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Jaime Cesar Coelho



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Por um Brasil desenvolvido

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Jaime Cesar Coelho

PRESENTATION

The *Perspective of the World Review* is an international publication by Ipea, which is part of the Presidency of the Federative Republic of Brazil, through the Strategic Affairs Secretariat (SAE).

The Journal features versions in Portuguese and English and was designed to present and promote contemporary debates, with emphasis on the theme of development, under a South-South perspective. The field of interest is that of political economy, with plural approaches on the essential dimensions of development, such as economic and social issues as well as those relating to sustainability.

Its goal is to enhance the debate in order to formulate proposals for the elaboration of public policy and, in this context, emphasize international comparisons and interdisciplinarity, always highlighting the role of planning. *The Perspective of the World Review* aims at arising questions faced by contemporary civilization which wishes to enjoy comfortable living standards and decent living conditions, but must simultaneously respect the limits of what the planet can support in terms of environmental exploitation.

It is important to point out the tribute given to Fernand Braudel, through the enhancement of his formulation of the “*perspective of the World*”, which, in conjunction with the “structures of everyday life” and the “exchange games”, defines its originality. Braudel has always sought to address the issues that involve the dimensions of development in an historic and long-term perspective, emphasizing that the World dominated by production mode based on capital accumulation has always had to balance society, the market and the State. As the master taught, where the task was more successful, there was prosperity and, where the difficulties were persistent, the results have not had the same success.

This initiative is not new in Brazil, and its great precursor was Celso Furtado, in *The Economic Growth of Brazil*. This seminal work was welcomed by Braudel as innovative, under a methodological Prism.

Editorial Board

LETTER FROM THE EDITOR

This ninth issue of *The Perspective of the World* brings six papers on a variety of relevant issues of the contemporary international set. On an international scenario that still lacks regulation in many fields, the Journal opens with an article by Ivan Tiago Machado Oliveira, whose proposal is to analyze the institutionalization of the multilateral trade regime at the World Trade Organization (WTO) – the most successful example of international regulation with mandatory rules –, since the Uruguay Round. On international financial issues, Jaime Cesar Coelho deals with the evolution of the International Monetary Fund (IMF) loan policies, focusing on the quantitative and qualitative developments of the existing instruments in relation to the Fund's policies and to the changes in the World order.

Next, the Journal turns its focus to issues relating to the performance of developing countries in the international economic context. Aiming at understanding the international post-crisis performance of Latin American countries, Mario Dammil and Roberto Frenkel draw a causal link between the guidelines of macroeconomic policies implemented by those countries over the last decade and the acceleration of growth in these economies, and also its apparent greater resistance to international shocks.

The international cooperation issue is examined by two case studies. First, Pedro Henrique Batista Barbosa presents the general situation of the Brazilian horizontal technical cooperation among developing countries (CTPD) from the government of Fernando Henrique to the one of Luiz Inácio Lula da Silva, discussing its principles and its characteristics, its effectiveness and its instrumentalization as part of the country's foreign policy. José Luis Rhi-Sausi and Nahuel Oddone bring the theme of Peru's international cooperation, focusing on cross-border relations and, consequently, on the issue of regional integration. The authors seek to give emphasis to the territorial dimension of development and social integration, not only in Peru, but also in the entire region.

Finally, the *The Perspective of the World Review* brings the important issue of agricultural investment on the African continent. As a result of the growing international presence in African countries, Beluce Bellucci presents the main discussions on land and agricultural investments in Africa, its possibilities, potentialities, risks and prospects. The "land race" is understood as a fact, and, from this, it is reflected on its deployments to the prospect of related populations.

The various issues presents on this edition reflect the proposal of *The Perspective of the World Review* to address several matters with relevance to the international economy and politics from different perspectives. Thereby, it underlines the importance of the contributions made by national and international authors.

THE RULES OF POWER AND THE POWER OF RULES: THE INSTITUTIONALIZATION OF THE MULTILATERAL TRADE REGIME AND ITS IMPLICATIONS FOR TRADE NEGOTIATION STRATEGIES

Ivan Tiago Machado Oliveira*

The article aims to analyze and explain how the institutionalization of the multilateral trade regime affected international trade regulation and created incentives for countries to integrate it and to direct their trade negotiation strategies to it. To accomplish this, I will examine some factors related to the way the negotiating agenda is set, according to a country's economic and political clouts, the rules of power; and those which encourage the political participation of less powerful countries by using coalitions and enforcement mechanisms created at the multilateral trade regime, denoting the power of rules. Two dimensions of the multilateral trade regime are taken into account: first, the legal-diplomatic dimension, focusing on changes in dispute settlement mechanisms and their effects on the politics of the trade disputes at the regime; and second, the political-negotiating dimension, related to the creation of new coalitions among developing countries in the new context negotiations at the multilateral trade regime. Finally, some concluding remarks are presented on the implications of the institutionalization of the multilateral trade regime for trade negotiation strategies.

Keywords: multilateralism; trade policy; WTO; international regime; institutionalization.

AS REGRAS DO PODER E O PODER DAS REGRAS: A INSTITUCIONALIZAÇÃO DO REGIME MULTILATERAL DE COMÉRCIO E SUAS IMPLICAÇÕES PARA AS ESTRATÉGIAS DE NEGOCIAÇÃO COMERCIAL

Este artigo tem como objetivo analisar e explicar como a institucionalização do regime multilateral de comércio impactou na regulação do comércio internacional e gerou incentivos aos países para se integrarem ao regime e direcionarem a ele suas estratégias de negociação comercial. Para tanto, examinar-se-á elementos relativos à formação da agenda negociadora segundo as capacidades de articulação política e de poder econômico e político dos países, às regras do poder; e aqueles relacionados a estímulos à participação política de países com menor capacidade de barganha e influência por meio de coalizões e de mecanismos de enforcement criados no regime multilateral de comércio, denotando o poder das regras. Consideram-se ainda duas dimensões do regime multilateral de comércio: uma primeira, a dimensão diplomático-jurídica, com foco nas mudanças ocorridas nos mecanismos de solução de controvérsias e seus efeitos sobre a política de disputas comerciais no regime, e uma segunda, a dimensão político-negociadora, relacionada à formação de novas coalizões entre países em desenvolvimento no novo contexto negociador do regime multilateral. Por fim, algumas considerações finais são apresentadas sobre as implicações da institucionalização do regime multilateral de comércio para as estratégias de negociação comercial.

Palavras-chave: multilateralismo; política comercial; OMC; regime internacional; institucionalização.

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1 INTRODUCTION

Almost fifty years after the Havana Conference and the attempt of creating the International Trade Organization, the bases for the edification of a “new” international trade order were multilaterally built, based on law and with mechanisms that gave a bonding character to decisions taken multilaterally. In 1995, the creation of the World Trade Organization (WTO), which has now about 159 members and accounts for about 95% of the international trade in goods, represented an international diplomatic and legal landmark and played an important role in the world, characterized by a substantial increase in economic interdependence.¹ So the multilateral trade regime, created after the Second World War, gained strength as an institution for international trade regulation.

This article uses the concept of international regime presented by Krasner (1982). According to this author, regimes are: “principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area”. Therefore, regimes coordinate the action of States and other international actors through the convergence of expectations aiming to fulfill the purposes desired for specific issues. As an international regime, the multilateral trade regime is sustained by principles, norms, rules, and decision-making procedures around which actor expectations converge in the international trade relations.

The *institutionalization* of the multilateral trade regime, since the Uruguay Round, must be understood as the result of a process of institutional change which granted more authority, strength and stability to the multilateral trade regime, extending its enforcement power and stimulating the participation of its members, mainly the developing countries, in negotiating mechanisms for new multilateral rules.² It should be emphasized that institutionalization process may occur in an incremental manner or in the context of critical junctures, with more or less continuity. The Uruguay Round can be analyzed as a critical juncture in which opportunities arouse for implementing institutional reforms with important changes regarding the negotiating agenda and enforcement rules of the trade regime. The change can also be understood as a reproduction through institutional adaptation, marked by the increase and the continuity in an institutional trajectory, now with better defined features of a strong institution.

Therefore, the agreements by the end of the Uruguay Round represented a change in the framework of the international trade policy regulation. The WTO has the same principles and norms which supported the General Agreement on

1. According to data from the World Trade Organization – WTO (2012).

2. For more information on the theoretical elements which are the base for the institutionalization concept, see Hall and Taylor (1996), True, Jones and Baumgartner (1999), Mahoney (2000), Streeck and Thelen (2005), Levitsky and Murillo (2009), Mahoney and Thelen (2010), and Mabee (2011).

Tariffs and Trade (GATT): non-discrimination (Most Favored Nation Clause – MFN), reciprocity and national treatment. Furthermore, the legal framework sustaining the Generalized System of Preferences (GSP), the positive discrimination concerning developing countries, was inherited and kept in the reformulated multilateral regime. To dialogue with the concept of change in international regimes by Krasner (1982), it can be said that the transformations observed and consolidated during the Uruguay Round represented a change within the multilateral trade regime, but not a change of the regime itself. According to Krasner (1982), the change of a regime only occurs with the modification of the principles and norms that support it. Revisions in the rules and decision-making procedures simply represent changes within a regime.

Considering the context and the concepts presented in this brief introduction, the purpose of this article is to analyze and explain how the institutionalization process of the multilateral trade regime impacted on the regulation of international trade and generated incentives for countries to integrate and direct their trade negotiation strategies to the multilateral trade regime. To analyze the institutionalization process of the regime after the Uruguay Round, two dimensions of the multilateral trade regime are considered: in section 2, the elements related to the *rules of power* that determine the negotiation agenda according to the political capabilities capacities and economic and political clouts of countries shall be examined. Therefore, I will analyze the legal-diplomatic dimension of the regime, focusing on the changes occurred in the dispute settlement body and its effects on the politics of trade disputes in the regime. Then, in section 3, I analyze the *power of rules* which stimulate the political participation of countries to bargain and influence through coalitions and enforcement mechanisms created in the multilateral trade regime. Thus, the analysis focuses on the political-negotiating dimension of the regime, related to the formation of new coalitions among developing countries in the new negotiation context of the multilateral trade regime. Finally, in section 4, some remarks are presented on the implications of the institutionalization of the multilateral trade regime implications for trade negotiation strategies.

2 INSTITUTIONALIZATION AND ITS EFFECTS ON THE LEAGAL-DIPLOMATIC DIMENSION OF THE MULTILATERAL TRADE REGIME

Regarding the legal-diplomatic dimension of the multilateral trade regime, it should be noticed that although the GATT had procedures for settling disputes, they did not have an effective enforcement, since the decision-making mechanisms were based on consensus and made it possible for the respondent country itself to block the progress of the process. Furthermore, the actual strenght of the system was precarious, which granted to the most powerful countries a bonus for

implementing trade measures in no compliance with the multilaterally agreed rules without effective constraints. Developing countries, by their turn, while receiving special and differential treatment in the multilateral system through the Enabling Clause, adopted at the end of the Tokyo Round (1973-1979), remained as free riders until the Uruguay Round (1986-1994), what gave incentives for them to keep a relatively marginal position in the dispute settlement mechanism of the regime by then. Furthermore, most of these countries used Escape Clauses, especially Article XVIII of the GATT, which allowed them to perform economic development policies using trade protection mechanisms.³

The Dispute Settlement Body (DSB) of the WTO, based on the rule of law, is essential for the analysis of the changes in the multilateral trade regime. This is so because of the creation of a dispute settlement mechanism which is distinguished for being rule-oriented, what brings more effectiveness and legitimacy to the regime itself. Based on the negative consensus rule⁴ and improved enforcement mechanisms, such as the creation of the Appellate Body (AB), the regime got a decision system where the obstruction of process by a respondent member is not possible.

When dealing with the importance of the dispute settlement system of the multilateral trade regime, Fonseca Junior (2008) emphasizes that the WTO substantially reinforces the GATT, since the disputes settlement modalities reached jurisdictional standards, what makes it mandatory for the losing parties to repay the damages caused by the infraction of rules and standards of the regime.

Thorstensen and Oliveira (2011) stress to the *sui generis* character of the dispute settlement mechanisms in the institutionalized multilateral trade regime, since it applies Civil Law and Common Law principles and practices. Therefore, despite the fact that panel decisions and appeals are only applied to the matters in question, they become jurisprudence on the system and start to guide future DSB decisions. The current multilateral regulation of international trade is based not only on the analysis of trade agreements signed by the end of the Uruguay Round, but also on the interpretation of the Appellate Body on cases in dispute. For the authors, the Dispute Settlement Body must be understood as a unique mechanism in the international legal system, since the policies that are considered in non-compliance with the rules of the multilateral trade regime must be modified. This possibility grants power to the WTO, distinguishing it from other international organizations without such an enforcement capacity.

3. Brazil, for instance, made frequent use of Article XVIII of the General Agreement on Tariffs and Trade (GATT) to justify market reserve policies during the whole period in which it was simultaneously part of the multilateral trade regime and implemented the import substitution industrialization model.

4. With the negative consensus, all WTO members, including the winner of the dispute, need to decide on the non-adoption of the Dispute Settlement Body (DSB) report.

The changes in the multilateral trade regime's dispute settlement mechanisms that took place during the Uruguay Round were introduced by the United States, which considered that their actions were in greater conformity with the multilateral rules than those of their commercial partners. Furthermore, the United States wished the rules to reflect the goals of their trade policy. However, as Barton *et al.* (2006) say, "By the middle of the Uruguay Round, it was not only the U.S. interests that fueled reform efforts but the perception by others that the reform would also constrain U.S. unilateral actions". So, at first, some developing countries, including Brazil, positioned themselves in a reactive and skeptic manner regarding the creation of mechanisms that would be more effective for solving trade disputes among members of the regime. Later on, they begin to understand it as an important element for the defense of their interests in the multilateral regime framework which was being reformulated.

It is important to point that a more efficient and powerful system for settling disputes does not completely eliminates illegal actions in non-compliance with multilateral commitments, what shows the complexity of the interaction among countries while trying to build rules to manage their exchanges and the permeability of the rules to power politics. The relation between a country's specific interest, conditioned by its international power position, and the multilaterally agreed rules is in constant tension, generally softened through diplomatic negotiation and the definition of bridges between those interests and multilateral rules. As Fonseca Junior (2008, p. 23) puts it,

the existence of rules does not dissolve particular interests, but limits them, offering coordinates to project them. But such constraints must be compensated by advantages. That's why, even though acting for their own interests, States developed multilateral interests which must be achieved through cooperation.

For Fonseca Junior (2008) the convergence between the rule and the particular interest, between the constraints and the gain through cooperation, defines the multilateral interest. Therefore, the essence of a multilateral regime should be in understanding how and when rules and interests converge. The tension between particular interests defended by the States and the multilaterally agreed rules shapes the DSB action and its capacity to change to behavior of its members.

According to Barton *et al.* (2006) "WTO procedural rules and processes have been operating to effectively permit powerful WTO members to strongly influence the establishment and enforcement of substantive rules, which is crucial to maintaining their political support for the organization". However, the increase in institutionalized cooperation among developing countries for the creation of a negotiation agenda for new rules at the WTO is analyzed by the authors themselves as the capital element for understanding the current dispute settlement system.

When analyzing the importance of the institutionalization process of the multilateral trade regime regarding the predictability and stability of international economic relations, Barral (2007) says that an analysis of WTO system for settling disputes allows us to conclude that it brought “(...) a higher level of predictability and stability for international economic relations.” (Barral, 2007, p. 82). Furthermore, according to the author, for developing countries, especially those with higher institutional and economic development, to have legal action as an alternative to trade disputes gives legitimacy trust to trade multilateralism, what reinforces its relevance in the international order.

An important aspect of the WTO dispute settlement system has to do with the possibility of cross retaliation, which reinforces its enforcement capacity and encourages the participation of developing countries. Cross retaliation allows the use of suspension of measures related to goods, services and/or intellectual property rights concessions that are not exactly those of the dispute. At the end of the process, the Appellate Body establishes in its report the possibility or not of retaliation regarding different sectors and agreements, taking into consideration the seriousness of the violations of multilateral rules.

Anderson (2002) highlights the unjust and harmful potential of retaliation for small and least developed economies which may win a dispute, considering it might have effects on the supply of imported products that can be capital to those economies. Cross retaliation increases the flexibility of a member's action, which will have a higher number of sectors to choose, being able to exclude the ones that are more dependent on the respondent economy's imports (see the example of cotton between Brazil and the United States in Box 1).

According to the WTO, from a total of over 420 cases, cross retaliation was authorized in five opportunities by the DSB, the most recent dispute being that of cotton, brought by Brazil against the United States.⁵ Regarding the counter-measures authorized in this case, the decision of the judges did not limit them to the trade in goods and involved other areas, such as intellectual property rights. According to the Appellate Body, the cross retaliation instrument, in addition to being legally adequate, was justified due to the nature and seriousness of the violations performed by the United States, including the insistence in keeping the programs activated despite WTO's decision against it. Therefore, it can be observed that this action contributed to strengthen the credibility of WTO's mechanism for solving disputes, showing that the system is able to acknowledge existing symmetries among developed and developing countries, supplying, through international law, means for compensating the losses caused and increasing the bargain capacity of developing countries (Spadano, 2008).

5. Data from January, 1995 to November, 2011.

Since the creation of the WTO, and with the consequent institutional improvement of the system, we can observe an increase of the participation of developing countries as complainants in trade disputes in the DSB, mainly regarding issues such as agriculture, beverages, textile, steel, and other manufactured products.

For Cardoso (2008, p. 53): “Countries that are newcomers in the globalization process learned how to use the WTO to defend their interests against the protectionism of rich countries and to use the rules of intellectual property rights protection treaties in order to defend specific interests of their people”.

Furthermore, the dispute settlement in the WTO must be understood as a dimension connected to the political logic and the legitimation of rights agreed upon the multilateral regime. When analyzing the importance of multilateral mechanisms for solving disputes, Azevedo and Ribeiro (2009, p. 8) say:

Activating a mechanism for settling disputes is not only an exercise in obtaining – or losing – economic advantage. It is equally about the political pressure mechanism and legitimation of rights. The disputes brought to WTO uncover protectionist behaviors, violations to commitments assumed in the multilateral plan and the incorrect application of freely-negotiated agreements among sovereign countries. In many cases, the disputes inspire the review of these same agreements or even the discussion on the need for filling out existing void spaces in multilateral disciplines.

From 2001 to 2011, developing countries were important complainants in WTO dispute settlement system.⁶ Regardless of the increase of developing countries’ participation in the WTO dispute settlement system, the leadership of the United States and European Union (EU) at the DSB, the two largest global trade players, continues to be eminent when analyzing data gathered from disputes. Brazil has been an active participant of WTO dispute settlement system, being prominent among developing countries as the one with the higher number of dispute participations as a complainant.

China’s minor participation, if compared to its increasing weight in international trade, is due to the process of adaptation of its rules and policies to the multilateral agreements, as determined in its WTO accession protocol. Regardless of that, the number of disputes with China as the respondent party is already substantial, surpassing the number of demands against other developing countries, as well as its participation as a third party, showing a strategy to learn from the disputes and to have a preventive defense on issues which might potentially affect Chinese interests. The effects of China integration to the international economy on competition in many sectors (such as shoes, textile and manufactured products) explain the increase of trade disputes at the WTO.

6. In 2010, for example, developing countries initiated more than 70% of WTO disputes, according to data from the organization, available at: <http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm>.

TABLE 1
Participation at WTO's Dispute Settlement Body (1995-2012)

Country	Complainant	Respondent	Third party
United States	100	115	94
European Union	86	70	118
Brazil	25	14	67
India	21	21	74
Argentina	15	17	39
China	8	26	89

Source: WTO (data until May 22, 2012).
Elaborated by the author.

In table 1, one can see that Brazil participated in 25 disputes as a complainant, a number that is much lower than the one observed for the United States and the European Union, but relatively high considering the weight of the country in international trade and even in comparison to other developing countries. In the cases where Brazil was the respondent in the DSB, the country is involved in a lower amount of disputes than developing countries with similar features regarding the participation in international trade and activity in the multilateral trade regime, such as India or Argentina. Brazilian participation in the dispute settlement system is rooted in its strategy to foster trade multilateralism.

The strengthening of institutions and enforcement of multilateral rules with higher stability and predictability of rules are highlighted as an important element for Brazil's foreign trade policy framework, reinforcing its strategy in the multilateral trade regime. This issue is equally connected to Brazilian strategy for creating coalitions with developing countries in order to influence the negotiating agenda so that the creation of new international trade rules takes place in a more democratic manner.

BOX 1

The cotton dispute – Brazil *versus* the United States

Brazil has diligated against the United States ten times at the DSB of the WTO, the highest number for a country among those where Brazil was the complainant. However, during the past ten years, a specific case called the attention of the international trade community, and society as a whole: the dispute where the United States was questioned, considering the rules agreed on WTO, for its domestic support and subsidies given to North American cotton producers. The attention given to the case is justified in the sense that the United States kept distortive programs for domestic support for cotton exports, in non-compliance with the determinations of the DSB for the dispute. Furthermore, the case shows elements that emphasize the importance of the mechanism for settling disputes in the multilateral trade regime and its relation with the legitimacy and consistence of the system itself, mainly connected to the performance of developing countries.

(Continues)

(Continued)

Since the beginning of the process, with the opening of consultations in September 2002, it took two and a half years until the adoption of the report by the Appellate Body. Even with the end of the deadline legally granted to remove the subsidies considered as forbidden or that caused a great harm to Brazil, the United States kept its intransigent posture and did not perform the changes indicated by the DSB. Only one year after the deadline for the removal of subsidies, which was not complied by the United States, Brazil requested the opening of a panel for implementation, what denoted an open position to negotiate from Brazil, not finding support from the United States to do so.

Through an arbitrary procedure, demanded once more by Brazil in 2008 and with the decision disclosed in August, 2009, the amount and suspension measures for concessions through arbitral decision were taken. Brazil was authorized to adopt countermeasures with an amount composed by two payments: *i*) a fixed amount of US\$ 147.3 million per year, relative to subsidies that caused great loss regarding the suppression of international cotton prices, "actionable" subsidies; and *ii*) regarding the forbidden subsidies, a variable amount calculated each year, updated based on data relative to North American exports of many products that benefited from the GSM-102 credit insurance program.

Regarding the authorized countermeasures, the arbitrators' decision did not limit them to the trade in goods and involved other areas, such as intellectual property rights. So, cross retaliation was authorized. The instrument of cross retaliation, in addition to being legally appropriate, was justified considering the nature and the seriousness of the United States violations, including the insistence in keeping the programs at issue even with the DSB decision against it. This action contributed to strengthen WTO mechanisms for settling disputes, showing that the system is able to recognize existing asymmetries among developed and developing countries, providing countervailing means for the losses caused using international law. Brazilian government established, in February 2010, procedures to be used in case of suspension of intellectual propriety rights against the United States. In March, the Brazilian Chamber of Foreign Trade (Camex), after publically consulting the private sector and other Government institutions, revealed a list of goods for retaliation, which hits one of the highest values of retaliation in the history of the WTO: US\$ 591 million. Based on data from 2008, the total amount is US\$ 829 million, with US\$ 238 million reserved for cross retaliation. After the pressure exerted by Brazil to put in practice cross retaliation, the United States tried a negotiated solution for the case, giving funds for the Brazilian cotton sector and easing trade in areas of the country's interests.

From a total of over 420 cases initiated by now, the retaliation of the cotton dispute against the United States is the fifth to be authorized by the DSB. Only the United States, the European Union, Canada, and Japan, as complainant, have already retaliated, with the United States or the European Union being the respondents in the cases. Some members were authorized to retaliate, but did not do it, basically due to the negotiation of an agreement with the respondent party: Brazil, Chile, India, South Korea, Mexico, Ecuador, and Antigua and Barbuda.

Source: World Trade Organization (WTO) and the Ministry of Development, Industry, and Foreign Trade (MDIC), adapted from Oliveira (2010).

On domestic actors' perceptions about the impact of multilateral rules and the efficacy of WTO for settling disputes, Jackson (2002) states that when companies start to accept the efficiency of a system guided by rules and start to consider it in their strategic planning, one can see that, generally, these companies see value in the system, even if they feel that they could miss opportunities in their own countries. For this author, the way the rules are implemented, also have an impact on citizens and such an impact gets higher when the domestic regulation policies starts to be under the rules of the multilateral trade regime.

While analyzing the multilateral trade regime, referred by him as system, Moore (2003) reiterates that: "This is a precious system, the jewel in the crown of multilateralism. However, it is vulnerable and can only thrive with the continued support of Member governments, who must be willing to abide by the rules they agreed upon". As the author emphasizes, the fact is that the multilateral trade regime, with all its imperfections, gives more power to negotiate to countries with smaller economies than they would have outside the regime. Multilateral negotiations allow weaker countries to add their influence and common interests, as opposed to bilateral or even regional negotiations, where the weaker economies do not have any real influence in the negotiating process.

3 THE EFFECTS OF INSTITUTIONALIZATION ON THE POLITICAL-NEGOTIATING DIMENSION OF THE MULTILATERAL TRADE REGIME

The institucionalization process in political-negotiating dimension of the multilateral trade regime, related to the formation of new coalitions between developing countries in the new negotiating context of the multilateral regime, can be observed in the fact that developing countries accepted the challenge received by them during the Uruguay Round to actively position themselves in the negotiations of new rules and agreements, basically by pressure from the United States, leaving a free rider position in the context of institutional change gave important incentives for developing countries to give a new structure to their regime integration strategies and to reposition themselves in multilateral trade negotiations.

According to the analysis of Das (2007), the Uruguay Round was a turning point in the participation of developing economies in multilateral trade negotiations, which reflected extensive consolidation of tariffs, participation on agreements on measures to liberalize restrictions on different types of trade and general acceptance of rights and obligations with full adhesion to the newly-created WTO.

According to Baldwin (2010b), two unintentional consequences of the Marrakech Agreement are fundamental to examine the institutionalized multilateral trade regime. The first consequence is relative to the constitution of the single undertaking and the reinforcement of the dispute settlement system and

its effects on the formation of groups and coalitions of interest among developing countries. Regarding this aspect, Baldwin (2010a) says that due to the single undertaking and the Dispute Settlement Understanding (DSU), developing countries would have to oblige the rules negotiated. Consequently, they would object to the issues that threaten their interests. Since the final package of the Uruguay Round included deeper rules on barriers relative to domestic regulation themes, and DSU gave them enforcement capacity in the regime institutionalization process, new interest groups were politically activated.

A second unforeseen consequence from the Uruguay Round, considered as a critical juncture from which the institutionalization of the regime took place, is referred to the principles of reciprocity and consensus and its relation with the limited size of many developing economies. For Baldwin (2010a), in this context, an incentive for building defensive blocks was created, as already observed in the Uruguay Round, with disincentives for offensive positions due to the reduced bargain power from developing countries. The principle of reciprocity and the size of most developing markets limited their capacity of demanding the opening of markets in other countries. Therefore, there was little to gain with offensive coalitions. In Baldwin's analysis (2010a), the principle of consensus, on the contrary, gave an increased block and bargain power to the coalitions of developing countries and increased their defensive clout.

Although the creation of coalitions is not new to trade negotiations, a proliferation and formalization of these coalitions took place since the creation of the WTO, and particularly after the launch of the Doha Round in 2001. The informality that marked the GATT's coalitions gave place to the formation of coordinated, formalized, and publically visible groups. According to Patel (2007), the building of coalitions emerged as a capital element of WTO's consensus construction process. Under the rule of GATT, coalitions of developing countries were discouraged and seen as a threat to the multilateral trade regime. During the Doha Round, some members and the secretariat of WTO deliberately included the coalitions in the decision-making process, acknowledging its representative function. For Patel (2007), the institutionalized coalition construction network became a dominant means for managing the complexity that surrounds the search for a consensus in multilateral negotiations with over 150 countries.

While highlighting the changes in the format of developing countries negotiating coalitions at the WTO and the GATT, Patel (2007) identifies four factors of differentiation.

- 1) While during the GATT era developing country groups worked for the re-creation of the whole trade system and for the establishment of a new international order, in the period after the creation of the WTO, coalitions

are worried about working in the existing trade structure, being proactively involved in negotiations.

- 2) The bargain scheme through coalitions became more formal, with many groups sharing technical capacity and developing common negotiating platforms, differently from previous coalitions, which were basically structured from informal exchange of information.
- 3) The coalitions performed a more prominent role, with public visibility through declarations, press conferences and media campaigns.
- 4) While under the auspices of the GATT, coalitions of developing countries were positioned in an apprehensive and reticent manner regarding the role of civil society, at the WTO they have made attempts to get close to civil society actors in order to develop complementary analysis and to be part of campaigns and advocacy networks.

With the proliferation of simultaneous alliances among developing countries and the engagement of coalitions for exchanging information and coordinating positions have increased the political negotiation in the multilateral trade regime, mainly since its institutionalization (Narlikar, 2003). For Damico (2007, p. 1), “Coalitions act as an efficient counterweight that allows developing countries to better face the challenges of negotiation and to combine their technical knowledge in an efficient manner that offer competent answers to an increasingly sophisticated debate”.

Among the negotiating coalitions created in the multilateral trade regime since the Tokyo Round, the G-20 can be mentioned as an interesting example, created in 2003 by developing countries.⁷ The group is characterized mainly as an anti-subsidy-defensive coalition aiming to pressure for the reduction of agriculture protections in developed countries, mainly the United States, Europe and Japan. Considering the importance of agriculture and the development agenda for the Doha Round, as well as the political articulation of its members, especially Brazil and India, the G-20 gained first order status in the new WTO's negotiation table (Narlikar and Tussie, 2004). On the importance of the G-20 for the organization and actions of positions of developing countries in the agriculture negotiations at the WTO, Lima and Hirst (2009, p. 14) say that:

(...) the formation of the G-20, in the Doha Round, was the first movement for returning to the themes of the development agenda of the post-Cold War period,

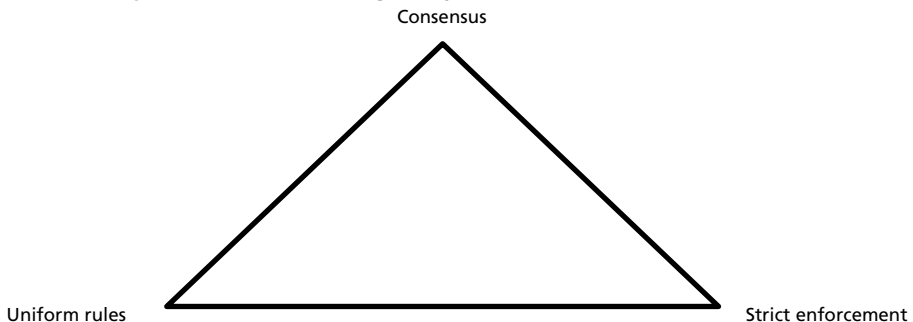
7. G-20 gathers 23 members of WTO: Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Philippines, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, South Africa, Thailand, Tanzania, Uruguay, Venezuela, and Zimbabwe.

after the debt and fiscal crises of the Third World, as well as the loss of political dynamism of the G-77. Its activities were crucial for the renewal of the India-Brazil partnership in the coordination of the collective action regarding agricultural interests in developing countries.

One should also notice that the G-20 coordination gathers countries with very different agricultural production and competitiveness, which are based in equally distinctive interests and negotiating positions even in agriculture itself. Brazil, China, and India, for example, leaders of the coalition and new guests for the Green Room agreements with great trade powers, have different interests in many points of the negotiation agenda, as it was made clear in the last important impasse of the Doha Round, in 2008, when China and India did not accept the agreement on agriculture safeguards that would limit the use of this protection mechanism. Therefore, the G-20 is marked by an important heterogeneity among their members, and it finds a converging agenda of interests almost exclusively in demands for reducing agricultural subsidies in developed countries, what limits the group's action.

Considering the negotiation agenda in the new configuration of the multilateral trade regime, Baldwin (2010b) sees in some strong elements of the institutionalized regime also as one of its weak points: the difficulty in getting to a conclusion of multilateral trade negotiations, as seen in the Doha Round, negotiated for almost ten years. Baldwin (2010b) presents the impossible decision-making trinity of the WTO: to reach a consensus on the negotiations among its 159 members, to be able to create uniform and universal rules and to ensure the strict enforcement of the existing rules. Figure 1 shows the triangle formed by Baldwin's impossible trinity (2010b).

FIGURE 1
The impossible decision-making trinity of WTO



Source: Baldwin (2010b).
Elaborated by the author.

According to Baldwin (2010b), the “steamroller mechanism” and the “do-not-obey-do-not-contest MFN principle” that existed at the GATT ensured an efficient and easy functioning as a negotiating forum. The regime would work, considering the rearrangement of political economic forces present in each country, so that the protection that was previously seen as great in a country could be removed. On the other hand, the fact that few developed countries defined the agenda, based on their interests and developing countries were able to benefit from the liberalization measures adopted by the other members without having to open their market themselves, made a consensus easier at the negotiating table.

Applying Baldwin’s argument on the impossible trinity for the analysis of the impasses of the Doha Round, the general picture shows that to ensure the maintenance of a strict enforcement, either non-uniform rules would have to be created, which would make the universal aspect of the regime fragile, or the necessity of consensus (an important element for a more democratic characterization of the trade regime) would have to be eliminated to allow the conclusion of the negotiations. No matter what the choice is, the active participation of developing countries in the context of changes of the international order, both in the economic and the political terms, brings complexity to the possibility of an eventual reform of norms and rules of the multilateral trade regime, if really it would be seen as politically necessary by its members.

Regardless of the difficulty of getting to a consensus in the creation of uniform rules in the regime, with its institutionalization, especially in its legal-diplomatic dimension, there was an increase of interest in enlarging the multilateral trade agenda, under the auspices of the WTO. This particularity of the regime is seen as an important feature in the international economic agenda, reinforcing incentives for participation in the multilateral trade regime. In the new trade agenda, issues such as exchange rates and international trade, biofuels and environment, trade and labor, among others, should be present. For Mattoo and Subramanian (2009) “The trade agenda needs to be enlarged to include a discussion of all trade barriers – on imports and exports – and biofuel policies, including tariffs on imports”.

As analyzed by Thorstensen (2011), although there exists some WTO agreements that regulate the relation between exchange rates and trade, such as Articles XV and XXIII of the GATT, the Agreement on Customs Valuations and the Agreement on Subsidies, for example, the WTO and its members refused to go forth with the issue on the effects of exchange rate policies in international trade. Recently, Brazil has sent a proposal, partially approved, to a Working Group of the WTO in order to analyze the relation between international trade and exchange rates in that institution. As a result of the Brazilian proposal, the WTO hosted, in March 2012, a seminar to examine the relation between exchange rates and trade with experts, businessmen, and

representatives of member countries, starting an opening of the organization to the discussion on such important matter.

4 FINAL REMARKS

As presented in this paper, the institutionalization of the multilateral trade regime helped create new negotiation schemes, new coalitions and ways for political actions on trade disputes, with an increased participation and responsibility of developing countries in its institutional and political structure, modifying the regulation of international trade and the incentives for a country's trade negotiating strategies.

A reinforcement of trade multilateralism can be observed in the past decades, specially based on its legal-diplomatic dimension, as the focus of foreign trade policy actions, especially for developing economies. Many of these started to rethink the role of multilateralism in their trade negotiating strategies and in their foreign trade policies in general, as reflected in their increased leadership both in the legal-diplomatic dimension, with participation in the DSB, and in the political-negotiating dimension, in the Doha Round negotiations.

However, one must remember that developed countries, especially the United States and the European Union, continue to have in the multilateral trade regime an important locus of their trade negotiating strategies, being the main players at the DSB and at the negotiations for the creation of new trade rules in the Doha Round. Therefore, it can be understood that the institutionalization of the multilateral trade regime generated incentives for developed and developing countries to increase the importance of multilateralism in their trade policy strategies.

On the one hand, the gain of power effectiveness with the DSB, based on international law, is seen as essential for change in the multilateral trade regime and had important effects on the increase of participation of developing countries in trade disputes. A rule-oriented dispute settlement system gives more efficacy and legitimacy to the regime itself. With the strengthening of its enforcement mechanisms, the interest in enlarging the multilateral trade agenda has equally increased, including with the initiatives of developing countries, as recently observed in Brazilian diplomacy attempts of bringing the debate on the effects of exchange rate fluctuations on international trade to the multilateral trade regime.

On the other hand, although political coalitions are not new in trade negotiations, a proliferation and formalization of these coalitions took place since the creation of WTO, mainly among developing countries, showing that the institutionalization process of the regime broadened the political fight and created an stimulating environment for the composition of joint strategies based on common interests. The G-20 may represent a synthesis of this movement,

despite eventual conflicts of interest and positions within the group, denoting a change in the negotiation table at the WTO which also reflects transformations of the world economy and politics. Therefore, the reinforcement of rules with the institutionalization process of the multilateral trade regime generated changes in coalition strategies and negotiations in the regime. However, power politics, the rules of power, continue to be important for the analysis of the negotiating dynamics of new agreements and trade disputes in the multilateral trade regime.

With global participation, extensive rules and a court to deal with international trade disputes, the WTO is more central than ever for international economic relations, as mentioned by Lamy (2010). The Doha round and its extensive and complex agenda of negotiations consolidates the institutionalization process of the multilateral trade regime, equally sowing the seeds of a new governance of the world trade order. The difficulties in concluding the negotiations of the Doha Round make it clear, however, that the increased interest of countries in multilateralism, reflects in their strategies of foreign trade policies, creates new challenges to the construction of consensus in multilateral negotiations and tends to reduce the rhythm of its expansion. Therefore, this aspect must be understood as the result of the contemporary regime institutionalization process, not despite of it.

The future multilateral trade regime will have to find answers to a series of global trade challenges that are not sufficiently framed by the current rules of the game. But it contains the institutional basis for the negotiation and implementation of those rules. Regardless of the any adjustments in decision-making procedures that should be considered in the multilateral trade regime, the regime institutionalization process, both in the legal-diplomatic and in the political-negotiating dimensions, increased its roles and importance in the regulation of international trade in the last decades, redefining the incentives for trade negotiating strategies of countries, with emphasis on trade multilateralism.

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MACROECONOMIC POLICIES AND PERFORMANCES IN LATIN AMERICA 1990-2010

Mario Damill and Roberto Frenkel*

This paper assesses the macroeconomic policies and outcomes experienced by Latin American economies in the period 1990-2010. Macroeconomic policies refer to the exchange rate, monetary and aggregate fiscal policies. Macroeconomic outcomes, on the other hand, refer to the performances of growth, inflation, employment, investment, balance of payments and the evolution of external and public debts and international reserves. The assessment includes the discussion of the effects of macroeconomic outcomes on poverty rates. With regard policies, the analysis emphasizes the changes that took place from 1997-1998 on. As result of these changes a new macroeconomic configuration was established as from 2002-2003, which favored the acceleration of output growth and employment creation and contributed to reduce poverty rates.

Keywords: Latin American economies, macroeconomic policies, economic growth, employment creation, poverty rates, inequality.

POLÍTICAS E DESEMPENHOS MACROECONÔMICOS NA AMÉRICA LATINA ENTRE 1990 E 2010

Este artigo avalia as políticas macroeconômicas e os resultados experimentados pelas economias latino-americanas entre 1990 e 2010. As políticas macroeconômicas compreendem a política cambial, a política monetária, e a política fiscal agregada. Os resultados macroeconômicos, por sua vez, se referem ao desempenho em relação a crescimento, inflação, emprego, investimento, balanço de pagamentos, bem como a evolução das dívidas externa e pública e das reservas internacionais. A avaliação inclui a discussão dos efeitos dos resultados macroeconômicos nas taxas de pobreza. Com relação às políticas, as análises enfatizam as mudanças que ocorreram a partir de 1997 e 1998. Como resultado destas transformações, uma nova configuração macroeconômica foi estabelecida a partir de 2002-2003, a qual favoreceu a aceleração do crescimento da produção e da geração de empregos e contribuiu para reduzir as taxas de pobreza.

Palavras-chave: economias da América Latina; políticas macroeconômicas; crescimento econômico; emprego; taxas de pobreza; desigualdade.

JEL: E65, I32, N16, O54.

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1 INTRODUCTION

The macroeconomic evolution of developing countries during the 2000s, including their remarkable performance during the global crisis triggered in 2007, shows important contrasts with the previous three decades of financial globalization.

The most important lesson that can be obtained from this contrast concerns the crucial role of macroeconomic policies to boost economic growth, employment,

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financial stability and a robust performance facing external shocks, financial and real. It is possible to distill a set of macroeconomic policy orientations that may contribute to the simultaneous fulfillment of the four mentioned objectives. Additionally, growth, the generation of jobs and other factors such as a widening of the space for fiscal policy, create favorable conditions to promote improvements in income distribution and the reduction of the incidence of poverty and extreme poverty.

The contrast to which we referred above is also observed in the economies of Latin America (LA) and particularly in South America, a region where the changes in the orientation of prevailing macroeconomic policies were very marked between the nineties and the 2000s.

Many developing countries adopted novel macroeconomic policies in the 2000s. This prompted the acceleration of growth and changed their insertion in the global economy. These changes not only favored the economies that have adopted new policies but also benefited all developing countries, through two channels. On the real side, it counts the drag effect that the accelerated growth of the economies that have adopted new policies had on the rest of the developing countries; this includes the improved terms of trade experienced by many of these economies. On the financial side, it counts the beneficial effect that the changes in policies and their results had on the relationship between the international financial system and the set of developing countries.

These beneficial effects operated in the period before the start of the global financial crisis, and during its first phase, between mid-2007 and the collapse following the bankruptcy of Lehman Brothers. In the subsequent phase, when the crisis hit squarely on developing economies, the effects were mixed. Those economies that had adopted the new macroeconomic settings were less hit by the financial shock and enjoyed greater room to implement anti-cyclical policies. In contrast, economies that kept a style of international financial integration framed in macroeconomic policy settings similar to those that prevailed in Latin America during the 1990s (for example, economies in Central and Eastern Europe) suffered the worst consequences of the crisis.

In comparison with the behavior shown in the previous three decades, three notable positive changes in the behavior of developing economies stand out in the early 2000s. They are primarily associated with changes in the modalities of integration into the international financial system, in the macroeconomic policy regimes and in the regulation of national financial systems. We focus here on the former two aspects.

The first of those changes is a reduced financial vulnerability, in contrast to the previous history of frequent and intense financial crises. The second change that we highlight is the dissipation of the segmentation of emerging market economies in the international financial system set up under the globalization process.

Finally, an acceleration of growth over the previous three decades was observed in the 2000s and, as already noted, many developing economies showed a greater resistance to the external shocks caused by the recent crisis.

These changes, which were also evident in many countries of Latin America, are associated with the new macroeconomic policy orientations followed by a significant number of developing economies, including the adoption of managed floating exchange rate regimes and exchange rate policy practices aimed at either preserving competitive real exchange rates or avoiding large appreciations, and voluminous accumulation of international reserves, as well as the reversal of the results of the current account in an important set of these economies, which went from deficits to surpluses, with the resulting aggregate effect of reversing the direction of net capital flows compared to what had been observed in the first three decades of globalization.

In the rest of this section we discuss the main changes in the global scenario observed in the decade of the 2000s. Then, section 2 is devoted to present the stylized facts of the evolution of macroeconomic policies and outcomes in the Latin American region since the beginning of the nineties. Section 3 focuses in the first place on the evolution of unemployment and poverty rates and presents econometric tests on the relationships between growth, real exchange rates, unemployment, inflation and poverty rates. Conclusions are presented in section 4, which includes the stylized formulation of a set of macroeconomic policy guidelines intended to foster growth and employment creation in a sustainable manner.

1.1 Favorable changes in the global scenario in the decade of the 2000's

In the first thirty years of the financial globalization, since the early seventies until the beginning of the present century, the financial and currency crises in emerging market economies were becoming more frequent and intense.

In contrast, strikingly, the global crisis triggered initially in the U.S. in 2007, did not cause a financial crisis in any emerging market economy. The importance of this stands out if we take into consideration the fact that the real and financial negative shocks received by the developing economies at this time were similar to the impacts suffered as a consequence of the Asian and Russian crises of 1997-98. In both cases the external shocks were the largest and more widely distributed geographically since the beginning of the financial globalization.

We associate the novel experience of developing countries in the global crisis with two factors. One is the renewed role played by the IMF. Innovations in the IMF bring the institution closer to a role of lender of last resort, largely along the lines previously demanded by developing countries. It is plausible that the action of the IMF has helped to avoid crises in a series of small economies that wielded great financial and external fragilities by mid-2008.

More important in our opinion is the fact that no crisis occurred in other developing economies, which did not had to ask the IMF for support. The second factor of this stronger financial resilience has to be found in the changes experienced by many developing economies in the 2000s.

Emerging market countries were integrated into the international financial system in a segmented manner and several of them tended to fall into financial traps that usually resulted in crisis (Frenkel, 2008a). International contagion and herd behavior of investors are characteristic aspects of this segmentation. The segmentation tended to dissipate in the 2000s.

Financial traps are the result of two key links between the economy and the international financial market. The first link is determined by a large volume of financing needs. The refinancing of debt maturities and the funding of high current account deficits constitute the main connection between the country and the international financial market. This situation is very prone to contagion or any other sources of volatility. It is also more prone to self-fulfilling prophecies. The market assesses this situation by imposing higher risk premiums, and the country loses, to a large extent, the degrees of freedom of its economic policy, because the urgency imposed by the need for international funding gives priority to the issuing of signals that can look favorable in the eyes of the market.

The second link is the effect on interest rates. A high country risk premium makes more expensive the external financing, further contributing to worsening the debt ratios. On the other hand, the sum of the international interest rate plus the country risk premium determines the floor of local real interest rates. The integration of emerging market with the international financial market is thus a segmented integration, in which the international interest rate facing the country and the local interest rates are significantly higher than rates in developed countries. High interest rates have negative effects on growth and internal and external financial fragilities.

In the nineties, at the end of the decade, the phenomenon of segmented integration was evident in the highly indebted countries like Argentina and Brazil. However, other developing countries, whose policies were able to avoid the accumulation of heavy foreign debts, also experienced a segmented integration. After participating in the process of financial globalization for a long period (almost three decades in the case of Latin America), financial assets of these economies were a “class” whose returns included a considerable country risk premium. These risk premiums had touched bottom in 1997, just before the Thai devaluation. But after the Asian and Russian crises, the premiums rose and remained high until the early 2000’s.

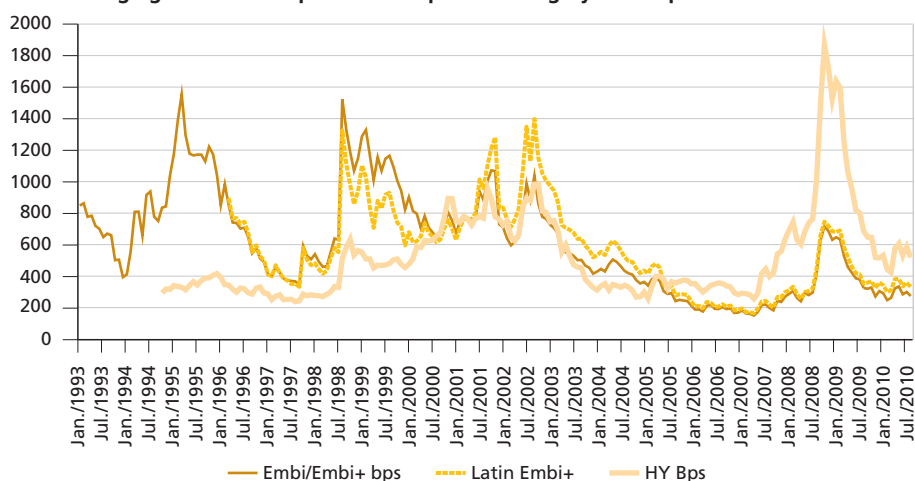
Persistently high country risk premiums were an unexpected result of financial globalization. From its first steps, financial globalization defenders presented the full integration between the local financial systems and the international system as the ideal to which the process would converge. Full integration implies a global brokerage system in which the returns on financial assets on the one hand, and the cost of capital for

borrowers, on the other, are equal for economically equivalent transactions, regardless of the geographical location of savers and investors. The convergence of globalization toward full integration would mean a continued reduction in country risk premiums.

Things had not happened that way until the early 2000s. However, in this decade a reduction of the perceived risk associated with those assets would be experienced. Actually, the average country risk premium in developing economies followed a downward trend since late 2002, and in mid 2005 it fell below the minimum recorded in the period before the Asian crises of 1997-98. In early 2007, the average risk premium reached its record low at a level that was significantly lower than that observed before 1997 and significantly below the spread of high yield bonds in the United States. Country risk premiums tended to rise since mid-2007, but still before the bankruptcy of Lehman Brothers, they were similar, in the emerging market economies, to the levels that prevailed in the period before the crises in Asia. On the other hand, the contagion effect following the bankruptcy of Lehman Brothers was short and in 2009 many developing countries regained access to international credit at relatively low interest rates. Risk premiums continued to decline during 2009 and 2010 to settle again at levels lower than the most favorable of the nineties.

It can be seen in graph 1 that the average risk premium for LA countries accompanied the described performance of the average of emerging economies, although the reduction observed in the first half of the 2000s in Latin America was more pronounced, mainly due to the high spreads that Argentina and Brazil displayed at the beginning of the decade.

GRAPH 1

Emerging markets risk premia and spreads of high-yield US private bonds

Source: for the high-yield US private bonds, data from the Merrill Lynch index of US High-Yield Master II (H0A0); for sovereign bonds of emerging market economies and of LA emergent markets, the EMBI+ JP Morgan index (EMBI to November 1997 and EMBI+ from December 1997 on).

The reduction of perceived risks can be associated with significant changes in the modalities of international financial integration of the emerging market countries (EMCs) in the 2000s, with respect to key features in the thirty years prior. The changes began to occur after the Asian and Russian crises of 1997-98 (Frenkel and Rapetti, 2010a). Below we describe briefly the most significant among the novel features.

Firstly, many EMCs started to generate current account surpluses or reduced previous deficits, implying a reversal of the direction of net capital flows between EMCs and advanced countries that characterized the prior thirty years. This new configuration persisted after the global crisis. Secondly, it counts the accumulation of substantial reserves in many developing economies. This feature also persisted after the global crisis. Finally, many economies adopted flexible exchange rate regimes (with different degrees of administration).

We briefly assess the effects of these changes on the perceived risks. Current account surpluses and foreign reserves are external indicators of robustness. In the 2000s, the “class” of assets of EMCs became more heterogeneous and many of these assets are issued by robust economies. This helped to dissipate the segmentation of emerging market assets and significantly reduced the risks of contagion and herd behavior on this “class” of assets, so that the reduction of perceived risk was also extended to the EMCs that continued showing deficits or less flexible exchange rate regimes.

The managed floating exchange rate regime allows the monetary authority to intervene and accumulate reserves, to prevent or mitigate the appreciation trend, when the conditions of the current account or capital inflows lead to selling pressures in the foreign currency market. This happened in many EMCs in the period 2002-2008. The availability of reserves, under any exchange rate regime, reduces the risk of default on public and private debts due to insufficient international liquidity, for example when facing a sudden stop in capital inflows. But the combination of abundant reserves and managed floating tends to reduce the risk by other means. Faced with a negative external shock, exchange rate flexibility leads to exchange rate depreciation, and this contributes to the adjustment of the economy to the new external conditions. In this case, the availability of reserves allows the intervention in the FX market to control the devaluation and avoid overshooting and bubbles. This limits the negative effect on the balance sheets of banks and companies, particularly strong in economies with partially dollarized financial systems. In this context, the exhibition of large reserves gives greater strength to the central bank’s ability to guide the foreign exchange market and thus large-scale selling interventions may not be required.

The virtues of the combination of robust external accounts, the availability of large reserves and exchange rate flexibility were tested on the occasion of the global crisis. Indeed, the global crisis was a stress-test for EMCs. With the exception of a small number of European economies, none emerging market economy suffered a financial or external crisis or a debt default. On the other hand, the increase in both the IMF resources and the flexibility of the institution in implementing their programs also played a role in preventing crises and defaults in the EMCs; and the renewed role of the IMF is durable. In summary, the results of the stress-test of the crisis reinforced the prior perceptions of lower risks of EMCs.

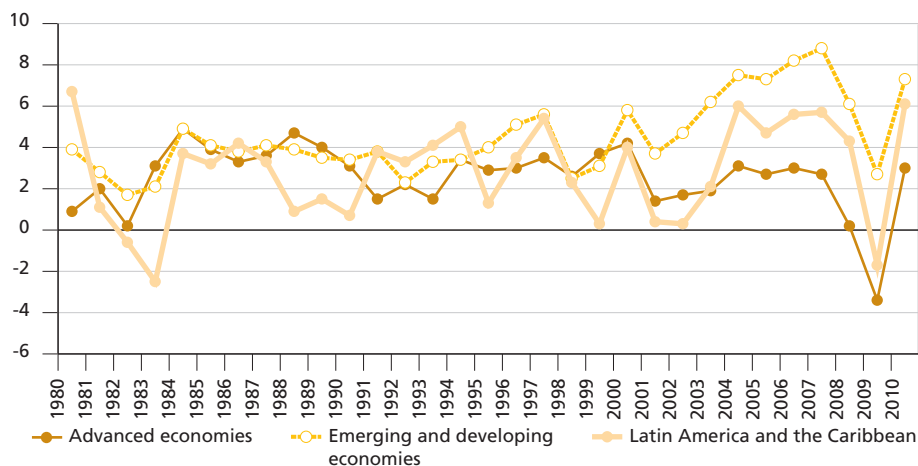
Another notable change in the 2000s was the noticeable acceleration of economic growth in developing countries. In the eighties and nineties, the cycles in advanced countries and developing countries were highly correlated and the average growth rates of both groups were broadly similar. For example, in the 1992-2001 period, advanced countries grew at an annual rate of 2.8% while developing countries did so with an average annual rate of 3.8%. As shown in graph 2, the difference in favor of developing countries in this period is mainly explained by a relatively faster growth of these economies between the Mexican crisis and the Asian and Russian crises, but the crises of 1997-98 had a relatively greater contractionary effect on developing economies, so that rates of both groups of countries tended to equalize again in the final years of that decade.

Latin America presented on average a growth rate slightly higher than that of advanced countries in the same period (3% annually), but with wider fluctuations. It also presented a much greater fall than the set of developing countries by the end of the decade.

In the 2000s the cyclical correlation between the two groups of countries persisted, but during this period, for the first time since the beginning of financial globalization, developing countries (including the subset of economies in Latin America and the Caribbean) grew at consistently higher rates than the advanced economies. In the period 2003-2008 the average annual rate of growth in developing countries was 7.4%, while the advanced economies grew on average 2.3% per year. While lower than those of all developing economies, growth rates in Latin America doubled the observed rates in the advanced economies, reaching 4.7% on average. In short, in the 2000s there was a substantial acceleration of growth in developing economies compared to previous decades and also a significant departure of their rates relative to growth in advanced economies.

GRAPH 2

GDP growth rates for emerging and developing economies, advanced economies and Latin-American economies



Source: IMF World Economic Outlook database.

Furthermore, it is also remarkable the resilience shown by the developing economies to the impacts of the global crisis. We will discuss this issue below, considering the main determinants of this increased resilience and presenting an econometric assessment of the impact of the global crisis on growth rates.

In what follows we look in more detail to the macroeconomic developments in the countries of Latin America in the last two decades.

2 LATIN AMERICA IN THE PERIOD 1990-2010: STYLIZED FACTS OF THE MACROECONOMIC EVOLUTION

In this section we will take a closer look to the evolution of LA economies from 1990 to 2010, paying special attention to the macroeconomic performances regarding growth and indicators of growth sustainability (like debt ratios and aggregate financial deficits).

Three major episodes in the international scenario establish the main turning points for LA economies in the period. They are: the crisis of 1997-98 in five Southeast (SE) Asian economies and Russia, and the contagion effects that followed; the change in the global scenario around 2003, reflected in a huge increase in commodity prices; and the global crisis that started in 2007 in the USA.

We interpret the observed macro evolution of LA economies as the result of the interaction between the changes in the international context, the particular

structural configuration of the local economies (regarding for instance their specific insertion in international trade flows) and the main characteristics of national macro policy regimes.

The main stylized facts of LA economies in the period are the following.

2.1 GDP growth

For most examined variables, the general patterns observed in LA economies are quite similar within every subregion (SA and CA),¹ but with clear dissimilarities between subregions. This is also true of the behavior of GDP.

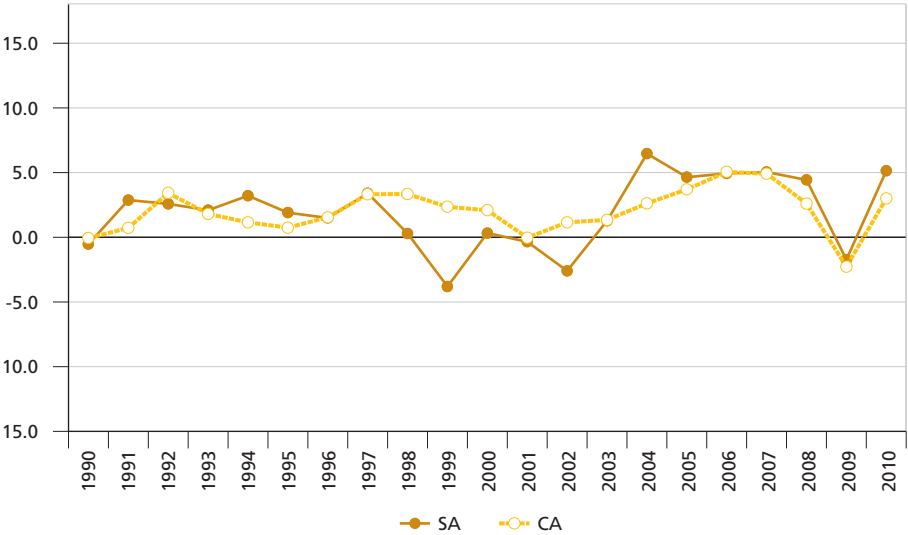
The evolution of per capita GDP (graphs 3, 4A and 4B) illustrate the periods referred above. We firstly consider the performance of per capita GDP (pcGDP) in SA economies. Two expansions are observed: 1991-1997 and 2003-2008. In the expansionary period of the nineties, SA pcGDP growth averaged 2.5% (graph 3). The impact of SE Asian crisis is evident in the figures of 1998-99; the recessionary stance lasted until 2002, with a second bottom in 2002 led by the impact of the crisis in Argentina.

In the economic expansion of 2003-2008 the SA pcGDP growth accelerated considerably, reaching a 4.5% annual average, close to twice the rhythm of the early nineties, to fall in 2009 with the impact of the global crisis.

The performance of CA pcGDP shows several significant differences. Whether its average rate was a bit lower in the nineties, the expansionary phase lasted longer, until 2001, not showing an impact of the SE Asian and Russian crises. However, closely linked by the export channel to the USA, the region was hit by the negative developments in the USA economy in the early 2000s. Thus, CA pcGDP stopped increasing in 2001, to recover from them on. The average 2003-2008 growth rate was 3.4%, higher than the 1990-2000 average (2.8%) but lower than the SA figures for the same period.

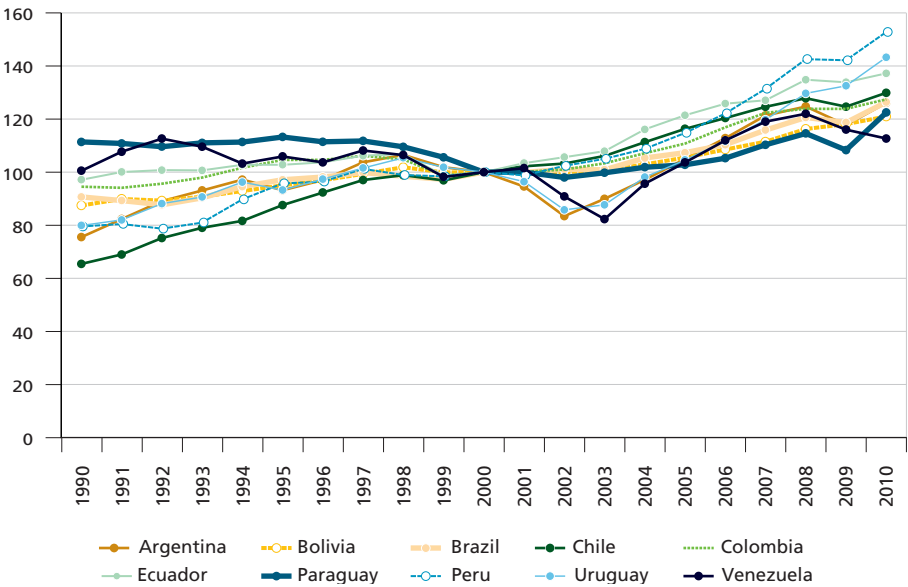
1. SA refers to South American economies (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela), and CA refers to Central American economies and Mexico (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama).

GRAPH 3
Average rate of growth of per capita GDP (SA and CA)

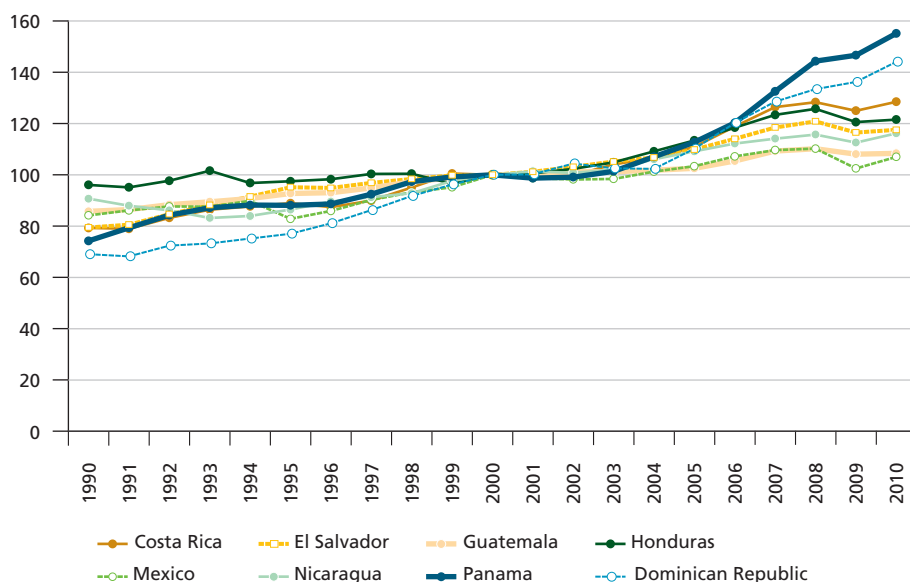


Source: Cepalstat.

GRAPH 4
4A – Per capita GDP (SA countries, 2000=100)



Source: Cepalstat.

4B – Per capita GDP (CA countries, 2000=100)

Source: Cepalstat.

2.2 Econometric assessment of the impact of the global crisis

A synthetic way of measuring the new resilience of emerging market economies is by focusing on the growth performance in 2009, the calendar year in which the recessionary effects of the global crisis concentrate. In 2009 the advanced countries GDP fell 3.4% while developing countries GDP grew 2.7%. However, the performances of developing countries were heterogeneous. On the one side there is the catastrophic performance of Center and Eastern Europe, where almost all economies suffered recession and the region average GDP rate was – 3.6%. On the other hand, only a few developing Asian economies suffered recession and the regional average GDP rate of growth was 6.9%. National performances were more heterogeneous in Africa and LA. In LA, the recessionary impact was greater than in the group of developing economies as a whole. Decisively weighed in this result the effects of the US recession over Mexico and Central America. While the GDP of South America (SA) contracted by only 0.3% on average, Mexico's decline was much stronger: 6.1% in the year.

We are interested in the factors that could explain the national differences in the 2009 GDP rates of growth. Obviously, what come out in the first place are the recessionary effects of the contraction of international trade led by the recession in the advanced economies. No country could isolate itself from the recessive effect of its exports contraction. The international trade contraction

was the main transmission mechanism of the recessive effects to the developing countries. These effects are country-specific because they depend on the specific trade insertion of the country. Another real transmission channel was the fall in the migrant workers remittances, particularly important in Central America and Mexico. These effects are also country-specific.

The other transmission mechanism of recessive effects is the financial channel. This channel played a secondary role in many developing countries. Besides the relatively short impact of the collapse that followed Lehman Brothers bankruptcy, there was in many developing economies a decoupling from the financial contagion effects. As we have mentioned above, the phenomenon vividly contrasts with the important financial contagion effects of the Asian and Russian crises on LA and other emerging market economies.

Based on the above considerations, our hypothesis about the resilience of emerging market economies in the global crisis is the following: given the country-specific recessive effects throughout the real transmission channels, the resilience of a country is related to the policies implemented in previous years and their consequences on the country's fragility vis-à-vis external shocks. These policies and their results were the determinant factors of both the decoupling from the financial effects and the possibility of implementing countercyclical policies.

To test the hypothesis we worked with a sample of 48 developing countries and 30 advanced countries. The sample includes 16 LA countries (the 18 countries considered in this paper with the exception of Bolivia and Venezuela). The depended variable is the 2009 GDP (at constant prices) growth rate (y09).

The independent variables are the following. In the first place we include the 2009 rate of growth of the dollar value of exports (expo09), as a proxy of the real effects of the contraction of international trade led by the recession in the advanced economies. Another set of independent variables points to the external fragility indicators that the countries showed at the end of 2007 or in the three previous years (2005-2007). These variables are: the short term debt/GDP ratio at the end of 2007: (stermdebtgdp07), the average current account/GDP ratio in the period 2005-2007 (caccountgdp0507) and the international reserves/GDP ratio at the end of 2007 (reservgdp07). Lastly, we also include as explanatory variable the average rate of growth of GDP in the period 2005-2007 (y0507). We comment on the explanatory variables below, while discussing the interpretation of the obtained results.

In the developing countries sample (48 countries) the 2009 average contraction in GDP was 1.9% and the average contraction in the value of exports was 21.3%. The sample includes 12 countries which have signed stand-by agreements with the IMF between July 2008 and November 2009 (dumimf is a dummy

variable that equals 1 in those cases and 0 in the rest of countries). In this group, the 2009 average GDP contraction was 5.6%, while the value of exports fell 24.1%. In the rest of the sample (36 countries) the average GDP contraction was 0.7% and exports fell 20.4%. In the estimation showed below, the international reserves/GDP ratio is made zero in the 12 cases of countries with stand-by agreements.

The following table shows the results of the estimation. The 2009 GDP rate and the independent variables are measured in percentages and so, the estimated coefficients have a direct interpretation.

As can be seen in the table, the current account coefficient is significant at the 8% level, the rest of coefficients are significant at the 4% level at most and the constant is not significant.

The exports coefficient is positive. It indicates a recessive effect of 0.23% of GDP for each percentage point of contraction in the dollar value of exports. With an average sample fall of 21.3%, the contraction of the exports value would imply an average 4.9% fall in GDP.

The short-term external debt/GDP ratio coefficient is negative and its magnitude is important (- 0.18). The current account/GDP ratio coefficient is positive (0.23), with a magnitude similar to the coefficient of the fall in exports. The coefficient of the 2005-2007 average rate of growth is positive and its magnitude is important. We comment on these results below.

TABLE 1

Variable	Coefficient	t-Statistic	Prob.
expo09	0.231	3.545	0.001
stermdebtgdp07	-0.180	-2.337	0.024
caccoutgdp0507	0.227	1.804	0.078
reservgdp07*(1- dumimf)	0.102	2.416	0.020
y0507	0.527	2.240	0.030
C	-0.276	-0.154	0.878

Source: Cepalstat.

Obs.: dependent variable: y09.

Rsquare= 0.48.

Method: OLS.

Included observations: 48.

White Heteroskedasticity-Consistent Standard Errors & Covariance.

Lastly, the international reserves/GDP ratio coefficient is positive (0.10). As was indicated above, we made zero this ratio in the cases of countries with Stand-by agreements. The underlying hypothesis is that those countries had to ask for the IMF support because of their insufficient international liquidity.

It was already mentioned that the set of developing countries that subscribed stand-by agreements with the IMF experienced an average GDP contraction much higher than the rest of the countries in the sample. So, the significance of the international reserves coefficient in the estimation could result from their higher contraction rate, explained by factors different from the availability of international reserves. In fact, the reserves coefficient loses significance if agreements with the IMF are not taken into account and the coefficient is also not significant if the equation is estimated on the sub sample of countries without agreement with the IMF. On the other hand, if the reserves variable is excluded from the equation and the dummy variable for the countries with IMF agreements is included, the coefficient of the dummy variable is -3 (significant at the 8% level). It implies that, controlling by the rest of the independent variables, the countries with IMF agreements contracted 3 percentage points more than the rest of the sample. We comment on these results below.

When the above equation is estimated on the advanced countries sample, only the value of the exports variable shows a significant coefficient. In contrast, in the developing countries sample all the included variables affected the 2009 activity level, together with the fall in the value of exports. The results of the estimation show that, controlling by the fall in exports, in 2009 grew more (or contracted less severely) the countries that before the crisis: were experiencing higher rates of growth; had lower short-term debt ratios; showed higher current account results in the previous years; had higher international reserves (or have not had to ask for the IMF support).

In order to interpret the obtained results it seems reasonable to conjecture that the differential effects of the external financial shocks generated by the global crisis are correlated with the degree of dependence of the previous working of the economy on capital inflows. Indicators of this degree of dependence are the situation of the current account, the magnitude of the financial needs of the public and private sectors, the proportion of foreign capital in the financing of banks, firms and the public sector, and the magnitude of international reserves. These data indicate not only the degree of robustness of the economy vis-à-vis a sudden-stop, but also the degrees of freedom of domestic policy to implement countercyclical measures.

The external short-term debt/GDP ratio coefficient has a direct interpretation based on the above criteria. A lower ratio implies a lower power of the sudden-stop to generate liquidity problems with recessive effects. It should be mentioned that the long-term debt/GDP ratio is less significant than the short-term debt ratio.

The results clearly show that the countries that had to ask for IMF stand-by support experienced deeper recessions than the rest. Beyond that result, one should ask why we do not identify effects of the amount of international reserves

on the activity levels. One possible reason is that many countries held voluminous international reserves and so, their different magnitudes did not show differential effects on the activity levels throughout the multiple functions they perform. In fact, one function of the international reserves in a sudden-stop is avoiding defaults of public and private debts and no default in emerging market economies occurred in the global crisis (it could be conjectured that, without the supports of the IMF, default events could have taken place in the economies that had to ask for those supports).

The availability of international reserves allows the provision of liquidity in international currency to private or public debtors that are forced to cancel their external debts in a sudden stop, but do not avoid the recessive effects of those cancellations if the external debts are not fully refinanced in domestic currency by the domestic financial system or the government. This could explain the significance of the short-term debt coefficient, in spite of the availability of voluminous reserves.

On the other hand, a number of countries in the sample have flexible exchange rate regimes and gave room to the devaluation of their currencies when the external shocks hit their economies. A function of the international reserves in these cases is to allowing the official intervention in the exchange market in order to control the magnitude of the devaluation and avoid overshooting and the formation of bubbles. As the other mentioned functions, this function of the international reserves does not depend on their different national magnitudes, when a sufficient amount to perform the function is available in many countries.

In order to interpret the average 2005-2007 current account/GDP ratio coefficient it is useful to express the current account result with the following identity:

$$(SP - IP) + (SG - IG) = CC,$$

where SP and IP indicate respectively private savings and investment and SG and IG indicate respectively government savings and investment. The two terms in the first member of the identity are the financial surpluses of the private and government sectors, respectively. A positive current account result implies an increase in the amount of external assets owned by the resident agents (or a decrease in net external debt). Consequently, it indicates a lower dependence on external financing to provide for the international currency resources needed for the normal working of the economy. On the other hand, as expressed in the above identity, a positive current account result is an indicator of financial surplus positions of the government, the private sector or both. Consequently, a current account surplus indicates a lower power of the sudden-stop to generate illiquid situations with recessive effects.

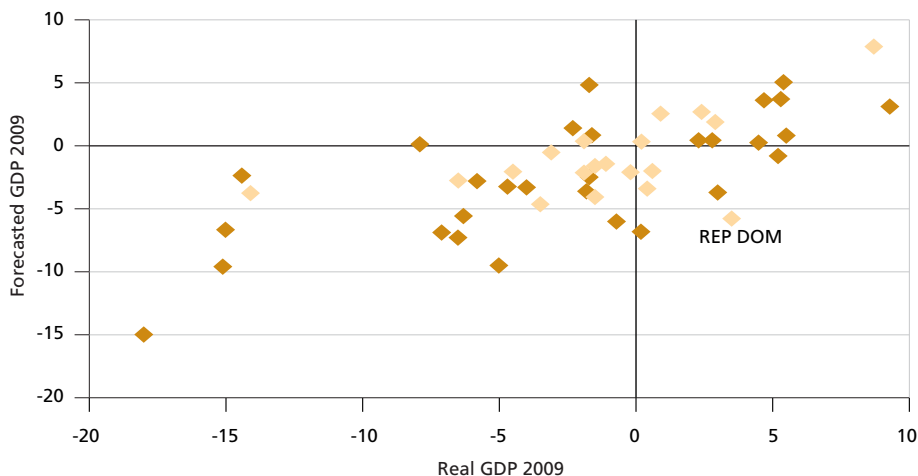
By the same reasons, a positive current account result indicates greater domestic financial space for the government to finance the implementation of expansionary policies.

2.2.1 The LA countries

As was mentioned above, the developing countries sample includes 16 LA economies (the 18 countries considered in this paper with the exception of Bolivia and Venezuela). We want to evaluate the quality of the estimation fit in the LA countries case. In order to do so we calculate the 2009 GDP rates forecasted by the estimated equation. The actual and forecasted 2009 GDP rates of growth for the 48 countries in the sample are presented in the following graph, where LA countries are identified with a different color.

GRAPH 5

Actual and forecasted 2009 GDP rates of growth
(ln %)



Elaborated by the authors.

Obs.: LA countries are indicated by the lighter tags.

For the whole sample, the standard deviation (SD) of the residuals is 4.4%, the maximum of the residuals is 9.3% and the minimum is -12%. In the set of the LA countries, the mean of the residuals is 0.6%; the SD is 3.1%, with a maximum of 9.3% and a minimum of -3.7%. So, in the case of LA countries the forecast shows a small underestimation bias of 0.6%, but the fit is similar or better than in the whole sample.

The correlation coefficient between the actual and forecasted GDP rates of growth is 0.69 in the whole sample and 0.28 in the LA countries sub sample. The difference is mainly explained by the Dominican Republic case. As can be

seen in the graph, this country is an outlier in both the whole sample and in the LA countries sub sample. If the Dominican Republic is excluded both from the whole sample and from the LA sub sample, the correlation coefficient is 0.72 for the whole sample and 0.60 for the LA sub sample. The conclusion is that in the sub sample of 16 LA countries the model shows a quality fit similar than in the whole sample.

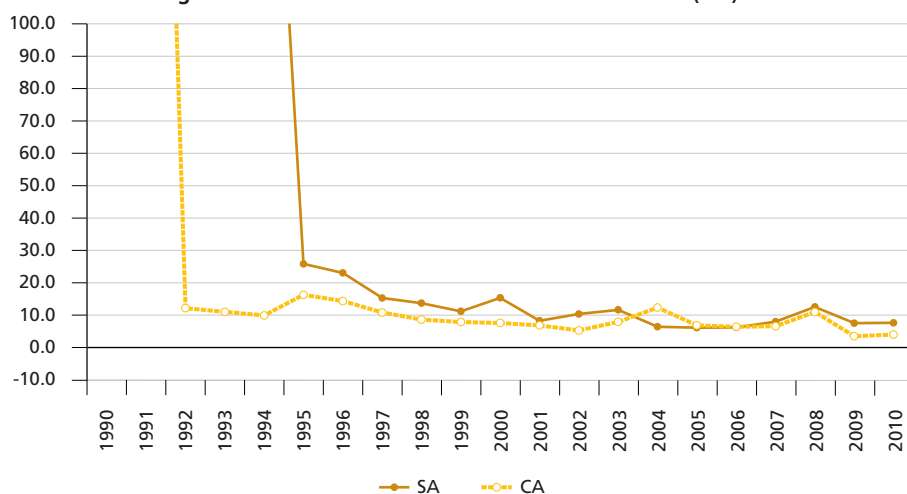
2.2.2 Inflation

Disinflation was a major achievement of LA economies in the nineties, consolidated in the 2000s. It should also be stressed that the main anti inflationary achievements took place during the expansionary phase of the nineties. This was possible under stabilization programs that, in most cases, employed the fixation of the exchange rate as the main anti inflationary tool, thus having real exchange rate (RER) appreciation trends as secondary effects, as we discuss below.

Graphs 6A, 6B and 6C show that average inflation rates were very high in the early nineties (averages for the period really fall out of the charts), with several economies experiencing four digit yearly rates (Argentina, Brazil and Peru in SA; Nicaragua in CA). Most economies managed to cut inflation rates and the regional averages fell below 10% yearly, in 1998 in CA, and in 2004 in SA economies. It is also worth mentioning that the considerable exchange rate depreciations observed in several SA countries in the 1998-2003 period were absorbed with a limited impact on inflationary trends. At the end of the period under study, only Argentina and Venezuela had returned to two digit annual inflation rates.

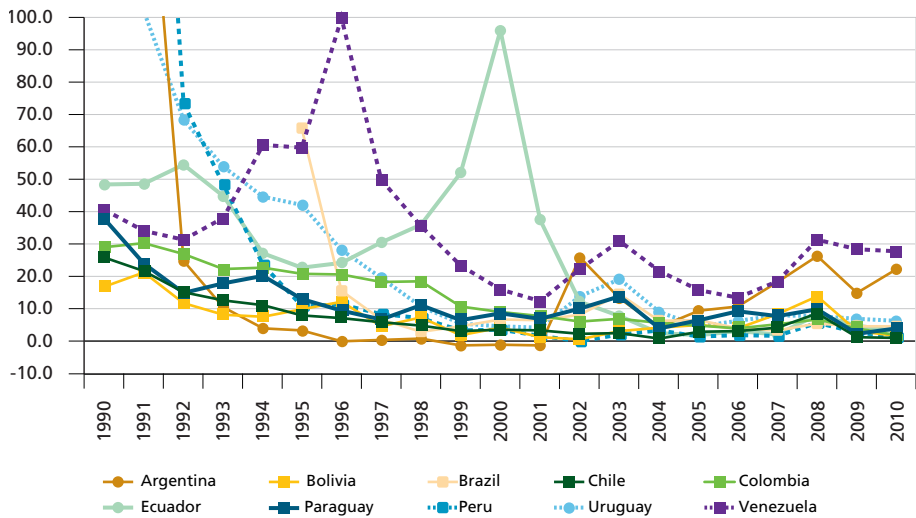
GRAPH 6

6A – Average annual rates of inflation in SA and CA countries (CPI)



Source: Cepalstat.

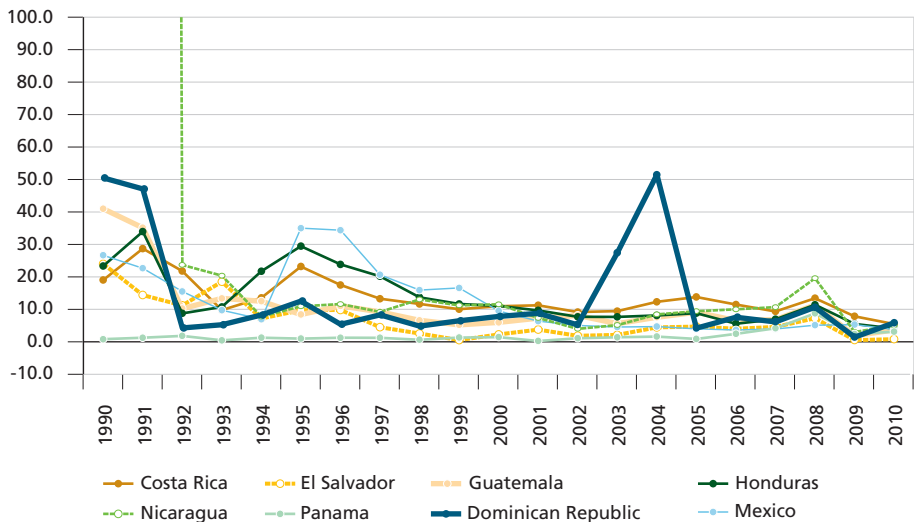
6B – Annual rates of inflation in SA countries (CPI)



Source: Cepalstat.

Obs.: the Argentine rate of CPI inflation is the official one until 2006, and the CPI rate of inflation for 7 provinces published by CENDA from then on.

6C – Annual rates of inflation in CA countries (CPI)



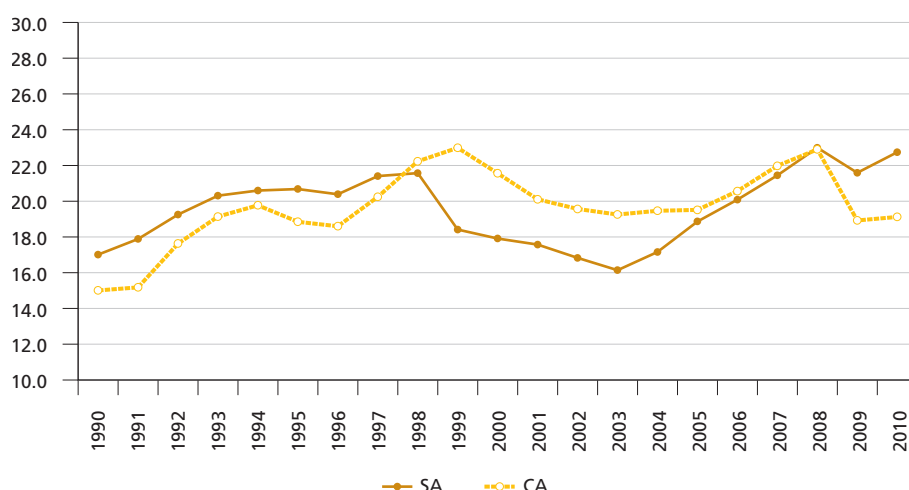
Source: Cepalstat.

2.2.3 Investment rates

The behavior of investment rates was clearly pro-cyclical (graph 7). They grew in CA and SA during the expansion of the nineties. As it was the case with pcGDP, the rising trend lasted longer for CA economies, which also suffered from a less intense decline than the SA area in the intermediate period. But investment rates recovered faster in SA in the 2000s expansion; thus, both subregions reached similar peaks of about 23% of GDP on average in 2008, to fall afterwards with the global crisis.

GRAPH 7

Average investment rates in SA and CA countries
(In % of GDP)

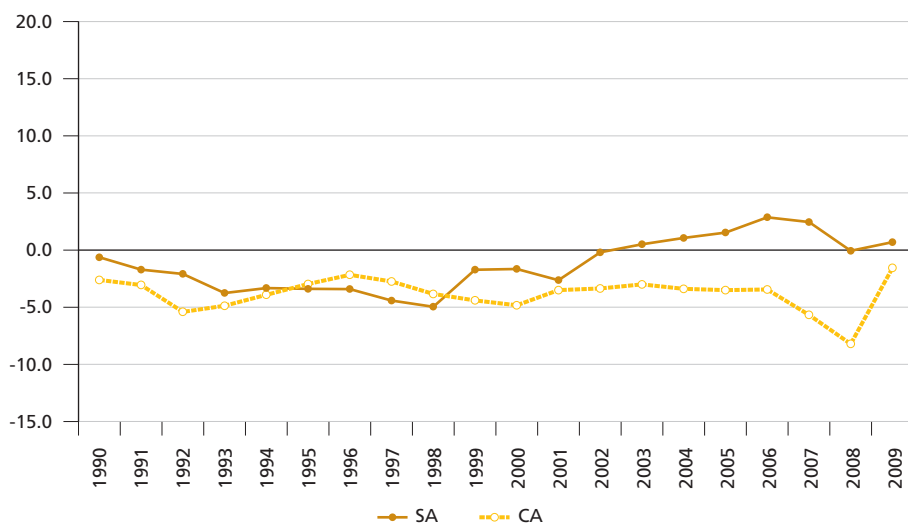


Source: Cepalstat.

2.2.4 The current accounts

One of the most remarkable stylized facts of the evolution of SA economies in the period was that, in contrast with the events in the nineties, the recovery of investment rates in the 2000s was independent of foreign savings. This fact, an important factor regarding growth sustainability, can be seen in the change in the average current account result of the subregion (graph 8). More precisely, foreign savings turned to be negative in most SA countries: In 1997, at the end of the expansion of the nineties, only Venezuela had a current account surplus among the 10 SA economies considered here. The same happened in 2001. But in 2003 half of the economies in the group showed current account surpluses, and in 2005 the only current account deficit was registered in Colombia. The performance of this country differed from the rest of the SA region because its current account continued to be in deficit in the 2000s. But several of the economies that had reached surpluses from 2003 turned to deficits from 2008 on, as we show below.

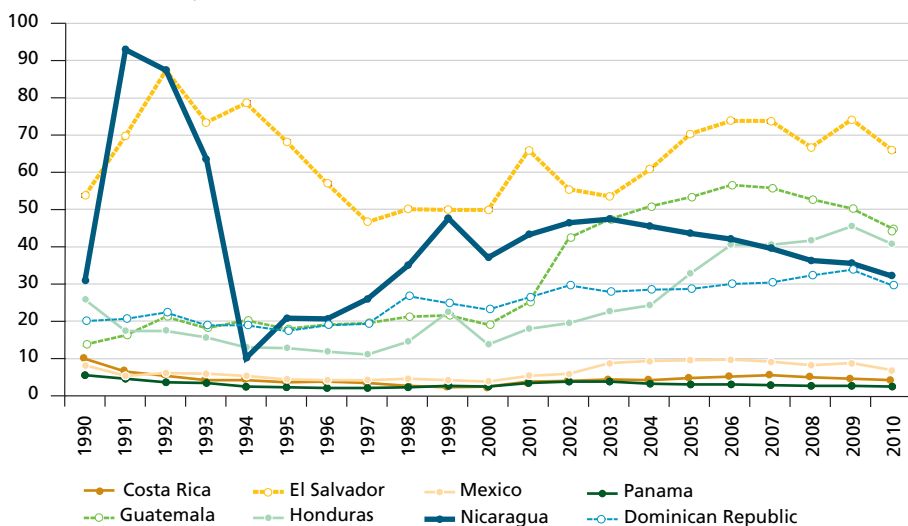
GRAPH 8
Current account result, average by subregion
 (In % of GDP)



Source: Cepalstat.

Once again, the contrast between the SA expansions of 2003-2008 and 1990-1997 has to be stressed. Unlike the latter, the economic expansion of the 2000s was not dependent on foreign savings, as we have already mentioned.

GRAPH 9
CA current accounts: unilateral current transfers credit
 (% of total exports)



Source: Cepalstat.

There is also a clear contrast between the evolution of current accounts in SA and CA. Like SA economies, the CA ones were dependent of foreign savings during the 1990-1997 period, but they didn't had to adjust to the sudden stop of 1997-1998, neither showed an improvement in the 2000s. This can be seen in the average current account result of the subregion (graph 8), but it was also true for every individual country in the group.

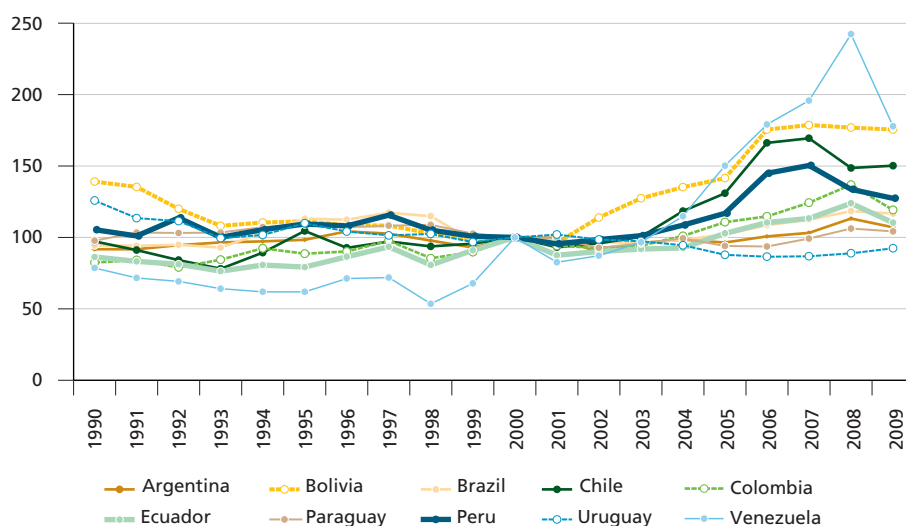
A remarkable aspect of the current account performances of CA economies is that they were systematically in deficit in spite of sometimes huge flows of unilateral transfers from abroad, as a consequence of labor emigration (see graph 9). These transfers were particularly high in El Salvador, Panama, Honduras, Nicaragua and the Dominican Republic, and were also very significant in Mexico, whether they look less so when measured as a percentage of total exports.

2.2.5 Terms of trade

The most remarkable fact regarding the evolution of the ToTs in the 1990-2010 period has been the important increase in the indicator for most SA economies, that was particularly steep for minerals exporting countries (graph 10A), and naturally has a bearing in the explanation of the improvements observed in the current accounts results. The rise was particularly strong from 2003 on. Comparatively, the negative evolution observed in several countries after the 1997 unfavorable change in the international context looks quit mild.

GRAPH 10

10A – Terms of trade indexes for SA countries (2000=100)

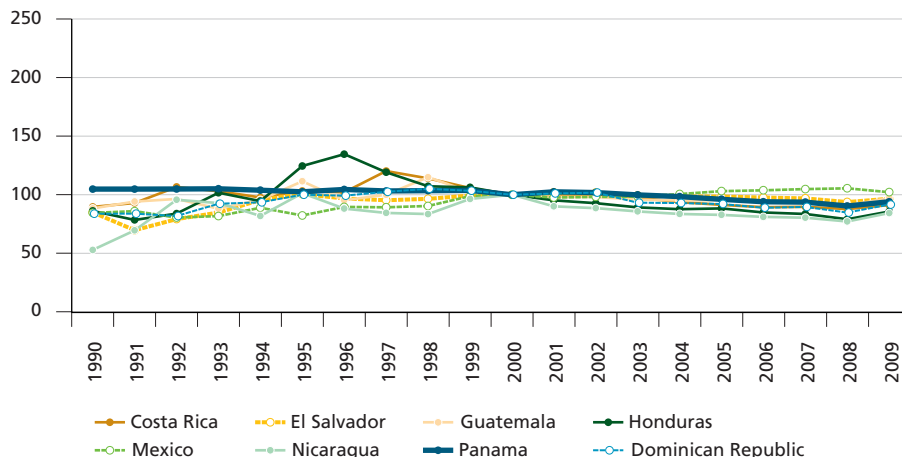


Source: Cepalstat.

But the observed performance of the indicator was completely different in CA countries. The main difference is that, in this case, the ToTs did not improve in the 2000s. On the contrary, the indicator kept falling with the only exception of Mexico, mainly as a consequence of the fact that these economies are oil and food importers, thus receiving a predominantly negative impact of the increases in commodity prices.

The fluctuation of the ToTs during the global crisis was more intense in SA than in CA. However, in both subregions the ToTs were, on average, in 2009, close to the 2006 levels. In SA this was the consequence of a strong rise in 2007-2008 (during the first phase of the global crisis) followed by a fall in 2009, while in CA the fluctuations were mild and mostly negative between 2006-2008, to recover slightly in 2009 in most cases.

10B – Terms of trade indexes for CA countries (2000=100)



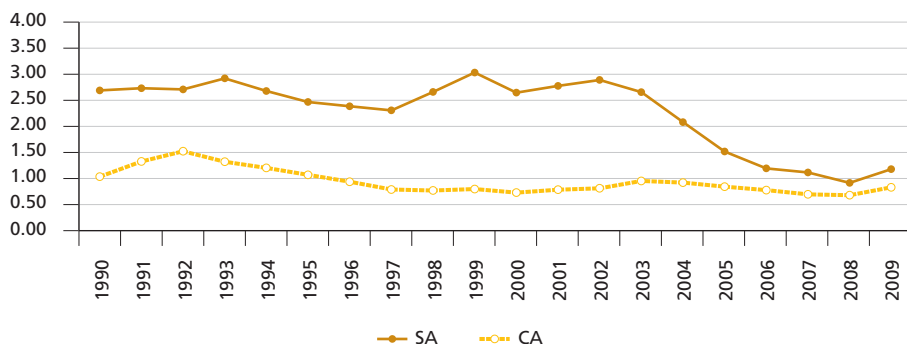
Source: Cepalstat.

2.2.6 Foreign debt and reserves accumulation

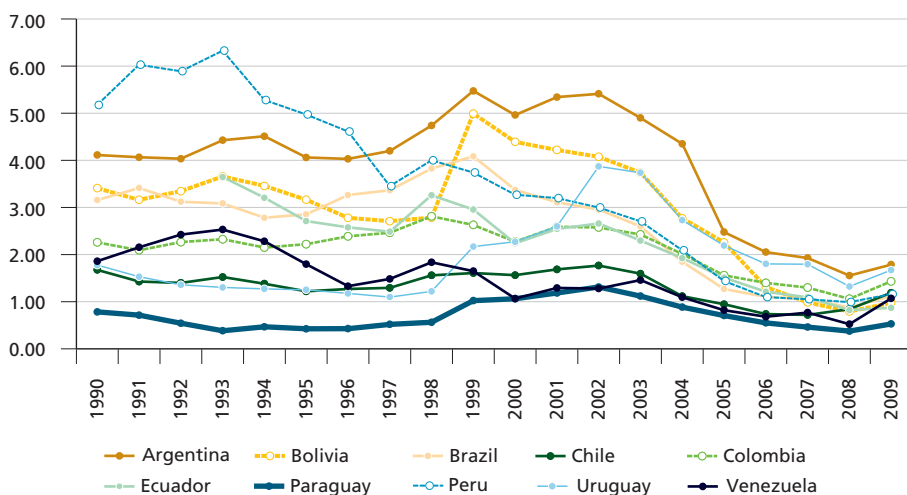
The change in the current account results of SA in the 2000s contributed to a reduced financial vulnerability of the economies of the area. The evolution of the foreign debt and the stocks of foreign reserves reinforce this perception.

Actually, the performance of the SA current accounts made possible a substantial reduction in the outstanding foreign debt from 2003 on, as showed in graphs 11A and 11B. The average ratio of foreign debt to yearly exports fell from almost 3 in 2002 to less than 1 in 2008. This is another stylized fact regarding which the expansion of the 2000s looks quite dissimilar from what had been observed in the nineties.

GRAPH 11

11A – Ratio of foreign debt to total exports – average by subregion

Source: Cepalstat.

11B – Ratio of foreign debt to total exports for SA countries

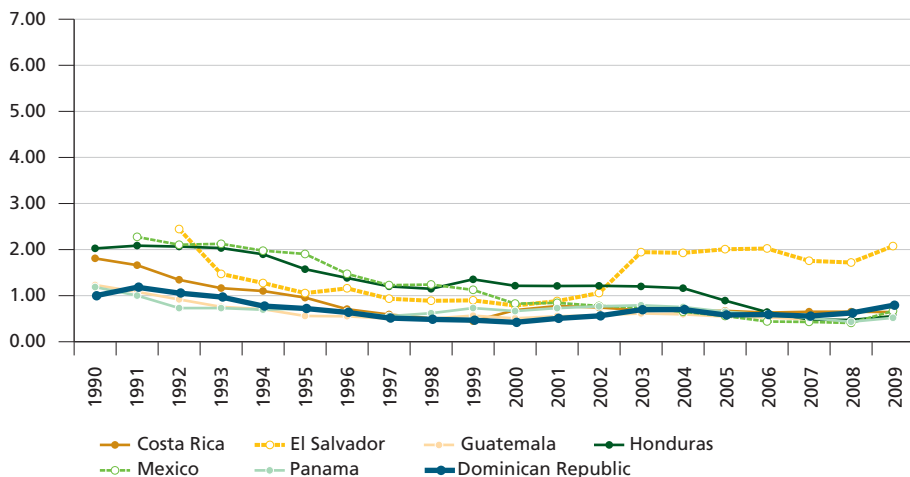
Source: Cepalstat.

The performance of CA economies, however, looks very different from SA ones. The average ratio of foreign debt to exports has always been considerably lower, mainly as a reflection of the fact that these economies are much more open than the SA ones on average (an opening ratio of 85% for the whole period on average, against a 47% opening ratio for SA economies, calculated as the ratio of the sum of exports and imports to GDP, all measured in constant US dollars).

In spite of having a permanent deficit in their current accounts, CA economies have been experiencing a soft and sustained decline in their foreign debt ratio since the early nineties, with the exception of the period 2000-2003 (graphs 11A and 11C).

Moreover, unlike most SA economies, a major part of these obligations belongs to credit lines obtained from multilateral agencies like the IMF, the IDB and the WB, or from governments of advanced countries.

11C – Ratio of foreign debt to total exports for CA countries



Source: Cepalstat.

The reduction of the foreign debt burden is of course an indicator of a reduced financial vulnerability. This can be also observed in the fact that, different from the thirty prior years of financial globalization, the interest payments came to have a much lower weight in the returns to foreign investment. On the other hand, the returns to investment have also a lower weight in the current account results, and are explained in great part by the profits and dividends obtained by foreign direct investments.

The interests of external obligations debts in international currency have necessarily to be served in this currency and are an inertial variable in the current account debit. In contrast, the FDI profits are predominantly obtained in local currency and their amount, measured in international currency, falls when the RER depreciates, for instance when a sudden stop takes place. Moreover, the authorities may establish temporary limits or restrictions to the transfer of profits abroad. On the other hand, under normal conditions, an important part of FDI profits is use by the firms to finance new investments (and these flows are registered in the balance of payments as new FDI inflows). Therefore, a significant fraction of the current account debit in concept of FDI profits has a more or less automatic financing. In this case, neither the reinvested fraction of FDI profits nor the new capital inflow goes through the foreign exchange market channel. As a consequence of this, given a certain current account deficit, the external vulnerability associated to this result is now considerably lower than it was before.

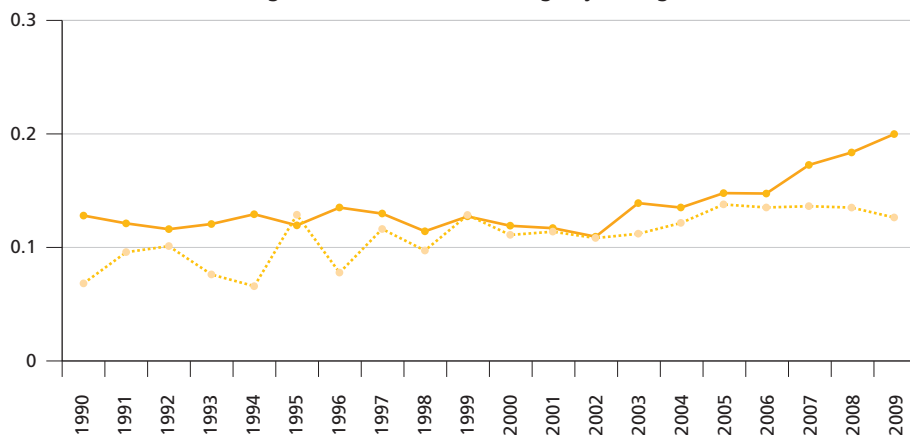
Between 1999 and 2010 the weight of interest payments in the total outflows in concept of returns to foreign investment fell from 39.7% to 11.4% in Brazil, from 40.8% to 7.4% in Chile; from 82.8% to 26.3% in Colombia and from 93.7% to 9.3% in Peru. It also fell in the other SA economies under consideration (with the exception of Argentina, where the interests weight increased slightly but in the context of a considerably lower total outflow of returns to foreign investment, measured as a proportion of total exports, in 2010, in comparison with 1999). Mexico shows a somehow different situation, because the weight of the interests outflows declined much less than in the other referred countries, falling from 75.7% in 1999 to 63.8% in 2010. Something similar to this can be said of most CA economies under consideration, the most important exception being Honduras, where interests payments fell from representing 81.5% of the total outflows of returns to foreign investment in 1999 to only 13.8% in 2010, followed by Nicaragua (from 72.6% to 37.9%).

Another remarkable fact is that, among the 12 LA countries that showed current account deficits in 2010 (or in 2009, according to data availability), nine of them (Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Paraguay and Peru) were able to finance the entire deficit with FDI inflows, with an important component of profits reinvestment. The exceptions were Ecuador, Nicaragua and the Dominican Republic.

Another indicator of lower financial vulnerability of the LA economies in the 2000s is the accumulation of foreign reserves. As can be seen in graph 12A, this was particularly intense in SA, from 2002 on.

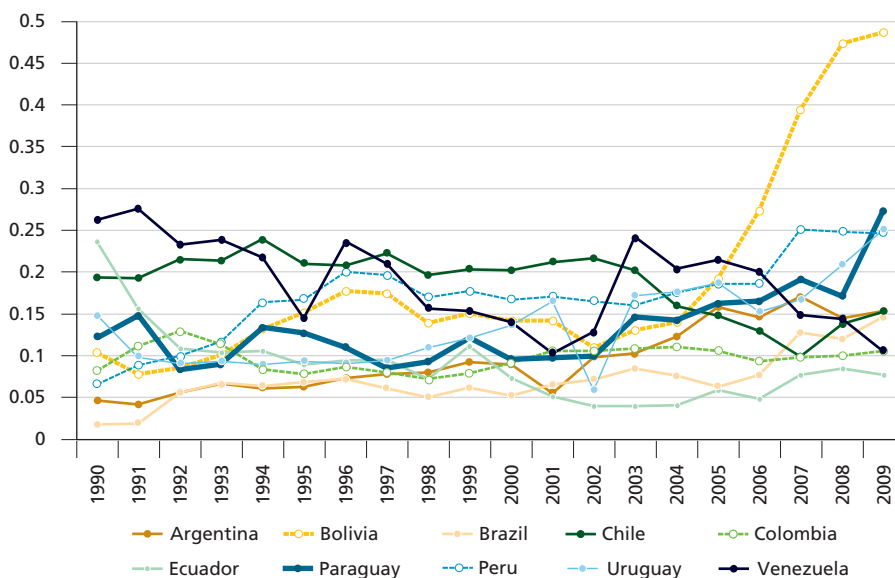
In the CA region, the increase in foreign reserves was less intense on average. Additionally, unlike SA economies, five CA countries reached stand-by agreements with the IMF between April 2008 and December 2009 (Honduras, Costa Rica, Dominican Republic, El Salvador and Guatemala).

GRAPH 12

12A – Ratio of foreign reserves to GDP – average by subregion

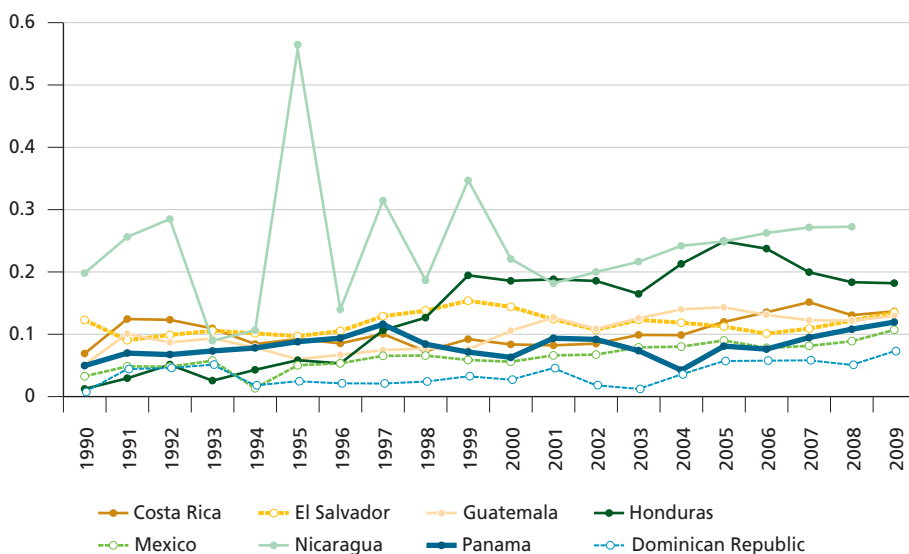
Source: Cepalstat.

12B – Foreign reserves in SA countries (In % of GDP)



Source: Cepalstat.

12C – Ratio of foreign reserves to GDP in CA countries



Source: Cepalstat.

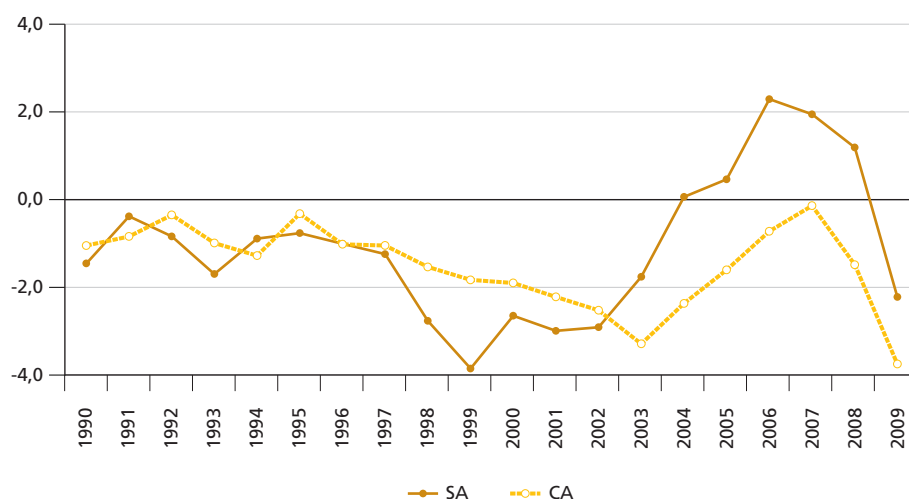
2.2.7 The fiscal front

A long run trend to better fiscal performances was, in LA countries, in part the result of the already mentioned adoption of fiscal measures oriented to correct the pro-deficit bias characteristic of previous periods. The evolution of the aggregate fiscal accounts looks very different in the expansion of the 2000s, when compared with the previous history (graphs 13A and 13B). Actually, both subregions showed primary surpluses ranging between 1% and 2% of GDP in the nineties, until 1997, and moderate fiscal deficits in the same period. For several LA economies, this fiscal performance in the nineties meant a significant improvement in comparison with previous decades. But from 1997 on, hit by the spillover effects of the SE Asian and Russian crises, the SA economies showed on average, until 2002, an important increase in the fiscal deficit, with a sharp impairment in 1997-1999. However, a positive trend in the primary results can be observed in 1998-2002 in SA economies, in spite of the recessionary stance, thus revealing a pro cyclical bias of fiscal policies in the period.

The average primary result of the public accounts of CA economies turned also to be negative in 2001, when they received the impact of the recession in the USA.

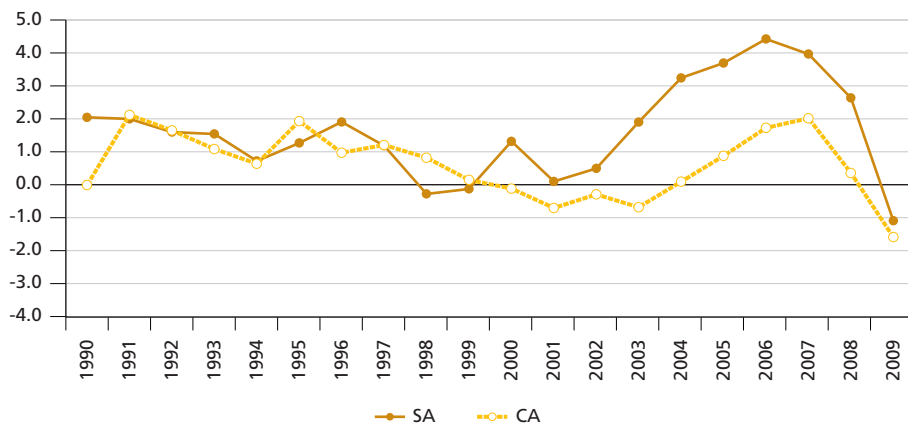
GRAPH 13

13A – Fiscal results: non-financial public sector – average by subregion
(% of GDP)



Source: Cepalstat.

13B – Primary fiscal results: non-financial public sector – average by subregion (% of GDP)



Source: Cepalstat.

Both subregions showed significant improvements in the fiscal results from 2003 on, until 2007, but this change was considerably more intense for the SA economies. Later on, since 2007, the fiscal figures worsened as a consequence of the impact of the global crisis.

From twin deficits to twin surpluses

The significant reduction in the financial vulnerability of SA economies in the 2000s can be evaluated more clearly by considering together the evolution of the current accounts and the fiscal results we have already commented on. As can be seen in graph 14, most SA countries showed twin deficits in the late nineties and early 2000s, but this changed impressively from 2002 on. In 2006 and 2007, seven out of the ten SA countries showed twin surpluses. Later on, the situation deteriorated with the global crisis in 2008-2009.

GRAPH 14
From twin deficits to twin surpluses

	1998	2001	2003	2004	2005	2006	2007	2008	2009
Argentina									
Bolivia									
Brazil									
Chile									
Colombia									
Ecuador									
Paraguay									
Peru									
Uruguay									
Venezuela									

Twin deficits
 Current account deficit + fiscal deficit
 Current account deficit + fiscal surplus
 Twin surpluses

Source: Cepalstat.

2.2.8 Public debt

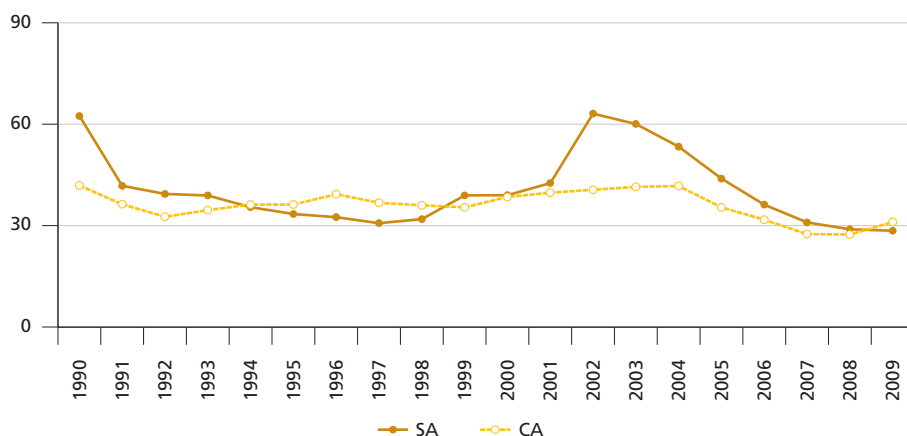
As it happened with the foreign debt, the average public debt ratio to GDP of SA economies evidenced a quite significant declining trend from 2002 on. This decline was general, even if it was led by Argentina particularly as a consequence of the 2005 debt restructuring.

Therefore, it can be said that the macroeconomic policy regimes that ruled in SA in the 2000s allowed these countries to produce a significant change in some stock-flow ratios that are crucial to define the degree of financial vulnerability. In clear contrast with the recent trends in the developed countries, the SA economies have to support, at present, an alleviated public and foreign debt burden.

The CA economies also showed a decline in this indicator, but much slighter. As graph 15 shows, both regions had reached in 2008 the lower ratio of the public debt to GDP of the whole series.

GRAPH 15

Ratio of the public debt to GDP – average by subregion
(In %)

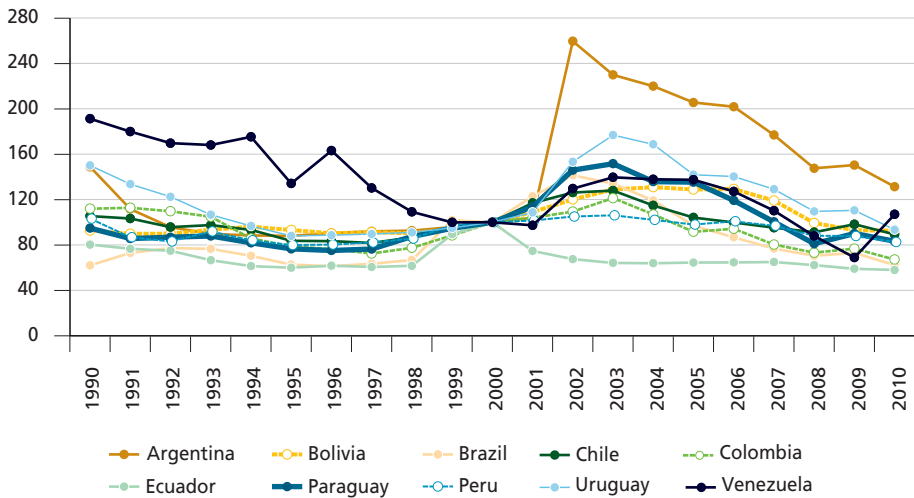


Source: Cepalstat.

2.2.9 Exchange rate policies and the evolution of real exchange rates

We present in graphs 16A and 16B the evolution of the real bilateral exchange rates of SA and CA economies against the US dollar, from 1990 to 2010.

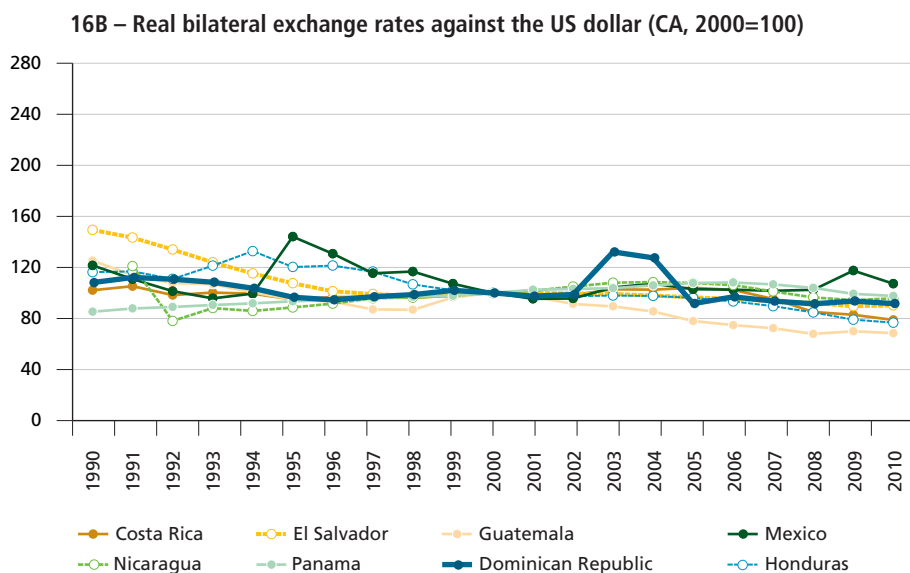
GRAPH 16

16A – Real bilateral exchange rates against the US dollar (SA, 2000=100)

Source: Cepalstat.

The typical SA pattern shows real appreciations in the early nineties, until 1995, mainly due to the utilization of the exchange rate as a nominal anchor to fight inflation, in several countries. Then a relative stability is observed till 1998, generally followed by real depreciations in 1998-2003 and sustained real appreciations from them on, with a brief pause in a number of countries in 2009.

To face the real and financial negative impacts of the contagion of the Asian and Russian crises of 1997 and 1998, Brazil, Colombia and Chile adopted floating regimes and inflation targeting schemes in 1999. Peru had already adopted a managed floating regime since the beginning of the nineties and also formally adopted an inflation targeting policy in 2002. Argentina and Uruguay kept fixed exchange rates and appreciated RERs until the 2001-2002 crises, when both countries moved to floating regimes. Peru shares with the other SA countries the dynamic pattern of evolution of the RER but with lower volatility. Paraguay, that kept an exchange rate regime of managed floating, and Bolivia, that managed the exchange rate following a crawling peg, experienced RER trends similar to the other SA economies. Only two cases in SA escape the common pattern already described: Ecuador, which dollarized in 2000, and Venezuela, with an erratic exchange rate policy and strong fluctuations in the RER in the period.



Source: Cepalstat.

Most countries in CA maintained exchange rate regimes of crawling peg or managed floating with high degrees of intervention, thus preventing strong swings in the nominal and real exchange rates. Costa Rica, Nicaragua, Honduras and Guatemala belong to this group, as well as the Dominican Republic, but in the latter there was an episode of strong depreciation followed by a swift reversion in the period 2003-2005. Mexico is a different case, in which the 1995 depreciation stands out, followed by a lasting appreciation period, and real depreciations again in 2003-2004 and 2009. The other two cases among the CA economies considered here refer to the dollarized economies of Panama and El Salvador. This last country fixed the nominal exchange rate in 1994-95 with free convertibility of the currency, to finally dollarize at the beginning of 2001.

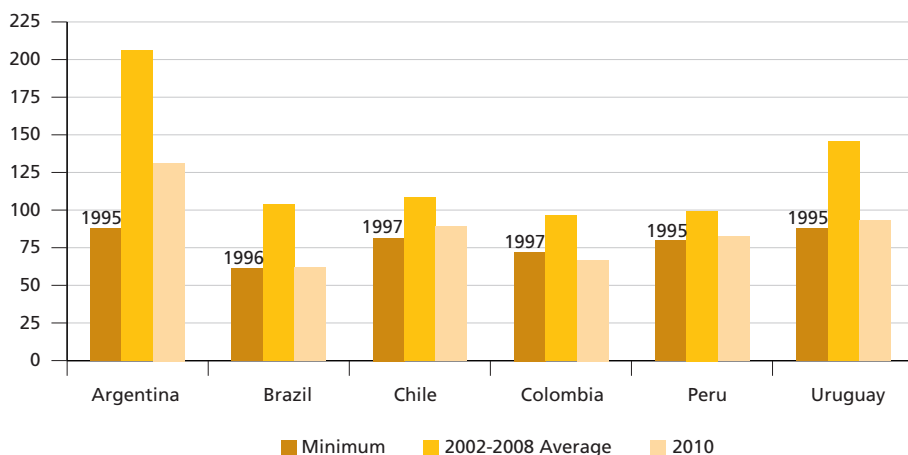
In CA, the bilateral exchange rates followed a much more stable evolution than in SA. They did not experience a generalized trend to appreciation in the early nineties (the exceptions were El Salvador and Mexico); neither an impact of the SE Asian crisis of 1997 could be observed. They went through soft real depreciations in 2001-2003 and through mild appreciations from then on. There were, however, more important real appreciation processes in a few cases: El Salvador between 1991 and 1997, Guatemala between 2000 and 2010 and Honduras between 1994 and 2010.

No important variations of the real exchange rates were observed in CA in 2008-2009, with the exception of a significant depreciation in Mexico in 2009. In contrast, SA economies experienced a generalized trend to appreciation in 2008, interrupted in some countries in 2009, but all of them tended to appreciate again in 2010. Thus, in 2010 the RERs in SA were 35% below the 2003 level, on average. In every one of the SA economies under consideration the RER against the US dollar appreciated between these years, and in some cases considerably (with a 53% in Brazil at the top of the record). In CA the average appreciation was 15% between 2003 and 2010.

Some points deserve to be stressed. Firstly, the RERs reached, in 2002-2003, in every SA country, the most depreciated levels since the region recovered, around 1990, access to the voluntary flows of international financing (see graph 17). Secondly, the real depreciations had a significant impact on the current account results before the occurrence of the increases in commodity prices observed in the 2000s. Thirdly, as a consequence of the high RERs of 2002-2003, the average RERs of the period 2002-2008 were considerably more depreciated than in the nineties, in spite of a clear and generalized trend to real appreciation. Fourthly, the 2008-2009 depreciations were only a transitory interruption of the appreciation trend, which was resumed in 2010.

GRAPH 17

Real bilateral exchange rates with the US of SA countries – minima of the 90s, 2002-2008 averages, and 2010 (2000=100)



Source: Cepalstat.

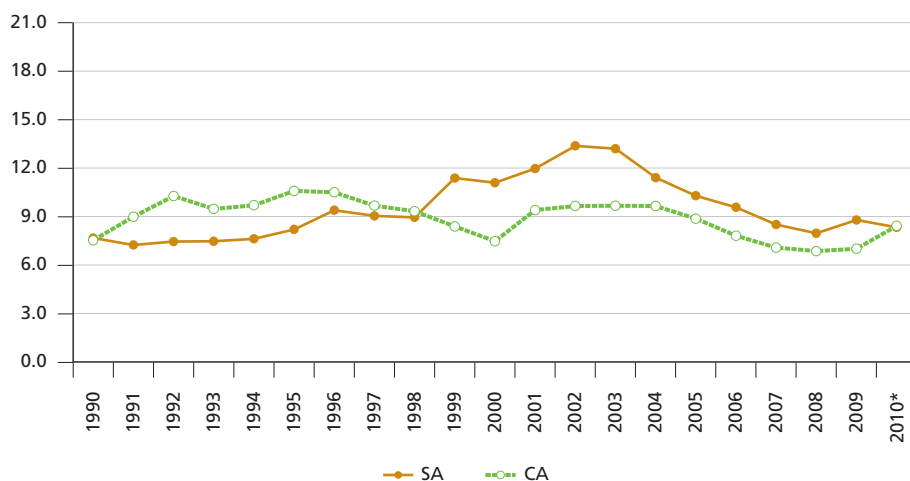
With the exception of Argentina, the RERs reached in 2010 similar levels to the most appreciated RERs of the nineties. But to the purpose of characterizing the connection between RERs and unemployment, that we will resume later, it is important to point out the fact that the average RERs in the phase of fast economic growth prior to the global crisis were, in all cases, considerably higher than the minimum observed levels of the nineties.

3 EMPLOYMENT, UNEMPLOYMENT AND POVERTY INCIDENCE

The average rates of unemployment in the SA and CA regions are presented in graph 18. As employment has normally a positive correlation with the economic cycle, the expected relation between the unemployment rate and GDP growth is negative. Quite remarkably, this has not always been the case in the region, particularly in the SA subregion, where average unemployment rates showed an increasing trend during the expansion of the nineties (a rising trajectory that become steeper in the 1998-2002 period). In contrast, the 2003-2008 expansion showed a sharp decline in unemployment, but the deterioration observed in this variable in the nineties, and particularly during the 1997-2002 period, had been so strong that the improvements of the 2000s, quite intense prior to the global crisis of 2008, were insufficient to reverse, on average, in SA, all the previous impairment.

GRAPH 18

Average unemployment rates in SA and CA countries
(In % of the active population)



Source: Cepalstat.

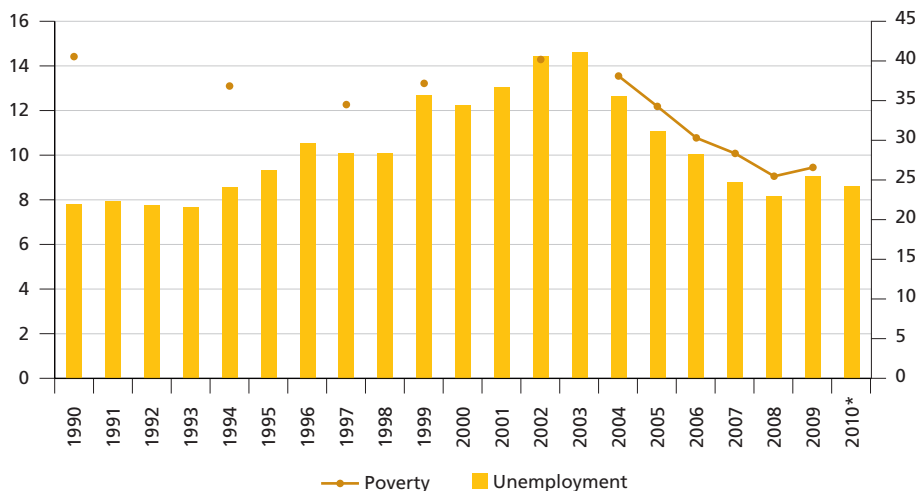
Given that unemployment is closely connected to social conditions and have significant gravitation on the incidence of poverty and income distribution, we pay special attention to its behavior and explanation. The real exchange rates have a bearing in the determination of the behavior of aggregate employment and, hence, on unemployment rates, and particularly on the explanation of the noteworthy difference in employment creation that stands out in the comparison between the 1990-1997 and the 2003-2008 expansions in SA economies.

Probably as a consequence of the relative stability of RERs in CA economies (when compared with SA, as we have already shown), the evolution of unemployment rates in the CA subregion are less correlated with RERs, being substantially explained by the behavior of GDP.

Unemployment has a close connection with poverty incidence. This is very clear in the figures of the SA countries presented in graph 19. Both variables rose after the 1997 contagion of SE Asian crises, to fall from 2003 on, with the expansion of the 2000s, increasing again, transitorily, in 2009. During the expansion of 1990-1997, however, poverty decreased, on average, in spite of an increasing trend of unemployment. In this period, hence, the favorable effects of GDP growth and disinflation or real incomes of the employed people were predominant. The available data regarding poverty incidence are quite incomplete to allow for a similar analysis for the CA region as a whole.

GRAPH 19

Average unemployment rates (% of the active population) and poverty incidence (% of the population) in SA countries



Source: Cepalstat.

Obs.: in these calculations, the group of SA countries does not include Bolivia, Paraguay and Peru because of compatibility limitations of the available data. For the same reason we do not present here data on poverty incidence for every year in the period of the graph.

3.1 Econometric testing of the relationships between growth, the real exchange rates, inflation, unemployment and poverty

In this section we present econometric tests of the effects of macroeconomic variables, such as the growth performance, the real exchange rate evolution and the inflation rates on the behavior of unemployment and poverty rates. We use annual data corresponding to the 18 countries considered in the paper in the 1990-2010 period. The main objective of the section is to provide some econometric evidence to the more qualitative analysis presented above. Our hypothesis is that faster growth and depreciated real exchange rates both favor employment and reduce unemployment. Besides, lower unemployment rates contribute to the reduction of the poverty rates. On the other hand, higher inflation rates tend to increase the poverty rates. We do not attempt in this section to test the effects of the RER on growth. With regard this issue our hypothesis about the positive effect of depreciated RERs on growth rests on numerous empirical studies pointing out to this conclusion. In this section we consider the GDP rates and the real exchange rates as exogenous variables.

Our first purpose is to assess the effects of the GDP growth rates and the real exchange rates on the performance of unemployment. The estimated equation is a variant of the Okun's law that takes into account the influence of the RER on the employment-output ratio. Our hypothesis is that a depreciated RER has positive effects on the employment-output ratio.

In the second place we estimate poverty rates as function of unemployment and inflation rates. The unemployment equation and the poverty equation compose a model whose reduced form expresses the poverty rate as function of the rate of growth, the real exchange rate and the inflation rate. Complete annual series of the poverty rates in the 18 countries are not available. In the estimations presented in this section we use poverty rates data from the ECLAC database, which collects poverty rates from national sources. Data are available in different years in different countries. We have adapted the estimation procedure to the availability of data. For instance, we estimate the unemployment equation in rates of variation with annual consecutive rates, but we could not do so with the poverty equation because consecutive annual data are not available for all the countries in the whole period. So, we have to estimate the poverty equation using poverty rates data in the years in which this information is available. The corresponding annual unemployment rates which are needed to estimate the poverty equation are calculated by a procedure that helps to avoiding endogeneity problems, as we explain below.

The estimation method is panel OLS with yearly data of the period 1990-2010 of the 18 LA countries considered in this paper. The estimations include fixed country effects to control for the permanent different levels in the national unemployment

and poverty rates associated to differences in the definitions and measurement as well as in the structure of the labor markets. The estimations also include fixed time effects intended to control for the external shocks experienced by the region.

The estimated model is:

$$u(t) = g y(t) + e r(t-i) + k + \varepsilon u(t) \quad (1)$$

$$V(t) = f U(t) + h p(t) + j + \varepsilon V(t) \quad (2)$$

U is the unemployment rate, Y represents the GDP and R is the bilateral real exchange rate with USA (u , y and r represent respectively the annual rates of variation of U , Y and R), V is the poverty rate, and p is the inflation rate. The coefficients to be determined are g , e , k , f , h ; i is a time lag to be determined and εu and εV are stochastic shocks.

We also use the equation

$$y(t) = a r(t-i) + b + \varepsilon y(t) \quad (3)$$

only to obtain estimations of $\varepsilon y(t)$ to be used in replacement of $y(t)$ in the estimation of equation (1).

3.1.1 Estimations

The time lag $i = 2$ (years) provides the best fit in panel estimations of both equations (3) and (1). The same 2 years lag provides the best fit in estimations with time series of individual countries (not shown in this section).

In the first place we estimate the equation (3). The only purpose of this estimation is to use its residuals in replacement of the series $y(t)$ to avoid colinearity problems in the estimation of equation (1). The results are the following:

$$\hat{y}(t) = 0.034 r(t-2) + 0.036 \quad (4)$$

$$(2.061)^{**} \quad (21.945)^{*}$$

$$R\text{-squared} = 0.40$$

(t-statistics). *, **, ***: significant at 1%, 5% and 10% respectively.

Total panel (unbalanced) observations: 323. White diagonal standard errors & covariance.

We calculate then the residuals of the estimation:

$$\text{reseq4}(t) = y(t) - \hat{y}(t),$$

which are estimations of $\varepsilon y(t)$, and use them in replacement of the original series $y(t)$ in the estimation of equation (1). From the estimation of equation (1) we obtain the following results:

$$\bar{u}(t) = -1.616 \text{ reseq4}(t) - 0.299 r(t-2) - 0.002 \quad (5)$$

$$(-5.092)^* \quad (-3.495)^* \quad (-0.205)$$

$$R\text{-squared} = 0.34$$

(t-statistics). *, **, ***: significant at 1%, 5% and 10% respectively.

Total panel (unbalanced) observations: 299. White diagonal standard errors & covariance.

The coefficients are both negative and highly significant. Faster growth and more depreciated RERs both tend to reduce unemployment. A 5% growth rate of GDP reduces the unemployment rate in 8%. A 10% depreciation of the RER reduces 3% the unemployment rate with a time lag of two years.

We focus now on the estimation of the poverty equation (2). As we mentioned above, we have to adapt the estimation procedure to the availability of data and avoid endogeneity problems. In the first place we use equation (5) to calculate the series $\bar{u}(t)$ of the forecasted rates of variation of the unemployment rates. Then, we use the series $\bar{u}(t)$ to calculate the variable $\bar{U}(t)$:

$$\bar{U}(t) = U(t-1) [1 + \bar{u}(t)] \quad (6)$$

The new $\bar{U}(t)$ variable is the product of a predetermined variable $U(t-1)$ by the $(1 + \text{the rate of variation})$ of the unemployment rate forecasted with the macro variables GDP and RER. We use the series $\bar{U}(t)$ in replacement of the original series $U(t)$ in the estimation of equation (2). The results of the estimation are the following:

$$V(t) = 0.689 \bar{U}(t) + 0.237 p(t) + 28.032$$

$$(2.364)^{**} \quad (3.359)^* \quad (8.326)^*$$

$$R\text{-squared} = 0.96$$

(t-statistics). *, **, ***: significant at 1%, 5% and 10% respectively.

Total panel (unbalanced) observations: 143. White diagonal standard errors and covariance.

Both the coefficients of the unemployment rate and the inflation rate are positive and significant. A 1 percentage point (pp) increase in the unemployment rate tends to increase the poverty rate in 0.7 pp. A 1 pp increase in the inflation rate tends to increase the poverty rate in 0.24 pp.

The obtained results are mostly driven by the SA subregion, which comprises ten countries. The estimation procedure utilized above, implemented on a panel of the ten SA countries, generates results similar to those obtained with the whole sample.

3.1.2 Comparison of the shocks experienced by the SA and the CA subregions

The analysis presented along this paper points out to important differences between the SA and the CA subregions, both in macroeconomic policies and outcomes. The econometric analysis just presented provides additional evidence on this regard.

We have run the regression of the unemployment equation (1) separately on a panel conformed by the ten SA countries and on a panel conformed by the eight CA countries, in both cases with annual data of the period 1990-2010. In both cases time fixed effects were included in the regressions. The results obtained with these exercises are the following.

In the estimation with the panel of the CA countries none of the coefficients is significant. One probable reason for the lack of significance of the RER elasticity coefficient in the separate CA countries estimation is the low variance experienced by the RER in these countries. In fact, the standard deviation (SD) of the RER in the whole sample is 26.1, while the SD of the RER in the SA countries is 32.9 and the SD of the CA countries is 13.2. So, the lack of significance of the RER elasticity in the case of the CA countries could be attributed to the inexistence, in the CA countries in the period, of a RER variance high enough to generate statistically significant effects on unemployment. This conjecture is indirectly reinforced by the results obtained in individual countries time series estimations, in which significant RER elasticity coefficients are obtained in the cases where the RER experienced high variance (for instance, Argentina and Colombia).

More intriguing is the lack of significance of the GDP elasticity coefficient. One possible cause of that result could be a high correlation of the GDP rates of growth with the time fixed effects included in estimation. In fact, the correlation between the estimated time effects and the GDP rates of growth is - 0.45. So, we estimated the panel of the CA countries without including time fixed effects. The results show an unemployment/GDP elasticity of -2.65 significant at 1%. Consequently, it seems clear that the lack of significance of the elasticity obtained in the first CA panel estimation resulted from the close colinearity between the time fixed effects and the countries' output performances. What would be the source of so important sub regional time effects?

To explore more in depth the characteristics of the common time effects in the CA countries we take into account that the subregion countries are closely related to the USA economy. Then, we hypothesize that the CA countries experienced time common external shocks originated in the performance of the USA economy. To test the hypothesis we estimated the model with a panel of the CA countries in which the time fixed effects are replaced by the USA rates of growth.

The following table shows the results – the variable $y_{USA}(t)$ is the annual rate of growth of the USA GDP:

$$u(t) = -2.073 y(t) - 0.124 r(t-2) - 2.249 y_{USA}(t) + 0.135$$

$(-3.087)^* \quad (-0.643) \quad (-2.602)^* \quad (5.333)^*$

$R\text{-squared} = 0.29$

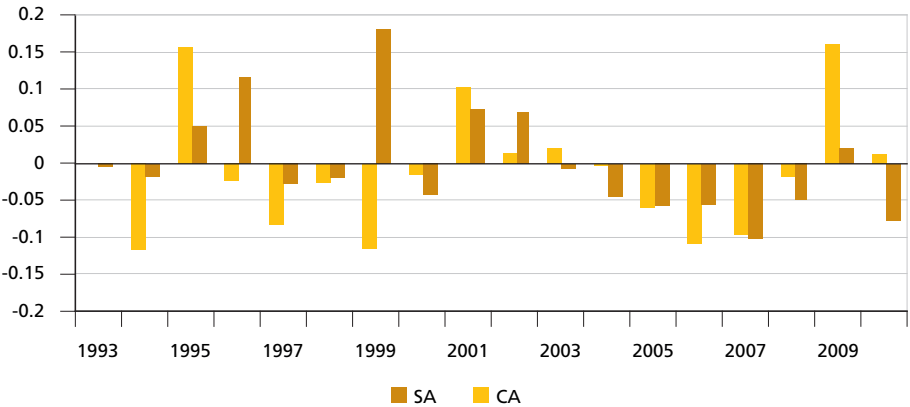
(t-statistics). *, **, ***: significant at 1%, 5% and 10% respectively.

Total panel (unbalanced) observations: 120. White diagonal standard errors and covariance. No time effects.

The estimation shows a negative elasticity of unemployment to the USA GDP coefficient significant at the 1% level, with a high absolute value. In a similar estimation with the SA countries panel, the USA GDP coefficient lacks of significance while the value and significance of the GDP and RER coefficients are similar to the estimation with time fixed effects shown in (5) above. These results suggest that the performance of the labor market in the CA countries is strongly influenced by the evolution of the USA economy, in addition to the indirect effect exerted by the USA economy throughout its influence on the countries' GDP. The results also underline that CA and SA subregions experience different external shocks.

The difference between the shocks experienced by the CA and SA countries can be clearly seen in the following graph 20. The graph presents the series of the time fixed effects estimated separately with the SA countries panel and the CA countries panel.

GRAPH 20
Differences between the shocks experienced by the CA and SA countries



Elaborated by the authors.

Because the dependent variable is the (rate of variation of) the unemployment rate, positive bars represent an increase in unemployment, i.e. a deterioration of labor market conditions, and vice versa. The history and differences of the shocks experienced by the SA and CA subregions can be followed with the graph. For instance, 1995 was the year when the effects of the Mexican crisis took place. Both subregions suffered negative effects, but the CA subregion (which includes Mexico) shows a much higher effect than the SA region (more than 15% in the CA subregion vs. 5% in the SA subregion). In 1999, the Asian and Russian crises are associated with a high negative effect in the SA subregion, while the CA subregion continued to show increasing positive effects associated with the then high rates of growth of the USA economy. In 2001-2002 both subregions show negative effects, associated in the CA subregion with the contraction of the USA economy and in the SA subregion with the Argentine and Uruguayan crises and the difficult situation of the Brazilian economy. In 2003-2008 both subregions experienced positive effects, associated with the good performance of the USA economy in the CA subregion and the terms of trade and financial conditions improvement in the SA subregion. The year 2009 shows the effects associated with the global crisis. It is negative in both subregions, but much higher in CA than in SA. Lastly, in 2010 the SA subregion shows a positive effect associated with the fast improvement of the trade and international financial conditions, while the CA subregion continued showing negative effects, associated performance of the USA economy.

4 CONCLUSIONS

If one asks macroeconomists about the best macroeconomic policies to increase the welfare of a developing country, a large proportion of respondents (including the authors of this paper) would indicate that are those that induce high rates of growth of output, employment and productivity in a sustainable manner.

Of course, the rapid growth of productivity and employment does not ensure that inequality tends naturally to decrease. China's economy is the most recent case where a process with these characteristics has been accompanied by worsening inequality indicators. However, it is not common to find negative judgments about China's macroeconomic policies based on that evidence. The main reason is that, while rapid productivity and income growth takes place together with the rapid increase in employment, lower incomes also tend to rise and consequently the incidence of poverty tends to decrease. More generally, the rapid growth of productivity and employment, though not ensure reduction of inequality, creates conditions that facilitate a better distribution of income, because resources are growing and because the improvement in their distribution seems more viable and less confrontational in that context.

At the opposite pole, a developing country stuck in a situation of low employment and low productivity could eventually show an improvement trend in inequality, but it would be limited in magnitude and in its extension in time by the low productivity growth. In this case, the macroeconomist would probably criticize existing policies for their inability to contribute to the promotion of development and would focus on a reformulation effort aimed at promoting productivity growth and employment.

The sustainability of the process of rapid growth of productivity and employment is a crucial component of the macroeconomist view. The sustainability criterion involves two matters. First, inflation should be under control. Considered broadly, this should not mean limiting the choices to a conventionally low inflation rate. The criterion points to the fact that a persistent rise in inflation inevitably ends up extinguishing the rapid growth through different mechanisms of which there are many examples in the LA experience. On the other hand, beyond the negative feedback on growth, it is well known that inflation disproportionately affects the real income of wage earners and lower-income sectors, so it has negative effects on distribution and welfare.

The second issue involved in the sustainability criterion is that the design of macroeconomic policies should also include measures to prevent the occurrence of financial and external crises. Macroeconomic policies have an important role in crisis prevention. In fact, stability – in the real economy, finance and the balance of payments – is the main objective of macroeconomic policies in their traditional conception. Development macroeconomists strive to widen the traditional objectives to include among them the promotion of development, but this does not mean forgetting or putting in a secondary role the prevention of crisis. Contrarily, crisis prevention is a priority because crises have permanent negative effects on the trajectory of growth and persistent negative effects on income distribution.

The analysis of the macroeconomic policies implemented in LA in the nineties shows several important cases (i.e. Argentina, Brazil and Mexico) of growth processes in contexts of controlled inflation that could not be sustained because they led to external and financial crisis. Even in the case that such policies had produced an increase in welfare this would not make them advisable, because the hypothetical increase was transient and also because, as a result of the crisis, the conditions of employment and income distribution ended up being worse than those prevailing at the beginning of the nineties. In addition, these policies led to rising unemployment or slow growth of employment, which in both cases were important factors in the worsening of income distribution even before the outbreak of the crisis.

We show in the paper the changes in the macroeconomic policies that were generally held between 1997 and 2002 in several economies in the region, particularly in SA. The new configurations resulting from these changes and their effects on relative prices, external accounts and public finances – to which the improvement in the terms of trade was added in SA – framed faster growth processes than in the past that avoid ending up in crisis. Overall inflation remained under control (for example in Chile, Peru, Colombia and Brazil). On the other hand, Argentina is an exemplary case in which the acceleration of inflation put a brake on the trends in employment growth, the reduction in poverty and the improving in income distribution that had been achieved in the period 2002-2007.

The analysis developed in the paper attempts to identify the elements of the macroeconomic policies implemented in AL that contributed to induce rapid growth in productivity and employment in a sustainable manner. We also show the effects of such processes on the poverty reduction verified in many countries. Our analysis emphasizes the role of real exchange rates at a competitive level in the generation of these processes.

As a way of conclusion we suggest in this section the guidelines of a macroeconomic policy regime capable of simultaneously attaining several targets, including the promotion of growth and employment, the control of inflation and the prevention of external and financial crises. The guidelines are based on both the negative and positive experiences of developing countries along the process of financial liberalization. LA is the region with the longest experience because its insertion into the process dates from the late seventies. The contributions of the LA experience mostly come from the negative cases. Deep real exchange rate appreciation episodes with devastating effects on employment and balance of payments and financial crises were frequent in the region from the late seventies up to the early 2000s. The post 2002 regional performance, particularly the performance of the SA subregion, vividly contrasts with the previous thirty years, although no LA country could be taken as a role model of the implementation of the guidelines. Argentina in the period 2002-2007 is the case in which the implemented policies followed the guidelines more closely, but other economies in the SA subregion implemented in different degrees similar orientations.

The most general lesson that can be learnt by contrasting the developing countries experience in the 2000s, including their performance during the global crisis, with the previous three decades of financial globalization, is the crucial importance of macroeconomic policies in promoting growth, employment, financial stability and robustness vis-à-vis real and financial external shocks. Our main claim in this regard is that there is a set of viable and consistent macroeconomic policies – such as those stylized by the suggested guidelines – that contribute to the simultaneous

accomplishment of the mentioned objectives. This idea contends with the notion that postulates the existence of a trilemma of policy options that would make inconsistent the simultaneous pursuing of competitive RERs and active monetary policies. In contexts like those experienced by the SA countries in the 2000s – i.e. excess supply of foreign currency at the exchange rate targeted by the monetary authority – the trilemma does not hold and it is possible to simultaneously control the exchange rate and the domestic interest rate.

The first subset of guidelines focuses on the promotion of growth and employment, the robustness of external accounts and the prevention of crises against negative external shocks. It comprises: *i)* a managed floating exchange rate regime, combining exchange rate flexibility with discretionary interventions by the central bank in the foreign exchange (FX) market; *ii)* a competitive level trend in the real exchange rate (RER), avoiding strong appreciations in the short run; *iii)* a surplus trend in the current account of the balance of payments and moderate current account deficits in the short run; *iv)* the accumulation of sizeable international reserves.

Relatively high rates of growth and employment are fostered by the competitive trend in the RER. The current account surplus trend plus the accumulation of reserves warrant the sustainability of the growth process by helping to avoid external crisis and cushioning negative real and financial external shocks.

The policies involving the RER, the external accounts and the reserves management should be accompanied by consistent fiscal and monetary policies focused on the control of aggregate demand and inflation. An important point in this regard is that in a context of managed floating exchange rate, competitive RER level and surplus trend in the current account, generally exists a considerable degree of monetary autonomy that allows the implementation of active monetary policies. So, with regard to monetary policy, the suggested guideline is: *v)* an active monetary policy, facilitated by the sterilization of the interventions in the FX market and the inexistence of fiscal dominance.

As we comment below, coordination between the three macroeconomic policies, exchange rate, monetary and fiscal, is essential in this regime. In particular, monetary policy should be implemented in coordination with short run fiscal policy. Depending on the pressures in the foreign exchange market, capital controls might be necessary to simultaneously attain the preservation of competitive RERs (or avoid appreciations) and the preservation of monetary autonomy.

As in any macroeconomic policy regime, short run fiscal policy can be either expansionary or contractionary. Although we point out below that in this regime monetary and fiscal policies should normally play a braking role on the aggregate demand dynamics, our last guideline refers to the orientation in the fiscal accounts:

iv) an equilibrium trend in the fiscal accounts and moderate fiscal deficits in the short run. The orientation focuses on allowing counter-cyclical policies in the short run (aggregate demand and inflation control in the booming phases and expansionary stimuli in the recessionary phases) and on avoiding the accumulation of significant public debts.

In what follows we discuss how these elements need to be coordinated in the proposed macroeconomic policy regime.

4.1 The coordination of macroeconomic policies

A competitive RER provides a conducive environment for growth and development. This view has long been stressed by development economists and recently documented in many econometric studies. The growth-enhancing attributes of a competitive RER operate through the enhancement of tradable sector profitability. As this sector expands, it relaxes the balance-of-payment constraint to growth and generates positive externalities to the rest of the economy in the form of learning-by-doing externalities and technological spillovers.

The adoption of a RER target is a singularity of the proposed macroeconomic policy regime, which we call the Stable and Competitive Real Exchange Rate (SCRER) regime. In addition to the standard policy objectives of any macroeconomic regime; namely, inflation and employment and activity levels, the SCRER regime also pursues economic development as an objective. The trend of the RER is the intermediate target for such an objective, in the same way a reference interest rate or a given fiscal budget operate as intermediate targets for monetary and fiscal policies focusing on inflation and employment. Once a determined trend for the RER is adopted, exchange rate policy focuses exclusively on both granting short-term volatility of the nominal exchange rate (NER) and preserving the long term stability of the RER. Thus, in normal times the NER cannot be oriented towards any other macroeconomic objective such as inflation or inflation expectations. The control of aggregate demand, inflation and inflation expectations rests on monetary and fiscal policy (an also on other policies not discussed here, such as wage and incomes policies). The role of these policies in a SCRER regime is crucial at moderating the pace of aggregate demand and inflation pressures, because the SCRER – by enhancing employment growth and capital accumulation in the tradable sector – has by itself an expansionary bias on aggregate demand. So, in the SCRER regime the three macroeconomic policies are active.

In the SCRER regime the coordination of macroeconomic policy is essential. In the first place, the intermediate targets of fiscal and monetary policies and their design should be consistent with the stability of the RER trend target.

For instance, it is difficult to preserve the stability of the RER trend in a context of accelerating inflationary expectations. This is the problem that the Argentine authorities could not resolve as from 2007 and led to a significant RER appreciation. On the other hand, as was already mentioned, a SCRER has a permanent expansionary effect on aggregate demand. Monetary and fiscal policies must take into account that effect and must be consistently designed and implemented in order to attain the multiple real and inflation objectives.

4.2 The SCRER and the inflation pressure

As we discussed above, in the proposed macroeconomic regime, because exchange rate policy is committed to the preservation of a SCRER target and because of its expansionary bias, aggregate demand management rests on monetary and fiscal policies. In normal times, these policies have to largely play braking roles on the aggregate demand and inflationary pressures.

The management of policies in the SCRER regime is not simple. On the one hand, there is a tension between the preservation of the SCRER target and the aggregate demand and inflation control. On the other hand, the braking role that monetary and fiscal policies should normally play in this context demands a sophisticated political leadership. Both observations stress the importance of macroeconomic policies coordination at the highest level of the economic policy administration.

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AFRICA HUNGER: LAND AND AGRICULTURAL INVESTMENT IN THE AFRICAN CONTINENT*

Beluce Bellucci**

In the first decade of this century, 203 million ha of land, in the world, were acquired by foreigners, 134 million of that are located in Africa. That "rush for land", promoted by the developed countries, or developing countries (including Brazil), is characterized by agricultural investment and the acquisition of land to satisfy food and energy demands. Seventy eight percent of the land acquired, were targeted for agricultural activities. The article presents the main discussions on investment in land and agricultural investment in Africa, its opportunities, potentials, risks and prospects. There is a "hoarding" of land and a "new form of colonization", or is it business opportunities and "agricultural development"? Within this framework, where the acquisition and the presence of large foreign investors is already a fact, it discusses the conflict between the traditional right of African societies and State law, which are subjected the people. Whose owns the land and what are their safeguards? It also discusses the aims of agricultural production, if it is for food or energy, and the models of agriculture, whether intensive or extensive, at stake among international investors, governments and local populations, warning of the risks and opportunities.

Keywords: investment in land; agricultural investment; international investment; Africa; rush for land.

FOME DE ÁFRICA: TERRA E INVESTIMENTO AGRÍCOLA NO CONTINENTE AFRICANO

Na primeira década do século XXI, em todo o mundo foram adquiridos, por estrangeiros, 203 milhões de hectares de terras, sendo 134 milhões localizados na África. Esta "corrida às terras", promovida por países desenvolvidos ou em desenvolvimento, entre os quais o Brasil, é caracterizada por investimento agrícola e pela aquisição de terras para satisfazer basicamente demandas alimentares ou energéticas. Das terras adquiridas, 78% foram direcionadas para atividades agrícolas. Este artigo traz as principais discussões sobre o investimento fundiário e agrícola na África, suas possibilidades, potencialidades, riscos e perspectivas. Existe um "açambarcamento" das terras e uma "nova forma de colonização", ou trata-se de oportunidades de negócios e de "desenvolvimento da agricultura"? Nesse quadro, em que a aquisição e a presença de grandes investidores estrangeiros é já um fato, discute-se à luz do conflito entre o direito tradicional das sociedades africanas e a lei de Estado, a que estão submetidas as populações. De quem são as terras e quais as garantias? Discutem-se também os objetivos da produção agrícola, se alimentar ou energética, e os modelos de agricultura, se intensiva ou extensiva, que estão em jogo entre os investidores internacionais, os governos e as populações locais, alertando os riscos e as oportunidades.

Palavras-chave: investimento fundiário; investimento agrícola; investimento internacional; África; corrida às terras.

JEL: F-21, F-54, K-11, Q-15.

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1 INTRODUCTION

The hunger in Africa is widely known by the general public and remains a recurring theme on the media when referring to that continent. At the same time, it is said (when not intuited by the common sense in Brazil) that the lands located at the south of the Sahara Desert are vast and not economically used in its majority, or that it is covered by forests inhabited by wild animals. With democratic governments of neoliberal orientation in almost every country, with growing insertions in the world's capital and product markets, Africa presented a significant growth in the first decade of the 21st Century. In a "(...) context of high prices and food crisis, international 'appropriations' of agricultural land, climate change and frequent warnings of degradation or shortage of agricultural land" (Roudart, 2010a), Africa becomes the locus of great global interest for agricultural and land investments.

The "rush for land"¹ is carried out by developed and developing countries to satisfy food and energy demands. This demand is a result of the population growth or the shortage of internal production – either by the absence of available land at its own country or by political choice – and it is a recent phenomenon. The land acquired by foreigners around the world, between 2000 and 2010, reached 203 million hectare (ha) – a surface equivalent to eight times the size of the United Kingdom – with Africa being its main target with 134 million (Anseeuw *et al.*, 2012a, p. 4-5). From all the land acquired by foreigners, 78% were directed for agricultural production. Although the gap between intention and reality must be taken into consideration, face the difference between the land announced as only acquired and the one really under exploitation. But this does not diminish the severity of the issue, nor the international investors' "hunger for Africa".

It seems that Brazil is preparing itself to enter this market vigorously. In 2011, the government of Mozambique offered Brazilian entrepreneurs a region corresponding to the size of three times the Brazilian state of *Sergipe*, to be leased for a long term under negotiable conditions. The former president Luiz Inácio Lula da Silva, in a speech at the Economic and Social Development National Bank (BNDES) in May 2012 emphasized the opportunities for Brazilian businesses that may result from the investments in Africa, in sectors such as infrastructure, oil and agribusiness (*Folha de S.Paulo*, 2012, p. A8).

1. Several concepts are employed to classify this phenomenon. The MAEE - Ministère des Affaires Étrangères et Européennes from França (MAEE, 2010), uses the expression "appropriation and concentration of land in large scale", separating the concept of "hoarding" (control and concentration). The World Bank prefers "massive acquisition of land", focusing on the mercantile nature of land; others employ "commercial pressure over land", a somewhat sectorial view, as the International Land Coalition; others still uses "disposal of agricultural assets", a financial conception, as the Centre D'Analyse Stratégique at the service of the French Prime Minister. Numerous researchers and non-governmental organizations (NGOs) use the expression "land hoarding". The dimension of what has been occurring and the debate around the theme justifies the use of the term "hoarding" or "appropriation and concentration of land in large scale".

The research undertaken by the Brazil-United States Chamber of Commerce (Ancham) listened to presidents, CEOs, vice-presidents and directors of 84 big industries of the sector, pointing out that

at least 25% of the interviewees responded that the African countries are at the center of their investment interests, commercial partnerships or international operations. The CEO of Ancham, Gabriel Rico, remembered that Africa was not even mentioned at their last report. According to him, the tendency is to increase the Brazilian interest in the continent (Agrovalor, 2012).

China, India, South Korea and the countries in the Pacific Gulf have been already establishing themselves in Africa for a few years.

Based on the studies *Les droits fonciers et la ruée sur les terres*, from Anseeuw et al. (2012b); *Couvertures et usages agricoles des terres à l'échelle mondiale: analyse et comparaison des bases de données sur la situation actuelle sur les évolutions possibles*, from Roudart (2010b); the articles from the 2011 dossier of the French magazine *Afrique Contemporaine* n. 237, the reports *Les appropriations de terres à grande échelle e Analyse du phénomène et propositions d'orientations do Comité Technique "Foncier et Développement"* (2009; 2010), the reports of the United Nations Food and Development Organization (FAO) and other international institutions, this article highlights the most relevant issues raised over the agricultural investments in Africa, its possibilities, potentialities, risks and perspectives. These are complex points that get contradictorily polarized, nevertheless the investment in agricultural land is considered as "hoarding" and treated as a "new form of colonization", as the South-African Minister of Agriculture Tina Joremat-Petersson states (*Le Monde*, edition of December 11-12, 2011), or as "agricultural development", as it is preferred by foreign investors, whose invested amounts cannot stop to grow.

In any case, far from being victims, the African countries, through the action of its governments, play a relevant role in the promotion and reception of these investments, which have been producing deep and irreversible impacts both environmentally and on its own populations, particularly the rural ones.

The purpose of this text is to contribute to the knowledge of what is occurring in terms of land and agricultural investment in the African continent, so that, in the future, the Brazilian presence finds more dignifying solidarity means and establishes a strategic partnership that goes beyond the current standards. Besides this introduction, the paper is divided in six sections: section 2, Rush to land: searching for what?; section 3, Available land: myth or reality?; section 4: Traditional law and State rights; section 5, Land and agricultural investment; section 6: Biofuels, and section 7, Final remarks.

2 RUSH FOR LAND: SEARCHING FOR WHAT?

One of the reasons explaining the flow of agricultural investment in African lands, far from the mere solidarity with the African people, is related to the world hunger and its perspective for 2050. The population growth evolution and family income resulted from the economic development influence on the global demand for food.

In 1950, the world's population was 3 billion people, it grew to 3.7 billion in 1970 and it closed as 6.8 billion in 2012. In 2050, the demographic projections of the United Nations – UN (2009) foresee this number to be between 8 and 11 billion individuals.² In 2002, 75% of the poor people living in developing countries reside in rural areas. Today, it is estimated that 1 billion people are undernourished, of which 75% are peasants from developing countries.

At the same time, FAO is constantly reminding that 1 billion individuals on Earth, the majority in Africa, do not eat enough to satisfy their hunger. The standard of living in the sub-Saharan Africa did not increase between 1975 and 2008, while it was multiplied by three in countries from South Asia, and by nine in East and Pacific Asia (Dabat, 2011).

The median projections for the world's population for 2050 are 9 billion people. On this hypothesis, the population growth for the next 40 years will be 2.3 billion individuals. Almost the totality of the world's population, between 6.7 and 7.9 billion, will live in developing countries (Vergez, 2011). And this population shall be fed.

On the other hand, the eventual growth of real income per person causes changes in feeding behavior, increasingly favoring the consumption of red meat. However, when we compare the regimes with or without meat, both protein calorie isolation regimes, the one containing meat requires more vegetable products, and the agricultural production for its satisfaction must be higher. Which is the same as saying that more meat requires more land for agriculture (Vergez, 2011, p.34). It is estimated³ that 1 billion tons of cereals and 200 billion tons more of meat must be produced every year, in global terms, in relationship to the amount produced in 2005.

The rate of population growth in the African continent between 1970 and 2006 was 157%,⁴ and the current population is 1 billion people, which may

2. The opening of this possibility is explained by the different hypothesis for the evolution of the main variables that control the size of the population. The ones concerning the evolution of fertility, mortality, and life expectancy rates and the impact of aids in the developing countries are no longer determinant. The probability that the global population is between 7.8 billion and 9.9 billion inhabitants in 2050 is 80%, which corresponds to a growth rate between 15% and 46% (Lutz, Sanderson and Scherbov, 2008; Vergez, 2011).

3. In order to satisfy a medium level of 3,130 kcal/day per person, the world's agricultural production shall increase globally in 70% and 100% in the developing countries (Bruinsma, 2009).

4. 129% in North Africa, 174% in Western Africa, 161% in Eastern Africa, 184% in Central Africa and 119% in Southern Africa (UN, 2009).

reach something between 1.7 billion and 2.7 billion in 2050, according to the projections' hypothesis. In countries like Burkina Faso, Niger, Somalia and Uganda, the population should grow 150% (ONU, 2009).

With 13% of the world's population, the South-Saharan Africa concentrates 25% of the world's undernourished population, where, as a result of its demographic growth, the availability of arable land per person is decreasing – from 0.5 ha in 1950 to 0.23 ha in 2011 –, which in consequence transforms 50 thousand ha of forest every year and 60 thousand ha of cultivated fields (Rainelli, 2007, p. 21; Rochegude, 2011, p. 85).

The perspectives for demographic evolution and income increase, added to the effects of the global financial crisis of 2008 and the growth in the demand for feeding products, pressured the prices of agricultural products and, consequently, impelled the search for land to produce them. In other words, the conjunction of the food and financial crisis transformed the agricultural lands in a new strategic asset. But the prices of land did not follow the level of food growth and, in many places, as in Africa, they remain low, while they showed an increase of 16% in Brazil, 31% in Poland, and 15% in the United States' mid-western states, only in 2007 (Grain, 2008 apud Dabat, 2011, p. 99).

Within this framework, the great corporations, the research and cooperation centers, the multilateral organisms, the investment groups and the governments of their countries of origin and the ones that host the land and agricultural investments, discuss the type of agriculture – intensive or extensive? – what land to occupy and with what judicial guarantees – to whom the lands belong to? – what products to pursue – food or energetic? – what social model to organize – employees in large companies or modalities articulated with peasants? – as well as the political, social and environmental consequences.

2.1 Increase food production

The perspective for 2050 predicts that 90% of the vegetative growth⁵ in the developing countries would result from the revenue and the annual cycles per ha, products of technical progress, with more and better irrigation and increased diversity of revenue. The remaining growth required for the agricultural population would result of the expansion of 70 million ha (+5%) of arable land. The general increase would be caused by a growth of 120 million ha (+12%) in developed countries and a decrease of 50 million ha (-8%) in developing countries. The growth of arable land in the developing countries would happen exclusively in Latin America and in the South-Saharan Africa (Bruinsma, 2009).

5. For the developed countries, this rate would be 80%.

The arable land in the South-Saharan Africa increased 31% between 1961 and 2005 and will grow 25% between 2005 and 2050. On the other hand, the cultural intensity – number of cycles per ha/year – increased 31% at the same period and will not increase more than 6% until 2050. The perspective to double the population of the African continent until 2050 imposes at least two key questions. The first one related to the environment, as the agricultural production and cattle raising compete with forest areas for space. The second linked to the economic aspects, as the decrease in poverty and hunger change the technical and social relations of rural production, with deep social and political repercussions.

The comeback of the agricultural problem to the international forum agenda, with important reflections about how to feed 9 billion human beings in 2050, simultaneously opened profit prospects and business opportunities with activities that can “move mountains”. In this sense, different strategies are organized, one directed for the development of an intensive agriculture, another for an extensive agriculture.

2.2 Intensive or extensive agriculture?

With the purpose of producing food and preserving the environment, two contradictory strategies of agricultural development have been raised: the intensive and extensive. About the advantages and the risks, in one case or the other, there is great controversy among the opposing interests and little certainty about it.

The extensive strategy (*extensification*, in French) consists in reducing the application of assets per cultivated space, which preserves the environment and the biodiversity. Its consequence is the decreased land revenue, and it requires, therefore, a greater quantity of agricultural land (wildlife-friendly) to produce the same quantity as a system with higher land revenue.

The classic intensification strategy – the “green revolution” – comes to maximize the revenue per ha and the cultural intensity using synthetic and irrigation inputs that degrade the environment in the cultivated allotment, but allows a smaller area for production (land sparing).

Guaranteeing the agricultural production necessary to satisfy the demand and, at the same time, minimizing the environmental damage requires the political arbitration between the models that depend on the adjustment of these forces.

The environmental assessment is complex because as the intensification has two simultaneous and antagonistic effects over the environment: one negative over the local medium (cultivated terrain), and other, positive, over the global environment (preservation of public property with the biodiversity and the climatic stability). Symmetrically, the extensive strategy allows the decrease in pollution over the spaces cultivated (wild-life friendly, favorable to the biodiversity in cultivated spaces), but

it exert more pressure indirectly, inciting the production in other places, that is, to look for more non-cultivated spaces, forests (Vergez, 2011, p. 37).

The extensive strategy is more intensely defended by naturalists and associations for nature conservancy that do not consider the land economy allowed by intensification in its models. Vergez (2011) points out several studies about intensive and extensive agriculture and its impacts on the environment. The results found differ, varying according to the conditions.⁶

The arguments favoring the intensification supported by environmental factors are rarer. However, Burney *et al.* (2010) retrospectively estimates the gas emissions with greenhouse effects, prevented as a result of the intensification of agriculture (1961-2005), concluding that the public investments in agronomic research to increase revenue are actions against climate change.

Similarly, Ghazoul *et al.* (2010) thinks that the generalized extensive strategy “is not a realistic or credible strategy in the long term” in order to protect the environment, given the growth of food demand and other uses – biofuels – and the willingness to apply measures to reduce the emissions linked to deforestation and forest degradation.

Besides these aspects, two other issues associated with the intensive or extensive strategies are raised by Verges (2011). The first is that, under the intensification perspective, there is an alternative to search for the increase in land production outside the increase of synthetic inputs, responsible for the pollutions and erosions of biodiversity. This is the alternative known as “ecological intensification” (Griffon, 2006), that is, through the functional biodiversity for the protection against erosion, maintenance and restoration of fertility, azote fixation, recycling of mineral elements, etc., object of studies at the global centers linked to the network of the Consultative Group for International Agricultural Research (CGIAR).⁷

6. The model defined by Green *et al.* (2005) takes into consideration the impact over biodiversity and explicit the conditions in which the effects of land sparing are more beneficial than the effect of the “preservation of the cultivated area”, and the conditions where the best option is to intensify agriculture on behalf of the environment. These conditions concern the corresponding speeds of biodiversity degradation as the revenue increases in relationship to the cultivated space and that the virgin land are deforested to be cultivated. The decision rule lies in these two speeds. The studies of Balmford *et al.* (2005) point out that the variable revenue has a significant effect over the quantity of land needed to satisfy demand, when the analyzed the solidity of the link between the increase in revenue and the land sparing effect for 23 main food cultures. On the other hand, Ewers *et al.* (2009) present a nuance to this result, analyzing – for 24 countries during the period between 1979-1999 – the relationship between the revenue and the ratio of cultivated land per inhabitant – for the same cultures –. But they studied at the same time the surfaces cultivated by other cultures, besides the basic 23, and concluded that the relationship between the increase in the revenue of the 23 cultures and the low index of cultivated land per inhabitant occurs in the developing countries, but is too weak; this relationship was not detected at the developed countries. Then, the land sparing effect would not be systematic (Vergez, 2011).

7. Pretty *et al.* (2006) analyzed numerous agricultural projects, covering 37 million ha in 57 poor countries and showed that the techniques which are closer to the ecological intensification, with little use of external inputs, preserved the resources and allowed the increase in revenue, with great results for the African countries (Vergez, 2011).

The second issue regards the interaction of agricultural development trajectories – intensive or extensive – with the problem of rural poverty and, particularly, the poverty of the active agricultural workforce. The land productivity is one of the components of productivity of the agricultural work, and this depends on the average number of ha cultivated by agricultural worker, variable determined by the structural economic transformations, as the absorption of agricultural workers by the industrial and service sectors. In this absorption, if the absolute number of agricultural workers decreases, the cultivated surface by agricultural worker may increase, an important leverage of agricultural work's productivity (Timmer, 1988). The issue is to know in which of the paths the absorption of part of the agricultural workers and, therefore, the decrease of agricultural assets – leverage of the productivity of agricultural work – is the healthiest.

3 AVAILABLE LAND: MYTH OR REALITY?

Once the availability of land is a key variable to determine the degree of influence of the strategies to be implemented, doubt is raised if the existence sufficient land for agricultural production to satisfy the future demand in 2050 is a myth or reality.

3.1 Myth

On the one side, there are studies that question the idea of a big quantity of farmable land (Young, 2000; Bruinsma, 2009). For the period between 1995 and 2050, Collomb (1999) shows that it would be necessary to multiply the availabilities in kilocalories (Kcal) of vegetal origin by two in order to feed humanity, and by two and a half for countries in the south, and by five for the African countries. Gueye (2003) shows that land became a scarce resource in Africa throughout the last four decades. The population growth pressures land – in Ghana, the cultivated surfaces went from 14.5% to 22.5% of the national territory, and in Ivory Coast, from 8.5% to 23.5% between 1961 and 1999. Simultaneously, the cultivated surface per inhabitant decreased⁸ and the vulnerability of units of the poorest increased. This situation drives the family agricultural units, poorly provided of financial resources, the progressive undercapitalization and the recycling for other activities or as agricultural workers (Bélières *et al.*, 2003). This phenomenon is recurring in the urban peripheral zones with agricultural potential. It is also noted that the urbanization process, in which more than 60% of the population of West Africa will live in cities up to 2020, what represents great challenges for family agriculture producer of food in the region. This is a recurring problem in several other African regions.

8. At the Office zone from Niger to Mali, the cultivated surface went from 0.38 ha to 0.22 ha for winter rice between 1987 and 1999.

These studies raised the issue that a possible extensive strategy in agriculture requires firstly the recognition of the growth in the demand for food and the indication of new land to be cultivated. To this debate, add also the discussion about the use of land available for agro-food or energy products.

3.2 Reality

On the opposite spectrum, defending that there is sufficient land, Roudart (2010a, p. 41-42), in an exhaustive study about the world's land, concludes that:

(...) the databases we analyzed show that the usable land in pluvial culture and the not cultivated ones, are not, and will not be in the short run, a rare resource in planetary scale: according to these data, it will be possible to double the world's cultivated surface without advancing over the forests and leaving aside part of the low revenue land; it will be possible to multiply this surface by 1.6, excluding the cultivation of the currently protected zones. On the other hand, the global warming can lead to a modest growth of the farmable surfaces in the world.

The not cultivated farmable surfaces are abundant in South America and Sub-Saharan Africa. However, they are rare, if not inexistent, in the Middle East and Asia. As a result, South and Southeast Asia may suffer with the global warming. In global scale, the usable land surfaces in pluvial culture are much superior to the surfaces necessary to ensure, at the same time, the food safety conditions for the whole humanity and a certain development of cultures for biofuels. This conclusion continues to be valid even in the hypothesis of a weak increase in the revenue from cultures, in a scenario of double green sustainable revolution, and even excluding the cultivation in any forest or any currently protected zone. The sustainable valuation of these resources in farmable land requires appropriate public policies for agricultural prices, for land access, and research and development oriented to the needs and possibilities of poor producers.

The same study indicates that the land cultivated in the world today represent 38% to 45% of farmable land. The possibilities for expansion vary according to the region and are not very high in America, especially the South, and Africa, especially the Central. Half of the land available is concentrated in seven countries: Brazil, Democratic Republic of Congo, Sudan, Argentina, Colombia, Bolivia and Russia. In the South-Saharan Africa, only 20% of farmable land would be cultivated. The possibilities for expansion of cultivated surfaces would be 200 million in Eastern and Central Africa, 90 million ha in Western Africa and 50 million ha in North Africa.

For other authors, for example, Dabat (2011), it is possible that this land participate in the supply of biofuels. In order for Africa to provide 5% of the biofuels consumed by the European Union and the United States in 2020, something between 3 million ha to 14 million ha would be needed, depending on the culture. Similarly, to allow the African countries to replace 10% of its transportation fuels

with biofuels produced locally until 2020, the land requirements would be similar. And these areas would be limited to 5% of the agricultural land available in Africa, according to FAO (2008). Thus, through careful planning about the use of the land, the production of biofuels could be combined with the required food production.

However, the availability of agricultural land for agricultural production does not mean that it is legally available, or yet, that the best option is to use it for intensive agriculture or the production of biofuels, even in family units.

4 TRADITIONAL LAW AND STATE LAW

The definition of land availability in Africa is also a controversial and ambiguous criterion. For investors, the land that is not occupied through modern techniques is considered empty, idle. Nevertheless, many of this land supposedly available are, in fact, used by populations for their own survival, whether for transhumance, source of firewood, fruit crops, or they are idle to enter in future agricultural production. The rotations between pasture and agriculture, as well as idle soils, are part of these systems. Often these uses are not legally recognized because the users are excluded from the official right to the land. It must also be considered that the population growth foreseen and the demographic transition from the rural to the urban area will occupy part of this land (Dabat, 2011, p. 103).

The current land rules work at the same time as facilitators and obstacles to investment. The land statute sets out, on the one hand, the customary, traditional right that lies at the non-written consensus, established locally through evolving rules and, on the other, the written legislation, inherited from the colonial period, with administrative procedures for the creation of private property (Lavigne-Delville, 1998). The African rural population, although enjoying land rights locally recognized as legitimate, is constantly facing the danger of these rights being taken away by the State or third parties, with no guarantee of compensation or reparation (Comité Technique "Foncier et développement", 2009). At the same time, foreign investors negotiate with States for the acquisition of this land by purchase or leasing. Consequently, the procedures for the land acquisition face technical discussions about the right to the soil and the public administration registry, frequently leading to costs higher than the ones foreseen for the culture and the outflow of products. Such problems have often caused the departure of investors (Dabat, 2011), thus becoming a risk factor.

4.1 Land access

The agricultural activity employs the majority of the African active population and ensures an important percentage of its exports and its gross domestic product (GDP). Essential to agriculture, the soil has an important place in the

questioning about the investments and the “land hoarding”, exposing the complexity of the land situation in Africa.

The access to the land is the central dispute between the rural population, trying to survive, and the investors, longing for profits. With distinct expectations over the land, and almost always competing, both try to position themselves in the best quality soils, near communication paths, water sources, and markets. Rochegude (2011) proposes that an investment policy must distinguish the soil as object of investment and a condition for the access to investments.

For family cultivators, the right over the soil constitutes itself on the basis of “practical right”, customary, that is, a set of norms established according to the community visions. There is a real problem to know the judicial value, at the legal system, of these norms and its current use and interpretation. The specific provisions of the legislation on agricultural planning and rural development must be examined, which translate options for sectorial policies, including land provisions, frequently incoherent with the land code in place, as in Mali and Senegal (Rochegude, 2011, p. 87).

4.2 State Land

From the colonial period on, the rule was to oppose the rights legally established by the State over the practices and costumes, considered as possession with no rights. In the best case scenario, as “right to use” tolerated by the State, while this did not need the terrain to respond to the demands by investors, people dominating the written right in order to “expropriate” the traditional explorations (annexe A).

This position, also adopted by the African States after their independencies, was judicially founded in the presumption that the terrains with no legal title belonged to the State, which was questioned by the rural players. And this model served the development projects in the period within 1960-1980. With the neo-liberal measures, particularly from 1990 on, many countries validated the local rights by means of rural plans. The conciliation of legitimacy and jurisdiction justified the evolution of the legal systems and gave a more important position to non-written land rights. These procedures served the ongoing decentralization and liberalization processes.

According to Rochegude (2011), such procedures started to be used both in countries with Anglo-Saxon judicial tradition and the ones with Lusophone or Francophone traditions.⁹ They guarantee as legitimate the land rights locally

9. It is worth to mention the The Land Village Act of Tanzania, n° 7/1999; Law of Rural Land Domain from the Ivory Coast, n° 98-750/1998; in Madagascar, Law n° 2005-19, which fixates the statutes of land and Law n°, 2006-31, on land property; in Angola, the Land Law, n° 9/2004; in Benin, Law n° 2007-03, on the Rural Land Regime; the Land Law of Mozambique, n°19/1997. For more details, refer to annex B.

claimed by the users and, for that, local, public and contradictory assessments are organized, which allow the census of rights over the parcels and its limits, at the presence of witnesses, without recurring to the State administration – surveyors and registries. These procedures solve the land conflicts in advance.

However, there are differences in legislation that bring consequences to rural investors. In certain cases, the custom validation provision is territorially limited, as in Tanzania, where the land right of the village,¹⁰ applies exclusively in the village's own territory; in Madagascar, the land certificate is valid until the legal evidence to the contrary. The validation period of the land title may also vary. In certain cases, the local right documents can be transformed, or not, into unquestionable land titles. Depending on the country, not all documents which recognize customary rights allow the termination of plain property or a long term leasing – long leasing.

Together with the traditional law, there is the provision for the recognition of land property, in the classical sense, in almost every country.

Investors need an absolute land guarantee and, therefore, search for land systems that recognize the property through a legal title that defines a geographically limited surface. They need to guarantee, over time, the access to the terrains in order to explore it or make it explored and, therefore, the property of the soil has to be guaranteed, whether on his hands or on the hands of third parties.

4.3 The land book

The land book, known as the Torrens system (annexe C), is a legal instrument widely spread in the South-Saharan Africa which associates the terrain registration to the subscription of rights. It appears as a perfect instrument to guarantee the right to property, but it supposes a precise and comprehensive administrative logistics, especially on conservation, which in practice go rarely together. However, the coherence of legal and topographic information is not always ensured, resulting in judicial uncertainty that could lead to confusion and conflict that affect the titles' value. Therefore, it was necessary to enforce – as in Cameroon – provisions to give an unquestionable aspect to the title. But, as this would be expensive, it ends up being only applied to the more resourceful producers. It is understandable, then, under these conditions, this type of registration is not widely used, varying from 5% and 10% of terrains, according to the country (Rochegude, 2011, p. 90).

It is still possible to find investors who acquire the soil through administrative procedures, in state, ownership terrains. The government administratively designates

10. An administrative base circumscription, in the Tanzanian sense of village.

a terrain for economic exploration, with a pre-determined duration, according to the modalities of the act of distribution and the specifications. At the end of the term, if the project is considered explored, the tributary person may obtain the right to property, which is named differently depending on the country: occupation authorization, concession, etc.

4.4 Legislation for foreigners

The qualification of foreign investors varies according to each country's legislation. The property of the soil is almost always prohibited by law – Madagascar, Uganda – or constitutionally – Democratic Republic of Congo. This, it is necessary to resort to long term leasing modalities, which would allow the amortization of the investments made. A formula widely applied is the long term lease, in which the terrain is made available to the lessee upon a relatively low rent and allows the proprietary of the terrain to recover, at the end of the term, the improvements and infrastructure performed. The duration is long, generally between 50 and 99 years. This lease requires the right to property. The assumption of ownership claimed by the State allows the lessee to behave as the owner and, therefore, close such deals. However, the evolution of land systems, going from the hands of the State to the local population make the procedures more complex for land investors who should, then, negotiate with numerous holders of traditional rights, and not only with the State.

Occasionally, while the land legislation excludes foreigners, the law on land investment for foreigners allows them to benefit from specific judicial conditions.¹¹

4.5 Warranties

The land as investment requirement means to mobilize the right to the soil as warranty for funding and other sectorial legal provisions, notably the ones relative to the natural resources and the environment.

The World Bank (*Agriculture...*, 2008, p. 165) highlights the link between land and investment: "The effective land administration systems, in terms of cost, facilitate the agricultural investment, lower the cost of credit recurring more to the land as an asset offered as warranty for loans". Beyond the judicial diversity, the provisions of land warranty are generally the same, mortgage or pawn, regardless of the credit's nature.

The mortgage is a "classic" model of property right constitution as warranty for a credit, and only the holder of a property right legally admitted can constitute

11. In Madagascar, foreigners cannot acquire terrains, but the law on investments (Law no. 2007-036, from January 14th, 2008) states that "(...) Malagasy legal societies in which management is under the control of foreigners, foreign-dependent organisms (...) are authorized to acquire retail properties, upon previous authorization and use the retail property for continuous agricultural activity. The arbitration between the land text and the text on investments will be done considering the common law principle, according to the most recent text (annexe D).

a land asset as warranty. In countries that use the “land book system”, the constitution of mortgage justifies specific procedure and registration in the book, but also a specific seizure procedure of the asset bonded by judicial execution, in case of no reimbursement.

At the attributions of the soil by the State, it is recommendable to resort to the safeguards of rights attribution. Indeed, the rights of these administrative acts are generally considered personal and not real (Roche-gude, 2011). They are not consequences of the property right and are not judicially susceptible to bond. There is a contradictory aspect already predicted by the French colonial administration. The valorization of the terrain was needed in order to preserve it and, at the same time, it was not possible to find appropriate funding for lack of warranty. Then, the possibility of pawning was instituted. This provision was recovered in certain countries after the independence. “This distinction between mortgage and pawning is not only theoretical, but it is essential to financial institutions, as what is at stake is the “asset” under warranty, in one case the property, and in the other, the right to occupy and use the property” (Roche-gude, 2011, p. 92).

At last, there are several traditional modalities of land warranty constitution, always imposing the observation of the legislation of each country. Regarding the forest areas, in the 1990s, the State lost the conservation and exploration control, until then, almost a monopoly, and introduced a participating approach, integrating the population in those activities, particularly in regards to forest management. Most recently, it was increasingly decentralized, incorporating the collectivities and the traditional rights of exploration modes. Even though, the State keeps being the owner of forest areas, considered empty.

In regards to the areas for cattle raising, the rights vary. The increase of cultivation areas affected the availability of cattle raising areas. In a great portion of the African continent, as a result of the weather, the transhumance is used, where the cattle grazes moving through usually long paths, as in Sahel, which requires the feeding of the troop. As a result, the conflicts between peasants and shepherds are constant. After 1990, a multiplication of legislation¹² could be observed, which fixate the modalities for the identification of the access to the land and resources for the different players.

For the natural resources and biofuels, the investors also need to have access to the soil for the installation of the necessary infrastructure.¹³ Even considering

12. Known as “letter” or “pastoral code”, as the one from Mali, the Law no. 01-004, from February 27th, 2001. These laws trust decentralized collectivities with the responsibility of taking care of the limits in the land between cattle raising areas and agricultural cultures.

13. Remember the difficulties at the installation of the oil pipeline of Mondou in Chade, or in Kribi at Cameroon, and the conflicts between producers, environmental protectors and mining investors.

that there is a legislation to regulate the land issue against the mineral exploration, sometimes they foresee as an obligation of the mining explorer a lease contract for the use of the soil as the detainee of land rights. And, again, the complexity of land rights is imposed.

Finally, there are restrictions linked to environmental protection. Since the Rio-92 Conference, the view of sustainable development brought consequences to the agricultural investments. On the one hand, the need to strengthen the agricultural activities that produce less aggression to the environment and allow a better control of the inputs and water uses and, in the other, the need for protected spaces, prohibited to activities that may harm natural resources. In this manner, it is impotent to highlight that, besides the richness of the biodiversity of the African Continent, the destruction of nature is caused by both by the traditional fires for agricultural production and the large investors (Rochegude, 2011, p. 95).

In short, it is reasonable to say that the issue of land rights in Africa is extremely complex and that the current situation shows how much the rural population has been expropriated from their land, through several mechanisms, in order to satisfy investments, becoming landless, jobless and with no capital.

5 AGRICULTURAL AND LAND INVESTMENT

The study *Investment and Regulation of Large-scale Land Transactions in Eastern Africa* (OCDE, 2011) demonstrates concern with the land investments in Africa and its consequences and suggests caution when proposing a constant dialogue among the players involved.

Commercial transactions in African land are not a recent phenomenon, but the amplitude of the surfaces acquired and the extension of the phenomenon for a great number of countries until then abandoned by investors is the novelty. Investors, originating from different continents, acquire great surfaces for productions required by the global market (OECD, 2011, p. 48).

According to that document, the foreign investors sometimes compete with national investors, sometimes are part of business partnerships. The States are motivated to receive investors by the financial contribution to the agricultural sector, increasingly abandoned by the Public Support to Development (APD). The document still mentions that the large-scale land investments may contribute to the planning and furnishing of the rural sector and promote the agricultural development. However, differently from the previous programs, when the proposals are presented to the African countries as the best and only solution, now are presented as the anticipated fear of conflicts. As the agricultural investments offer "(...) many risks for agricultural safety of traditional rural producers and for the environment" (OECD, 2011, p.48). And these investments generate

uncertainties on players as a result of the lack of nationwide regulation mechanisms and due to the fact that the legal frameworks in place are not effective, nor efficient. Similarly, initiatives from regional organizations demonstrate the willingness to invest in the land issue, but the regional institutions are perceived as insufficient to regulate the large-scale land acquisitions. And it concludes that through “(...) constant dialogue among the different players involved about the potentialities identified may be transformed in concrete results” (OCDE, 2011, p. 48).

The agricultural and investments taking place in Africa for a few years are initiatives of large foreign groups, public or private, from emerging countries such as China, South Korea, Libya, South Africa, India, Saudi Arabia, countries from the Persian Gulf (annexe B), or not. Its consequences are still uncertain because of the risks for conflicts they bring in the agricultural, social and political realms, but also, because the private investment funds participate speculatively, searching for opportunities that aim exclusively to its own profits.

These investments take on multiple and heterogeneous contents and amplitudes and directly influence the food safety and the transformation of the agricultural sector in the South-Saharan Africa. At the same time, the impact of investments in non-food productions – in biofuels – in the countries facing food crisis, is also uncertain.

The total volume of APD engagements for the agricultural sector in Africa was reduced to US\$ 6.3 billion – amounts for 2007 –, which means almost half of what it was in the mid-1980s. When aggregating to this APD, the food support, food safety and rural development engagements, the annual commitments for the agricultural sector reached US\$ 12 billion (Gabas, 2011, p. 47).

While the APD¹⁴ destined to the agriculture was reduced from the end of the 1980s on, the foreign direct investment flows (IDE) for agriculture are situated above US\$ 3 billion per year since 2005, when it reached an average of US\$ 1 billion at the end of the 1990s. Although it must be considered that regarding other continents, Africa is still an outcast in this matter.¹⁵

Following the rise of food prices in 2008 and in the context of the global financial crisis, the world's press highlighted the large-scale land appropriation movements in some developing countries by the initiative of public companies and sovereign funds from emerging countries, such as China, Persian Gulf countries, Libya, South Korea, and even South Africa.

14. The total portion of support to agriculture in the Public Support to Development (APD) for the members of the Committee for Development Support (CAD) was 17% by the end of the 1980s and went to 6% in 2007 (OCDE, 2009), although it has lower the speed of this decrease after 2008. Along the 2000s, the South-Saharan Africa received 31% of the support this agricultural sector. The half granted by the World Bank, regional development banks and the International Monetary Fund for the Development of Agriculture – IFAD (Gabas, 2011).

15. In 2008, the direct foreign investment (IDE) for Africa reached US\$ 72 billion, five times the amount of the IDE in 2002. Consider that this increase in 2010 represented only 4.5% of the world's IDEs (BaFD, 2011, p. 47-48).

5.1 The rush for land

The data on the recent land transactions in the world vary tremendously. For the International Food Policy Research Institute (IFPRI, 2009),¹⁶ between 15 million ha and 20 million ha of land around the world were subject to transactions between 2006 and 2009. The World Bank (Deininger *et al.*, 2011) states that the transactions involved 45 million ha only in 2009, against an average of 4 million ha/year between 1998 and 2008, and 70% of these transactions happened in Africa. The detailed work carried out by Anseeuw *et al.* (2012b, p. 4-5) about the rush for land goes way beyond.

The land transactions in the world, carried out or ongoing, between 2000 and 2010, total US\$ 203 million ha, which confirms the rush for land on those years. (...) over this total, negotiations totaling 71 million ha were object, up to this moment, of cross verifications, confirming the amplitude never seen before of the rush for land in these past 10 years.

The rush for land does not concern only the food production and the agricultural lands. According to the same study, 78% of the negotiations for acquisition concern the agricultural production, in which three quarters are biofuels, notably to provide the ongoing expansion of the European Union (Dabat, 2011) and most recently to respond to the requests of foreign investors from emerging countries. However, the mining industry, tourism and reforestation contribute significantly with 22%.

Africa is the privileged target of this rush for land, with 134 million ha of registered transactions, of which 34 million ha were the object of cross verifications (Anseeuw *et al.*, 2012b, p. 4-5).¹⁷ The acquisitions frequently aim the best land that is irrigable and located near infrastructure, which allows more conflict with the users of existing land.

Only 5 countries, Ethiopia, Ghana, Madagascar, Mali and Sudan would have given away 2.5 million ha of African agricultural land to foreign companies for exploration (Cotula *et al.*, 2009). The article at *Folha de S.Paulo*, from August 14th, 2011, states that “Mozambique offers Brazil an area three times the state of Sergipe”, which is equivalent to 6 million ha, for the plantation of soy, cotton and corn. The data on all the land ceded are huge and little is known about its consequences (Burnod *et al.*, 2011a; Anseeuw *et al.*, 2012b).

16. The International Food Policy Research Institute (IFPRI) is an international organization financed by numerous countries and it is part of the Consultative Group on International Agricultural Research (CGIAR), financed by more than 50 developed and developing countries and several private foundations and cooperation agencies.

17. The second most important target is Asia, with 29 million ha.

5.2 The investors

According to Ducastel and Anseeuw (2011a), China occupies the first place among the countries that acquire land in Africa, with approximately 80 investment projects announced. Followed by Saudi Arabia, United Kingdom and India, with more than sixty projects each, South Africa and the United States with approximately forty projects each. Brazil occupies the 16th position, with less than ten projects, followed by Holland, Italy, Egypt, France, Canada, Arab Emirates, Germany, Portugal and Sweden.

Nevertheless, it is important to observe that there is a big difference between what is released by the press as acquired land and the reality of the exploration of hoarded land, which would be much lower than the ones previously announced, as it can be observed at table 1.

TABLE 1
Announced and effective land acquisitions in some African countries

	Projects announced	Surfaces announced (ha)	Project effectively under execution	Land acquired (not necessarily under exploration)	%
Madagascar	60	4.100.150	7	18.900	0.46
Malawi	8	196.037	6	171.037	87.25
Mali	21	695.105	6	180.105	25.91
Mozambique	51	11.058.913	10	71.000	0.64
Zambia	13	3.701.515	1	45.000	1.21
Ethiopia	76	3.844.647	10	395.500	10.29

Source: Anseeuw *et al.*, (2011 apud Gabas, 2011, p. 50).

With the exception of Malawi, where the index of acquired land use is 87%, all the other countries listed at table 1 are below 25%, and Mozambique and Madagascar do not even reach 1%.

The African States have been playing an important role in promoting these investments for new potential investors without, however, guaranteeing proper regulation, as Burnod *et al.* (2011a) observe in their studies on Madagascar and Mali. Therefore, the States have been losing its primary regulating function, and the agricultural public policies have been increasingly fragmented among players, sectors and territories.

Beyond land acquisition, there is still the dynamic of direct production control, through the control of segments at the productive chain (production grabbing) (Ducastel e Anseeuw, 2011a; 2011b). This means that the movements of land appropriation are not the only forms of investment operated in the South-Saharan Africa. They are also the object of investment of agricultural and agro-food sectors, the top and the bottom of the productive chains, in production, transformation, commercialization and distribution of agricultural and agriculture food products.

There are varied forms of investment. The origin of investments can be public or private, bank or not, the land can be purchased or leased, production can be bought or not by investors, as it varies the forms and degrees of the integration of players along the productive chains that receive investment. Similarly, the destination of products varies; it can go to the market of the country of origin or host country, to the regional or international market.

5.3 Investors categories

Three categories of players implied in the dynamics of land and agricultural investment are distinguished by Ducastel e Anseeuw (2011b). Initially, the States concerned with its food safety and which develop strategies of land acquisition or massive agricultural investment abroad. They are interested in guaranteeing their food, displacing national production to refrain from depending on the international markets. Up to this moment, these investors have been coming from China, South Korea, India and Middle East, through the States sovereign funds.¹⁸ The second category of investors is the eastern agro-food multinationals. They strive to broaden control over all segments of the productive chain, particularly production.¹⁹ The third category comprises speculative investors. Due to the 2008 crisis, the agricultural sector started to be perceived as a future investment. Thus, players who are new to agriculture become interested in taking advantage of the increase agricultural prices and agricultural land. “Investment banks, pension funds and hedge funds invest, though, in the agricultural sector, along the production chains, carrying out a ‘Malthusian speculation’” (Ducastel e Anseeuw, 2011b, item 11).

5.4 Investors strategies

Gabas (2011, p. 51), however, presents four different strategies oriented by the modalities of financing. The first is the complete integration of the productive chain by big players – Monsanto, Cargill. The second, the banking integration of agricultural values, which reach between 30% and 40% of the South-African annual cereal production. The contract is negotiated between the bank and the producer before the productive cycle and the production prices as fixated from the start. The third strategy is the agricultural engineering partnerships that provide inputs to producers: in this case, the partnership taken on the risks, uses the risk management instruments – financial market, agricultural market, insurance

18. As the King Abdullah for Saudi Agricultural Investment Abroad from Saudi Arabia or the semi-public companies in China, within its “going global” policy framework.

19. A return of the cost-benefit relation at the core of the productive chain can be observed. If the primary production concentrated, until then, the essential risk, while profits originated from the top and, above all, the bottom, the agricultural prices increase tries to reverse this tendency. By directly integrating the primary production, these agro-food companies increase and reinforce its participation and positioning in the market (Cotula and Vermeulen, 2009).

against natural risks –, hires the total with the bank and selects the producer based on their performances. The fourth strategy involves the purchase of land or agricultural productions by investment banks, according to speculative conceptions. Besides the extension of these funds is still unknown, they are present and their locus of activity is spread out throughout Africa, particularly the Sothern region. The four strategies have one thing in common: the consequences they have on social relations. All of them transform family producers in renters or agricultural workers in their own land.

Financial resources seem to be always available to these enterprises. The Chinese government added US\$ 5 billion to the China-Africa fund for Chinese businesses for the next 50 years, for the cultivation of rice, soy, corn and energy cultures, as sugar cane, sorghum and cassava. The African Fund for Fuels and Renewable Energy (Faber) made € 200 million available for projects within the clean development mechanisms (CDM). The Mother Earth Jatrophia Plantation Fund, created in 2009, in Zurich, plans to invest € 250 million in projects in Asia or in Africa (Dabat, 2011).

For the countries that “host” these investments, some issues are imposed, such as the drop in the food production itself, the immersion in a market that they frequently do not know and the loss of control over their land. There is still the agricultural land issue, which has its feeding plants replaced by biofuels that, on its turn, offer good businesses opportunities for financing originated from emerging countries.

However, these “opportunities” neglect a great portion of the reality: the idea of an unlimited availability of land [for acquisition and investment purposes] in Africa is, in reality, a myth, as this land is the object of rights, and its monopolization cannot be stated in the name of an illusionary emptiness, according to misinformed investors (Gabas, 2011, p. 53).

The problem again is to know if the existing land is available or not, fact that leads to a legal issue between the customary and the state right.

6 BIOFUELS

Among the 53 African countries, 42 are oil importers. These are vulnerable to the fluctuation of fuel prices and dependent on exchange rate resources to satisfy its energetic needs. Urbanization, demographic growth and development in the continent increase its energy needs. Therefore, they need to search for new sources, explore the renewable energy potential and still reduce the dependence on fossil fuels.

It is worth highlighting that the investments in biofuels are acts of the African States in search for energetic autonomy, but that also relate to the private

and public institutions, the society, the State businesses, the investment funds from other States and the capital from rich or emerging countries, such as China, Japan, countries at the Persian Gulf, India, European Union, United States and Maghreb (Dabat, 2011).

The investments in biofuels have led to controversies about the use of the soil, the price of agricultural products, the nature of the beneficiaries involved, the incomes and jobs created, the environmental impacts and the cost of follow-up public policies (Hazell e Pachauri, 2006; Dufey, 2006; Burnod *et al.*, 2009). On the one hand, biofuels offer perspectives for the intensification of the agricultural through the mechanization, the valorization of food cultures by the transformation or conservation of food products for transportation. On the other, the attribution of resources to energy cultures or the energy use of food cultures led to its competition with subsistence cultures. Thus, at the same time it allows the increase of local revenue and the decrease in inequalities, the investment in biofuels may engender the hoarding of the land, the land insecurity and the displacement of populations (Dabat, 2011, p. 97-98).

6.1 Lands in biofuels

Data presented by Dabat (2011, p. 98) assess that between 18 million ha and 44 million ha of land in the world would be used for the production of biofuels until 2030. From the 9 million ha ceded in Africa between 2006 and 2009, approximately 5 million were destined to fuel cultures, as jatropha, palm oil, and sugar sorghum. The Grain report (2008) presented a study of 405 projects that implied the land transfer around the world: 59 were situated in the South-Saharan Africa, among which 52 involved the production of biofuels.

Besides these estimates, the investments in biofuels in Africa remain little known, as the contracts are usually confidential and many projects are not executed. There is still confusion among the energy and food projects, once there are cultures that produce both and are not explicit to what they are destined to.

On the African side, there are motivations to welcome these investments. It is the direct financial profit resulting from the land sale or lease, the effects associated with the agricultural and agro-industrial employment, the infrastructures of storages and transportation, markets, research, and energetic improvement, development of more profitable cultures for export or the perspective of improving the energy consumption in the country.

It is true that the host countries play a primary role in facilitating the foreign investments. They update the necessary institutional structures, as investment agreements, land, fiscal and banking legislation reforms, aiming at the concession

of surfaces for biofuels.²⁰ Some countries have inhibited these investments, as in the case of Tanzania and Swaziland, for fear of the social and environmental consequences, although they accept propositions for the lease of agricultural land.

More than thirty African countries are engaged in the biofuels chain. Through the initiative of Senegal, fifteen countries founded the Association of African Countries Non-Producers of Petroleum (APANPP), known as the “Green OPEC” to promote biofuels on a continental scale.

There is no doubt that the rush for land will change the current agricultural systems with consequences for the region’s population, although the extension of this change and the strength of its impact are not clear yet. In the case of agro-industrial companies directed to export, the low level of employment created is questioned, in addition to the form of access to the land and the disrespect for local communities and the environment. In the case of chains organized through family agriculture and destined to local and national markets, there are key issues to be solved, such as the political weight of the local management of land and forest resources and the relation between the agricultural production and the transformation units.

6.2 Risk factors for investment

Three risk factors related to the investments in biofuels in Africa are highlighted by Dabat (2011, p. 104-105). The first risk is linked to the different views in regards to the land. For investors, it is an “economic opportunity”, while for traditional African societies, it is the fundamental constitutive element for the production and reproduction of material, spiritual and political life. The second risk is related to the different models. While investors propose a modern agro-industrial production, of great intensity and linked to distant large-scale markets, the African model is frequently based on a family agriculture directed to personal consumption. If, on the one hand, the future of small African explorations is affected; on the other, the mechanized agricultural business model proposed by investors will not be able to provide jobs at rural zones at the same level that family agriculture (Coordination Sud, 2010). The third risk is the increase in food shortage through the subtraction of land destined to food in favor of energy in countries that are already experience the problem of food deficiency. According to the FAO (2011), 307 million people suffer from hunger in Africa, among whom 265 million live in the Sub-Saharan Africa. Although Mozambique and Ethiopia are the African leaders in regards to production of biofuels, 46% of the Ethiopian population is considered as undernourished by the United Nations World Food Program, and one third of families in Mozambique suffer from hunger.

20. The Angolan Parliament voted a law authorizing the production, Mozambique delimited culture zones, Benin made more than 3 million ha of land available to foreign groups.

6.3 Development factors for investments

The investment models in biofuels are varied and, therefore, the impacts in African rural populations are also different. They depend on the type of production organization – if large private plantation, small peasant plantation, contracts with small producers; of the mode of access to the land and work, the definition of chains, and the final product – if pure vegetable oil, biodiesel, bioethanol; in order to value the energy – as electricity, driving force or transportation; and the targeted markets – if local, national or international, rural or urban use (Burnod *et al.*, 2009; White e Dasgupta, 2010, *apud* Dabat 2011).

Recent studies (Fara, 2010; Coordination Sud, 2010) argue that the effect of biofuels is positive, as they create jobs and revenue at the rural sector, build infrastructure, bring new technologies and knowledge, offer market opportunities and structure productive chains. Therefore, considering the global markets and the drop in the cotton market, biofuels represent a good opportunity for African producers.²¹

6.4 Exploration models

One of the recommendations to be observed for the production of biofuels has been the coherence of the existing agricultural systems. The family agriculture in Africa is characterized for guaranteeing, first of all, food safety through mechanisms such as diversification of varieties, strong community relations, natural resources management, among others. The investment in biofuels may lead the countries involved to an income agriculture destined basically to export and, on the other hand, force the import of food items, with volatile prices, destabilizing the African model.

The development of biofuels big units may still facilitate the emergence of landless peasants and favor the rural exodus.

The contractual agricultural model is frequently evaluated as the one that better preserves the interests of African producers. In this model, an organization invests financially and provides technology to small local polyvalent producers. In exchange, they detain the exclusive right to purchase their products with sale prices fixated a priori. It should always be remembered, though, that this model was used by the colonizers in many countries, with terrible results to the African people (Coquery-Vidrovithc, 2001).

21. François Traoré, president of the International Association of African Cotton Producers, recently declared that "Given the weak sales of cotton in which the African countries widely invested, the adoption of machines adapted for the use of biofuels, the fact that the gains of the petroleum do not return to the producers' pockets and the risk that the surfaces of unexplored lands are sold, it is advisable to consider the biofuel transformed in Africa from the cotton, but also the ones from castor, sunflower, and jatropha, which may represent an opportunity for African producers while preserve the environment" (Dabat, 2011, p. 105-106).

The precarious economic and institutional conditions of the local populations do not allow them to negotiate in equality of conditions with investors. In order to change this condition, public policies that guarantee the rights of the local population and the natural resources and, above all, the effective participation in profits, issues present at the national policies of the host countries.

Few States, such as Ghana and Botswana, are preparing themselves to adopt appropriate regulations and mechanisms that may take advantage of the foreign investments in agricultural land, preserving the subsistence resources and the interests of the local populations. Today, the agreements are unbalanced and the processes are not transparent, nor able to be controlled by the African authorities. The commitments of investors for the creation of jobs and infrastructure are generally less fulfilled than the commitments of governments to guarantee and maintain the access to the land (Friends of the Earth, 2010).

Up to this moment, the failures in public regulations have favored the private enterprises with large scale intensive agriculture and place the African populations at risk. It is worth arguing that the idea is to blame less the biofuel for the failures. Than prove that it may represent interest for the countries experiencing energy shortage, help diversify its economies and broaden the internal market, all depending on the model to be adopted.

7 FINAL REMARKS

Despite the different approaches, given the extension of the problem and the way in which the “land hoarding” has been done and the agricultural investments in Africa, the studies indicate caution in investments and point out factors that deserve to be taken into consideration. It is very likely that the large scale global demand for land remains for a long period of time, even if the tendency of the increase in food prices, which took place between 2005 and 2008, stabilizes. This demand fulfills the demand for food products, biofuels, wood and raw material, caused by the demographic growth and by global consumption. At the same time, speculative capital flows and the carbon compensation market are emerging factors in this process of rush for land.

The studies show that many land and agricultural investment projects in Africa are not realized, or suffer considerable delays, because they underestimate the existing difficulties in creating and managing great explorations in complex contexts. At the same time, when introducing fiscal exonerations and minimum leasing fees, African governments give up the revenue that they may obtain from provision chains or through the increase in land prices.

All of that weakens populations, which are also vulnerable facing the land leasing process once they do not have the property title that prevent them of having

guarantees about their possessions. This situation is aggravated by the reparations absolutely inferior to the resources assigned to them. Thus, the means for subsistence of the rural communities are threatened by the way in which the large scale land acquisition takes place.

The jobs created by the large scale projects are, generally, much lower than the initial estimate, besides being ill remunerated and precarious. Forests are particularly affected, as well as the land for cattle raising, swamps and humid zones. The agricultural development policy has been increasingly focused on the benefit of large scale commercial projects, underestimating the production potential of small producers and excluding them as partners – sector that awaits an effective Brazilian participation. The idea that great explorations are necessary to modernization is still dominant among the African political representatives, even with the weak results of large scale agriculture in Africa.

In this rush, the poorest have contributed with disproportional costs and won few benefits. The actions of receiving governments are insufficient to limit the growing impoverishment of rural communities, and the international laws are developed to serve this model.

Today, Brazil looks for a solid policy of solidary partnership with Africa. This solidarity cannot be based exclusively in the investment in agriculture and petroleum in the Continent, as this represents the risk of repeating the undesired model applied by other countries. There is no doubt that solidarity will cost more, once it will require more sweat, research and creativity regarding the relations with the Continent.

For that, the partnership relations with Africa must insert the investments in a long term program coordinated by the State, and in which the public, as well as the private, research, and productive institutions participate, with coverage beyond agrarian and energy production, infrastructure, education, health, commerce and defense. Only then, the actions may be more egalitarian and lead to a key role for the existing land users, without appealing to the search for easy profits in the hands of few, avoiding the repetition of colonial models, as farces. The increasingly stronger impulse to partnership, constant, respectful and mutually beneficial, is what Africans are certainly expecting from us.

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ANNEXES

ANNEXE A

Two opposing approaches regarding the recognition of right at the Ancient French and British colonial empires in Africa

In Western Africa, the British colonial administration was widely supported by local power structures and the authority to do justice, keep the order and the law, and the tax collection. With the exception of some cultivation and urban zones, the fundamental territories were governed by indirect administration and the customary law, local courts, according to the principles based on the British tradition of common law. Based on jurisprudence, the common law procedures are extremely flexible and allow new interpretations when the circumstances change. They keep, consequently, an intimate relation with the values of the social group of interest, but it is, at the same time, able to be biased towards the great local interests and may, then, conflict with the principles of equity. This judicial system deeply differs from a coding system which defines, from its core, a set of rules that need to be applied in the entire country. Both systems, the common law and the codified law, are based on the historical British and French experiences, at the three or four last centuries, and cannot be understood without reference to the tensions originated from the British civil war of the 18th Century and the French Revolution of 1789 and its consequences. The types of relations resulting between governments and citizens are still reflected by the judicial systems of these countries and by the administrative and judicial systems introduced in the countries they colonized (Merlet, 2006, p. 22).

ANNEXE B

Two examples of information systems on the land rights

THE FRENCH SYSTEM ON LAND INFORMATION

Based on the mortgage record and holding. These two mechanisms depend on the Finance Ministry – Treasury, Tax Committee. It has three fundamental missions: fiscal – appraisal of the land assets and set up of the basis for taxation – legal – identification of the owners' properties and their rights – and technical – coordination and examination through cartography in large scale. The records were generated on the Napoleonic period essentially with a fiscal purpose and it limits itself in taking into account the apparent owners, susceptible to pay taxes. If the recorded documents – blueprints and filing cards information on the owners of the areas have no official legal effect by themselves, the articulation gradually established with the land issues revealing system – record summaries and the areas space identification numbers – has caused the jurisprudence to recognize them on a certain proving value.

The French system for revealing land issues limits itself in accepting the filing of the acts related to the real rights and their transcription with the purpose of clarification with regard to third parties, in reference to the institutions dissociated from the keeping of mortgages. According to the French law it is the sequence of contracts between the parties, publicly acknowledged and not disputed that timely generate the rights.

The contracts are set up by the Public Notary's Offices – purchase and sale acts and other in connection with the real rights – and their copies are filed with the keeping of mortgages.

THE GERMAN SYSTEM

The German land book has, first of all, a legal purpose: of validation of the rights, the registration and record of rights regarding third parties. It depends on the Ministry of Justice and a system managed by judges of land issues who examine the fund and the form of the rights at the time of inscription. These rights encompass the set of existing rights in an area which are transcribed after being validated in the register. Therefore, enunciations of the land book have an absolute proving force. The inscription is worth as a title and proof of an existing title before the parties and third parties. The properties are subject to a compulsory mark that constitutes a public initiative function. The land book is articulated with the record that describes the properties and identify them. The record may depend of the same Ministry or other. It is also functional for fiscal purposes.

This system naturally offers a great assurance but its implementation is lengthy and costly (Merlet, 2006, p. 17).

ANNEXE C

The Torrens system and its variations (by J. Comby and J. Gastaldi)

Colonel Robert Torrens created his system primarily to be applied in Australia, under the English domination – the adoption of the Torrens Act, in 1858. At that country, it was easy to start from scratch in relation to a previous right to occupation: actually, the Australian natives were only recognized as Australian citizens in 1967 and the Supreme Court only recognized them as “first inhabitants” in December 1993.

Legally speaking, the colonial practices consist in the division of a recent discovered land, still “virgin” of rights, among the newcomers. That was what happened in North America after having “hoarded” the indigenous land. The plant’s profile was the registry’s job, the colonial authority that assigned the land to each settler and the registration in the land book of the new settler worked as a property title. The subsequent transfers were placed at the registry. The Torrens system came to organize these practices, at the majority of the colonies. The registration is not mandatory and the Torrens system only guarantees the rights in regards to the registered land. With identical appearance to the German land book, the inscription, once finalized, is definite and has absolute probative force. The registry is not separate from the land registry and any person who asks for the registration must establish delimitation and a plant designed by topographers and integrated to the registry. But this similarity is not only apparent, once the system only recognizes as valid the rights granted by the State. There are other registration systems that derive from the Torrens system or other similar systems. Some try to take into consideration a part of the customary rights, but they are all related to the colonial system (Merlet, 2006, p. 18).

ANNEXE D

Aspects of the Land Legislation

MOZAMBIQUE

In its Preamble, the Land Legislation in Mozambique (Law n° 19/1997) says that:

The challenge to development that a country faces, as well as the experience in the application of Law no. 6/1979, from July 3rd, the Land Law, show the need for its review, so it can be adapted to the new political, economic and social conjuncture, and guarantee the access and security of the land possession, both for Mozambican peasants and national and foreign investors.

In other words, it attributes extreme importance to the security of possession for peasants, but also for investors.

It defines that the land in Mozambique is the State property and not merchandise, and “it cannot be sold or, through any alienated form, bonded or pawned” (Article 3). Not allowing its sale, the law establishes (Article 10) that “nationals, collective and single persons, men and women, as well as the local communities” and also the “single or collective foreign persons” who have an investment project approved, reside for at least 5 years in the Republic of Mozambique, or collective persons registered or constituted in the Republic of Mozambique, may all be entitled to the right of use and reclamation of the land.

It specifies the term for the “right to use and reclamation of the land for the purposes of economic activities” as a maximum period of 50 years, renewable only once for another 50 years upon solicitation from the interested party; not establishing any term for the use of land by the local communities, housing, and the terrains destined to family exploration performed by “national single persons”.

ANGOLA

The Land Law in Angola (Law n° 9/2004) differs from the Mozambican law in several aspects and it is more complex. It defines the land as “original property of the State” (Articles 4 and 5) and it admits the public and private domain over the land, admitting the private property for urban terrains. For the rural terrains, the principle of 20 years copyholder concession prevails, allowing the redemption, or concession of the surface.

Article 3 – Application scope

1. The present law applies to the rural and urban terrains over which the State constitutes some predicted land rights in benefit of single persons or collective persons of public or private law, namely aiming at the purposes of the prosecution of agri-

cultural, cattle raising, forestry, mining, industrial, commercial, housing, urban or rural construction, territorial planning, environmental protection and prevention of soil erosion.

2. The terrains that cannot be the object of private law, as the terrains of public domain and the ones that, by its own nature, are unsusceptible to individual appropriation are excluded from the application scope of this law.

Article 4

The transmission, constitution and exercise of land rights over the terrains grantable by the State are subject to the following key principles:

- a) principle of the land as original property of the State;
- b) principle of transmissibility of terrains integrated into the private domain of the State; and
- c) principle of useful and effective reclamation of the land;
- d) principle of taxation;
- e) principle of the respect by the land rights of rural communities;
- f) principle of the State property of natural resources; and
- g) principle of the non-reversibility of nationalizations and confiscation;

Article 5

The land constitutes an original property of the State, integrated into its private or public domain.

Article 35 – Right to private property

1. Besides the special provisions contained in the present instrument and its regulation, the provisions at Articles 1.302 and 1.384 of the Civil Code also apply to the right to property.

2. The State may transfer to single persons of Angolan nationality, the right of property over the grantable urban terrains integrated into its private domain.

3. The State may not transfer to single or collective persons of private or public law the right to property over the rural terrain integrated either into its public domain, or its private domain.

This law defines that all natural resources are the property of the State and integrate its public domain (Article 10), allowing the State to grant the right for the exploration of these resources to single or collective persons.

In respect to the right of rural communities, the Article 9 determines that the State respect the land rights of these communities, “including those originating from uses and costumes”, making use of the traditional authorities in several aspects.

Article 37 – Customary public domain

1. It is recognized to families that integrate the rural communities, the occupation, possession and the right to use and the fruition of community rural terrains occupied by them and explored in a useful and effective manner according to the costume.
2. The recognition of rights, in regards to the previous item, is confirmed in a title issued by the authority responsible under the regulatory provisions of this instrument.
3. The rural community terrains, while integrated into the customary public domain, cannot be object of concession.
4. After the institutions of Traditional Law have been heard, the disaffection of rural community terrains, and its concession, may be determined, with no prejudice to the issuance of other terrains to the holders of customary useful domain or, of this is not possible, without prejudice to the appropriate compensation which was due.
5. Only the rural community terrains completely unoccupied may be object of disaffection by its holders, in conformity with the customary rules of temporary ordinance of domain or, exceptionally, under the terms of the regulatory provisions.

The right to the surface of urban or rural terrains, integrated into the private domain of the State, may be assigned “(...) in favor of national or foreign single persons or collective persons with main and effective residence in the country or abroad” (Article 39). Therefore, single and collective foreign persons have no restrictions to acquire these rights. This right imposes limits to the granted areas, not mandatorily inferior to 10 thousand ha (Article 43), but, in the same article, it opens negotiations through the Ministers Council, which may “(...) authorize the transmission or constitution of land rights over the rural terrains with an area superior to the maximum limit indicated in the previous number.”

Article 42 – Holders

With no prejudice to the provisions of Article 35, the following persons may acquire land rights over grantable terrains under the private domains of the State or local autarchies:

- a) single persons, of Angolan nationality;
- b) collective persons of public law with main and effective residence in the country provided that they have the ability to acquire rights over stationary objects;
- c) collective persons of private law with main and effective residence in the country, namely the institutions that proceed the realization of cultural, religious, and social solidarity purposes provided that they have the ability to acquire rights over stationary objects;
- d) public Angolan companies and commercial societies with main and effective residence in the country;

- e) single persons of foreign nationality and collective persons with main and effective residence abroad, with no prejudice of the restrictions established by law, constitutional and by the present law;
- f) the foreign entities of public law that have the ability to acquire rights over stationary objects, recognized by international agreements, provided that, in their respective countries, equal treatment is given to the Angolan equivalent entities; and
- g) collective international persons who, under the provisions of the corresponding statutes, bear the ability to acquire rights over stationary objects.

ANNEXE E

Characteristics of the land hording strategy at the countries from the Persian Golf

- Governments initiate the procedure – organizing and elaborating agreements and specific modalities of bilateral policies, for example, agreeing in special exemption vis-à-vis the restrictions over food exports, or opening diplomatic representations in the countries where the contracts will be finalized –, but foresee, when not mandated, the transfer of the project to private companies.
- Support the Islamic traditions of helping the poor and sharing with the less fortunate, which is translated into the supply of a part of food items to the communities in the producing country or the national market, launch banking operations that apply the *charia* to distribute funds locally, or transfer technology, employment and training in order to make the projects more attractive, etc.
- True focus on the long term.
- Discourse with the clear commitment to conclude a win-win agreement [win-win].
- Context of food-for-energy exchange as numerous projects predict contracts for the supply of oil and gas in exchange (Grain, 2008).

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THE INSTRUMENTAL BIAS OF BRAZILIAN HORIZONTAL TECHNICAL COOPERATION*

Pedro Henrique Batista Barbosa**

In the last few years, Brazil is attracting international attention in the field of horizontal technical cooperation. A historical beneficiary of international technical cooperation, Brazil has become known for freely furnishing to developing countries techniques and knowledge that helped it to achieve its current level of development. The example of agriculture is illustrative of this new reality, because Embrapa's national and international recognition stimulated the government to use this asset as an instrument of foreign policy. Although it does not have commercial, political and ideological interests, the Brazilian technical cooperation with developing countries meets with other objectives of Brazilian foreign policy.

Keywords: Embrapa; horizontal technical cooperation; diplomatic action.

O VIÉS INSTRUMENTAL DA COOPERAÇÃO TÉCNICA HORIZONTAL BRASILEIRA

Nos últimos anos, o Brasil vem se destacando no campo da cooperação técnica horizontal. Historicamente, o país é considerado um receptor de cooperação técnica internacional, entretanto, ele se tornou conhecido por fornecer técnicas e conhecimentos solidária e gratuitamente a países em desenvolvimento, fato que o ajudou a atingir o atual estágio de desenvolvimento. O caso da agricultura é emblemático, pois o reconhecimento interno e internacional da Empresa Brasileira de Pesquisa Agropecuária (Embrapa) estimulou os formuladores de política externa a utilizá-la como instrumento de política exterior. Embora esta empresa seja desprovida de interesses comerciais, políticos e ideológicos, a cooperação técnica entre países em desenvolvimento prestada pelo Brasil atende indiretamente a outros objetivos da política externa brasileira.

Palavras-chave: Embrapa; cooperação técnica horizontal; ação diplomática.

JEL: F59, F63 and O20.

The Perspective of the World Review, 4(1): 113-146 [2012]

It is not necessary to be rich to be sympathetic.

Fragment of Chancellor Celso Amorim's speech during the opening of the high level session on Haiti in Brasília, in May of 2006.

1 INTRODUCTION

Currently, Brazil figures in a new level both domestically and internationally. Of old, the developing country immersed in economic crises and socio-political instabilities, has been restructuring itself with new bases and acquiring renewed worldwide recognition. It stands out today as a nation with solid economic

* The opinions emitted by the author in this article do not necessarily reflect the ones of the Ministry of Foreign Affairs (MRE).

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growth and growing social inclusion. Over the last twenty years the country has multiplied riches, removed the shadow of inflation and of high unemployment, reduced the inequalities and extreme poverty, consolidated a vigorous domestic consumer market, strengthened the democracy and improved social indicators, everything through firm and transparent public policies that will make Brazil walk towards reaching, in 2015, the Millennium Development Goals (MDGs).¹

All of these changes opened up new opportunities also in the foreign scenario. Brazil's international projection made the country overtake new and more elevated levels. Given the strengthening of the developing nations and the persistence of a global system still cast in the interests of the developed countries, the country saw the dimension of South-South cooperation as a valuable instrument of public policy. Especially during the terms of the presidents Fernando Henrique Cardoso and Luiz Inacio Lula da Silva, joint initiatives with developing countries were multiplied, many of which were led by Brazil, in order to defend common interests (Ipea, 2010).

At the same time, the stage of development reached by Brazil also allowed the country to stand out as a great supplier of international cooperation. Under the spirit of solidarity, it began to contribute to the potential social and economic progress of other peoples. The international highlight was imminent, seen as the country has valuable characteristics: its knowledge of different, complex and even contradictory domestic realities; encourages the practice of dialogue with countries of different degrees of development; possesses a society with a pluralist structure that comprises different races, creeds and social classes; and traditionally allied with democratic and humanist values.

From the growth and the excellence reached in the academic and professional fields and of international projection, the renown Brazilian institutions started being even more on demand to provide their services and to share their knowledge with other developing countries and of lesser relative development. As soon as this happened, grew the perception in the heart of government towards the importance of cooperation, especially the technical modality, as an instrument of foreign policy.

It is not without motive that agriculture is the sector that heads the list of concentration areas of Brazilian technical cooperation among developing countries – Technical Cooperation among Developing Countries (CTPD).^{2,3} During the last few decades, Brazil has emerged as one of the greatest agricultural powers

1. Article elaborated with information available until May of 2012.

2. The expressions technical cooperation among developing countries and horizontal technical cooperation can be used interchangeably.

3. According to budget resource of the Brazilian Cooperation Agency (ABC).

of the world. The country is considered the greatest worldwide producer of coffee, sugarcane, orange juice and beans, and stands out also in the production of soy, corn, red meat, poultry, among others. Brazil is able to produce competitively in the most diverse commodities, its agriculture excels today for being modern, scientific, capitalist, diverse and business-like, and its productivity is among the highest in the world.

The success reached by Brazilian agriculture, with the help of the Brazilian Agricultural Research Corporation (Embrapa) can be measured not only based on numbers, but also with international recognition. Brazil today is recognized as a great international power, which is expressed, for example, in the demands of developing countries, international organism and even developed countries through technical cooperation in agriculture.

Brazil, while an emerging power and, therefore, willing to seek a growing space in the international scenario, resorts to various means to expand its capacity and to attract other nations to positions and proposals of specific interest. Facing global projection of Brazilian agriculture and of the institutions involved, the formulators of foreign policy soon sought to use them as instruments of foreign policy through horizontal technical cooperation.

The Brazilian CTPD, especially in the agricultural field, for catering interests dear to developing countries, such as the fight against hunger and poverty and the correction of socioeconomic inequality, is configured as a strategic tool for diplomatic action, whose potential does not deserve to be overlooked. However, one cannot say that Brazilian horizontal technical cooperation, especially in the agricultural sector by itself determines the reach of all the goals sought by Brazil in terms of foreign policy, but also one must not refute its relevance in reinforcing friendship ties, conferring credibility and trust to Brazil's international performance and increasing the country's influence power.

The instrumental effectiveness of the Brazilian CTPD may be analyzed according to the directives of Brazilian foreign policy based on three levels of evaluation. The first level is based on the teleological objectives of the CTPD of enabling effective contributions to the progress of partner countries on the road to development. The second level refers to the real contribution to the consolidation of relations between Brazil and the partner countries, in several fields. And the third level takes care of the construction process of legitimacy, credibility and leadership of the country in the international scenario, especially, but not limited to, being a relevant player in the horizontal cooperation efforts. The second and third levels are taken as central for this article in order to prove the instrumental effectiveness of the CTPD, and their relation to Brazilian foreign policy will be the objective of this work.

2 CHARACTERISTICS AND PRINCIPLES OF THE BRAZILIAN CTPD

Since its beginning, the Brazilian CTPD has been characterized for understanding cooperation for development not as an interaction between donors and receivers, but as a trade among equals, with mutual benefits and responsibilities. Consequently, it has aspired to differentiate itself from traditional technical cooperation, of an eminently vertical character, and has sought to reject the asymmetric and unequal character between supplier and receiver, ever so present in the North-South cooperation. In the South-South cooperation, should prevail an effective partnership relation for the development and a non-imposing performance of respect towards the local socioeconomic culture and reality, which implies the constant readjustment of projects to the real necessities of the applicants.

These partnerships and complementarities of interests become evident when it is analyzed how Brazil implements its programs. Unlike the countries of the Development Assistance Committee (DAC), of the Organization for Economic Cooperation and Development (OCDE), which hire specialist to develop their cooperation projects, often detached from State organs, the Brazilian Cooperation Agency (ABC),⁴ of the Ministry of Foreign Relations (MRE), draws on Brazilian technicians who work in public entities of recognized professional excellence. As such, besides sharing national knowledge with the corresponding institutions of the receiving country,⁵ this Brazilian technician learns with the local reality and, many times, has access to information that will be useful for the furthering of his research in Brazil.

In this line, the Brazilian CTPD consolidates itself as demand-driven and not as supply-driven, as is commonly the case of the cooperation provided by the DAC countries. Instead of elaborating a project based on their own data and searching for developing countries that need help in the specific sector of the project, the Brazilian government only meets the demands of countries that recognize that Brazil has reached levels of excellence in determined fields of knowledge. This is expressed through a formal request of the foreign government, from which the federal government, through ABC, searches internally the entities that may cooperate in the partnership and will make prospecting trips to the partner country in order to weave a diagnostic of the regional situation.

4. Created in 1987, the agency is responsible for planning, coordinating, execution, financing and monitoring of the Brazilian technical cooperation. Nevertheless, the technical execution of the projects and of the activities are the responsibility of the Brazilian institutions that have the technical knowledge and know the solutions that may be transferred; ABC merely intermediates.

5. According to the guidelines of the Brazilian Technical Cooperation among Developing Countries (CTPD), the terminology used in this article seeks to eliminate expressions like supplier and receiver, typical of the countries from the Organization for Economic Cooperation and Development (OCDE), substituting it for partner. However, they will be used interchangeably.

Furthermore, the horizontality of the relationship and the collaboration of the receiving countries enable the emphasis in programs of national, regional and local impact, as well as the concentration of efforts in projects with complete cycles, instead of punctual and isolated actions, in order to avoid the pulverization of efforts. As such, are enabled the creation of multiplier effects and sustainability of its results.

The Brazilian proposal of privileging projects that allow for the capacitation of national institutions, aiming at the internalization of knowledge and the establishment of their own conditions for innovation, has as a premise the definition of what the partner country will offer,⁶ seeing as the co-responsibility of management is implied and the real commitment of the partner country is guaranteed, better yet, “local appropriation”.

Brazilian cooperation, therefore, given its characteristic of not transferring commercially its knowledge, focused on specialized consulting, personnel training and capacitation, and completion of infrastructure available in the partner institution, as on the promotion of the autonomy of the partners involved. Still, for Brazil, the roll of international technical cooperation is not exhausted in sending experts to the receiving country. The contemporary Brazilian point of view on international cooperation embarks on a road of transversal themes, players and experiences, be them national or international, that work articulately in direction of common objectives previously determined.

ABC adopts three relevant principles in the elaboration process of its international technical cooperation projects: *i)* ownership; *ii)* good governance; and *iii)* accountability. These refer to the capacity of the countries to manage, with responsibility, rigor and transparency, the available resources, in addition to opening space for the participation of civil society.

Another principle dear to Brazilian diplomacy is solidarity.⁷ Nonprofit and unrelated to trade interests or political conditionalities, Brazil’s horizontal technical cooperation shares knowledge and practices always giving

6. The resources mobilized by the partner country in return normally comprises non-financial resources, such as basic infrastructure, human resources, physical space, among others, and does not usually represent a high percentage of the total expenditure, once that several of the receiving countries have limited financial capacity. A considerable part of the costs of the projects is covered by the ABC and by Brazilian cooperating entities, not in financial resources, but in human resources and sometimes in equipment.

7. The principle of solidarity was emphasized by president Lula already in his inaugural address, when he underlined the main guidelines of his foreign policy, oriented to consolidating a “solidary and humanist globalization”. The then minister of Foreign Affairs, Celso Amorim, also in his inaugural address, referred to the solidary aspect of Brazilian cooperation: “A politically stable South America, socially fair and economically prosperous, but due to our own progress and wellbeing.” It is interesting to note that Lula’s speech recalls the original program of the Workers Party (PT), inscribed in its founding document dated from 1980 which foresaw an “international policy of solidarity among the oppressed peoples and the mutual respect among nations for strengthening cooperation and serving world peace” (Valler Filho, 2007, p. 223).

priority to human development. Thereby aiming at overcoming asymmetries, sustainable socioeconomic growth and the improvement of the benefited populations' life standards.⁸

3 OVERVIEW OF CTPD'S ACTIONS DURING 1995 TO 2010⁹

Between 1995 and 2005, no less than 261 bilateral technical cooperation projects were developed, coordinated by ABC in 37 countries in Latin America and the Caribbean, Africa, Asia and the Middle East, involving 24 thematic areas. In terms of specific activities,¹⁰ 279 initiatives were carried out in 51 countries of the same aforementioned regions and of Eastern Europe, covering 26 large thematic areas. They are, in all, 540 activities between 1995 and 2005 (Puente, 2010, p.154-155). In terms of geographic areas, these numbers may be divided in the following manner: South America with 94 projects and 87 isolated activities; Central America and Caribbean with 86 and 94; Africa with 69 and 87; and Asia, the Middle East and European Europe with 12 projects and 11 isolated activities.

The description of the previous data results in the fact that the Brazilian technical cooperation actions are geographically highly concentrated. Most of the actions concentrate on the American and African continents; almost two thirds of them are developed in the former. Although South America has figured among the priorities declared by the foreign policy of the governments of Fernando Henrique Cardoso (FHC) and Luiz Inacio Lula da Silva (Lula), the region divides its importance with Central America and the Caribbean and Africa, in number of actions. It should be noted that in the African case, the Brazilian CTPD concentrates in a reduced number of countries, mainly in five of the African Countries of Portuguese Official Language (PALOP), they are: Angola, Cape Verde, Guinea-Bissau, Mozambique and São Tomé and Príncipe.

In terms of volume of resources employed by the ABC in CTPD actions, the picture is quite different. Africa leads with 52% of the resources applied in the period, followed by Asia, the Middle East and Europe with 23%, South America with 15%, and Central America and the Caribbean with almost 10% (Puente, 2010).

8. Several critics attack this solidary aspect of the Brazilian CTPD and accuse it of being costly and of diverting resources from resolving domestic problems in the country. In response, it is worth mentioning that technical cooperation, by nature, is less onerous than other cooperation modalities for development. In the Brazilian case, the costs are still modest, for there are no financial donations and neither are there many examples of donated equipment. The impact of the technical cooperation actions is infamous. For example, in 2005, when the ABC obtained a great budget increase, the overall budget of the agency represented merely 2.4% of the total budget of the MRE, which in turn represented, in the same year, close to 0.4% of the total Fiscal Budget of the Union. Consequently, the total expenditure of the ABC with CTPD reached, at most, 0.009% of the annual fiscal budget of the Union (Puente, 2010, p. 250).

9. For methodological reasons, the analysis of the time period of 1995-2010 will be divided into two: from 1995 to 2005 and from 2006 to 2010.

10. The projects gain more complexity and length with time, in contrast with the isolated activities.

The African preponderance in this regard is explained by three reasons. Chiefly, the operational costs to undertake any technical cooperation action in Africa are significantly higher. Not to mention the per diems, invariable regardless of the place, the costs of transporting technicians and, sometimes, equipment are high. Besides the distance, something that also inflates these values is the deficiencies of regional infrastructure, which require larger and more costly displacements. Secondly, the types of actions carried out in Africa require more resources to pay for constant displacements of Brazilian technicians and equipment, for example the cooperation in occupational training. Lastly, there was a certain allocation of resources, especially for the PALOP. For the sake of exemplification, 94% of the projects and 69% of the isolated activities were allocated to the PALOP.

In a comparative analysis of the number of actions and of financial resources required, it is worth noting that the specific weight of the technical cooperation with Asia, the Middle East and Eastern Europe, which almost all of the initiatives occurred in East Timor. Although representing close to 4% of CTPD's actions, one fourth of the total value were consumed, once again due to, mainly, greater displacement costs of technicians and equipment. In South and Central America and the Caribbean, however, because of the fact the costs of Brazilian technical cooperation be lower, the costs were smaller – respectively, 15% and 10% –, in spite of the great quantity of projects and isolated activities – respectively 36% and 33% (Puente, 2010).

Speaking of distribution of actions by thematic areas, the fact of covering close to 25 fields of knowledge¹¹ demonstrates the variety and breadth of areas covered by the Brazilian CTPD. Again, this reflects the degree of development that the country has reached in several fields of international competition, many of which are strategic to national – and worldwide – socioeconomic development, and the global recognition of Brazil as an emerging power.

Despite of the diversity, there is still a clear predominance of horizontal technical cooperation actions in the agriculture and health sector. This concentration is not without reasons. Evidence of Brazilian success reached, for example, in the fight against the epidemic of Sexually Transmitted Diseases (STDs) and HIV/AIDS, in producing and developing generic medications, as well as in the growing production in terms of quantitative and qualitative commodities and food products, has been internationally replicated.

As for the general overview of the CTPD actions, between 2006 and 2010, different from the previous period, there has been remarkable growth of the Brazilian CTPD in several aspects. The number of projects and activities

11. For example, the thematic areas vary from agriculture to health and even the environment and public safety.

were multiplied – they went from 150, starting in 2006, to 590 in 2010 –,¹² capital invests, beneficiary countries, geographical regions covered and, above all, in terms of projection and international credibility.¹³

The priority conferred to the South American neighbors and to Portuguese speaking countries was kept, but, in the African case, there was an increase of the projects with non-Lusophone countries. In the other continents, there are innovations that demonstrate the diversification of partnerships implemented from 2005 on, such as the execution, for example, with the Ukraine, Afghanistan and North Korea.

In line with the number of actions, the volume spent in financial resources also increased. Latin America and the Caribbean and Africa kept on as the main partners of the Brazilian CTPD. Comparing with the previous period, it can be observed that Africa still continues to concentrate a little over half of Brazilian spending with horizontal technical cooperation (53%). However, the participation of Latin America grew to 39%, while Asia and Middle East fell to 8%.

It is worth noting that the resources employed between 2006 and 2010 surpassed the ones of the previous period almost six times. Taking into consideration the second (2006-2010) and half of the first period (1995-2005), it can be concluded that the increase of spending over the last five years is considerable, portraying an enormous effort of the federal government to expand its actions of technical cooperation.

Concerning the distribution of projects and activities of the CTPD through thematic areas, the recent panorama is not much different from the previous. As before, nearly half of the technical cooperation actions involve three sectors: agriculture, health and education, in decreasing order. It is worth mentioning there was greater presence of actions in the environmental and public safety fields; and this one, incidentally, was not even relevant in the previous period.

It is worth noting that Brazilian horizontal cooperation also grew in trilateral terms. The success of the national CTPD drew the attention of not only the current and probable partners in horizontal technical cooperation, but also of international organism and developed countries, many of which have a long tradition in international cooperation. There, together with Brazil, started to develop technical cooperation projects based on the principals of South-South cooperation, namely: being demand-driven; not interfering in internal affair of the beneficiary countries of trilateral cooperation; not establishing conditionalities

12. ABC data.

13. In the period analyzed, there was an increase of Brazilian cooperation as a whole, the country stood out in the fields of humanitarian assistance and technological and scientific cooperation.

to the beneficiaries; among others. This confers the legitimacy that several traditional donors needed to execute their projects in other countries.

Traditional donors of international cooperation, such as Germany, Japan, United States, Canada, Spain, France, Italy, Australia, Israel, England, Egypt and Argentina, started manifesting a growing interest in promoting joint triangular technical cooperation with Brazil, having registered such positions several times in a high political level. International organisms present in Brazil, for example the Organization of the United Nations for Agriculture (FAO), International Labour Organization (ILO), United Nations World Food Programme (WFP), United Nations Population Fund (UNFPA), United Nations to the Educational, Scientific and Cultural Organization (UNESCO), United Nations Office on Drugs and Crime (UNODC), United Nations Development Programme (UNDP), the Inter-American Institute for Cooperation on Agriculture (IICA), the World Bank, the Inter-American Development Bank (IDB), among others, began to identify synergies in themes which the Brazilian institutions had renowned technical capacity.

4 THE BRAZILIAN CTPD AND THE GUIDELINES OF FOREIGN POLICY IN THE FHC AND LULA GOVERNMENTS

The guidelines of foreign policy of the governments of FHC and Lula reflect much of the domestic and international context in which the country is inserted. Although there are differences in the focus of each term, it is possible to establish some general objective observed in both governments, roughly speaking.

The foreign policy adopted by FHC is in line with the post-redemocratization governments. Through more assertive and participative international action, the country sought to recover its image, stained by the years of global isolation. From being the former villain in environmental, human rights and disarmament issues, Brazil began to adopt a pro-active posture in such subjects, following, in general terms, traditional parameters of Brazilian diplomacy: the rule of international law, pragmatically seeking to fulfill national interests and the principles of the peaceful solution of disputes, of non-intervention and self-determination of peoples and of democracy.

The Ambassador Gelson Fonseca Junior arguments that, due to transformations occurred in the international scenario with the end of the East-West polarization and the acceleration of the globalization process from 1990 on, it was necessary to introduce innovation elements in Brazilian foreign Policy. It was necessary to substitute the reactive agenda of Brazilian foreign policy that prevailed until the end of the Cold War. Such agenda was guided by the logic of “autonomy by distance” – meaning “distance” from the polemic aforementioned issues – and was substituted, in the first

FHC years, by a proactive international agenda, asserted in the logic of “autonomy through participation”.¹⁴ According to the ambassador, three new pillars emerged in Brazilian foreign policy: regional integration, emphasis in multilateralism and renovation of credentials. For this, Brazil put aside its somewhat uncooperative posture and was willing to actively participate in the global forums.

At the core of these new pillars, national interest was being redefined and traced the following central axes of action for Brazilian foreign policy during the two FHC mandates (Puente, 2010, p. 219):

- prior attention to strengthen Mercosur – which foresees special attention to the relations with Argentina – and, above all in the second mandate, the relations with South America;
- attempt of political approximation to the United States;
- preservation and broadening of the dialogue with the European Union and Japan;
- broadening of bilateral relations beyond traditional partners, with prior inclusion of emerging countries such as China, India, Russia and South Africa, with which sought to establish strategic and political ways for cooperation;
- defense of democracy in the international field;
- active participation in multilateral initiatives, and in this scope, adherence to several multilateral regimes, among which the nuclear non-proliferation – constituting in the illustrative significance of signing the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) in 1998;
- defense of the reform of the United Nations and, at its core, the Brazilian candidacy to a permanent seat at the United Nations Security Council (UNSC);
- criticism of international financial regimes and of the volatility of speculative capital;
- relationship with Portugal and with the African countries of the Community of Portuguese Language Countries (CPLP) – even though, as a whole, the African policy has remained at the background in Brazilian foreign policy; and
- with the rest of Latin America, relationships with Cuba and Mexico.

14. The term adopted by the Itamaraty at the time was similar: “autonomy through integration”.

This search for greater global credibility also catered to domestic interests. After years of hyperinflation, economic stagnation and growing debt, the intent was to recover macroeconomic stability. For this, it was necessary to count upon the support of the global community, especially the international financial organisms, the task of restructuring Brazilian economy, since Brazil still dependent on international loans and the entry of foreign capital.

The visible course alteration of Brazilian foreign policy – which actually started in 1990 with the government of Fernando Collor de Mello, with the first initiatives of opening and deregulating the economy, based on principles of the so-called Washington Consensus –, was consolidated in the trinity “democracy, monetary stability and economic liberalization”, being that the last one encompassed trade liberalization, deregulation and privatizations. It was sought to, thus, overcome the previous paradigm of developmental State.

This trinity alongside the subjects that the country embraced since the end of the Cold War, such as human rights, sustainable development and nuclear non-proliferation, was used as a guideline for foreign action, to the extent that it would understand the formulators of foreign policy, conferring greater legitimacy to Brazil in the international scenario.

At the same time in which it sought to resolve its domestic problems and to recover international credibility and legitimacy, greater attention was given to recognizing Brazil as an emerging medium power that evermore intended to consolidate its condition as a global trader. Along these lines, regional integration served as an instrument for the competitive insertion in the world scenario. As a way of achieving the mentioned integration, different means were used, among them was technical cooperation.

However, technical cooperation provided by Brazil through ABC did not have the same attention and emphasis if compared to the following government. Nevertheless, the importance given to the CTPD was already significantly greater than in the previous years. The case of Embrapa reflects this situation; especially during the Lula government, since it began to figure among the Brazilian institutions that most served as an instrument of foreign policy. During the FHC government, the Oswaldo Cruz Foundation (Fiocruz) was relatively more required to participate in Brazilian diplomatic action, mainly because of international recognition of the National STD and AIDS Program, the increase of production of generic medications in the country and pragmatic performance of Brazil in the Conference of the World Trade Association, in Doha, in 2001, defending the right of developing countries to resort to the mechanism of mandatory licensing of pharmaceuticals – popularly known as “patent breaking” –,

planned in the Trade-Related Aspects of Intellectual Property Rights (TRIPS),¹⁵ in cases of grave threat to public health in the country (Barbosa, 2008).

Although Brazilian technical horizontal cooperation still has not given a forward leap in quantitative terms, the FHC government used to straighten ties with several countries and to increase international projection of the country. In every opportunity, the speech on technical cooperation was always consubstantiated in a constitutional commandment. The Federal Constitution of 1998 (CF/1988) determines in its 4th Article that, the Federative Republic of Brazil conducts its international relations, among other principles, by the “cooperation among peoples for the progress of humanity” and stipulates, in its sole paragraph, that “Brazil seeks economic, political, social and cultural integration with the peoples of Latin America, aiming to form a Latin-American community of nations” (Brazil, 1990).

Based on its Magna Carta, Brazil has consolidated an insertion principled through which it is characterized until today. In the case of the CTPD, it was not different, being that it always aimed at reflecting, in the period studied, even though at times in a non-explicit manner, the essence of these master lines in Brazilian foreign policy, some inscribed in the Constitution itself: the defense of peace and the pacific solution of conflicts, the equality among States, the self-determination of peoples, the non-intervention principle and the prevailing of human rights.

Some authors defend that the 4th Article of the Charter incentivized the process of constitutionalizing Brazil’s international relations.

The Brazilian Charter marks a step forward in the process of progressive constitutionalization of Brazil’s international relations when it establishes among its principles the prevailing of human rights, the defense of peace, the pacific solution of conflicts, the repudiation of terrorism and racism. (...) The global goals that Brazilian society pursues – democracy, respect of human rights, social balance, and eradication of poverty – are thus reflected in the foreign action of the country (Valler Filho, 2007, p. 46).

President Lula’s term did not bring substantial alterations along the traditional lines of foreign policy. The same guiding principles, many of them being constitutional, were kept: rule of international law, defense of the peaceful solution of controversies, self-determination, non-intervention, sovereign equality among States, and the pragmatic seeking to fulfill national interests. Neither were substantially altered two of the three pillars added by FHC’s diplomacy: democracy and macroeconomic stability.

15. Trade-Related Aspects of Intellectual Property Rights (TRIPS) was signed in the wake of the Marrakesh Conference, in 1994, when the World Trade Organization (WTO) was created.

In general, it may be stated that the Brazilian foreign Policy central axes of action during the Lula government could be condensed in the following goals: the revitalization and the magnification of the Common Market of the South (Mercosur), which would cover new topics, such as the social ones; intensification in the relationship with South America; increased presence and cooperation with African countries, not only the Portuguese speaking ones, rescuing the traditional role of Africa in Brazilian foreign policy; seeking mature relations with the United States and Europe; following through the dialogue and approximation to countries of the South, chiefly with regional powers such as China, India, Russia and South Africa, but also from other regions like the Middle East and Arab countries, for example; defense of the reform of the United Nations, with a proposal of expanding the number of permanent members in the Security Council that is the most assertive stance of Brazil's candidacy; continuation and intensification of participation in multilateral forums, mainly the economic ones, the WTO for example, the negotiations on the Free Trade Area of the Americas (FTAA), and the bi-regional ones – Mercosur-European Union, with the updating of coalitions with emerging countries – G20 –, in order to defend common interests (Valler Filho, 2007, p. 220).

Of these central axes, some deductions that differentiate the Lula government can be made. First of all, it can be observed that there was further approximation with great countries of the South, this process, once, begun in the previous government but acquired new perspectives in relation to the degree and intensity of the goals pursued. The Lula government sought to foment a closer coordination, weaving a great arch of strategic alliances based on concrete multilateral objectives, above all those economic and geopolitical in nature. Evidence in this sense, is the configuring of the following blocks: India, Brazil and South Africa (Ibas) or G3; the institutionalization of the block made up of Brazil, Russia, China and South Africa¹⁶ (BRICS); and the creation, by Brazilian initiative, of the Trade G20, in the scope of multilateral trade negotiations. It is worth noting some initiatives such as the Summit of South American-Arab Countries (Aspa) and the Africa-South America Summit (Afras), with Arab and African countries; and the Union of South American Nations (Unasur) and the Community of Latin American and Caribbean States (CELAC), in the Latin-American scope.

The great effort of Brazilian foreign policy over the last years therefore have been of diplomatically situating the country in the emerging situations and finding niches of opportunities for exercising active roles in the process of building or enforcing new rules, in parallel to dedicating itself to building new realities of coexistence (Valler Filho, 2007, p. 47).

16. South Africa joined the BRICS only in December of 2010.

In parallel, the Lula government made an effort to reinforce the space of the African continent in the agenda of Brazilian foreign policy. There were many visits to Africa since President Lula practically visited all of the African countries, with which he signed several treaties. The traditional approximation with the Portuguese speaking African countries, with which Brazil holds significant historic and cultural ties, was kept, but also grew the relationship with non-Lusophone countries.

With Latin America, the process was not different. Besides consolidating and broadening Mercosur, with the adherence of Venezuela, Brazil encouraged regional economic, political, social and cultural integration which gained momentum and was institutionalized with the creation of Unasur and CELAC. Other initiatives deserve note, such as the founding of the Bank of the South in 2007 and the growing internationalization of the Brazilian Development Bank (BNDES).¹⁷

In fact, president Lula fulfilled the promise he made during his presidential campaign that was ratified in the inaugural address of his first presidency in 2003, when he informed that "(...) the priority of foreign policy will be the revitalization of the Mercosur and the integration of Latin America, as a whole".

The approximation to Africa and South America was not without reason. Both regions are important consumer markets of Brazilian products, mainly the industrialized ones, those that Brazil has difficulty of selling to other markets. Currently, Latin America and the Caribbean and Africa answer for over 20% and 6% of Brazilian exports, respectively.¹⁸ Commercial trade has been growing progressively, as well as the interest of Brazilian companies in expanding their investment flow in these regions.

The parallel between expansion in Brazilian partnerships with southern countries and the internationalization of Brazilian companies is evident. The consolidation of relationships with developing countries served as a port of entry for many Brazilian companies, both public and private, large, small and medium, or be it acquiring local companies.¹⁹ Noteworthy is that the location of investments has been concentrated, mostly, in developing countries.

In fact, the integration with its South-American neighbors, during the Lula government, went beyond merely the direct economic and political goals, with the support of Brazil in the great international forums. Another element that justifies the greater presence in the region is found in Brazil's support for

17. More information on the international insertion of the Brazilian Development Bank (BNDES) can be seen at the following address: <http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Areas_de_Atualizacao/Exportacao_e_Insercao_Internacional/>.

18. Data from the Ministry of Development, Industry and Foreign Trade (MDIC), available at: <<http://www.mdic.gov.br/sitio/interna/index.php?area=5>>.

19. Despite the global crisis, the investments of Brazilian companies abroad reached in 2008 the second highest mark in history, reaching US\$ 20.5 billion, against US\$ 7.07 billion registered in the previous year – a growth of 190%.

deepening and reinforcing democracy in Latin America. At the same time that the country defends the prevalence democracy's inherent values domestically, since it is a constitutional commandment, the respect of pluralism, tolerance, a search for consensus and the rule of Law are extended to the range of foreign action of the country.

This effort to promote democracy is coupled with the national of fomenting stability in the region, historically marked by wars and internal and external political disputes. Likewise, the consolidation of democratic regimes in the continent contributes to a more stable international system and generates better opportunities for overall economic growth. As such, during recent crises in the region, Brazil was present to negotiate, be it directly or indirectly, through organizations such as Unasur.

This higher emphasis in horizontal cooperation denotes another differentiating characteristic of the Lula government. The paradigm "autonomy by participation" was substituted by the logic that several authors started calling "autonomy through diversification" (Vigevani and Cepaluni, 2007). Searching for more balance in the relationships among developed countries, adjustments were made to the foreign policy program, so that Brazil's international alliances and its global protagonism were increased. New opportunities were sought in developing countries with the express purpose of diversifying the political and economic partnerships. Multilateralism gained even more strength and served as a mechanism for disclosing Brazilian interests for a more just and inclusive globalization.

Along the same lines, "autonomy by integration" of the Cardoso era was substituted by the concept of "sovereign presence". This expression incorporates at least four elements: *i*) humanist perspective on foreign action; *ii*) national affirmation; *iii*) rebuilding the people's self-esteem; and *iv*) recovering the inductive role of the State in economic development, especially in social progress and the decrease of inequalities (Puente, 2010, p. 220). However, to guarantee this "sovereign presence", the country should count with a regional solid base, consubstantiated in South America and whose nucleus would be Mercosur, once the region represents the territorial space in which the specific weight of Brazil is preponderant under any criterion: territory, population, natural resources, industry and technological advancement.

This "sovereign presence" is consistent with the Brazilian perception that the globalization process requires growing interdependence among nations, independent from their level of development. It would be up to the country to broaden the scope of their international partnerships, also to expand the possibilities of increasing their influence under relevant themes of the international agenda. Furthermore, the internationalization of markets and the evermore intense worldwide

competition is a justification in itself for diversifying alliances, as well as the initiative of strengthening mechanisms of economic and political regional integration, such as Mercosur, Unasur, among others. Keeping in mind the Brazilian tradition of approximation with countries of the South, it makes sense to begin this diversification with developing nations.

This diversification of partners fit in the Brazilian goal of participating actively and having more influence in the multilateral decision forums. The consecutive elections of Brazil as a non-permanent member of the UN Security Council in the post-redemocratization period are a good example of this. Together with Japan, the country has been in this position the most, considering that, during the military dictatorship, Brazil spent years without being a candidate for this collegiate.²⁰ Other important examples are the greater voting power of Brazil in the International Monetary Fund (IMF), the election of Brazilians for the direction of several agencies and international courts, among which are better known: the election of the judge Antonio Augusto Cançado Trindade for the International Court of Justice in 2009, of Dr. Jose Graziano da Silva as director of FAO, and of Roberio Oliveira Silva as executive of International Coffee Organization (ICO), both in 2011.

Despite these achievements and with a strategy of broadening and consolidating the participation and the exposure of Brazil in the international scene, the biggest Brazilian claim, announced by the former chancellor Celso Amorim to the Ministry of Foreign Relations during the Itamar Franco government, continues to have a permanent seat in the reformed and expanded Security Council. Defending multilateralism and more balance in international relations, defending that due to the growing importance of the large emergent countries, it is necessary to reform the main instances of world power.

To justify its candidacy, Brazil does not merely underline the weight of its economy in the global and local level. It understands that its past free of recent wars, its position as an articulator of consensus, its regional leadership, its defense of multilateralism and of the pacific solution of controversies, and its plight for a just and inclusive globalization reinforce its campaign. In light of this retrospect, the decision to become a candidate becomes easily comprehensible and perfectly consistent with the trajectory of Brazilian foreign policy.

Considering that in a possible reelection for permanent members of the Security Council, becomes necessary the approval of both the Council and the majority of the members of the United Nations General Assembly, which is composed in its vast majority, by developing countries, the strategy of approximation

20. Brazil has occupied the non-permanent seat at the United Nations Security Council (UNSC) ten times, the last term being in 2010-2011.

to developing countries favors Brazilian candidacy for the organism. It is not without reason and to corroborate this pretension, specific cooperation actions, not only technical, have been developed in several contexts, covering bilateral, multilateral and regional initiatives. Embrapa, without a doubt, exerts a relevant role in this subject.

Besides having a permanent seat in the Security Council, Brazil is interested in the international diffusion of Portuguese, as well as in its consolidation as a working language of the organization. As an old claim in the UN, especially in Unesco, it is understood that, under the goal of greater worldwide projection, it should be included a linguistic dimension, which increases the number of speakers of Portuguese and specialists of the national culture. Incidentally, it is through their language that the countries spread their culture, values, points of view and, indirectly, interests. With this aim, Brazil develops projects of cooperation in education, many of them specifically on the Portuguese language. In East Timor, besides contributing to the strengthening of institutions and assuring means for economic sustainability and social progress, the Brazilian CTPD strives to reintroduce Portuguese as the dominant language.

It is not merely democracy that the Lula government stressed in its foreign actions. It was worthy of great international projection, as a distinctive and singular element, expressing greater humanism of its foreign policy, the adoption by the president of the issue of combating poverty and hunger, not only in the domestic scope but also in the international arena.²¹ Following the example of the Zero Hunger Program (*Programa Fome Zero*), it was brought to the international sphere the relevance of food security in countries relatively less developed. Stricken with precarious local technical infrastructure and by the competition of agricultural products subsidized by developed countries, this group of countries, majorly African, produce barely enough to supply their own basic needs.

In this point, Brazilian technical cooperation in agriculture gained special relevance. Through its cooperating institutions, especially Embrapa, Brazil started bringing to these countries all the knowledge that it acquired in decades of agricultural research. The country started cooperating with several developing countries in an unconditional, non-commercial and solidary way, in capacitating the specialized local organization for managing appropriated technologies for its necessities and its specific type of soil.

Under the coordination and financing of ABC and UNDP, Embrapa participated in several international multidisciplinary missions for addressing specific demands of the countries with which the Brazilian government had the

21. On the institutional plan, the General-Coordination for International Actions in the Fight Against Hunger (CGFome) was created in Itamaraty, it is dedicated to coordinating the national programs of humanitarian assistance.

intention of narrowing diplomatic ties, with the objective of transferring knowledge for boosting the development of their agriculture and livestock. Among the goals of these missions, there are included the transfer of technology for the genetic improvement of seeds; the improvement of cultivation techniques and livestock management; and the enhancement of the productive process, with emphasis in training foreign technicians who will come to multiply this knowledge in forming teams capable of acting in the strengthening of the agricultural institutions.²² Similarly, this technology transfer enables local farmers, ensuring food security in the beneficiary country, fighting hunger and poverty locally, besides attenuating external vulnerability by allowing an increase in productivity in several economic sectors and stimulating industrialization.

According to the Foreign Policy Balance of 2003-2010:

Given that Brazilian technical cooperation is concentrated in the training of human resources and in strengthening local institutions, it ends up also contributing to political stability and economic development of the continent. The structuring of the health care systems, the diffusion of new agricultural techniques and of family farming programs and the partnership with governmental organs for the improvement of public services, for example, helping to secure the rural population and creating alternative sources of income, which has decreased the pressure on the capitals and creates a more dynamic economy (Brasil [s.d.]).

At the same time that the international insertion of Embrapa has grown, it has been noticed that it is necessary to increase the physical presence of the company in foreign lands. Thus, Embrapa offices were installed in Africa, Ghana, Latin America and Panama; a business office in Caracas, Venezuela, in partnership with the Brazilian Agency for Industrial Development (ABDI); and there was expansion of the Foreign Virtual Labs (LABEX) with scientific ends, besides implementing structuring projects in Haiti, Mali and in other countries.²³

Along these lines, the agricultural research and Embrapa, in particular, gained strategic value that go beyond the function of supporting technological and scientific development in national farming and agribusiness, becoming one

22. Besides sending national technicians abroad to train local technicians, the Brazilian government decided to also attract these to Brazil to conduct training courses. With this goal, in 2009, arose the Center for Strategic Studies and Training in Tropical Agriculture (CECAT), for which the Brazilian Agricultural Research Corporation (Embrapa) contributes substantially. In CECAT, technicians can be trained in sustainable production systems designed for regions with the characteristics of the Amazon, Cerrado, Pantanal, Semi-Arid and the Coastal Plains. In 2010, CECAT offered 43 courses for foreign students. For the period 2011-2012, the number of foreign students graduated is expected to exceed three hundred. These students will have access to courses that include different themes such as production of oilseeds and meats, bioenergy, agro-ecology, biotechnology, rural economy, information technology in agriculture, environment, satellite tracking, food processing and genetic resources.

23. The internationalization of Embrapa also attended the internal interests of the company. Through it, it was opened new opportunities for access to knowledge and genetic materials previously unavailable. In this perspective, internationalization is a priority for the need to seek knowledge where it is available to benefit the competitiveness of Brazilian agriculture.

of the main instruments of implementing the strategy traced out by the foreign policy of the country. This leads to significant increase both in supply and in demand for cooperation, which comes from several parts in the tropical world, but also from developed countries, inducing its internationalization in consonance with Brazil's geopolitical strategy.

The role played by Embrapa fits in with the broader interest of being prominently placing the country at the core of the international community. The same way that technical cooperation was created to aid the partners in reaching greater economic and social stability and better quality of life, thus making available the necessary elements for domestic development, the Brazilian CTPD – as well as Embrapa in the case of agricultural cooperation – is a means at the disposal of the State to aid, to some extent, in the delivering of foreign policy objectives. The Foreign Policy Balance of 2003-2010 clarifies this function of the Brazilian CTPD.

The technical cooperation developed by Brazil was broadened following the guidelines of the policy for consolidating the South-South dialogue, as an instrument of foreign policy of the Luiz Inacio Lula da Silva government. This cooperation seeks to strengthen the bilateral relations of Brazil with the rest of the world, elevating its profile in the world scenario. As a result of the recent economic growth, the country has taken on a protagonist position in the international discussions and has spearheaded the movement of integration and strengthening of developing countries. In this regard, technical cooperation has been one of the most important elements of Brazilian foreign policy (Brasil [s.d.]).

Not only the Foreign Policy Balance reinstated the potential of the Brazilian CTPD, but also the former minister of Foreign Relations, Celso Amorim, several times has stated that cooperation is a fundamental instrument for Brazilian foreign policy. In an interview with the ABC Bulletin (*Boletim Via ABC*), of June 2006, published by the ABC, he commented that:

in minister level official visits I have had the grateful opportunity of addressing the broadening of technical cooperation with other developing countries (...). I witnessed numerous times the positive impact that technical cooperation project were capable of generating in the local community, aiding in promoting social and economic development (...). By offering cooperation opportunities, Brazil does not seek profit of commercial gain. Neither are there "conditionalities" involved. We seek to make the new vision of the relationships among developing countries reality, inspired in the communion of interests and in mutual help. (...) Our geographic surroundings were always an area of priority action for the ABC. We recognize the existence of development asymmetries among the South American countries. This leads us to contribute, within our means, with cooperation initiatives that have a multiplying effect (Celso Amorim, *apud* Valler Filho, 2007, p. 92).

It is also noteworthy that the CTPD can contribute indirectly, and frequently does so to the increase and consolidation of the economic presence of the provider country in the receiving country, including opening up space for national private and public companies to install themselves or to trade with the country. Although Brazil unbinds its cooperation from commercial conditionalities, and naturally that, at the time of continuing the project at their own risk, or better yet, after the end of the projects, the receiving country relies in the Brazilian companies as partners, for being more accustomed with the technology transferred or by producing the machines and materials needed for production.

Keeping in mind the aforementioned aspects, it is not without reason the effort of Itamaraty in promoting and expanding technical cooperation supplied to these developing countries over the last years. Technical cooperation is one of the instruments, among many which are valid, that Brazil disposes of for reinforcing the ties of friendship and expanding its foreign projection, conferring credibility and confidence to the country's performance. The growing demands for cooperation are a proof of this, especially in countries of South America, the Caribbean and Africa, in which South-South Brazilian cooperation has reached significant results. It is about the element of visibility, affirmation and updating of Brazilian foreign policy.

Nevertheless, it is not possible to state that the Brazilian CTPD, especially in the agricultural sector, determines by itself the reach of the results sought by Brazil in terms of foreign policy. The equation CTPD-Brazilian foreign policy objectives is not direct, neither can it be confirmed that it is inexistent. Actually, technical cooperation consists in one of the instruments Brazil has for reaching its goals in the foreign arena. Not necessarily can it be asserted that only through CTPD can the country garner or not a certain goal; neither can it be said that without the CTPD, Brazil would surely conquer. However, what can be said is that horizontal technical cooperation is a tool valid with which Brazil has wide tradition and reputation. Dispensing its use – or any other resource for foreign action – would be to restrict the possibilities of executing the defined guidelines of foreign policy. Consequently, in the various mechanisms for acting abroad, the Brazilian CTPD is defined as an innovative formula and alternative resource for implementing actions and maximizing results.

5 INSTRUMENTAL EFFECTIVENESS OF THE BRAZILIAN CTPD

Beyond the discourse, it is interesting to seek ways to prove the instrumental path of the Brazilian CTPD. For analyzing its effectiveness, it is possible to find three levels of evaluation. The first would be consubstantiated in the teleological objectives of the CTPD, which are: to provide effective contributions for the progress of partner countries on the path of development. The second level would refer to a real contribution for consolidating the relationships between Brazil and the partner countries, in several fields. Finally, the third would be for the “international

projection of Brazil, especially but not only, as a relevant actor in the efforts of horizontal cooperation, but also contributing to the construction and reinforcement of legitimacy, credibility and leadership of the country” (Puente, 2010, p. 253).

The second and third levels are central, because they reveal, in a more marked way, the instrumental relationship between the CTPD and foreign policy. As such, through analysis of the instrumental effectiveness measured in commercial and political terms, one could weave a relationship between Brazilian technical horizontal cooperation and the foreign policy goals defined in the second and third levels respectively.

5.1 The instrumental effectiveness in commercial terms

The Brazilian CTPD is devoid of lucrative purposes and unrelated from trade conditionalities of any nature. Therefore it does not propose increasing economic and commercial presence of the country directly and automatically in foreign lands. Actually, the effects of Brazilian horizontal technical cooperation on trade relations are still limited. However, one cannot deny that technical cooperation contributes to create an environment conducive to establish other elements of presence, such as trade relations and investment opportunities for Brazilian transnationals:

it would not be an exaggeration to state that the CTPD, through the comprehensiveness of the thematic areas and by the possibility of producing important synergies, may also directly or indirectly act spearheading posterior economic-trade actions. By occupying spaces, building relations networks, therefore consolidating the bilateral ties, the CTPD will also facilitate conditions for Brazilian companies to act (Puente, 2010, p. 256).

There are no few examples of Brazilian companies that benefit from the CTPD projects in African countries. In the agricultural sector, one of the companies that benefited the most is Embrapa.

For as much as there are horizontal technical cooperation programs, in many countries there are no conditions that allow the substantive commercial presence. It is the case of East Timor, Haiti and other countries in Central America and the Caribbean, who have a meager domestic market and few competitive industries.²⁴ Provided, CTPD’s role in promoting Brazilian economic and commercial presence in the developing countries is not expressive, direct, automatic, nor short-term, but it exists, and its contribution, as indirect as it may be, cannot be denied. A way of observing this role of the horizontal technical cooperation is through an analysis of the bilateral commercial relations between Brazil and its partners.²⁵

24. In these cases, the teleological goals of the CTPD should be observed in order to provide effective contributions for the progress of partner countries on the road to development.

25. For a second level analysis, this work only presents preliminary conclusions, product of an ongoing research.

With almost all of Brazil's partner States, there have been significant commercial ties. With all of the Latin-American neighbors, with the exception of a few countries such as Saint Vincent and the Grenadines and the Bahamas, increased their commercial trade with Brazil; taking into consideration only the agricultural cooperation partners, there has been increase in commercial trade. The African picture has also been very prosperous; with the exception of Mali, Malawi, Zimbabwe, among others, all of the other States increased trade with Brazil. Now with Asia, Eastern Europe and in the Middle East, in all the countries except Nepal, Brazil has increased its trade relations.

The most interesting is to analyze the case of countries with which Brazil developed the most technical cooperation actions recently, they are: Paraguay, Guatemala, Sao Tome and Principe, Angola, Uruguay, Cuba, Mozambique, East Timor, Guinea-Bissau, Haiti and Cape Verde. It can be observed that all of them have had an increase in commercial ties with Brazil. The following cases are noteworthy: in Guinea-Bissau, the increase of trade relations was of 6,178.59%; in Sao Tome and Principe, of 4,248.69%; and in Haiti, of 13.324,75% (table 1).²⁶

It is worth mentioning that, speaking of countries with which Brazil has agricultural technical cooperation programs, the picture is no different. With the exception of Liberia, Mali and Zimbabwe, Brazil experienced growth of commercial trade with all of the countries.

It is natural that the Brazilian government seeks a good relationship with countries that have investments of Brazilian companies or that have bought numerous national products, especially in the case of some African countries, in which domestic turbulences and political interferences tend to influence the business environment. Nothing better than the Brazilian technical cooperation for this, for it demonstrated that, beyond business, Brazil is interested in local socio-economic development.

Although it is difficult to establish a direct correlation between the increase in trade of the direct business investments and the existence of technical cooperation partners, it can be inferred that the CTPD consists in an able instrument for increasing Brazil's credibility and, consequently, the receptivity of the partners in face of its products and companies. Evidently, it is not the case of cause and effect, even because the Brazilian CTPD does not revolve around commercial goals. However, it is not prudent to deny that technical cooperation contributes to creating favorable environment for the establishment of other elements of presence, among which is trade, for, given the data and the aforementioned examples, this in fact occurs.

26. In some cases, it is highlighted that, although the growth of bilateral trade is perceptually expressive, the trade in absolute terms remains small. This is the case of Haiti, which has been going through internal turbulences and natural catastrophes, and of Cape Verde and Sao Tome and Principe, whose economies are small.

TABLE 1
Commercial Trade of Brazil with the main countries receiving the Brazilian CTPD (1994-2010)
(In US\$ FOB)

Countries	Commercial trade in 1994	Commercial trade in 2003	Commercial trade in 2010	Variation between 1994 and 2010 (%)
Angola	169.507.146	243.021.070	1.441.573.704	750,45
Cape Verde	6.485.479	9.013.092	27.308.363	321,07
Cuba	79.862.560	91.992.230	488.288.895	511,41
Guatemala	63.004.023	164.600.594	271.896.048	331,55
Guinea-Bissau	235.024	257.519	14.756.202	6.178,59
Haiti	412.828	31.761.171	55.421.131	13.324,75
Mozambique	7.666.224	14.945.358	42.380.333	452,82
Paraguay	1.406.077.866	1.183.500.567	3.159.308.489	124,69
Sao Tome and Principe	22.006	387.852	956.972	4.248,69
East Timor	—	109.378	163.141	49,15
Uruguay	1.300.838.155	943.659.957	3.105.229.135	138,71

Source: MDIC. Available in: <<http://www.mdic.gov.br/sitio/interna/index.php?area=5>>. Accessed on: 6 Nov. 2011.

5.2 The instrumental effectiveness in political terms

It is not only in commercial terms that the Brazilian CTPD influences positively the foreign policy. In an even more significant way, the horizontal technical cooperation of Brazil contributes to the country so that it achieves its political goals in the international arena.

It is undeniable that there is a certain difficulty in identifying concrete results in political terms that may be attributed to the instrumentality of technical cooperation in Brazilian foreign policy. The fruits of the CTPD are not automatic and direct, or necessarily short-term and, more importantly, it is difficult to dissociate them from other variables present both in the context of bilateral relationships and in the international environment. However, the fact that Brazil makes use of different foreign policy instruments to reach its goals does not discredit technical cooperation as an efficient mechanism for, among other goals, consolidating political relationships with the countries with which it cooperates and increasing Brazil's international projection. Therefore, the Brazilian CTPD should be analyzed according to the general guidelines of Brazilian foreign Policy.

Over the last decades, Brazil has put considerable effort into projecting itself internationally. Recognizing itself evermore as a medium and emerging power, the country has sought space in the world forums to prevail its interests. Thus, it has understood that it is necessary to join efforts with other developing countries,

since it often not only defends common interests, but also needs political support for its claims. To obtain such support, political approximation was necessary.

More emphatically than FHC, Lula has sought approximation with other developing countries. Proof of this is the amount of offices created during his term. In eight years, the number of new embassies and consulates has surpassed two hundred, most of the in developing countries, especially in Latin-Americans, Caribbean and African.²⁷

The fact that all Latin-American and Caribbean countries currently have Brazilian embassies, for example, is not without reason. There is evident governmental concern in maintaining itself as an influential player in the region and consolidating its continental leadership. The political map and economic scenario in Latin America and the Caribbean are always in profound transformation. The recurrence of coups and regional disputes, the existence of guerrillas, the emergence of social movements, of nationalist and anti-globalization leaders, and populist politicians are constant destabilization factors. It is in the interest of the Brazilian government the pacification and stabilization of regional politics. In this regard, initiatives such as the creation of Unasur and of CELAC and the technical cooperation provided by Brazil stand out.²⁸

Brazilian CTPD in the agricultural sector consists in the undeniable effort of promoting not only social and economic development, but as a consequence the general goals of pacification and regional stabilization, once that political instability in some countries is often a consequence of basic needs of the population. This perspective of cooperation generates impacts not only on the bilateral relations, but also in terms of international projection, credibility and continental leadership.

The political consolidation with countries of the American continent also answers other challenges. The growing presence of China, the expansion of economic-commercial ties of the South and Central American countries next to the Pacific Ocean with Asia and a strong influence of the United States in the region are additional challenges for the formulators of Brazilian foreign policy. Without a doubt, the CTPD contributes as a legitimizing element of Brazilian partnership with its neighbors. Brazil is evermore associated by its partners to the causes of promoting economic and social development, which is also illustrated by the growing demand of developed countries and international organisms to establish mechanisms of triangular cooperation with Brazil.

27. During the FHC government, due to budget restrictions and successive international and domestic crises, several foreign offices were closed, especially in countries where the bilateral relationship was small.

28. In the FHC and Lula governments there was growing emphasis in promoting political stability in allocating technical cooperation. The most obvious cases are illustrations of this, East Timor and Haiti and similar initiatives in Guinea-Bissau, Bolivia, Ecuador and Paraguay. These four countries received CTPD missions after going through political and institutional crises.

The CTPD, especially in the agricultural sector, for the African countries and some Latin-American ones, is the justifying element for a bilateral relationship and stimulates the works of the new embassies established in countries with which Brazil did not have great ties. This type of cooperation, as well as cultural cooperation, often constitutes in the element of presence possible in specific countries. It is also, without a doubt, necessary. Technical horizontal cooperation, in certain cases, occupies a space that is at times not feasible with other present elements, such as significant commercial trade. (...) At certain conditions, the Brazilian CTPD may fill in a space that, in some other way would be transformed in an almost absolute vacuum (Puente, 2010, p. 256).

The consolidation that technical cooperation provides in bilateral relations contributes a lot to the exercise of influence on partner countries. The CTPD is, without a doubt, one of the many manifestations of soft power, according to Joseph Nye.²⁹ Consequently, CTPD may be seen as one of the various resources that the Brazilian diplomacy has for the affirmation of this heritage of credibility and legitimacy of its international action. By its specific nature, its horizontality, for being detached from profit and unassociated with any political or economic impositions, Brazilian technical cooperation is progressively accredited as a significant element of South-South cooperation (*Op. cit.*, p. 260).

Finally, regarding the instrumentality of horizontal technical cooperation, it is difficult to derive it with precision in concrete cases where Brazil has achieved political success. It cannot be stated that the role of the CTPD, independent from which sector, is especially important in all the cases. There are numerous other elements present in the bilateral relation that compete, on different levels of importance, for the conformation of this favorable predisposition of the partner countries in accepting as relevant Brazilian interests (Puente, 2010, p. 259). It is worth recalling that the Brazilian CTPD does not consist in a mechanism especially established for contributing gains in terms of foreign policy for the country, though it often is. Neither can it be hoped that it is always possible to count the direct results in the field of foreign policy in consequence of the CTPD's actions (*op. cit.*, p. 261).

This political effectiveness can be refuted by the analysis of two important and recent facts in Brazilian diplomacy: the Brazilian candidacy for a permanent seat in the United Nations Security Council (UNSC) and the election of Jose Graziano da Silva as general director of FAO.

The necessity of reforming the UN and the UNSC seems to be a global consensus, however the way that it should be implements and mainly which

29. In short, soft power is the ability to influence others into doing what you want, but without using physical force of military power.

countries should permanently occupy a seat in this council, independent from having or not the power to veto, is a subject of extensive controversy.

Among the foreign policy goals of the FHC and Lula governments, was the election of the country for a permanent seat in the UNSC. Thus, it is to be expected that these rulers have benefited from several instruments of foreign policy for increasing the chances of electing Brazil, among them technical cooperation. It would be interesting to study which countries supported the Brazilian candidacy – independently from the way they expressed it – and verify which of them have technical cooperation partnerships in general or in the agricultural sector with Brazil.

The result of this study seems to testify the importance of technical horizontal cooperation for Brazilian foreign policy: almost all of the main partner countries of the Brazilian CTPD support Brazil's claim in occupying a permanent seat and a possible expansion of the UNSC.³⁰ In the American continent, Brazil receives the support – explicit and private – of 20 neighboring countries, other than four favorable manifestations. However, there are four countries in the region that are part of the initiative “United for Consensus”,³¹ who oppose the proposal presented by the G4, groups which Brazil is member. In this initiative, stand out the cases of Argentina and Mexico, who historically oppose the Brazilian candidacy.

In the African continent, the Brazilian claim has the support of 27 countries – nineteen explicit and eight in private – and four favorable manifestations. Thus, no technical cooperation partner of Brazil in Africa opposes to the Brazilian interest. On the contrary, all defend, in different degrees, Brazil's proposal. The same pattern is repeated in Asia, Eastern Europe and the Middle East: seven explicitly support and one expresses favorable manifestation. Nevertheless, three States have not manifested themselves. In total, the country has received 63 supports – 45 explicit, nine in private and nine in favorable manifestation – of a universe of 67 cooperating States.

Interpreting this information, it is possible to conclude that the CTPD, in general, contributes in a certain way, though there is no possibility of measuring the degree of contribution, so that the partner countries support the desire of Brazil of being a permanent member of the UNSC. It would not be smart to allege that these facts are coincidences, as some critics of the Brazilian CTPD claim;

30. When the question involves merely the support for the Brazilian candidacy, the near totality of the main receiving countries of the CTPD supports Brazil's claim. However, in relation to the proposal of the G4, the difficulties increase, because of other factors that are added to the equation, including specific regional injunctions, as is the case of the African countries.

31. On July 26th, 2005, Italy, Argentina, Colombia, Pakistan and Canada, representing an even larger group of States called United for Consensus, presented to the United Nations General Assembly a proposal in opposition of the one defended by the G4, made up of Germany, Brazil, India and Japan. The project also keeps the five permanent members of the United Nations Security Council (UNSC), but increases the number of non-permanent to twenty.

the complexity of international politics demands that the statesman make use of several means of reaching its foreign policy goals. Also, almost all of the countries with which Brazil historically has not had expressive contact, the Caribbean countries for example, support the Brazilian candidacy. The setting up of embassies and the establishing of partnerships of technical cooperation probably helped in the bilateral approximation and in the greater knowledge by the States of the international projection and the proposals of Brazil.

Concerning the positions of the main receiving countries of the Brazilian CTPD in agriculture, in relation to the reform of the UNSC, in the American continent, a country is supported by fourteen States and one favorable manifestation, but three belong to the “United for Consensus” initiative. In Africa, there are nineteen supports – eleven explicit and eight in private – and three favorable manifestations. Finally, in Asia, Eastern Europe and in the Middle East: two explicit supports. In total, there are 39 supporting – 27 explicitly, eight in private and four favorable manifestation – and three objectives.

Again it is highlighted the importance of horizontal technical cooperation achieving other foreign policy goals. The near totality of the receiving countries of the CTPD in the agricultural sector defend the Brazilian position at the core of the United Nations.

The election of José Graziano da Silva for the seat of the FAO general director of was undoubtedly a great challenge and an extraordinary victory for the Brazilian diplomacy, for it is the first Latin-American to preside the institution charged with fighting hunger in the world. This fact reflects the global recognition of the extensive experience that Brazil has both in the agricultural sector as in, more specifically, in the field of food security and of the eradication of hunger. This predicates consolidated the country as an attractive player in the global scenario.³² The study of voting options of the country members of FAO is able to ratify this understanding.

Concerning the Brazilian CTPD in general, Brazil gained eleven explicit supports in South America; seventeen explicit and one support of another candidate in Central America, in North America and in the Caribbean; 27 supports – 22 explicit and five in private –, one undefined and eight supports to another candidate in Africa; and four supports – 3 explicit and one in private –, one undefined and five supports to another candidate in Asia, in Eastern Europe and in the Middle East. In total there were counted 59 supports – 53 explicit and six in private –, two undefined and fourteen to another candidate. It is worth

32. In the specific case of the election of the Food and Agriculture Organization of the United Nations (FAO), also weighed heavily on the choice of countries other Brazilian projects that overflow the technical cooperation area, such as the More Food Africa Program (*Mais Alimentos África* – MAF).

highlighting the expressive support that the Brazilian candidate gained in the American continent. In Africa, the region that historically has suffered influences of several other powers, the vote in favor of Graziano was significant, being that the favorable votes and the support to other candidates were three times greater than the undefined votes. Even in Asia, Eastern Europe and in the Middle East, regions where Brazil has more recent contacts and where there were their own local candidates for the election, the fact that there were four countries favorable can be considered as a great accomplishment. Finally, in general, the support for Brazil was four times larger than for the votes for the other candidates.

With regards to the Brazilian CTPD in the agricultural sector, the Brazilian favoritism was undeniable and suggests to address the doubts as for the instrumentality of the horizontal technical cooperation provided by Brazil. In South, Central and North America and the Caribbean, eighteen explicit supports were given, with no private supports, undefined votes or in different candidates; in Africa however, there were 24 supports – nineteen explicit and five in private – and one support for another candidate; finally, in Asia, Eastern Europe and the Middle East, there were two supports – one explicit and one in private. In general, were counted 44 supports – 38 explicit and six in private – and only one support for another candidate.

Once more, as with the candidacy with the UNSC, it is not possible to attribute all of the weight of Brazilian victory in the election for the FAO on the CTPD, more specifically in the agricultural sector. Many authors influence, in different degrees, in the decision making process of the receiving countries of the CTPD of Brazil. Nevertheless, the interpretation of the previous data provides a good indication that horizontal technical cooperation is one of the valid instruments that Brazilian diplomacy has for defending its interests in the international arena.

6 CONCLUSION

With the title *Speak softly and carry a blank cheque*, the magazine *The Economist* characterized, in an article of July 2010, the new level reached by Brazil in terms of international technical cooperation. The previously eminently assistance receiving country is today a great partner in horizontal cooperation initiatives. The reasons for this international recognition are not few.

Over the last two decades, Brazil has greatly increased its capacity of cooperating. Through technical cooperation, Brazil has transferred to developing countries technologies, experiences, knowledge and training at its disposal, which have been combined with local technical capacity, in order to contribute to the development of the partner country. However, the country did this on non-traditional, better yet, it followed its own parameters.

In an innovative way, non-interventionist, solidary, non-commercial, non-imposing and consonant with the spirit of South-South cooperation, Brazil respects the local culture and socio-economic reality when structuring its projects and tries to give emphasis to the demands of the partner, and not of the offer of the supplier, assuring the most possible horizontality in the relationship of the partners.

In the FHC era, technical cooperation steadily expanded and allied itself with the stabilization initiative, such as the examples of East Timor and Guinea-Bissau. In the Lula era this impulse was kept and diversified, consolidating the commitment with horizontal cooperation – fight against hunger and poverty – and the use of the CTPD in a more instrumental way.

During the FHC government, the emphasis was kept on Africa and Latin America and the Caribbean. However, especially after Lula's second mandate, there was a certain diversification of partners, with projects that are not restricted to the PALOPs and with more American States cooperating. The commitment made by the stabilization and economic recovery of Haiti (devastated by political instability and natural catastrophe) is noteworthy.

In both governments and in all of the regions reached by the Brazilian CTPD, agricultural cooperation was preponderant. Be it in Africa or in the Americas, Embrapa has carried out a relevant role for Brazilian foreign policy. At the same time that it answered Brazilian desire to promote food security in the developing countries, it projected Brazil internationally, increased its credibility and legitimacy as a country defender of the interests of the developing countries and attracting more and more partners for the Brazilian sphere of influence.

If in fact the Brazilian CTPD is very well situated in the global arena, because of criteria like tradition, volume and density of actions, geographic comprehensiveness, thematic breadth, non-commercial character, visibility, projection, among others, this is in part due to the work carried out by Embrapa. To meet the demand of the partners, the company opened representation offices in order to get closer to the local reality and better organize the structuring projects. Furthermore, it organizes itself to transfer knowledge in the most different branches of the agricultural sector.

The advantages for Brazilian foreign policy of this cooperation in the agricultural sector still arouse doubts in scholars and laymen alike, being one of the reasons for the issue to be discussed in this study. In fact, the instrumental effectiveness of the Brazilian agricultural CTPD is difficult to be measured. Nevertheless, this difficulty does not discredit its predicates as a valuable instrument for diplomatic action. In the three analyzed cases, the increase of bilateral trade relations, the support of Brazilian candidacy for the Security Council and the

election of Dr. Graziano at FAO, there is strong evidence of the validity of the international work carried out by Embrapa and by the ABC, though it is not possible to establish direct relations.

Through the analysis of the data presented, there is evidence of the CTPD's influence, especially in agriculture, on the position of the partner countries of supporting or not the Brazilian interests. To take refuge in the argument of coincidence is not consistent with the complexity of the interstate relations of today. The most certain would be to recognize that the CTPD contributes indirectly to creating conditions conducive for the practice of other elements of presence, including economic, commercial and political strategy, and confers, better yet, recognizes its deserved condition of being a valid instrument and of diplomatic action.

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CROSS-BORDER COOPERATION AND REGIONAL INTEGRATION: OPPORTUNITIES TO PERU

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This document explores Peru's bilateral integration and cross-border cooperation programs. It develops the cross-border cooperation approach proposed by the CeSPI (Centro Studi di Politica Internazionale) based in four components: the development of an infrastructure project, a high-level political agreement, the institutional framework regulating relations among local authorities, and another institutional arrangement focused on the participation of civil society in the border areas. Finally, this research analyses the enhancement of Peru's legal framework regarding cross-border integration.

Keywords: Peru; cross-border cooperation; regional integration; infrastructure project.

COOPERAÇÃO TRANSFRONTEIRIÇA E INTEGRAÇÃO: OPORTUNIDADES PARA O DESENVOLVIMENTO DO PERU

Este trabalho está centrado nos programas bilaterais de integração e cooperação transfronteiriça do Peru. Desenvolve-se o enfoque de cooperação transfronteiriça que foi elaborado pelo Centro Studi di Politica Internazionale (CeSPI), baseado em quatro componentes: a realização de obra de infraestrutura física, um acordo político de alto nível, um espaço institucional que regulamente as relações das autoridades locais e outro espaço dedicado à participação cidadã da sociedade civil de fronteira. Por último, são analisados os avanços normativos em matéria de integração fronteiriça no Peru.

Palavras-chave: Peru; cooperação transfronteiriça; integração regional, infraestrutura física.

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1 INTRODUCTION

The development and the diffusion of the cross-border cooperation, understood as the strategic alliance between players and contiguous territories to reinforce the regional integration processes, has become a challenge of great relevance in Latin America. Peru needs to find in the cross-border cooperation an opportunity to reconcile a series of geo-economic and geopolitical differential for each of its borders.

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Each border scenario is unique because of its nature, just as the boundaries that shape them, with no detriment to that, generally it is possible to identify a series of characteristics that lead to the construction of a typology of action for the borderline territory (Rhi-Sausi and Oddone, 2009a, p. 13). Peru's borders do not escape these conditions.

Peru shares borders with five of the twelve South American countries: Bolivia, Brazil, Chile, Colombia and Ecuador. "The most critical borderline area is at the oriental part of the country, with the largest international boundary extension (approximately 70%). In this area, the exchanges among the populations are done mainly by river and the transportation between towns can take weeks." (Peru, 2010, p. 2).

Some preliminary territorial data on Peru's borders offer us the following scenario: the country is formed by nine borderline regions with a surface area of 757.766 km², which represents 59% of the national territory: 28 provinces, 81 districts, and a population of 1 million 290 thousand inhabitants (approximately 5% of the total national population).

The borders are diverse, ranging from historically stable borders to borders – that until very recently – were considered conflicted, however this does not compromise the components of the methodology for action identified by the Fronteras Abiertas¹ (Open Borders). The approach highlights that the cross-border cooperation is favored when there are three basic conditions: that the comprised territories participate in a process of physical connection, that there be desire and a high level political agreement among the involved countries that will allow the realization in some institutional framework to organize their relations, and lastly that subnational frontier governments be recognized as articulators of the local players, as fundamental institutional instances for a positive cross-border governance.²

The cross-border cooperation offers the regions and the neighboring municipalities the alternative

to bring closer each territorial sector of the geopolitically segmented towns; enables that these towns mitigate, in part, the effects of the artificial division that they have suffered and allows the intensification of the ties in the diverse planes between the different territorial sectors, as well as strengthening the different networks" (Majón, 2005, p. 70).

1. In this respect, see: Rhi-Sausi, J. L. and Conato, D. (2009). *Cooperación Transfronteriza e Integración en América Latina*. Roma: Centro Studi di Politica Internazionale-Istituto Italo-Latino Americano.

2. From this perspective, it is important to recognize the phenomena that have contributed to the development of the cross-border cooperation in Latin America, among those that stand out are the renewed importance of the regional physical integration proposals based on the design of hubs and bi-oceanic corridors, the decentralization processes that have granted a greater autonomy to the subnational governments in both their individual and group international actions, and the territorialization process (or *reterritorialization* for some authors) of the economy that has been defining the emergence of a new geographic economy.

The cross-border cooperation enables to operatively reconcile the fundamental criteria that have promoted the Latin American integration over the last decades. On the one hand, the geo-economic criterion that has served as a guide for the physical integration of the subcontinent, and on the other, the geo-political criterion that has guided the integration process and regional political concert. It is certainly not about two incompatible criteria, on the contrary, their degree of interaction and interdependence is notable. However, their compatibility is not automatically translated into a working instrumentalization to promote integration and cross-border cooperation. Just fathom that when the construction or extension of a connectivity infrastructure promotes the mobility of goods and persons at border crossing points, the real mobility will also depend on other factors, which under the existence of structured regional institutional agreements will facilitate an effective and legitimate solution for the full validation of the “integration liberties”.

In this sense, the compromise of the Andean Community of Nations taken form in the Decision nº 501/2001 on the creation of the Zones for Border Integration (*Zonas de Integración Fronteriza* – ZIF) and in the Decision nº 502/2001 that comprises the general norms for the establishment, operation and application of integrated controls in Bi national Centers for Attention on Borders (*Centros Binacionales de Atención en Frontera* – CEBAF) offers a fundamental condition to carry out agreements that make effective the potential mobility of the physical integration (Rhi-Sausi and Oddone, 2009b, p. 55-). Alternatively, even when there are effective regional concert mechanisms, the bi national agreements (such as the good example demonstrated by the Bi national Commission between Ecuador and Peru) constitute the most common route, even though at times there are no structural ties and are characterized by their high volatility.

As the Latin American experiences demonstrate, it is not uncommon that even in the regional integration processes, the agreements become “bilateral” in the matters of cross-border cooperation. Chile is an Associated State of Mercosur since 1996, but has been fundamental in the bilateral political agreement with Argentina³ where in the role of the Border and Integration Committees has played a central role in the strengthening of the cross-border ties or the political agreement that has given stability to the Ecuador-Peru border initiated under the modality of presidential and ministerial cabinet meeting. A very interesting example is observed among the member countries of Mercosur, where the institutional framework for regional integration is

3. Taken form in the Maipu Treaty for Integration and Cooperation between the Republic of Argentina and the Republic of Chile, October 30, 2009.

reinforced by bilateral agreements between countries that are in the condition to advance even more in this field (one can consider the recent presidential level agreement on cross-border cooperation between Brazil and Argentina). That is, the regional agreements are giving way to reinforced bilateral cooperation in the border areas. This also seems to be the inspiring principle for Peru: an Associated State of Mercosur that, through a bilateral political agreement with Brazil, could be part of the list of “strong” bi national agreements for a shared work in the borders.

BOX 1

Fundamental conditions for stimulating cross-border cooperation

The cross-border cooperation is favored when there are three basic conditions:

- that the comprised territories participate in a process of physical connection;
- that there be a high level political agreement among the involved countries that will become some institutional framework that organizes their relations, and;
- that participation of subnational frontier governments be recognized as articulators of the local players and as fundamental institutional instances necessary for a positive cross-border governance.

This leads to the construction of a typology of action for the area of borderline territory

Elaborated by the authors.

The present work applies the Fronteras Abiertas approach to two very dissimilar border regions of Peru. The borders of Ecuador-Peru and of Brazil-Peru. It should also be highlighted that the Fronteras Abiertas has carried out direct interventions in one of these regions.

The elements mentioned in the previous table will presently be applied in order to demonstrate the functionality and the pertinence of the approach.

2 PHYSICAL INTEGRATION OF PERU BASED ON THE IIRSA SYSTEM

“The economic integration requires a minimum level of physical integration for the involved countries” (Kahhat, 2007, p. 255). Following this perspective, one identifies the Development Bank of Latin America (CAF) as one of the main partners of the IIRSA project.

The approximation of CAF, but also of IIRSA, can be summarized in the understanding that:

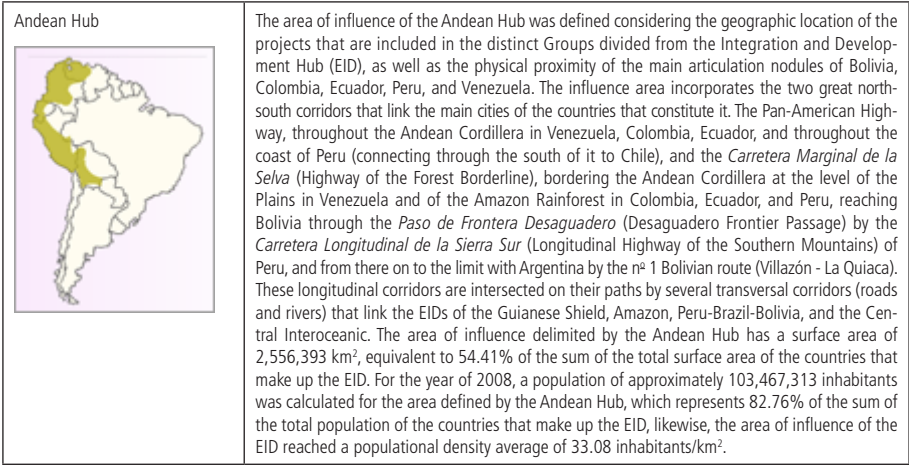
a strong support for the development of the physical infrastructure [is] indispensable for meeting the basic needs (...) and for supporting the integration process and international competition of the region (...). That the infrastructure is the primary intervention of the human being on the territory, in order to access it and to allow his potential for development to flow. It usually starts with the provision of

basic services for survival (...) but quickly expands to include the routes of access that permit the widening of the area influenced by human activity and more advanced technologies to generate energy and enable long distance communication. (...), the level of infrastructure of a territory is intimately involved with the level of development of the society that inhabits it and constitutes in a severe restriction on the possibilities of great leaps in material welfare of the society (Terrazas Salinas, 2009, p.13).⁴

All the countries with which Peru has borders have manifested their full support for the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA); which clearly presents a manifest interest for the border zones, territorial integration “from bellow”, and the realization of public-private partnerships.

The IIRSA system is an infrastructural program with an institutional mechanism for coordinating intergovernmental actions of the twelve South American countries, with the objective of building a common agenda to foment projects for the integration of transportation, energy and communication infrastructure. Peru participates of the following IIRSA hubs: Andean, Amazon, Central Interoceanic, and Peru-Brazil-Bolivia.

CHART 1
Hubs of IIRSA with the participation of Peru



(Continues)

4. To widen this concept, see: <<http://www.caf.com/view/index.asp?pageMs=61371&ms=19>>.

(Continued)

Amazon Hub 	The Amazon Hub was defined through the delimitation of a region throughout the multimodal transport system that connects specific ports of the Pacific, such as Buenaventura in Colombia, Esmeraldas in Ecuador, and Paita in Peru, with the Brazilian ports in Manaus, Belem, and Macapa. This area of influence is relatively dynamic, since it is also related to a physical location of the projects that are incorporated into the distinct groups in which the EID has been divided. The area of influence highlighted incorporates a large region of the North of South America between the Pacific and the Atlantic Oceans, furrowed by the great Amazon River and its tributaries, it is characterized by its great extent, topographical diversity (coast, Andean zone, forest), and low populational density. The area of influence delimited by the Amazon Hub reaches a surface area of 5,657,679 km², equivalent to 50.52% of the sum of the total surface area of the countries that make up the EID. The EID accounts for a population of approximately 61,506,049, according to projections for the year 2008, elaborated by statistical institutions of each of the countries in the EID, which represents 22.23% of the sum of the total population of the countries that make up the territory of the EID. Likewise, for the area of influence of the EID was calculated a populational density average of 10.87 inhabitants/km², a general medium-low level characterized by a strong geographical dispersion. This indicator varies in the EID from a maximum of 103.96 inhabitants/km² in the Coastal Region of Peru, to a minimum of 2.13 inhabitants/km² corresponding to the territory of the Amazon State in Brazil. In the Amazon Rainforest there are only a few large populations, such as Manaus, Santarem and Iquitos.
Central Interoceanic Hub 	The Central Interoceanic Hub is made up of an area of influence that cuts South America transversally between approximately 12 and 22 degrees south latitude, and incorporates the connection of the main ports of the Pacific and the Atlantic in this territory and the corresponding articulation nodules between Peru, Chile, Paraguay, and Brazil in this region. The area of influence is relatively dynamic, since it is also linked to the physical location of the projects incorporated by the distinct groups in which the EID was divided. The delimited territory incorporated the departments of Arequipa, Moquegua, Puno and Tacna of Peru, the Region XV, I (Arica and Parinacota and Tarapacá, respectively), and the Loa Province of the II Region Antofagasta of Chile, the departments of Beni, La Paz, Oruro, Potosí, Tarija, Cochabamba, Chuquisaca, and Santa Cruz of Bolivia, the Republic of Paraguay, and the Brazilian states of Mato Grosso, Mato Grosso do Sul, Rio de Janeiro, San Paulo, and Paraná. The area of influence defined by the Central Interoceanic Hub reaches a surface area of 3,461,461 km², equivalent to 28.70% of the sum of the total surface area of the five countries that make up the EID. For the year of 2008, was calculated an approximate total population of 92,594,587 inhabitants for the area of influence defined by the Central Interoceanic Hub, which represents 36.83% of the sum of the total population of the five countries that make up the EID, likewise, the area of the EID reached an average habitation density of 26.75 inhabitants/km². This indicator varies from a maximum of 363.25 inhabitants/km² for the state of Rio de Janeiro, to a minimum of 2.01 inhabitants/km² corresponding to the department of Beni in Bolivia.
Peru-Brazil – Bolivia Hub 	The Peru-Brazil-Bolivia Hub was defined through the delimitation of an influence area that incorporates the connection of the main articulation nodules located close to the triple frontier between Peru, Brazil and Bolivia. This area of influence is relatively dynamic, since it is also related to the physical location of the projects that incorporate the distinct groups in which the EID was divided. The area of influence defined by the Peru-Brazil-Bolivia Hub reaches a surface area of 1,146,871 km², incorporating 10.52% of the sum of the total surface area of the three countries that make up the EID. The area of influence highlighted covers the departments of Tacna, Moquegua, Arequipa, Apurímac, Cusco, Madre de Dios, and Puno of Peru, the departments of Pando, Beni, and La Paz of Bolivia, and the states of Acre and Rondonia of Brazil. For the year of 2008, was calculated an approximate total population of 10,249,938 inhabitants for the area of influence defined by the Peru-Brazil-Bolivia Hub, which represents 4.49% of the sum of the total population of the three countries that make up the EID, likewise, the area of the EID reached an average habitation density of 8.94 inhabitants/km². This indicator varies from a maximum of 20.58 inhabitants/km² for the area of influence of the department of La Paz of Bolivia, to a minimum of 1.18 inhabitants/km² corresponding to the territory of the department of Pando, also in Bolivia. The territory of the EID has the lowest populational density of the nine EIDs of the IIRSA Initiative.

Available at: <<http://www.iirsa.org/Areas.asp?CodIdioma=ESP>>.

It is worth mentioning the Programa de Pasos de Frontera Perú-IIRSA (Peru Border Control Program), a set of projects that are being executed by the National Directory for Border Development (Dirección Nacional de Desarrollo Fronterizo – DDF) of the Ministry of Foreign Relations, with the objective of facilitating binational commerce and tourism through the improvement of border control infrastructure and the simplification of the administrative steps, the capture and processing of information generated in the border crossings.

Three projects are being developed in the Program: Desaguadero Border Control Project between Peru and Bolivia, Iñapari Border Control Project between Peru and Brazil, and Santa Rosa Border Control Project between Peru and Chile. All of them include the construction of new border control facilities with state of the art computer equipment and high operative capacity with integrated systems and processes for the recording and processing of data. The projects also include a management strategy of community relationships, because of the growth of the local population on both sides of the border and the increase of commercial exchange. As an example, in Paso de Desaguadero from 1993 to 2007 the population almost tripled and the foreign commerce through the border control increased over 143%, the migration flow also increased 38% in the time period between 2004-2008; in Paso Iñapari the population almost doubled in the same time period, the foreign commerce increased in 130%, and the migration flow grew 58% for the aforementioned time period, and lastly, in Paso Santa Rosa was registered a population growth of 27% (1993-2007) and foreign commerce through the border increased 234% (2004-2008) and the migratory flow grew 197% (2005-2008).⁵

3 THE POLITICAL ANCHORING OF BORDER ISSUES

The cooperation in border areas is proposed as an extraordinary lab for the construction of an agenda that will deepen South American integration. Its relevance is not derived solely from the growing interest that is manifested by the subnational governments in this issue, but also because of a series of intrinsic characteristics of the cross-border cooperation offer an important added value to the harmonious and balanced development of Latin America.

A significant lesson learned in the Fronteras Abiertas framework is the importance of anchoring the cross-border cooperation in real integration processes on a political level. An institutionalized regional integration process like Mercosur or CAN tends to increase the possibilities to promote such cooperation. The absence of an institutional structure of regional integration can be compensated through strong binational agreements, as is the case of the Argentina-Chile border, of the Ecuador-Peru border promoted by presidential ministerial cabinet meetings, or the bilateral political agreement of Brazil-Peru signed by the Presidents Lula da Silva and Alán García.

5. Cfr. Programa Pasos de Frontera Perú-IIRSA. Available at: <www.pasosdefrontera.com.pe>.

Following are highlighted the border integration policy of the CAN, the development and integration border policy of Peru, two bilateral agreements for the border development, and the role of the subnational units whenever contemplated.

3.1 Border Policy of the Andean Community of Nations

The *Política Comunitaria de Integración y Desarrollo Fronterizo* (Community Policy for Border Integration and Development) of the Andean Community of Nations was approved on May 1999, by the Decision n° 459, as an essential component for the strengthening and the consolidation of the regional integration process. The norm establishes the principles, objectives, institutions, and the instruments that frame this community policy.

On the other hand, the same decision created the High Level Work Group for the Integration and Development of the Border (GANIDF). Article 5 of the IV Chapter establishes that GANIDF is the one responsible for coordinating and proposing to the Andean Council of Foreign Relation Ministers⁶ the programs and plans of action that require the implementation of border policy. Likewise, the General Secretariat of CAN fulfills the role of Technical Secretariat in the functioning of GANIDF and relies on the support of the existant binational mechanisms of the Member Countries.⁷ as well as the Andean Region Consult Group, coordinated by the IDB and CAF.

In this sense, the Andean countries took an important step in 2001 in the field of adopting the Andean Council of Foreign Relation Ministers the Decision n° 501 that establishes the community framework for the creation of the Border Integration Zones (*Zonas de Integración Fronteriza* – ZIF)⁸ and the Decision n° 502 that has the general norms for the establishment, operations and application of the integrated controls in the in Bi national Centers for Attention on Borders (CEBAF).⁹

In general, for the installation of the ZIFs, binational work groups are articulated that will elaborate a development plan subject to two phases. In the

6. Created on November 12, 1979, the Andean Council of Ministers of Foreign Relations is the organ for political direction, integrated by the chancellors of the member countries, charged with assuring the achievement of the objectives of the subregional integration process and of formulating and executing the foreign policy for the Andean Community.

7. The Andean integration system respects and strengthens the bi-lateralization of themes corresponding to integration and frontier cooperation.

8. By ZIF one understands those "territorial border areas adjacent to the member countries for which policies will be adopted and plans, programs, and projects will be executed in order to foment sustainable development and cross-border integration in a collective, shared, coordinated, and orientated manner for mutual benefit" (CAN, 2001a).

9. By CEBAF one identifies "the set of installations that are located in a portion of the territory of a member country or of two neighboring, adjacent to a border crossing, that includes access routes, facilities, equipment, and furnishing needs to apply the integrated control of persons, equipment, merchandise, and vehicles". (CAN, 2001b). One understands by "integrated control" the verification and supervising of the legal conditions for entry and exit of persons, equipment, merchandise, and vehicles that take place jointly in the CEBAF, the competent national employees are assigned by the exit and entry countries.

first stage, a plan is elaborated in the national sections starting at the creation of spaces that allow an ample participation of public and private players at the borders, where the objectives will be formulated, and possible projects and inversion programs will be identified. In the second stage the different proposals and national priorities are made compatible. The stages identified for the constitution of a ZIF gather key elements that form part of a cross-border cooperation process: the information, stage in which the institutions of the territories meet and mutually “evaluate”; mutual consultation, before implementing policies of measures in the possible local levels that may, directly or indirectly, affect the other side of the border; the harmonizing of the rules and regulations and the integration of the territories as a single space for development in the final analysis.¹⁰

As for the CEBAFs, they are also made up of binational work groups and the elaboration of master plans that aim to stimulate and facilitate commerce and international tourism through the border crossing. Also strive to elaborate a regulating plan that is adopted by the municipal governments of both sides of the border, as a management instrument.

Furthermore, the countries that are part of the Andean area rely on the objective of articulating regional integration with the cross-border cooperation based on the creation of a Bank for Border Integration and Development Projects (Banco de Proyectos de Integración y Desarrollo Fronterizo – BPIDF) established with the support of the Regional Andean Program for Cooperation of the Spanish Agency of International Cooperation for Development (Programa Regional Andino de Cooperación de la Agencia Española de Cooperación Internacional al Desarrollo).

The very Decision nº 501 for the creation of the ZIF mentioned in its Article 10 that: “it is established in the General Secretariat of the Andean Community the Bank for Border Integration and Development Projects, which will rely on the support of the Inter-American Development Bank (IDB) and on the Development Bank of Latin America (CAF), among others”.

The objectives of the BPDIF are to identify, evaluate, and carry out integration and development projects in the common borders of the countries of the Andean Subregion that will contribute to improving social and economic conditions of the border towns, strengthen the development of the production and service sectors, improve the flow of local and international commerce that travels

10. As an example, Peru and Bolivia constituted a Bi national Work Group for the implementation of the ZIF that followed in the elaboration of a Development Plan considering the territorial organization of both countries. The proposed ZIF was integrated to the Departments of Arequipa, Cusco, Madre de Dios, Puno, Moquegua, and Tacna for Peru; and of La Paz, Oruro, Potosí, Beni, and Pando for Bolivia. To deepen this proposal, see: Monge, N. M. *Espacios Regionales Fronterizos. Teoría, política y práctica del desarrollo y la integración fronteriza*. Málaga, Grupo de Investigación Eumed. net de la Universidad de Málaga, 2008. Complete available at: <www.eumed.net/libros/2008b/400/>, p. 45-.

through the land borders, and correct the limitations of infrastructure that currently affect the border zones.

CAN's advances in cross-border issues are truly relevant in definition and in norm,¹¹ nonetheless in the operative matter it still lacks some mechanisms and instruments to be put in full operation and different experiences are presented with very dissimilar results, that in general remain pending the strength of the bilateral agreements of the parts, both in a national and subnational level. This situation shows, above all, the dependence of national desires to enable the designed instruments for the border area.

The Andean Community to this day coordinates and manages a diversity of projects integrators of economic and social processes in the border zone that, territorially speaking, constitute in Regional Border Spaces in which there are similar conditions and common aspirations; there the States could intervene in shared manner and achieve objectives in benefit of their towns that have been until now at the outskirts of all development. It is a priority to complement the development border integration cycle, defining procedures for the management of projects focused on border integration, whose supranational nature and reach, in the border dimension, transforms them in master keys for positive and productive bilateral relations (Peru, 2010, p. 12).

Finally, it is also important to note that the cross-border cooperation in CAN is part of the elaboration of an Andean agenda for territorial development, whose objective is to count on a shared vision on territorial development in the Andean integration framework, that it will promote the balanced development of the regions and border areas, environmental sustainability, and territorial cohesion.

3.2 National Border Development and Integration Policy of Peru

The border development and integration policy is constitutional part of Peru's foreign policy. In February 1999, the Ministry of Foreign Relations created the National Directory for Frontier and Border Development, dependent on the vice-minister and the General Secretary of Foreign Relations, with the objective of the Directory also function as the Executive Secretariat of the National Council for the Development of Borders with technical and budget autonomy. In 2005, it changed its name to National Directory for Border Development (Dirección Nacional de Desarrollo Fronterizo – DDF) that currently depends

11. To see more with regards to Edgar Moncayo Jiménez's Works for the General Secretariat of the Andean Community: *Elementos para una Estrategia de Desarrollo Territorial en el marco de la Integración Andina* (2005) and *Geografía económica de la Comunidad Andina. Regiones: nuevos actores de la integración* (2003). Among the conclusions in this last job are highlighted the interpretation of the "high degree of active regions", which are those regions, provinces, or states in a member country that generate a substantial part of the intra-community commerce; on the other hand, it was also observed that the greater part of the border regions are characterized by their marginality in the commercial intra-community trade. Furthermore, it was constructed a regional typology in: active regions, commodities regions, and border regions.

on the Sub-secretariat of America. The DDF, with 12 years of existence, is still working with the intent of endowing Peru of an organic border development and integration policy that allows for the marginalized situation of the borders and its inhabitants to be reversed, and with which has concentrated its efforts in the formulation and coordination of diverse intervention projects that impact the 81 border districts of the country.

There is no doubt that the concept of borders, defined in terms of its demarcation dimension and line of defense, has been surpassed by a wider notion of space where development and social, economic, and cultural integration dimensions predominate with the settled populations on both sides of the international border. Under this inclusive approach, in which the worth of complementarity – even of interdependence – is recognized, in guiding better levels of life quality are recognized; the mechanisms of development and integration of borders, established and fomented over the past decade by the Andean Community, with the approval of a Community Policy for the Integration and Development of Borders, have generated a new tendency in the subregional agenda (...). In this balance, we recognize that we still have relevant challenges, such as reverting the poverty and marginalization tendencies, promoting inclusion of the border areas in border integration dynamic with the neighboring country, and local and regional development. (DeNegri, 2010).

The National Council for the Development of Borders (Consejo Nacional de Desarrollo de Fronteras – CNDF) was created by the Decision S. nº 057-2001-PCM of May 22, 2001. It is presided by the Ministry of Foreign Relations and is integrated by a Vice-minister of each sector of the Executive Branch, as well as the Presidents of the Regional Governments of the border.¹² The CNDF is in charge of formulating the coordinated form of a state policy on the border development and of harmonizing the actions of the State in the borders with means of promoting sustainable development, fomenting rational occupation, and stimulating international agreements for obtaining technical and financial international cooperation.

The CNDF approves, in February 2006, the “Bases of the National Strategy for Border Development and Integration 2007-2021”, as a methodological model of intervention directed to initiating border processes that enable the mitigation of poverty situations of the inhabitants of the borders, and favor an articulation in respect with the local, regional and national dynamic. The strategy permitted the concept of what is presented below.

12. Cfr. Ministry of Foreign Relations. *Desarrollo e Integración Fronterizos*. Lima, Ministry of Foreign Relations, 2010. p. 3.

BOX 2

Conceptualization of the border issue in CAM

Border area: Adjacent to the border limit and border control. One experiences daily the border phenomena at a local scale. One can consider the border districts.

Border Zone: Geo-economic unit with a settlement structure and articulation hubs, where one can carry out development actions in a more organic manner. Supports the border area and is the articulation nexus with the administrative region.

Border region: Sub-national field for programming and managing development.

Corridors of border development: Geo-economic integration spaces, from axis of physical articulation. Territorial base for the development strategy.

Complementary regions of border development: Those circumscriptions of the national territory that are not borderline but fulfill support roles for border development.

Binational border regions: Spaces formed by border areas of Peru and of the bordering countries in which there is current and potential degrees of articulation.

Source: National Directory of Border Development, MRE, Peru.

In October 2007, the Executive Branch sent to Congress a Law Project framework for the Border Development and Integration that established that it is: “duty of the State to establish and execute border policy and to promote integration, particularly Latin American, as well as the development and the cohesion of border zones, in accordance with foreign policy”. The object of the Marco Law defines the border spaces, established the mechanisms for formulation, coordination, execution, and tracking of National Border Development and Integration Policy, and as an institutional setting for managing this purpose, has the creation of a functional National Border Development and Integration System.

The Law presents a combination of elements that may be identified both as a “traditional” and a modern approximation of border integration, that is

strengthening the unitary character of the Nation and affirming national identity; reinforcing sovereignty, security, and national defense in the border spaces; generating conditions for the sustainable development and the welfare of the settled population in the border spaces, guaranteeing the access to basic services; promoting inter-sectorial efforts in a setting of growing efficiency and complementation for the execution of public policies in the border spaces; promoting respect for ethnic and cultural diversity, as well as protection of the environment, of biological diversity, and of natural resources; orienting processes of border integration in the Foreign Policy framework.

Another important instance in the subject of borders has been the creation of the Decentralized Offices and Border Consulates. In 2002, the Ministry of Foreign Relations initiated the establishment of decentralized units that contribute to the execution of the National Border Development and Integration Policy and to the decentralization process. These units tend to promote the insertion of the local capacities in the regional economy, in the inversions, in tourism, and in the

diffusion of the local exportable supply. Coordinating with the DDF, the decentralized offices contribute directly with the management of initiatives and border development projects.

Should be mentioned three key instances that pertain to the border knowhow: the Multi-sectorial Commission of the Purus Plan (D.S. n° 038-2008-RE) destined for the province with the greater accessibility difficulties; the Multi-sectorial Commission of Border Crossing (R.S. n° 079-2009-RE) charged with analyzing and evaluating the situation of river and land border crossings, of formulating the Strategic Plan for the Development and Modernization of Border Crossings and of proposing norms for its implementation; and the implementation of a Geographic Information System for Border Development in the framework of the DDF-MRE.

3.3 National law for border development and integration

On the date of July 26, 2011, the Marco Law for the Border Development and Integration was approved (National Law n° 29776), it defined the border spaces, established the mechanisms for formulating, coordinating, execution, and monitoring of the National Policy for Border Development and Integration, which is part of the Foreign Policy and the National Policy for development of Peru and regulates the National System for Border Development.

The Law mentions specifically that the National Policy for Border Development and Integration will be carried out in coordination with the regional and local governments involved in the matter and that it will be formulated by the President of the Republic.

Furthermore, the National Council for the Development of Borders and Border Integration was created as the highest multi-sectorial authority charged with formulating, conducting, and evaluating border policy, as well as promoting, coordinating, and evaluating the fulfillment in accordance with what was established in the article 44 of the Political Constitution of Peru.

Primary duties of the State are: defend national sovereignty; guarantee the full effect of human rights; protect the population from threats against its security; and promote the general welfare that is based on justice and in the integral and balanced development of the Nation. It is also duty of the State to establish and execute border policy and to promote integration, particularly Latin American, as well as the development and the cohesion of the border zones, in accordance to foreign policy. (Peru, Article n° 44).

The aforementioned council will have, as part of its duties, to propose guidelines of the National Policy for Border Development and Integration, as

well as promoting, coordinating, and evaluating its compliance; to approve the development and integrations strategies and harmonizing the national, regional, and local plans for border development and integration with the country's international commitments.

The Executive Branch should make available the necessary actions for the determination of financing sources from the Fund for the Development of Borders and Border Integration that was created by the current Marco Law.

4 BORDERS AND BILATERAL POLITICAL AGREEMENTS OF PERU

4.1 Peru-Ecuador: from the war to cross-border cooperation

When one approaches the subject of relations between Ecuador and Peru, it is astounding how there is such a short temporal distance from a serious border dispute, which even led to armed skirmishes in the last years of the twentieth century, to relations between the two countries that improved so fast. After the placement of the last border milestone in 1999, the relationships of trust between Ecuador and Peru have been cemented thanks to a series of programs that approach common and strategic subjects for the border populations in this zone and for both countries in general (Coletti *et al.*, 2009, p. 141).

Peru and Ecuador share a border of 1,528 kilometers of longitude through the extent of a region formed by a diversity of zones that span over the coast (that alternates between semiarid zones to mangroves and banana plantations), the Andean zone (*agreste* to mountains), and the humid tropical Amazon rainforest. Throughout it there are nine natural protected areas where conservation projects and biodiversity and ecosystem protection projects are developed, particularly those based on the care of water resources.

With the objective of settling the recurrent border disputes,¹³ the governments of both countries put forth a collaboration strategy that was expressed in the Binational Peru-Ecuador Plan in 1998. Months later (04.02.1999) and valid for ten years, the leaders of both countries formally sealed the arrangement

13. After Spanish Independence, the Governments of Ecuador and Peru took advantage of the principle of *Uti Possidetis Jure* as the primary method for establishing the boundaries of the new 'independent' states. The Latin formula – "as [you possessed] according to the law, [you] will possess" – is a principle whereby belligerents possessed territory provisionally retain at the end of a conflict, temporarily, until otherwise provided by a treaty between the parts. In the case of Peru and Ecuador, these disputes led to several armed conflicts and, after many decades of clashes, in 1941, the two countries fought a brief war that ended in 1942 with the signing of the Protocol of Rio de Janeiro by which divided the disputed territory roughly in half. He chose this line because, in 1936, Ecuador and Peru had determined that this was actually occupied territory and because this line crosses all points where rivers become navigable. But in the Rio Protocol, the demarcation of the border line was not sufficiently established in the region of the Cordillera del Condor and the Cenepa River; resulting in the emergence of new differences. Thus, in January 1995, Ecuadorian troops entered the territory and clashed with Peruvian soldiers in a conflict that lasted five weeks. The Cenepa War ended on 17.02.1995 with the Itamaraty Peace Declaration in Brazil. On 26.10.1998 the Brasilia Agreement was reached, which fully defined the border between Peru and Ecuador and newly marked on 13.5.1999 was the latest milestone in the Peru-Ecuador finally sealing the peace on the border.

in the headquarters of the Inter-American Development Bank in Washington. In this document was included a Binational Development Plan for the Border region and also an administrative mechanism that should serve as a basis for the financing of the projects that were expected to promote, such as the Bi national Fund for Peace and Development. But, as the execution of cross-border cooperation projects require multiple actors and interventions in different levels of government and therefor becomes slow and complicated, in September 2008 an extension on the intergovernmental cooperation agreement was agreed upon, another 5 years, that is, until 2014. The necessity for conciliation and for reaching consensus for the coordination of legislations and mechanisms is, therefore, a path already initiated by Peru and Ecuador a few years ago. This has permitted that both countries verify the feasibility of working together for the integration of the towns that have a similar history and common culture.

Beyond the disputes, the regions of southern Ecuador and northern Peru territories are historically tightly integrated with each other, characterized mainly by a strong cultural homogeneity. In this regard, Ecuador-Peru border zone is a true 'cross-border region' on which it is feasible to build a wide variety of cooperation projects based on this component of 'cross-border cultural citizenship'. The Binational Development Plan of the Ecuador-Peru Border Region is a mechanism designed by the two countries with the aim of raising the standard of living of the people through projects that tend to the economic and social integration.

The activities developed by the Binational Plan are nourished by a series of technical commissions, they are: Peruvian-Ecuadorian Neighborhood Commission, Binational Technical Committees, Border Committees, Binational Permanent Commission for the Zarumilla Canal, and Binational Commission for the Integrated Management of Water Resources of the Zarumilla River.

It is worth mentioning that the Peruvian-Ecuadorian Neighborhood Commission was created by the Brasilia Agreements and is the axis of the integration process. It is the instance of the political level and representative character in charge of promoting, supporting, and coordinating the cooperation between the two countries. Binational Technical Committees represent the space for debate and participation of various actors concerned in the border. The Border Committees are binational coordination mechanisms that promote and monitor the compliance of the agreements constituting the border regime as they propose procedures for the transit of individuals, goods and transport services through the border crossings or to encourage cooperation among the parties. Currently there are two Border Committees: Tumbes-El Oro and Piura-Loja, both led by regional authorities and fundamental expression space for subnational units in the area.

The Binational Commission for Integrated Water Resources of the Zarumilla River that was established by the agreement signed on the occasion of the Presidential Meeting and Binational Cabinet Meeting of October 2009, aims to promote integrated water use through articulation mechanisms, coordination and participation, that lead to development, conservation and management of water on the said basin border.

BOX 3

Fronteras abiertas in the Ecuador-Peru border

The first trip to the Ecuador-Peru zone taken by the Fronteras Abiertas Project took place in March 2007. In that occasion, they visited the territories of Loja in Ecuador and of Piura and Chiclayo in Peru. Since this first mission, they identified the subject of sustainable tourism as a priority axis for development of the zone, a demand that was expressed by the local authorities and that also emerged as a result of the analysis of the region's potential. The Southern area of Ecuador and the Northern area of Peru are, without a doubt, a very interesting zone from the sustainable tourism point of view, which has a high and varied natural and cultural heritage. The coast has adequate infrastructures for seaside and aquatic tourism. It also has several museums and historical sites for the segment interested in the cultural aspects.

In parallel, the Piamonte Region showed a pronounced interest for the Ecuador-Peru border. The reasons for this interest are explained, in the first place, by the presence of immigrant communities in this territory: in Turin, regional capital of Piamonte, the Peruvian population is the third most important immigrant community, after the Romanian and the Moroccan populations. Thus, the creation of a collaboration web between the Piamonte Region and some of the Andean regions could favor collaboration and co-development spaces. Such Region already is present in a neighboring zone to the one part of the Fronteras Abiertas Project: in particular it had provided technical assistance for the local government of the Amazon Region (Peru), through its body *in house* IPLA (Istituto Pianta Legno Ambiente) in the elaboration of projects tied to the environment.

On October 2007, another mission to the zone was carried out. In this mission, besides the Fronteras Abiertas team, the Piamonte Region also participated. The mission was decisive for involving the territories of the Tumbes coast (Peru) and of El Oro (Ecuador). The high-andean and pre-amazonic territories (of the Peruvian and Equatorial side) already have been fully involved thanks to the previous mission, while it still was necessary the opening of channels to activate relations with the coastal axis. On October 5, 2007, in Loja, Ecuador, the *Acta de compromiso para la implementación del Project cross-border "Fronteras Abiertas" entre Ecuador y Peru* (Act of commitment for the implementation of the cross-border Project Fronteras Abiertas between Ecuador and Peru) was signed, to which representatives from the following places gave their adhesion: Ecuadorian provinces of Loja and El Oro, regional Peruvian governments of Lambayeque, Piura and Tumbes, Italian Region of Piamonte, the IILA, CeSPI, and the Association for migrant Andeans in Italy *Juntos por los Andes* (Together for the Andes). The act marks the formal start of Fronteras Abiertas' activities in the territory. The intermediate governments of Ecuador and Peru identified sustainable tourism as the articulating axis for territorial cohesion.

During 2008, the Fronteras Abiertas Project also got involved in the Ecuadorian province of Zamora Chinchipe and with the Peruvian Government of Cajamarca. The first formal activity of the project was the organization of a training period and studio visits by some employees of the intermediate border governments of Peru and Ecuador to Italy. Technical representatives for tourism and environment of the provincial governments of El Oro and Loja (Ecuador), and the regional governments of Lambayeque, Cajamarca, Piura and Tumbes (Peru) made an educational tour on cross-border and tourism cooperation. In the second half of the year, the first direct action was identified and would be financed by the Fronteras Abiertas Project in the zone. It was decided to support a medical center placed on the outskirts of the Peruvian Region of Cajamarca and the Ecuadorian province of Zamora-Chinchipe: one of the poorest zones on the border of Ecuador-Chile.

On March 2009, an important event in Chiclayo, Peru took place. The meeting had as a concrete result the joint desire to create a shared touristic brand to add value to the affected territory, as well as promoting touristic routes that are being promoted by the ministries of tourism from both countries, in synergy with the Binational Ecuador-Peru Plan. Moreover, once the nexus among the sub-national members of the web were consolidated, they had debates on the possibilities of opening, during the second half of 2009, a space for the participation of persons of the civil society, universities, municipalities, and municipal associations, who could contribute to the sustainability of the decentralized integration process initiated by Fronteras Abiertas.

On the other hand, on a private level, they have related to networks of Peruvian and Ecuadorian immigrant associations in Italy, with their peers of immigrant relatives in Ecuador and Peru. Fronteras Abiertas considers strategic the consolidation of this network as in the international migrations in both countries play a fundamental economic role through remittances.

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Because of the active role of the Piamonte Region in the scope of the Fronteras Abiertas Project, the capital Turin was elected as the headquarters for the national conference "Cross-border Cooperation in Latin America: contribution of the decentralized Italian Cooperation", which took place on July 8, 2009. From there reemerged the proposal to support sustainable tourism in a synergic and complimentary manner to the Bi national Plan. Among the activities of the Bi national Plan in the area for tourism, there is the project of the Spondylus Touristic Route,¹ orientated at the touristic development of the coastal zone between Ecuador and Peru, from Lambayeque to Guayaquil. In the province of El Oro and in the Tumbes Region, given their potential for cultural and nature tourism, one can observe a weak exploitation and chaining of supply of services and ventures, Little promotion of the capacity for touristic development, factors that have brought on the loss of opportunities for economic development and bettering the quality of life, especially in towns and in families from rural zones dependent on foreign migrants, with high poverty indexes. Is incorporated to this the institutional and sectorial dispersion, lacking of an organizational and territorial association for touristic offer and reception. Consequently, emerges a proposal to back the development of a touristic route segment, which has been named "Pequeña Spondylus", that precisely covers the coastal border regions where the project is working. The "Pequeña Spondylus" project aims to contribute to the development of sustainable bi national tourism of the El Oro province (Ecuador) and Tumbes (Peru) through the strengthening and promotion of ventures and offers of touristic services for small and migrant family companies in Europe throughout the Spondylus Route (promoted by the Bi national Plan). It seeks to promote the expansion of tourism services for small businesses, as well as their management capabilities, contributing to strengthen the local tourism enterprises (under the territorial tourist corridor), with the participation of local governments and the private sector.

It is worth mentioning that under the "Pequeña Spondylus" proposal, a new institutional level has been involved: the municipal. The role of the Huaquillas municipality (Provincia de El Oro) is central in the Spondylus route. The Tumbes Municipality manages, in the scope of the Bi national Plan, the Asociación de Municipalidades Peruanas y Ecuatorianas de Frontera (Peruvian and Ecuadorian association of border municipalities), key associate for the exchange activities in the territory. Besides the activities of the Small Spondylus, Fronteras Abiertas supported the regional government of Tumbes (Peru), with the organization of the First Cross-border photography "Tiempos del Eterno Verano" (Lands of the Eternal Summer), in which they will reward the best photos that reflect the quality of the cross-border touristic resources. The initiative counts with the support of the Regional Directory for Foreign Commerce and Tourism (Dircetur) and of the Autonomous Provincial Government of El Oro (Ecuador), through their Environmental Management and Tourism Secretariat. This low cost initiative aspires to have a high impact in the promotion and diffusion of the resources and the touristic potential of Tumbes and El Oro.

A factor of great importance for optimizing the impact of the actions of the Fronteras Abiertas Project in the area is the consolidated presence of the Italian Cooperation through two strategic projects, carried out with the Bi national Plan. It is about two very relevant projects, from the point of view of their effects and their cross-border dimension. The first, executed directly by the General Directory for the Cooperation for Development, is the bi national project for strengthening the health System in the cross-border territory in the Ecuadorian province of Loja and the Peruvian region of Piura. The project has had a great success and has been considered, both by the Italian Cooperation as well as the Latin-American associates a project for excellence that represents a cross-border integration model through basic services for the population. The second initiative is the Rural Development under the bi national program for fighting poverty. The project is executed by the Italo-Latin American Institute (IILA) and seeks to improve the living conditions of the rural population by increasing the quality and volume of their production, the rehabilitation of water infrastructure and irrigation systems, as well as reforestation of the Loja province and the Piura region. During the execution of the project, the activities of Fronteras Abiertas have also led to a participatory awareness and gradual involvement of border municipalities. The border municipalities are represented within the Bi National Plan through a coordinated association currently managed by the municipality of Tumbes (Peru). However, there are still no formal mechanisms for institutional exchange between the different levels (local, intermediate governments, and national).

Note: ¹ The *Spondylus* is a conch shell that is found exclusively along the pacific coasts of South America. Due to its beauty, resistance, and relatively difficulty of fishing (it is found several meters deep), it was used in the pre-colombian eras money for the exchange among different native populations. For this reason the *Spondylus* conch was selected as a symbol for the shared integration and development.

4.2 Peru-Brazil: a stable border

Brazil and Peru share a territorial border of 2,822 km of extension throughout the Amazon region. It is the most extensive territorial border of Peru, and for both countries the Amazon represents a highly significant portion in environmental, economic, and identity terms. "As for Peru, its Amazon territory is 785,000 square kilometers (21% of the whole Amazon), which represents close to 62% of the national territory. As for Brazil, the Amazon region is close to 5,200,000 square kilometers, lo which represents 61% of its territory" (Kahhat, 2007, p. 250).

Besides the difference in square kilometers (the Brazilian Amazon surface area is almost seven times that of Peru), the Amazon territory represents, to both countries, a little over 60% of the total of their national territory. On this part, the Amazon concentrates 30% of the biodiversity of the world, and the second largest biosphere reserve in the whole planet.

Brazil and Peru have not had borders disputes since the Rio Branco-Velarde treaty in 1909.¹⁴ On the other hand, Brazil has played a fundamental role in the solution of border disputes between Peru and Ecuador. Initially, as one of the countries that guarantees the Peace, Friendship, and Limits Protocol of 1942 in Rio de Janeiro de 1942 and, later in the negotiation and signature of the peace treaties after the Cenapa War (1995); particularly the Itamaraty Peace Declaration (02.17.1995) and the Brasilia Act (10.26.1998).

The presidential diplomacy, the summit politics (especially all of Unasur's), and the bilateral regional integration has allowed the reconstruction of several ray-centers that strengthen individual and group insertion both in the intrar-regional as in the global levels. And because of that, a deepening of the Brazil-Peru relations tends to reinvigorate the Peru-Mercosur relations. In this sense, the presidents Lula da Silva and García manifested their compromise with the process of strengthening and diversification of the economic-commercial relationship in the ACE-58 Peru-Mercosur framework.

The stability of the Brazil-Peru borders have permitted that, based on the presidential diplomacy and the bilateral meetings, the presidents Luiz Inácio Lula da Silva and Alan García Pérez emitted a series of joint communications on the matter and have proceeded on the installation of a Vice-ministerial Commission for Border Integration (CVIF), whose first meeting took place in Brasilia on June 11th, 2010 and the instruction that operative plans be carried out on the constitution of a border integration zone (ZIF), in a sort of extension of the CAN methodology to bilateral relations.¹⁵

In the Strategic Alliance framework, on December 2009, both countries had agreed upon the conformation of the CVIF, which has the task of approving

14. In historical terms it is important to highlight: "the diplomatic relations between both countries began on 1826, and essentially have a particular relationship to the settlement of border issues, but also the issue of navigation in the Amazon. In 1851 both countries signed the Herrera-Da Ponte Ribeiro Treaty, whereby agreed upon the free navigation of the Amazon River. But the border issue was not definitely settled until the signing in 1909 of a Treaty of Limits, Commerce and Navigation Treaty, also known as the Rio Branco-Velarde Treaty. The fundamental basis of negotiations borders was the Treaty of San Ildefonso in 1777 that normalized relations between Spain and Portugal in what corresponded to their domains in South America, while regulated navigation in the rivers that crossed these territories" (Kahhat, 2007, p. 250).

15. In this types of ideas, the agreements signed in June of last year by the presidents Lula da Silva and Alan García stand out: "Acuerdo Complementario para la ejecución del Project sobre Fortalecimiento del Ordenamiento Territorial para la Integración Fronteriza Brazil-Peru" and "Acuerdo Complementario para la ejecución del Project sobre Fortalecimiento Institucional para la Gestión Integrada de los Recursos Hídricos".

the operative plans of the IF as well as coordinating, orientating, and supervising the Binational Work Groups (GTB). The CVIF is presided by the Vice-ministers of Foreign Relations of both countries and is made up of representatives from regional and state governments of the border zones, among others, thus representing subnational intermediate governments.

The CVIF accounts for four GTB: one dedicated to specifically Border Development and Integration, another whose mission is Commerce and the Facilitation of Border Traffic, one on Border Technical Cooperation (that is responsible for managing the financing and development of the operative plans of the ZIF) and, lastly, the Group for Border Environmental Cooperation (GCAF).

Among the main themes that constitute the joint work agenda, stand out the institution of cross-border flights¹⁶ and the cooperation in river navigability, the conformation of new border committees and integrated controls,¹⁷ the encouragement of cross-border commerce from the establishment of a special regime,¹⁸ and the international border roaming service, the incentive for carrying out borders production chains,¹⁹ and the execution of works for border electrical interconnections.²⁰

The DDF, in its work with the regional governments, has given particular attention to the Madre de Dios Region, permanently assisting the development of the borderline corridor of the Maldonado-Iñapari Port based on the identification of urban centers which were assigned roles and functions inside the National Strategy for Border Development.

4.3 Amazon and the cross-border environmental goods

The three essential elements identified for cross-border cooperation (infrastructure, political agreement, capable border municipalities) are also considered fundamental to the protection of the Amazon region. Although they are eight countries (of the twelve South American) who share the Amazon and they are all bound by the Amazon Cooperation Treaty of 1978, Brazil and Peru are those

16. The possibility of installing cross-border flights (air rout Cusco-Rio Branco and carrier flights Pucallpa-Cruzeiro do Sul) in the framework of the *Declaración para el Establecimiento de Vuelos Regionales Transfronterizos entre Peru y Brasil* (Declaration for the Establishment of Regional Cross-border Flights between Peru and Brazil – 11.12.2009) and with the intention of concluding the negotiation of the *Acuerdo sobre Transporte Aéreo Transfronterizo entre Peru y Brasil* (Agreement on Cross-border Air Transportation between Peru and Brazil).

17. The conformation of the Islandia-Benjamin Constant Border Committee, the installation of the Bilateral Coordination Committee of the Integrated Control Area of the Iñapari-Assis Brazil Borer, and the creation of the Works Subgroups on Border Health and River Border Cooperation (CVIF).

18. Advancing in the negotiations oriented to the establishment of a special regimen for border commerce in accordance with the Related Border Localities Agreement of December 2009.

19. Cooperation agreements in the matter of promotion of productive chains between the border localities of Islandia-Benjamin Constant and the negotiation of a deal for the localities of Puerto Esperanza-Santa Rosa do Purus.

20. Based on the Agreement of the Subminister of Electricity for the Republic of Peru and the Exportation of the excesses of the Federative Republic of Brazil (2010).

with the greatest extent. Logical step was therefore incorporating Peru in 2003 to Surveillance System of the Amazon (SIVAM) created by Brazil.

A protection and general surveillance of the Amazon requires a political agreement of the highest level that can build institutional mechanisms of governance and norms respected by all South American countries and the entire international community. It is also required the development of infrastructure friendly with environment, non-invasive, and municipalities that exercise an effective role as control agents. There is no more important issue that is needed to shape a multi-level governance for the region.

The cross-border cooperation stimulates the construction of regional public goods, due to the need to respond to situations that no single solution has been found or does not provide sufficient incentives for a single country to assume the costs. The cross-border cooperation encourages the protection of environmental assets while both promote regional integration.

5 THE LOCAL BORDER GOVERNMENTS: BEST TO RELY ON THEM...

The cross-border cooperation is understood as the strategic alliance of actors and contiguous subnational territories to reinforce regional integration processes. Municipalities are key players despite their weak, fragile or limited capabilities. This is the level of public administration closest to the citizen and with ample drawing power in terms of individual or institutional actors, men and women, companies or universities, among others.

Its capabilities in terms of management may be limited, but its strength in terms of responsiveness – if it succeeds realizing public policy according to the expressed preferences of their citizenship – is often fundamental. A work of border infrastructure will hardly be implemented if neighboring municipalities do not share the proposal and have not appropriated it.

It is noted, still an urgent need to strengthen the project capacities of local South American actors. The design of training courses and strategies of learning by doing typically operate in a world where local authorities are increasingly exposed to working in aggregate form (in a network) in the international arena for attracting new funds or resources and for performing cooperative projects.

The articulation University-Municipality is usually also very important, but the universities must become effective think tanks that allow the creation of new concepts and operational tools that foster integration border. In this sense, it is very interesting for the Peruvian-Brazilian cross-border region signing the Interagency Cooperation Agreement between the National University of Piura and the Federal University of Amazon that is mentioned in the Joint Statement

of the Presidents of the Republic of Peru, Alan García Pérez and of the Federative Republic of Brazil, Luiz Inacio Lula da Silva, Manaus, June 16th, 2010.

5.1 Andean network of cities

On September 8th, 2003, in the city of San Francisco de Quito (Ecuador) was created the Andean Network of Cities as a result of the initiative of the Mayors of member States of the Andean Community. As stated in the first recital of the Quito Declaration on the Establishment of the Andean Network of Cities (2003), the Network is

as a valid instrument for relying on the necessary mutual support and joint effort to allow Municipalities to efficiently manage urban areas, improving the lives of its population, fighting poverty, and building locally competitive societies in the globalized world of the twenty-first century.

In organizational terms, in the first stage (2003-2005), issues and work agendas were identified and city halls were made responsible. Bogotá took care of promoting trade relations and business concertation primarily with small and medium businesses, the city of Lima was devoted to connectivity between cities and regions, meanwhile, the city of La Paz to the exchange of experiences, good practices and initiatives of municipal management, Quito focused on cultural and artistic cooperation, and finally, Caracas in academic and professional exchange, emphasizing the participation of all capital cities of the then Andean Community.

The Andean Council of Ministers of Foreign Affairs, considering the importance of the cities and the role of the municipalities in strengthening democracy and development approved in May 2004, by Decision n° 585, the creation of the Andean Advisory Council of Municipal Authorities (Consejo Consultivo Andino de Autoridades Municipales – CCAAM). Thus the Municipal Authorities began their involvement through opinions and recommendations in the Andean Integration System.

The presidents of the Andean Community of Nations quickly took into consideration CCAAM, highlighting the role that it must play in strengthening the process of integration. In the XV Meeting of the Andean Presidential Council was recognized the importance of supporting the micro to achieve integration at the macro level. It also recognizes the importance of the bottom-up support given by the cities to the regional integration process.

For its part, the Andean Presidential Council under the Presidential Dialogue on the Future of the Andean Integration Process in Projection South America (Quito, July 12, 2004) also highlighted the need to promote a joint reflection on the Andean development model, including recognition of the boost of a territorial

development strategy through the concept of “centers of development” as favorable spaces for the construction of governance and social cohesion.

5.2 The Andean Agenda of Territorial Development

The overall objective of the proposal is to have a shared vision of the territorial development in the framework of the Andean integration that is conducive to the balanced development of the regions, environmental sustainability, and territorial cohesion as a whole.

Among the specific objectives are: prioritizing regions or cities of lesser relative development (including the borders), promoting the benefits of the Andean integration in the sub-national level; international integration of regions and cities of the CAN; horizontal cooperation, exchange of experiences, and technical assistance between regions and Andean cities; promoting, on regional and local levels, appropriate and sustainable management of natural resources of the Andean territory; incorporating regional and local actors into the debate and implementation of community policies related to their fields of competence.

Moreover, were established as work areas: the institutional strengthening for the formation of public and private player networks on local and regional levels and for the promotion of joint capacitation programs; the competitiveness and the development of small and medium companies in the production of goods and services, technological innovation, and territorial development; the establishment of a regional platform for the development of the physical infrastructure and the connectivity; the protection of the environment and the bet on sustainable development for fomenting the participation of regional and local players in the actions carried out in the “Regional Biodiversity Strategy and the Andean Environmental Agenda” framework; and the provision of public goods that allow the strengthening of a functional relationship between the territory and the quality of life of the citizen in terms of “housing”.

5.3 Brief associative experiences in the borders

If “governance constitutes in the management of networks” (Rhodes, 1997, p. 52); the local governments should make up the nodules in these networks with the objective of strengthening relational density in the border zones, every time that there are conditions that minimize the risks of its own interaction, the creation of cooperation settings is explored (and as such is of a positive sum), and are designed the mechanisms and the regulation instruments that diminish the uncertainty and conflicts and foment mutual trust. Activating a cross-border collaboration network requires that the mutual interdependencies be recognized as the strengthening of the individual capacities and each of the nodule positions

under a positive sum logic that means to create new capacities and new cross-border capital that be transformed in direct action that benefits local towns in the regional cross-border space.

As follows, three ways of working in constituted subnational networks of Peru and of the subregion. The Binational Association of Municipalities of Southern Ecuador and Northern Peru (ABIMSENOP) is created with the purpose of designing and executing, at the level of local governments, programs and development projects with the support national border integration efforts. The ABIMSENOP gathers 204 municipalities and involves almost 5 million border inhabitants from both countries.

The Association of Rural Andean Municipalities of Tacna (AMRAT) was created in 2002 and centers authorities of districts of the provinces of Tarata and Candarave, and the District of Palca of the Tacna province. The mentioned network has had a leading role in the management of binational projects, even with the endogenous institutional problems that exist.

Furthermore, the border *Mancomunidad* of Sur de Puno has a clear inspiration in the *mancomunidades* of Centro-American municipalities. The main objective lays in the need of attracting investment in the Sur de Puno and the initiative was developed initially by the Mayors of Desaguadero, Kelluyo, Pisacamo, and Capazo. Until now, this *Mancomunidad* has worked on the matter of rural electrification, neighboring paths, and attention to basic resources.

6 CONCLUSIONS

It is important to have in mind the dimension that the territorial development and the regional integration are part of the political agenda of the South American countries for several years now. All the governments of the subcontinent have put among their priorities the definition of programs and instruments for the promotion of local development and for the inter-institutional and transnational coordination with the objective of integrating the different areas that go beyond the borders of the National States.

The regional integration is considered a key political instrument for economic and social development, democratic governance and international economic insertion. The necessity for articulating the regional South American integration with local development reveals the urgency of creating areas capable of promoting converging development processes both for the institutional plan as the purely economic. The cross-border process can constitute in the organizing axis of the economic-institutional convergence areas where the different projects designed are converted into functioning variables and are dependent of each regional reality in particular.

Peru, through border integration, can reconcile a series of geoeconomic and geopolitical criteria for each of its borders. The experience of bilateral work with Ecuador is proof of the capacity of reconciling political interests and of acting in benefit of the local border towns. The historically stable border relations with Brazil can become a key foundation for bi national collaboration space for two of the countries that have the greatest dynamism and growth index of South America.

Cross-border cooperation and integration offer Peru a new setting for the design of public policies that favor territorial balance and tend to better the quality of life of the inhabitants of the zones that suffer the greatest poverty, marginality, and structural disconnection problems.

The political agreements, the design of new infrastructure projects and the strengthening of project capacities of the local players and of their autonomy for working on the international scale (all fundamental elements of the Fronteras Abiertas Project) constitute the foundations of the cross-border process on which are developed functional projects that with creativity allow the border regions to “govern”.

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THE IMF LENDING POLICIES: SOVEREIGNTY AND HIERARCHY IN THE INTERNATIONAL POLITICAL ECONOMY

Jaime Cesar Coelho*

This article aims at understanding the evolution of the IMF lending policies. In this way it focus on the lending instruments data, the transformation of lending instruments and the linkages between the institutional political policies and the changes in the world order. In short, this paper is in the international political economic analyses of institutional dynamics.

Keywords: International Monetary Fund; leading policies; international financial institutions.

A POLÍTICA DE EMPRÉSTIMOS DO FUNDO MONETÁRIO INTERNACIONAL: SOBERANIA E HIERARQUIA NA ECONOMIA POLÍTICA INTERNACIONAL

O presente artigo procura compreender a evolução das políticas de empréstimos do FMI. Neste sentido, focaliza a evolução quantitativa e qualitativa dos instrumentos de empréstimos em relação às políticas institucionais e às transformações na ordem mundial. Em resumo, este artigo situa-se no campo da economia política internacional, na perspectiva da análise da dinâmica institucional.

Palavras-chave: Fundo Monetário Internacional; políticas de empréstimo; instituições financeiras internacionais.

JEL: F55; F02; F33.

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1 INTRODUCTION

Generally speaking, three are the main functions of the International Monetary Fund (IMF): international supervision, technical assistance and providing multi-lateral credit. These three functional aspects correspond to the general assignment of preserving international financial health. This article focuses on the analysis of the IMF loans.

The analysis of the evolution of the IMF loans aims to verify the nexus between international business cycle and the behavior of the multilateral credit, as well as to identify causality relationships between the political context of the global system and institutional disbursements.

To achieve these goals, the article is divided in five sections and some conclusive notes. These sections deal with the relationship between the geopolitics and loans granting, the definition of IMF credit instruments, the criteria for allo-

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cation of resources and, finally, the interaction between the policy loans, changes in intergovernmental hierarchy and IMF reform. Methodologically, it seeks to establish an analysis from the data regarding the evolution of IMF loans, using primary sources, statistics provided by the institution.

2 GEOPOLITICS, MULTILATERALISM AND CREDIT

The IMF loans have as their main objective the provision of resources to countries that do not find availability of liquidity at the international lending markets or which access occurs under very costly conditions. These loans, generally speaking, are accompanied by a series of conditionalities, which correspond to what is meant by healthy policies, capable of maintaining a country updated with its payment flows in foreign currency. They therefore involve aspects of the management of sovereign policies, notably in their macroeconomic dimensions.

Additionally, however, as a function that does not correspond to its fundamental duties, the IMF also provides resources to poor countries, with the purpose of creating environments favorable to growth and, consequently, the reduction of poverty. This secondary assignment can be understood as a way of giving legitimacy to larger actions of the institution, which, in general, involve delicate situations of interaction among creditor countries, lending private institutions and countries in debt.

The IMF is not an institution focused on issues related to development and its loan instruments do not provide for the granting of resources under project finance. Its resources are aimed at providing liquidity to those who find themselves in situations of imbalance in the balance of payments. These concessions are made under specific conditions, related to geopolitical issues and ideas (principles) that guide the institution.

An analysis of the disbursements shows an inverse relationship between net offer of international resources and the granting of multilateral loans. That is, the higher the resources available in the money market (short-term) and financial (long term), the lower the fees charged by private loans and lower will be the demand for fund resources ($EM = 1/FPL$; where EM are the multilateral loans and FPL, the private funds net).

Either by the diversification of instruments or by the exponential growth of net capital flows provided by private monetary and financial markets, the IMF sees its role increasingly identified as an ultimate lender. This feature strengthens the political dimension of interactions between the multilateral institution and the signatory countries. Taking into consideration that sovereign borrowers seek to decrease the credit links that result in loss of autonomy, one can draw a preliminary observation: borrowers are market resource companies and

governments; the resource of ultimate borrowers are governments. The countries negotiate with the IMF usually in disadvantageous conditions. If the allocation contribution of resources by the institution means a guarantee in times of crisis, accessing to its resources is a sign that the country is vulnerable and sensitive to international business flows. A country under the fund influence loses international status, loses power. The cartography of loans offers a good momentary picture of systemic vulnerability and sensitivity (IMF, 2011). Throughout the history of lending, you can check an offset of loans in line with the type of regional integration. The largest volume of current loans is located in Central Europe and the Mediterranean, in addition to Baltic countries, Ireland and Iceland (two examples of recent prosperity, which have been dredged into the crisis hurricane); it follows towards Afghanistan, Pakistan, Iraq; and finally fills out in an impressive way the Sub-Saharan Africa, Central America and Mexico, in the north of the American continent.

Not included in this map are the countries that managed to form monetary reserves in the last decade: East Asia, India, the Russian Federation, and South America.

By making a cartographic exercise, and returning to the 1990's, particularly from the second half of the decade, today's remediated, with the exception of the giants India and China, would be included on the route of IMF loans. From the major players of the financial crises in the 1990's (Mexico, Asian East and Southeast, the Russian Federation, Brazil and Argentina)¹ only Mexico remains in the uncomfortable situation of borrower of IMF resources. Going back further in time, to the 1970's, Latin America would be the place of contrast, end-to-end. The Latin American subcontinent, perhaps like today the Sub-Saharan Africa, was the most experienced in terms of demand for IMF loans funds.

These economic transformations show a major change in inter-state interactions and show how the IMF has been maintaining its importance over time, with the recurring financial crises. What calls attention is the displacement of the sensitivity and vulnerability in the geopolitical map. This displacement relocates within the States system, the creditor and debtor countries – what should or may result in a displacement in the hierarchy of prestige and power internationally, with repercussions on the functioning of the multilateral financial institutions, including its lending policies.

1. Although Argentine has experienced its Exchange and payments crisis in 2002, its case was included in the same set of crisis that characterized the second half of the 1990's. Crisis that have had a strong relationship with the exchange and financial deregulation policies, with the liberalizing policies of patrimonial reform of the State and trade liberalization.

3 DEFINING THE CREDIT INSTRUMENTS

Credit instruments can be divided into two groups according to the costs: *i)* concessional loans; and *ii)* non-concessional loans. The first ones offer interest rates close to zero and are intended for low-income countries. The second ones bear closer to the market, taking into account the interest rates for negotiations with special drawing rights, adjusted weekly taking into consideration short-term interest rates in money markets.² There are loans that can be intended to all countries, regardless of the income level, when there is an emergency situation, through a new instrument created on the basis of the of 2007-2008 financial crisis: the Rapid Finance Instrument (RFI). Chart 1 summarizes two of the mentioned instruments.

CHART 1

Summary of loans according to facilities

Concessional loans (lower cost)	Non-concessional loans (cost based on market)
Extend Credit Facility (ECF)	Standby Arrangements (SBA)
Extended Credit Facility (ECF)	Flexibility Credit Line (FCL)
Standby Credit Facility (SCF)	Precautionary and Liquidity Line (PLL)
Rapid Credit Facility (RCF)	Extended Fund Facility (EFF)

Source: FMI Available at: <www.imf.org/external/np/exr/facts/howlend.htm> Access on: 8 Nov. 2011.
Elaborated by the author.

The amount of resources a country is entitled to be a function of the amount of shares that it has, varying according to the instruments (chart 2). The criterion of loans as multiple of shares can be changed in the circumstances in which the Board of Executive Directors finds it necessary. Chart 2 presents detailed information on the loan instruments

CHART 2

Types of loans instruments and concessional and non-concessional characteristics

Poverty Reduction and Growth Trust (PRGT)	Created within the framework of the of January 2010 reform, aims at promoting the long-term macroeconomic balance. Interest rates are revised at every two years. It is intended for low income countries. Its resources come from loans from the Governments and loans from other multilateral institutions.
Extended Credit Facility (ECF)	Came to replace the Poverty Reduction and Growth Facility as a mechanism to provide medium-term funds (ten years) to low-income countries with balance of payments problems. There is no charge of interest rate and the grace period is five and a half years; the ECF is heir of medium and long-term loans (Structural Adjustment Facility and Enhanced Adjustment Facility) that were introduced in 1980 during the process of structural adjustment.

(Continues)

2. These information can be found in the IMF's site.

(Continued)

Standby Credit Facility (SCF)	Loans to liquidity problems; replaces the High-Access Component of The Exogenous Shocks (ESF). Also for low income countries, has four years of grace period, zero interest rates and eight years of maturity
Rapid Credit Facility	For low-income countries, with low interest rates, zero conditionality, five and a half years maturity and ten years grace period.
Stand-By Arrangement (SBA)	For middle-income countries; to liquidity problems, are granted under conditionalities; the disbursement, in the form of trunks, lasts 12-24 months and repayment is three and a half years to five years; may have precautionary character.
Flexibility Credit Line (FCL)	To be used preferably on a precautionary way, for countries with strong macroeconomic fundamentals; deadlines are the same as those of the SBA; instead of being made in trunks, the disbursement is at once; unlike the SBA has no conditionalities.
Precautionary Credit Line (PCL)	To be used only in a precautionary way; is a intermediate stage between the SBA and FCL requirements; are to last from one to two years and can represent from five times the dimension value, at the time of approval up to ten times a year later.
Extend Fund Facility (EFF)	Created in 1974; long-term problems in terms of unbalance of the balance of payments to be paid between four and a half years to ten years.
Emergency Assistance	For countries that have suffered natural disasters or conflict emerged; to be paid between three years and three months to five years.
Rapid Fund Facility (RFI)	Created as a replacement to emergency assistance, in the context of the financial crisis that began in 2007-2008. Quick access to resources, with low conditionalities, in case of emergence requirements; has the annual access limit up to 50 of the units of the applicant country, can reach the cumulative limit of 100 units.

Source: FMI. Available at: <<http://www.imf.org/external/np/exr/facts/howlend.htm>>. Access on : 8 Nov. 2011.

Elaborated by the author.

4 ON THE CRITERIA FOR THE ALLOCATION OF RESOURCES: AN APPROACH BEYOND FORMALITIES

The analysis on resource allocation should take into consideration a combination of factors ranging from the technical aspects released by the IMF to political elements that constitute the institution, coming from the interactions among States. Thus, it is assumed that policy issues are as important as the distribution of economic resources. Although it is difficult to quantify the influence of politics in the IMF decisions, one should not dismiss this possibility.³ From the literature consulted and suggested, this article will consider this assumption as given.

3. Interesting study in this regard can be found in Thacker (1999). In this study the author seeks to correlate the votes in the United Nations (UN) with the granting of the IMF resources, taking the United States as "principal agent". The author concludes that there is a positive relation between lending and approach in terms of interests with the United States. This relationship is confirmed so fundamentally after the end of the Cold War. In the same direction, but introducing the interests of American financial corporations and equating them to foreign policy interests of the United States, follows the study developed by Oatley and Yackee (2000).

The “political order” within the institution relates to hierarchy in terms of quotas, within a context of strategic asymmetric interactions.

The financial exposure of the commercial banks of the G5 heavily influences the political preferences of G5 governments in relation to loans policy preferences. Consequently, the size and the conditionalities of the IMF loans vary according to the intensity and the heterogeneity of household financial links of the G5 in relation to the borrower. When private lenders are very exposed to a policy of the Fund, the Governments of G5 have their intensely affected and preferences are more predisposed to grant large loans with conditionalities relatively limited (Copelovitch, 2010, 195 position).

This proposition can be increased when you analyze the innovations in financial instruments by the time of the last crisis that reaches the central countries. The creation of low-conditionality loan instruments, of emergency character, shows that the severity of the crisis and the kind of resources affected the countries requiring resources affecting the preference of the IMF to relax the requirements in terms of conditionalities.

Even if there is a quantitative criterion for granting loans (delimiting the volume to be loaned), it should be taken into consideration that the criteria for lending loans from a multiple of the quotas does not keep a strong correlation with the amount actually granted. When observed, the data outline a wide range of volume of resources made available (Copelovitch, 2010, position 279).

It is common for the annual and cumulative limits of quotas multiple not to be complied with. This accentuates the circumstantial feature (discretionary) of loans. At least two suppositions can be inferred from this observation: *i*) in instable international conjunctures, circumstantial factors (short-term emergency measures) take precedence over predefined allocation criteria (regular: in accordance with the rules of the institution); and *ii*) as the decision-making is more influenced by short term, political discretion aspects earn relevance.

The first supposition corresponds to increased systemic vulnerability, product of the intense process of financial deregulation from the 1980's on. As a result, the multilateral financial institutions, including the IMF, started to be used on a more overwhelming way as political instruments of the interstate dispute. Their lending policies and changes of loan instruments correspond to the nuances of the market of ideas, to the rise of liberal policies and correction and adjustment mechanisms on the aspects of policies over the years 1980 and 1990. It results, in this period, the inclusion of long-term funding mechanisms (structural adjustment loans) consistent with the growth of the volume of resources needed to the function of the ultimate lending institution and with the size of the recurrent crises of the deregulated monetary and financial markets.

In the game developed within the political market of international relations, the interests of richer nations prevail, especially of the United States. In this

respect, the interests of the superpower show equivalence between the interests of the United States' Government and financial corporations. It is possible to infer that there is a strong relation between the skeleton of the organizational structure of the IMF (with regard to the practice of borrowing and internal governance) and the exercise of the American foreign policy. Two objectives may be pursued by the United States: *i*) through the exercise of external influence on the IMF, policymakers can meet the interests of groups that support the Government coalitions; and *ii*) the U.S. Government can pursue its foreign policy objectives, creating multiple level games from the established bargains in the concession of loans (Oatley and Yackee, 2000, p. 5).

The coincidence of interests of American financial corporations and foreign policy of the United States is a trait that has been maintained since the Reagan government until the 2007-2008 global financial crisis (Coelho, 2012). Hence, what could be understood as a circumstance became a State policy, reflecting the strong relation between the regime of accumulation under the financial dominance and the foreign policy preferences of great power.

The prevalence of interests is guaranteed by asymmetry in the distribution of votes within the IMF. In the case of the United States, there is an additional widely known factor, his power of veto, because of their amount of votes exceeding the 16 (cutting required for the exercise of the veto power). Although the veto power cannot be exercised with regard to the granting of loans, it gives the United States the power to establish multiple games levels, crossing different interests in more of a bargaining situation. In turn, the Executive Director of the United States in the IMF is obliged to take his decisions in consultation with the U.S. Treasury Department, establishing a chain of command that links the interests of the American government, in its domestic and external dimensions, with the IMF loan policy.

the high finance intersects with high politics. Strategic interactions between governments – the traditional focus of foreign policy analysis – are increasingly linked with strategic interactions between public and private institutions both in debtor countries and creditor countries. The list of duties of playing in the “money game” is rich and varied. (...) From the point of view of a large creditor country, as the United States, the main impact of these interactions is in the number and importance of these “links” in terms of foreign policy (Cohen, 1985/2008, p. 110).

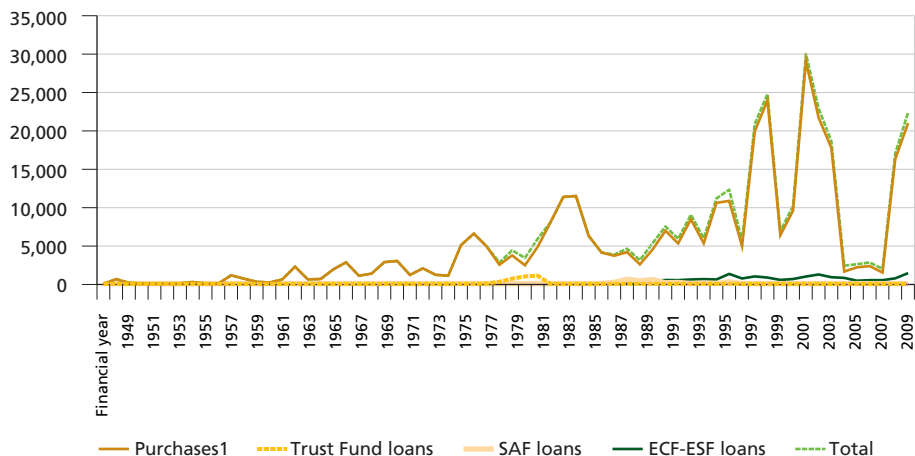
As the international financial context was being deregulated, along with the expansion of private finance, financial capital interests became more complex, dense and effective within the political game in the domestic level of countries that provides great liquid funds. In any electoral campaign, donors either as direct agents in control of government, the capture of “politics” by finance capital produced a convergence between short-term interests of public and private actors

and long-term interests of the American superpower, which benefited greatly from the deregulating context in which the IMF fulfilled the role of basic importance.

The international credit cycle establishes, in this context, a move that in turn begins with an expansion of the international supply of net flows, loan costs fall, inflation, speculative bubbles and voluntary reduction of resources. In this context, the offer of IMF resources decreases in the private credit expansion phase and back returns during the shortage, with the function to support the imbalance of payments balance emerging in critical processes.

Graph 1 shows a succession of cycles of IMF loans. It can be noticed from them three moments in the last thirty years, in which the flows decrease: 1987-1994; 2002-2003; and 2003-2008.⁴ These moments confirm the inverse relationship between supply of private funds and the provision of IMF resources. Also confirm the role of ultimate lender of the institution, in accordance with the intense expansion of multilateral loans following the financial crises of the second half of the 1990's and of the economic and financial crisis of 2007-2008. Finally, the data show: *i*) a direct relationship between the expansion of private financial intermediation systems in international business and the increase in volatility of IMF loans; *ii*) low volatility in the period until the first oil crisis (1973) in which official loans and commercial papers were predominant; and *iii*) from there, the increase in the volume of demand for IMF resources, reflecting the expansion of systemic volatility.

GRAPH 1
Evolution of IMF loans
(In millions of special drawing rights)



Source: IMF (2010).

Elaborated by the author.

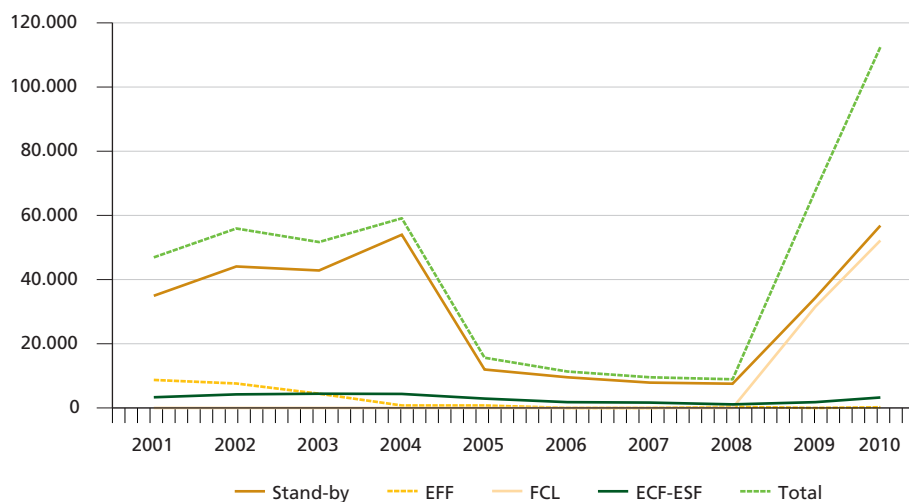
Obs.: ECF = Extended Credit Facility; ESF = Exogenous Shocks Facility; e SAF = Structural Adjustment Facility.

4. For details, see annexe A.

The most recent cycle of institutional loans, running from 2001 to 2010, shows with more detail the evolution of the agreements. As noted in the chart 2,⁵ between 2004 and 2008, there is a sharp decline in the volume of IMF loans. As the crisis progresses, the loans return stronger, in an ad hoc action to remedy the devastating effects of the shortage of offer of voluntary net resources. At this point the Stand-by resources and Flexibility Credit Line (FCL)-type prevail. The latter, which have a precautionary character and are flexible in terms of conditionalities, allow rapid emergency disbursements. They are, par excellence, ultimate loans. The volume of resources focused on Stand-by and FCL, in the 2009-2010 biennium, reached 175.81 billion in special drawing rights.

GRAPH 2

Agreements in operation – April 30, 2001 and April 30 (2010)
(In million of special drawing rights)



Source: IMF (2010).

Elaborated by the author.

Obs.: ECF = Extended Credit Facility; EFF = Extended Fund Facility; ESF = Exogenous Shocks Facility; e FCL = Flexible Credit Line.

Under the emergence of the crisis, the pressure for resources increases and the bargaining game takes dramatic contours for the most indebted countries. The primary function of the IMF is no longer purely technocratic, acquiring an unquestionable political character. The relationship between the institution and the countries is pervaded by the relationship between the interest of domestic coalitions of power and the interests of holders of net wealth. They are eager to reduce the costs of the crisis, passing them socially to be absorbed by the most

5. Data extracted from annexe B.

vulnerable and sensitive to business cycles, which formally appear as sovereign States, in whose interior inhabit those who effectively have to bear collectively with the costs of adjustments. Therefore, the game is a set of maneuvers for transfer of the adjustment costs. Hence, the IMF has become an instrument of this game and represents an institutional figure that appears to solve problems of interstate interaction and between civil societies⁶ and the sovereign States. It is an institutional figure that absorbs the political costs of cyclical adjustments and transforms, *pro forma*, interstate relations in problems restricted to the economic field, reducing the scope of contents and decreasing the reach of collective discussions in terms of international relations. Even if it is, institutional effectiveness resides more in its functional purpose policy *vis-à-vis* hierarchical interests of the system of States than in the propositional aspects of his creation, while an institution intended to reduce the international monetary and financial instability. Even because, the operation as an ultimate lender institution may result in the expansion of moral hazard but⁷ giving survival to a financial system which operation rewards the opportunistic attitude of States and private actors. In this context of cross interests between the institution, sovereign States and private actors, it should be take into account that financial crises are not a bad contextual situation for the IMF; after all, they increase their functional importance.

5 LOANS POLITICS, CHANGES IN INTERSTATE HIERARCHY AND THE IMF REFORM

The need to increase the availability of IMF resources to tackle the international financial crisis has put an important ingredient in the discussions on institutional reform, creating objective conditions for the increase of the influence power of emerging countries. This can be observed by the growing weight of the G20 as a forum for conflict resolution and dispute settlement.

There is an important relation between the loans policy and the use of these as hierarchical enforcement mechanisms within the State system. The use of conditionalities mechanism allows one to transmit, through a credit relation, a symbolic intermediation. The advantageous material position of the lender allows it to write the rules of the game by setting the normative content of the loans. The substance of conditionalities is formed by a idealization in terms of public policy, macroeconomic policy in its fiscal, monetary and exchange rate policy dimensions. Three elements are arranged so intertwined in the process of defining and implementing loan policies: ideas, materials capabilities and institutions.⁸

6. The term civil society is used here in a wide sense, involving all actors outside the space restricted to the State's instruments.

7. Default risks are transferred from private creditors to IMF and to the sovereign States, thus stimulating the recurrence of temerarious exposure to risk.

8. See Cox (1981).

When there is a change in the locus of dispute resolution, as the passage from the G7 to the G20, what is noticed is an incremental change with probable long-term consequences in decision making; this change captures changes in structural order in the hierarchy of States (changes in the destructive and constructive distribution material capabilities). The ideational elements may be the last to be affected, taking more time to reflect the formation of new consensus within the system of States, which correspond to accommodations on systemic hierarchy. So there is an actual change in the way international institutions see the problems, there are needs to be a change in terms of dominant ideas. Changes of ideas in the sense of the principles that guide the rules and the operation of institutional instruments. The context in which the institutional dynamic operates is complex and interdependent world, involving State and non-State actors.

The interactions established transcend the purely financial aspects (it is not a matter of mere financial intermediation mechanisms). In them, the interests of the financial market overflow to the sovereign sphere and materialize in multilateral institutional sphere, which appears as a nexus of ideological and financial intermediation. Foreign policy interests in the arena of international relations, are crossed with the interactions that conform in multilateral institutional universe.

The changes in terms of ideas, which have effects on the conditionalities, undergo transformations in the international financial system and in the form of regulation of the system. The financial 2007-2008 crisis reflects, from an institutional point of view, the creation of emergency lending mechanisms, in the redistribution of quotas and in general reform of multilateral financial institutions. The crisis opens space in order changes in the distribution of material capabilities, already under way in the system of States, can penetrate even in an incremental way the institutional universe

There is, therefore, a change in quotas that corresponds to mobility inside the system of States, in which former debtor countries (such as Brazil) become creditors and vice versa. This change affected the internal IMF decisions taken incrementally. However, it did not change yet, on a substantive way, the international financial regime, therefore affecting, on a little impressive way, the plan of the ideas.

6 CONCLUSION

This article sought to analyze the evolution of the IMF lending policies in the light of changes in the system of States. It used as an hypothesis the perspective advocated by various authors that the institutional dynamics of loan policy obeys geopolitical criteria and is affected by the hierarchy of wealth and international prestige.

Ultimately, we tried to demonstrate that the changes in the distribution of material capabilities between the sovereign units result in institutional changes, including changes in the IMF lending policies. However, as can be inferred, the scope of these changes is still limited when you analyze the transformations in terms of ideas.

One of the latest innovations in terms of loan instruments⁹ that corresponds to the flexible credit lines, features the low requirement in terms of formal conditionalities, which can be interpreted as a temporary relaxation of compensatory measures, depending on the scope of the international financial crisis. This kind of innovation does not allow concluding that long-term ideational changes are underway in the IMF.

Finally, one can infer that, through the process of financial deregulation, which has its origin in the disassemble of the Bretton Woods international financial architecture, there has been an increase in the volatility of the international business cycle issues, reflected in the increased volatility of the IMF's lending cycle. As the crisis became more recurring, the alleged loss of functionality of the IMF, due to the increase in the supply of private volunteer resources, are not confirmed. The crisis is a permanent nourishment for the IMF. The institution has been affirming in international interactions through its role as ultimate lender. Although operating important changes in international relations, we cannot infer that it is facing a time of Bretton Woods type (Helleiner, 2010).

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9. The last modification was the creation of the Precautionary and Liquidity Line (LPL), which is more flexible and can be used in various circumstances (either as insurance for future shocks, in any emergency liquidity fund). It is added, in this perspective, the Rapid Financing Instrument (IFR), which includes funds against catastrophe and exogenous shocks (IMF, 2011).

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ANNEXE

ANNEXE A

TABLE A.1
Evolution of acquisition of resources, disbursements and repayments (1948-2010)¹
(In millions of special drawing rights)

	Acquisitions and disbursements				Reacquisitions and repayments				
	Acquisitions ²	Trust fund loans			Reacquisitions	Trust fund repayments			Total fund credit outstanding ³
		Stand-by	EFF	FCL		Stand-by	EFF	SAF/ECF-ESF repayments	
				ECF-ESF loans				FCL	
				ECF-ESF	Total			ECF-ESF	Total
1948	606	-	-	-	606	-	-	-	133
1949	119	-	-	-	119	-	-	-	193
1950	52	-	-	-	52	24	-	24	204
1951	28	-	-	-	28	19	-	19	176
1952	46	-	-	-	46	37	-	37	214
1953	66	-	-	-	66	185	-	185	178
1954	231	-	-	-	231	145	-	145	132
1955	49	-	-	-	49	276	-	276	55
1956	39	-	-	-	39	272	-	272	72
1957	1,114	-	-	-	1,114	75	-	75	611
1958	666	-	-	-	666	87	-	87	1,027
1959	264	-	-	-	264	537	-	537	898
1960	166	-	-	-	166	522	-	522	330
1961	577	-	-	-	577	659	-	659	552

(Continues)

(Continued)

	Acquisitions and disbursements					Reacquisitions and repayments				
	Acquisitions ²	Trust fund loans			ECF-ESF loans	Trust fund repayments			Total	Total fund credit outstanding ³
		Stand-by	EFF	FCL		Stand-by	EFF	FCL		
1962	2,243	-	-	-	-	1,260	-	-	1,260	1,023
1963	580	-	-	-	-	807	-	-	807	1,059
1964	626	-	-	-	-	380	-	-	380	952
1965	1,897	-	-	-	-	517	-	-	517	1,480
1966	2,817	-	-	-	-	406	-	-	406	3,039
1967	1,061	-	-	-	-	340	-	-	340	2,945
1968	1,348	-	-	-	-	1,116	-	-	1,116	2,463
1969	2,839	-	-	-	-	1,542	-	-	1,542	3,299
1970	2,996	-	-	-	-	1,671	-	-	1,671	4,020
1971	1,167	-	-	-	-	1,657	-	-	1,657	2,556
1972	2,028	-	-	-	-	3,122	-	-	3,122	840
1973	1,175	-	-	-	-	540	-	-	540	998
1974	1,058	-	-	-	-	672	-	-	672	1,085
1975	5,102	-	-	-	-	518	-	-	518	4,869
1976	6,591	-	-	-	-	960	-	-	960	9,760
1977	4,910	32	-	-	-	868	-	-	868	13,687
1978	2,503	268	-	-	-	4,485	-	-	4,485	12,366
1979	3,720	670	-	-	-	4,859	-	-	4,859	9,843
1980	2,433	962	-	-	-	3,776	-	-	3,776	9,967
1981	4,860	1,060	-	-	-	2,853	-	-	2,853	12,536

(Continues)

(Continued)

	Acquisitions and disbursements					Reacquisitions and repayments					Total fund credit outstanding ³	
	Acquisitions ²	Trust fund loans		ECF-ESF loans		Reacquisitions	Trust fund repayments		SAF/ECF-ESF repayments			Total
		Stand-by	EFF	FCL	ECF-ESF		Total	Stand-by	EFF	FCL		
1982	8,041	-	-	-	-	8,041	2,010	-	-	2,010	17,793	
1983	11,392	-	-	-	-	11,392	1,555	18	-	1,574	26,563	
1984	11,518	-	-	-	-	11,518	2,018	111	-	2,129	34,603	
1985	6,289	-	-	-	-	6,289	2,730	212	-	2,943	37,622	
1986	4,101	-	-	-	-	4,101	4,289	413	-	4,702	36,877	
1987	3,685	-	139	-	-	3,824	6,169	579	-	6,749	33,443	
1988	4,153	-	445	-	-	4,597	7,935	528	-	8,463	29,543	
1989	2,541	-	290	264	-	3,095	6,258	447	-	6,705	25,520	
1990	4,503	-	419	408	-	5,329	6,042	356	-	6,398	24,388	
1991	6,955	-	84	491	-	7,530	5,440	168	-	5,608	25,603	
1992	5,308	-	125	483	-	5,916	4,768	-	1	4,770	26,736	
1993	8,465	-	20	573	-	9,058	4,083	-	36	4,119	28,496	
1994	5,325	-	50	612	-	5,987	4,348	52	112	4,513	29,889	
1995	10,615	-	14	573	-	11,202	3,984	4	244	4,231	36,837	
1996	10,870	-	182	1,295	-	12,347	6,698	7	395	7,100	42,040	
1997	4,939	-	-	705	-	5,644	6,668	5	524	7,196	40,488	
1998	20,000	-	-	973	-	20,973	3,789	1	595	4,385	56,026	
1999	24,071	-	-	826	-	24,897	10,465	-	627	11,092	67,175	
2000	6,377	-	-	513	-	6,890	22,993	-	634	23,627	50,370	
2001	9,599	-	-	630	-	10,229	11,243	-	588	11,831	48,691	

(Continues)

(Continued)

ANNEXE B

TABLE B.1
Agreements in operation (2001-2010)¹

	Number of agreements				Amounts pledged under the agreements (in millions of special drawing rights)					
	Stand-by	EFF	FCL	ECF-ESF	Total	Stand-by	EFF	FCL	ECF-ESF	Total
2001	17	8	-	37	62	34,906	8,697	-	3,298	46,901
2002	13	4	-	35	52	44,095	7,643	-	4,201	55,939
2003	15	3	-	36	54	42,807	4,432	-	4,450	51,689
2004	11	2	-	36	49	53,944	794	-	4,356	59,094
2005	10	2	-	31	43	11,992	794	-	2,878	15,664
2006	10	1	-	27	38	9,534	9	-	1,770	11,313
2007	6	1	-	29	36	7,864	9	-	1,664	9,537
2008	7	2	-	25	34	7,507	351	-	1,089	8,948
2009	15	0	1	28	44	34,326	-	31,528	1,813	67,668
2010	21	2	3	30	56	56,773	205	52,184	3,244	112,406

Source: IMF Financial Operations and Transactions, IMF Annual Report, 2010 Available at: <www.imf.org/external/pubs/ft/ar/2010/eng/index.htm>.Note: ¹ End of fiscal year: April 30.

Obs.: 1. The amounts are not exact due to roundings.

2. ECF = Extended Credit Facility; ESF = Extended Fund Facility; FCL = Flexible Credit Line; and; SDR = Special Drawing Right.

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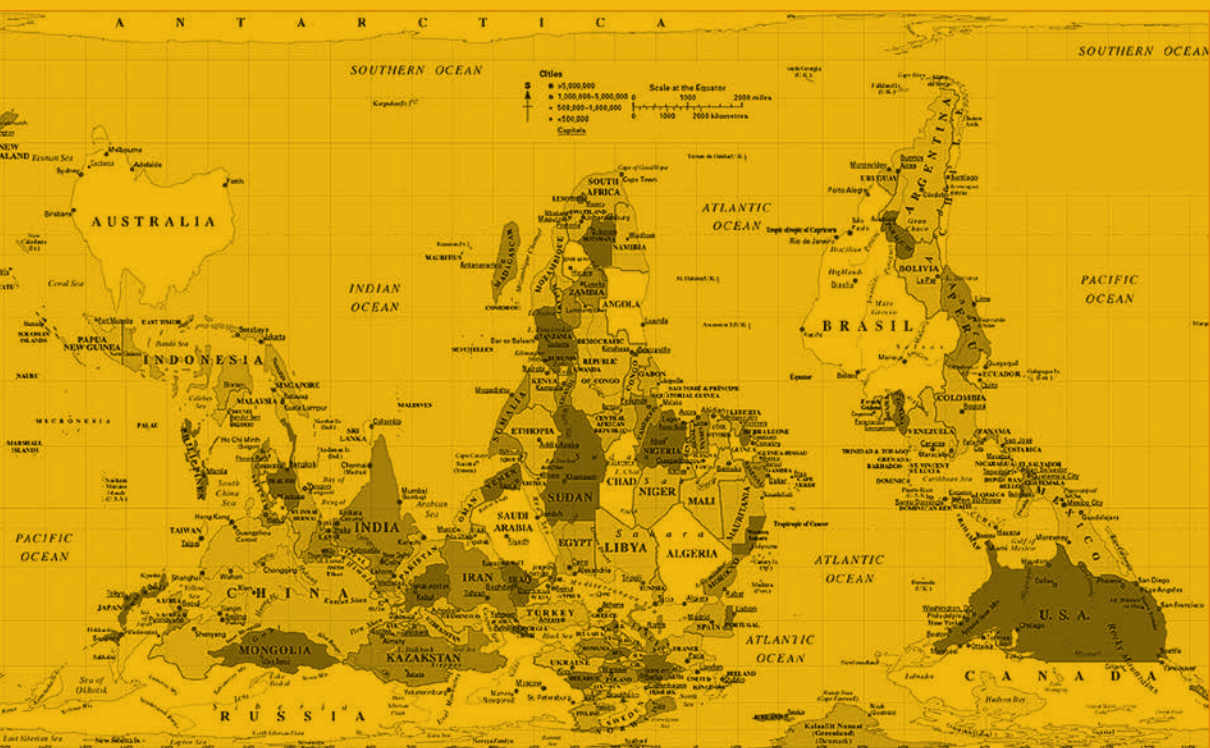
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