mexican cluster" need to restructure their commercial relations abroad as a first step to avoid dependence on industrial countries, by opening new markets for their products. The countries making up the "Brazilian cluster", on the other hand, must tame their growth to avoid *overheating* their national economies.

The region has a moral debt to its inhabitants that is bigger than any monetary debt; therefore, all Latin American leaders must work toward the consolidation of a positive agenda based on the same objectives originally proposed by Ocampo and Martin. Their analysis and proposals are just as relevant today as they were when this book was first published.

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[i] Positions held at the moment of the publication of the book, in 2003.

[ii] Today the influence of the international media, Internet and the different forms of mass communication is even greater than in 2003. Thus, the process described by Ocampo and Martin has clearly intensified in the last years and will continue to do so, as more people gain access to technology.

[iii] Prebish's analysis of "Centre" and "Periphery" and the problems and asymmetries that it entails are similar to Thomson and Reuveny's analysis of north and south diverge. In fact, Ocampo and Martin analyze globalization from the same point of view but with a greater dose of optimism for the future performance of the developing countries provided these follow a positive agenda.

[iv] William Thompson and Rafael Reuveny echo the idea of the existence of extreme concentration of technical progress in the industrialized countries, in their book *Limits to Globalization: North-South Divergence* (2010). The authors explore the issue of economic convergence between the North and the South (Centre and Periphery, to use Prebish's terms) based on the 'Leadership Long Cycle' perspective. According to this perspective, at the international arena, there is a systemic leader that, by the application of a revolutionary technology, achieves great economic growth. Trading with other countries with similar capabilities, the systemic leader looses edge as the competitors absorb and apply this new technology. Then, a new country transforms itself into the new systemic leader by the implementation of a new revolutionary technology and the process repeats itself. Not all the countries are capable of absorbing the new technologies however. This inability gives rise to a differentiation among countries: those who can absorb and apply new technologies conform the North, and those who cannot, and therefore do not fully integrate into the international economy, conform the South.

[v] In 2009, Italy's controversial migration policy caused alert among human rights activist, providing us with evidence of the issue of migration outside the United States. For more information on this issue see BBC's report on the case, *Italian migration policy draws* fire in http://news.bbc.co.uk/2/hi/europe/7880215.stm

[vi] Uruguayan writer Eduardo Galeano illustrates the problems of Latin American reliance on a few commodities throughout its "independent" life in his book *The Open Veins of Latin America*. In chapter II, *King Sugar and Other Agricultural Monarchs*, Galeano describes the successive products that brought prosperity to the region just to crush it down the road as a result of a 'market failure.'