

Latin America

Scenarios to 2020



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Global Business Environment
Shell International 2002



We welcome your questions and views

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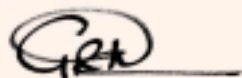
Preface

These scenarios for Latin America build on Shell's 2001 Global Scenarios. The Global Business environment team is committed to exploring global futures, but we also believe in the importance of conducting more detailed studies at a regional and country level. Creating such scenarios helps us to think in more detail, and with greater understanding, about the forces that shape our future.

Unlike other forms of strategic analysis, scenarios allow us to consider significant elements that are difficult to measure or predict—such as the stories that describe, but also help to shape, a country's history and its culture.

There are many such stories to tell about Latin America and its people. Its history is turbulent, often violent, but also includes tales of heroism and creativity. More recently, its peoples and countries have endured a variety of crises: some see this as a narrative of disaster, but others feel it is the introduction to a new and hopeful era. Alongside a region's history, are the stories its peoples tell about themselves. In Latin America, 'magical realism' is the term used to describe the dream-like nature of these narratives, which mingle imaginings of the future with elaborate pictures of the past.

In creating scenarios for this region and its future, we have tried to include many such crucial aspects of its culture, as well as building on our understanding of global dynamics. We hope you find these scenarios useful.



Ged Davis
Vice President, Global Business Environment
Shell International

Foreword

Shell has a major commitment to Latin America's future. We have been active in the region for nearly 100 years and we are committed to continuing, as a leading integrated energy company, in partnership with the region's major players.

We believe we have something valuable to contribute as a reliable, innovative business partner. We set high environmental, safety and ethical standards for ourselves and for those with whom we work. And wherever we operate, we do our best to employ local staff and buy local goods and services.

Why scenarios for Latin America? We believe that businesses can only succeed by thinking about the future, and for 30 years we have used scenarios to help us do so. Scenario planning is not a guessing game. We do not aim to predict the future, but to explore it. Instead of giving us answers, scenarios force us to ask the right questions: What could conceivably happen? And what would our response be if it did?

We have developed three scenarios, exploring very different futures. We believe that any of the three could unfold before our eyes. We hope that you find the possibilities at least thought-provoking, and we look forward to hearing your views.



Walter van de Vijver
Group Managing Director and CEO Exploration and Production
Royal Dutch/Shell Group

How Do We Use Scenarios in Shell?

We use scenarios to identify emerging challenges in the global business environment and to prepare accordingly, and to test and develop strategy. Many long-term projects are born into environments that are radically different from those in which they were conceived. Scenarios provide us with detailed descriptions of the contexts in which projects may come to fruition, give us a more comprehensive view of possible risks, and express factors which are not easily quantified.

Scenarios can embody focused analysis. We use global scenarios to set the stage and provide a foundation for more detailed work, but often go beyond them to focus on a region, a country, or even a specific project. The book you hold in your hands is the result of regional scenario work.

Finally, we use scenarios to help us scan the horizon, learn, and communicate. Scenarios give us a common base for discussion; they challenge preconceptions and enable us to learn; and they help our managers absorb and use information more effectively. When we share them with external stakeholders—as with this book—we hope to provide a platform for mutually beneficial discussions about the future and the role of our company within it.

Storytelling in Buenos Aires

'I've read a lot of books, but I've never really lived.' – J.L. Borges

We created these scenarios in Buenos Aires, at the beginning of 2002, in the midst of Argentina's economic crisis. Our hotel could no longer accept credit cards. The country had seen four presidents in a fortnight. Protests rocked the streets.

It was difficult then to avoid pessimism—nor is pessimism unreasonable now. Argentina's crisis is hardly the first for Latin America. The region has been plagued by financial crises, crime, corruption, and threadbare democracies despised by their own electorate.

Yet, looking back 20 years, there is also much to inspire hope. Argentina was at war with a major European power. Military dictatorships were common across the region, and today's ubiquitous democracy would have been unimaginable.

How to make sense of such contradictory stories? A Venezuelan working with us explained it by citing the Latin American tradition of 'magical realism', where the legacy of the past and the promise of the future leave no room for the decisions of the present.

Will Latin Americans ever free themselves from their dreamy evasions of reality? Perhaps even better, will they find a way to use their creativity to forge a better future for themselves?

Looking Around: Driving Forces for Change

Latin America is at the end of an era. It has seen a transition to democracy and the spread of market liberalisation through most countries of the region, but neither change has been consolidated, and both are today in question.

At such times it is tempting to leap to conclusions. We have set out to explore the future of Latin America by first investigating the important forces—identified by experts native to and based across the region—that are acting on it. By exploring different possible interactions of these forces, we hope to consider the full range of futures for Latin America.

Alarm call for democracy

Two decades after a wave of democracy crested in Latin America in the 1980s, most countries in the region are democratic. Yet there is increasing uncertainty over the consolidation and permanence of these democracies as Latin America confronts the demands of globalisation. Most people say they would like democratic capitalism to work, even as they blame government for its failings. There is some movement towards populism and the targeting of big business and foreign multinationals as the cause of current difficulties.

Widespread Discontent

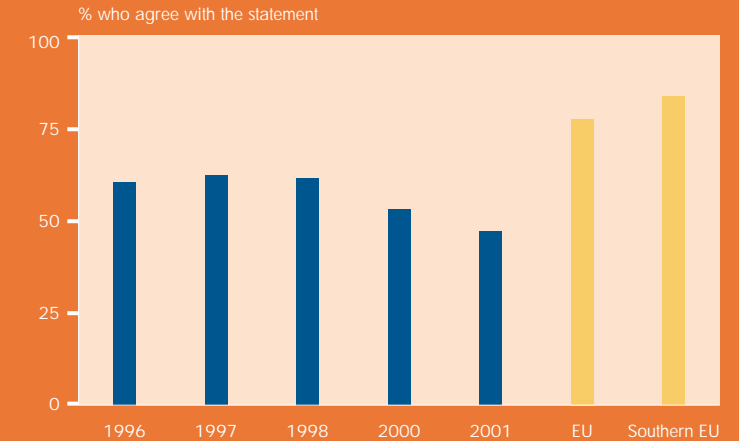
While most Latin Americans accept democracy as the best form of government, there are sizeable pockets of authoritarian resentment and widespread scepticism, indeed cynicism, about key institutions of democracy, including the courts, parliaments and political parties. Military establishments continue to wield influence and, while no longer generally inclined to seek political power, could act to destabilise weak civilian regimes. In turn, amidst growing social disillusionment, policy makers are increasingly pessimistic and unsure what to do.

Citizens are deeply unhappy with their governments: popular hopes that democracy would benefit common people have been dashed by financial

17 Latin American countries:
Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela.
Southern Europe:
Greece, Italy, Portugal, Spain.

Support for Democracy is Falling

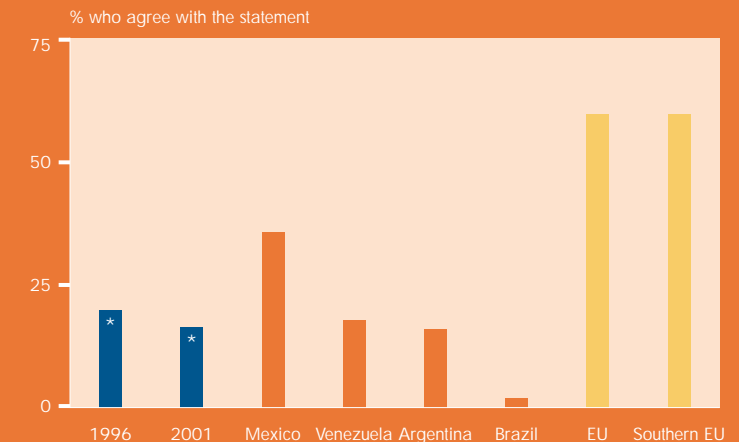
'Democracy is preferable to any other kind of government'



Source: Latinobarometro 2001, Euro Barometer

Trust in Other People is Low

'Would you say that you can trust most people?'



Source: Latinobarometro 2001, Eurobarometer. * 17 Latin American countries

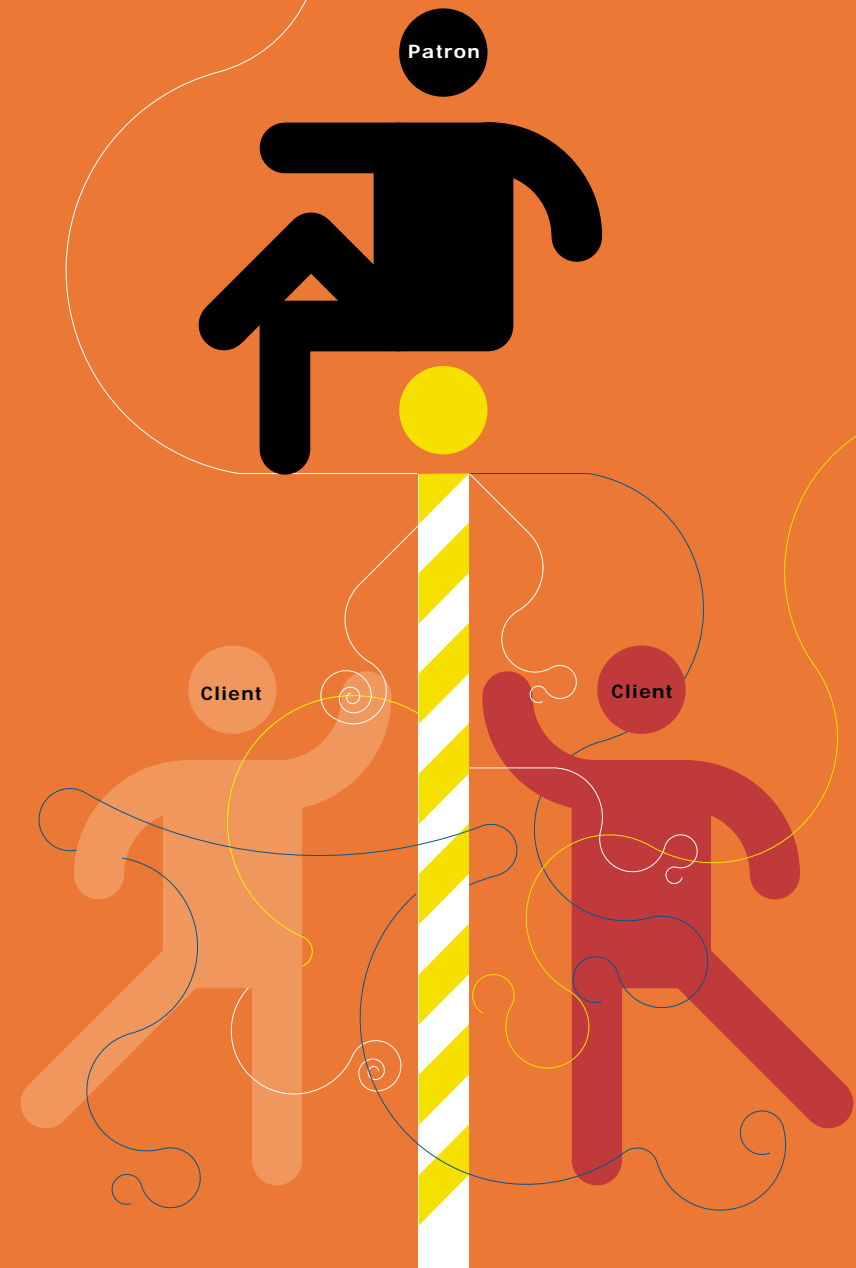
crises, declining economic growth and widening income inequalities, and support for democracy is decreasing almost everywhere. People are increasingly dissatisfied with public services and institutions, where there are considerable inefficiencies. There are incipient signs of social breakdown; rising crime and increasing rates of drug addiction compound the general mood of disenchantment. In many countries, political institutions are seen as corrupt and insensitive to poverty. Those espousing democracy urgently need to show that it is more efficient, economically successful and socially just than previous authoritarian regimes.

It is striking that surveys of popular opinion in Latin America show that the better-educated are not necessarily more supportive of democracy than those less well-educated. Neither is a new democratic generation emerging in the post-authoritarian era. Indeed, young people seem indifferent to the type of political regime they live under.

Rooted in distrust: the 'maypole' society

Underlying Latin American dissatisfaction with democracy are abysmally low levels of interpersonal trust, averaging 16 per cent as compared to an average level of 60 per cent for developed countries. Together with generally low levels of confidence in the probity of social institutions, they derive from and confirm a common regional heritage of distrust, underpinned by hierarchical patterns of authority. This leads to an authoritarian political culture in which power is concentrated at the top and people look to the state, as to the patron or *caudillo*, to solve their problems. The democracy that results is a diminished form—populist, plebiscitarian, the elected leader viewed as a new type of patron.

Robert Putnam has described this kind of society as being like a maypole where many people circle around a fixed centre in vertical links of dependence, as opposed to civil societies that are like choirs, where individuals join organisations for profit and pleasure, creating networks of trust through civic engagement. By this definition, Latin America is a maypole society, not a civil society.



A social conscience and a conscientious society

One positive outcome of the democratic transition is the development of a social conscience, which would make it difficult to return to authoritarianism and past abuses of human rights. However, societies still need to acknowledge the abuses of the past to establish accountability and reparations, both as catharsis and to ensure they will not regress. There is still a hankering in some countries for a 'strong man' leader. However, corruption, which is an increasing popular concern, is now cast in terms of human rights. After decades of hectic urbanisation, people are consolidating their homes in major cities, learning to engage with the political process, and, perhaps most importantly, they are demanding accountability from their governments.

In Chile, the human rights movement gained worldwide attention when Augusto Pinochet was detained in London. Largely because of the persistence of the human rights organizations and their innovation in taking their claims to the international level, Chile will not be able to bury its recent past without a more open national discussion.

In Argentina, so-called 'new rights' organisations, structured around an agenda of civil and political rights, are particularly strong. They are now turning their attention to the quality and transparency of government, corruption, police brutality, and violent crime. They have had a deep impact on the political culture of the country, moving it towards greater civic awareness and social tolerance. Important features of these associations are the flexibility of their organizational structures, their capacity to take up new issues and their creativity in communicating their messages.

Throughout Latin America, the Roman Catholic church has played an outstanding role in defence of human rights. It has also promoted non-governmental organisations (NGOs) that bring together middle class professionals to do important work in the areas of development and democracy. In Chile, the Church's historical role in the defence of human rights has generated a political debt, resulting in a tacit agreement not to

question publicly some of its conservative attitudes. In turn, the Church is one of the most emphatic voices criticizing economic liberalisation, and the most important philanthropic entity in the country.

The search for ideology

Latin American governments seem gripped by their search for an ideology. Pragmatism seems not to appeal. This is important in the current climate because Latin America is in a post-'Washington Consensus' mood. The Washington Consensus on market liberalisation has been in place for ten years, and it has disappointed Latin America's people. Even the much-quoted success story, Chile, has been more heterodox than commonly assumed. Can the Washington Consensus be revived, and if not, what new model will replace it?

The Washington Consensus began life in the early 1990s as a set of ten recommendations that, according to US economist John Williamson, were widely recognised as appropriate policy reforms for most Latin American countries. Those who defend the Consensus point to higher growth than in the 1980s. They also claim that government reforms have not fully implemented the Consensus, by refusing to tackle the most important issues, that is redirecting spending to education (also health and social security) and setting up effective institutions to defend property rights—items two and ten in Williamson's original list.

In this context, we cannot ignore the influence of Hernando De Soto's widely read book, *The Mystery of Capital*. De Soto's basic idea is that if the poor can receive formal recognition of their property ownership, they can use it to gain access to loans for business development. His thoughts have greatly influenced development economists, but they also treat his claims with caution. Property titling has been attempted in Peru and elsewhere (for instance, Thailand) and the results have been positive but modest. In addition, De Soto's estimates of the amount of informal property in the world seem five or six times higher than plausible.

The consensus is that De Soto's ideas are important, but that much broader reforms are necessary—of bankruptcy laws, judicial systems, and financial market regulations. Will these reforms be forthcoming? Or will they be derailed? Or will the poor and excluded people whom De Soto wants to help, find their own way to participate in the system?

Economic vulnerability

The promise of the 1990s is now over. Growth expectations are diminished. Throughout the countries of Latin American, higher rates of unemployment and lower incomes are commonplace. The cheap credit that fuelled the earlier economic boom has dried up. The middle classes are nervous that their incomes will fall further. The affluent are more concerned about their personal security than they are interested in conspicuous consumption.

Latin America's economic misfortunes are rooted in the failure of its countries both to provide effective public services, in particular education, for their populations, and to address the need to legalise and restructure property rights. Lack of reform in these areas is linked to the region's wide social disparities. In societies divided by class and race, the elites have little incentive to initiate change. But unless they face up to their social responsibilities, and unless leaders clearly separate their private interests from their public duties, there can be no movement forward.

A volatile continent

Latin America has a reputation for being unpredictable. The last three decades have seen countries in this region deliver waves of inflation without parallel anywhere else in the world. This gives an impression of tremendous economic chaos, although when it comes to other economic variables Latin America is less exceptional. Still, real GDP growth, real exchange rates, private consumption growth, fiscal deficits, terms of trade, and international capital flows have all fluctuated more widely than in industrial countries, or in the Asian tiger economies.

6 Latin America is not volatile because it labours under some ancient and ineradicable curse. It is volatile because its institutions and policy regimes have been ill-equipped to cope with the large shocks that hit the region.

*Ricardo Hausmann, Chief Economist,
Inter-American Development Bank*

The Resource Curse

Why do countries with massive endowments of natural resources, such as oil, diamonds or copper, suffer stagnation instead of rapid economic growth? Venezuela, Paraguay, Ecuador, El Salvador, Peru and Haiti are all resource-reliant Latin American countries that were richer before the 1990s started than when they came to an end.

This so-called 'resource curse' has both economic and political roots.

Exporting primary resources leads to exchange rate movements that can make other exports uncompetitive. This means either that manufacturing may never develop, which will tend to stunt innovation, or simply that farmers cannot earn a living.

Good policy can compensate for the economic challenges of resource wealth, but resource wealth seems instead to erode the willingness of governments to take action. Instead, powerful figures ignore the need for responsible policies, and concentrate instead on grabbing resources for themselves.

Although the resource curse is a strong trend across the developing world, there is nothing inevitable about it. Mexico, Chile and Brazil have developed despite a rich resource base. Can others, such as Venezuela, Bolivia and Argentina, turn their resources of oil, gas and fertile land into lasting development?

Volatility contributes to the growth gap... and to inequality. Volatility is not only problematic in itself, it also seems to act as a brake on economic growth. Economists have estimated that the fluctuations in Latin America's economies are the leading factor in its 'growth gap', or shortfall in expected performance, with poor schooling a close second. Economic fluctuations also help maintain Latin America's highly unequal income distribution.

The causes of volatility

Latin America's volatility has been caused in part by exposure to external shocks, in part by poor policy, and in larger part by the two together: institutional or political weaknesses increase the vulnerability to external shocks.

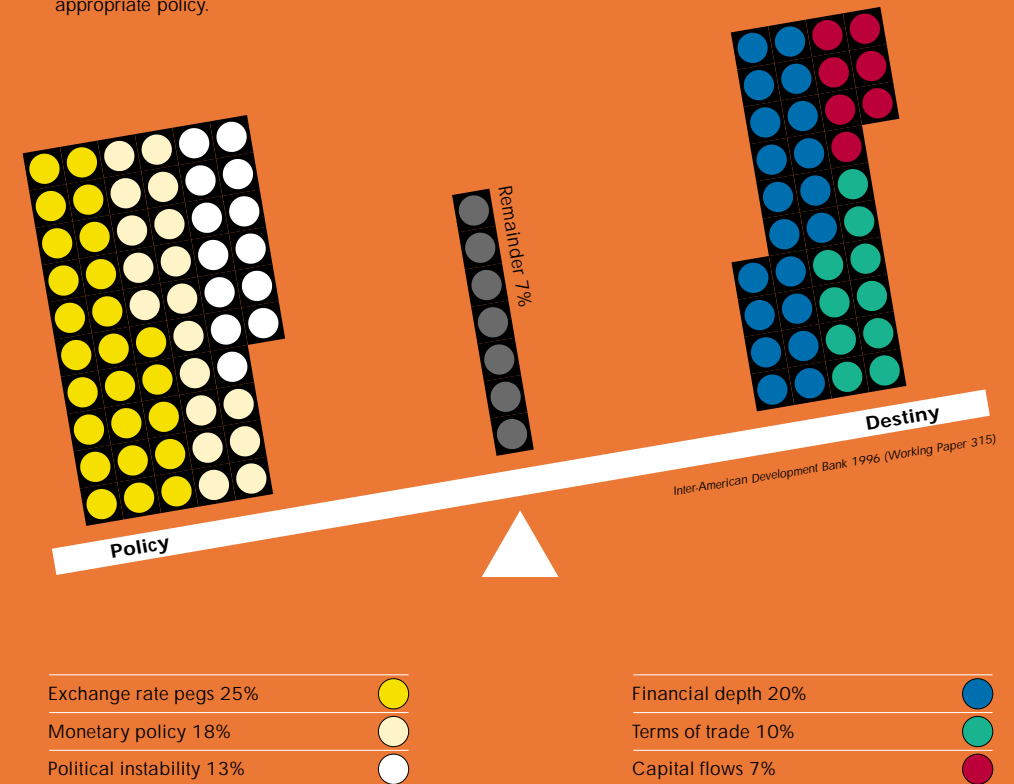
External shocks come from fluctuations in the terms of trade, driven by commodity price fluctuations. For oil exporters, terms of trade fluctuate wildly, with an annual standard deviation of 50 per cent in Venezuela and 35 per cent in Ecuador. It is around 20 per cent for other commodity exporters such as Bolivia, Colombia, Dominican Republic and El Salvador. For industrialised economies, the Asian tigers, even Eastern Europe or South Asia, it is under 10 percent.

Capital flows have also been highly volatile, driven in part by domestic policy, but also by global factors. These external shocks are exacerbated by the lack of 'financial depth' in most Latin American economies (i.e. the banking sector is a small part of their economies).

However, political weaknesses are responsible for much of the problem. Monetary mismanagement seems to be responsible for fluctuations in the real exchange rate (which are correlated with fluctuations in inflation). Exchange rate pegs are the single largest contributor to the volatility of real GDP. Political instability has caused chaos.

Volatility: Policy or Destiny?

In Latin America the volatility of real GDP is about 2.5 percentage points higher than that of the industrial countries. Statistical analysis identifies unsustainable exchange rate pegs as the largest culprit. While some sources of volatility are hard to avoid, many could be corrected quite quickly with appropriate policy.



Latin America's volatile past need not become its future: policies can be implemented and institutions developed that will reduce both economic fluctuations and their impact. But under what social, political and economic conditions will this happen?

The United States

The problem of Latin America challenges the United States to rise above its parochial concerns and encourage the reforms that will strengthen democracy and economic growth throughout that region. This would offer the opportunity to create an effective partnership, with the United States as a compelling exemplar of statesmanship for Latin Americans. However, if the United States seems inflexible and concerned only to suit its own purposes, Latin America could lose confidence in this alliance and relations between the two could grow far more contentious.

“ They’ve been off and on in trouble for 70 years or more. They have no export industry to speak of. And they like it that way. Nobody forced them to be what they are. ”

United States Treasury Secretary Paul O’Neill, on the Argentine crisis

As the promise of the economic and political reforms of the early 1990s dissipates and Latin Americans grow increasingly unsure of their ability to compete successfully in the global economy, doubts have multiplied across the region about the benefits of the economic reforms advocated by the Washington Consensus. The prime driver and beneficiary of the so-called consensus is seen to be the United States, while the reforms it advocates for others are popularly associated with austerity, insecurity and unemployment. Opposition to these reforms could easily turn into antagonism towards the United States.

In the post-Cold War era, the old security imperatives that had driven United States’ policy towards Latin America have been rendered obsolete. In the aftermath of September 11, its attentions are focused elsewhere. In their place are new interests and concerns that divide the two sides.

The primary concern of most Latin American countries in their dealings with the United States is the issue of trade and investment flows. Access to the United States’ markets is seen as vital for the region’s economic future. However, a United States in recession would not be in a mood to help Latin America, especially Mexico, recover, as it would be difficult to create a domestic consensus on trade liberalisation. On the Latin American side, there is scepticism about the United States’ commitment to initiatives such as the proposed Free Trade Area of the Americas, disagreement over including labour and environmental standards and an underlying fear that, ultimately, Latin American business cannot compete with that of the United States.

Both sides have different views on immigration. The United States would like to discourage illegal immigration and to keep people in their place. Mexico, the immediately bordering state, would like to regularise the flow of migrants and eventually establish an open border, in line with the free movement of capital and goods enshrined in the North American Free Trade Agreement.

Meanwhile, remittances between families from the US back to Latin America exceed \$17 billion—about 5 percent of export earnings. This fact has not escaped the notice of Latin American companies, eager to tap into the cash: phone companies, for instance, are targeting emigrants to the US to provide phone lines for their families back home.

United States’ drug policy, expressed in growing military assistance to Colombia, is, however, the one issue that could produce an open clash. It has provoked widespread Latin American opposition, which recalls earlier United States’ military interventions in the region and fears that it will exacerbate civil conflicts. An increasingly interventionist United States, confident in its military supremacy, would be a highly disturbing prospect for many Latin American governments.

The Dream—*La Vida del Sueño*

It is not hard to describe some of the internal and external forces at play in Latin America. But as the continent teeters between different possible futures, one of the most important forces is the hardest to describe: How do its people see themselves?

Some say that Latin Americans live in a dream—nostalgic for a cultured past and idealising an imagined future. This is the continent of magical realism, where the present vanishes in daydreams, hopes and half-memories. It is a cultured, well-read world, leisurely and rich, living with Old World elegance in a magnificent New World landscape.

There are other images of the continent. In these images, Latin America is a place of unrelenting hard work and poverty. The past here cannot be idealised: it is a history of conquest, tribute, violence and slavery. This is a past that lingers in unconscious racisms and rank exploitation that often inspires quixotic rebellions, passive resistance or flight.

What is the relation between these two images? Has the magical dream of intelligent culture simply been the product of crass economics? Does this cultured veneer hide a system which filled its treasure chest by ruthlessly mining the soils, ores, forests and peoples of the continent for the benefit of a few? Is this continent nothing more than a careless economy of the here and now—or is that also an image of the past? Could other forces now at work bring us a very different future?

As a heterogeneous society and *mestizo* (mixed) culture, split between European, African and indigenous traditions, Latin America's relationship with modernity is highly ambiguous and extremely complex.

6 Time and time again in Latin America, phenomena apparently centuries old and “dead” somehow resurface and reassert themselves. Despite vast changes, the present seems not so much to replace the past as to superimpose itself on it, only partly altering it. Time as linear sequence and the related notion of time as progress seem questionable. **9**

Steven Stern, Historian, University of Wisconsin

To borrow the imagery of Mexican writer Octavio Paz, its search for cultural identity forms a tortuous labyrinth. Latin America picks up a range of messages and symbols from the modern world, and responds differently to each of them, creating a range of multiple modernities, hybridisations of the local and the global, the traditional and hyper-modern, all undermined by a nagging doubt as to whether or not modernity might itself be desirable. Intermingled with these ambiguities is the search for an idealised self-definition, defined as in José Enrique Rodó's nineteenth-century book *Ariel*, by being set against a barbarous, Caliban-like industrial North. As in the magical realism of Gabriel García Márquez, it becomes difficult to distinguish between the real and the fantastic, the living and the dead, the past and the present, in a world in which time itself takes on an uneven rhythm.

Today, that magical realism is mutating away from quaint folkloric parochialism, towards a bizarre but extremely vibrant and culturally creative amalgam that defines Latin America's new identity: in Alberto Fuguet's words, no longer Macondo, but McOndo.

This is a ‘transcultural’ world in which the context may be local, but transnational influences (essentially from the United States, as Latin America has stopped looking to Europe for recognition) are unhesitatingly incorporated in a global yet rooted sensibility. Modernism is no longer questioned. The result is a new creative fusion, dynamic and exciting, that mixes influences from North and South America, and openly accepts multiculturalism. The old magical realism of García Márquez is no longer slavishly copied, but its elements are pulled into abrupt juxtaposition with the new popular culture. Whatever the problematic currents destabilising Latin American societies today, this new magical realism conjures up a sense of excited anticipation at the possibilities offered by economic and cultural globalisation. It defines the new Latin American culture. More than that, in a region where cultural borders look less and less explicit, it seems, increasingly, to define the culture of the Americas as a whole.

Key Questions for the Future

Will the elites remain in control...?

We have already described the chronic economic weakness Latin America has experienced for the last quarter of a century. Inflation has been a repeated worry, external debt a constant headache, while trade as a percentage of GDP is one of the lowest in the world. Having described this weakness, how do we understand it?

Some would say that the elites have been too self-serving—stubbornly unwilling to create a system in which everyone can benefit, because those who rule in Latin America do not want to give up their privileged positions at the top of the maypole. They have been supported for centuries by extracting resources from the ground and the people. Why should they ever change? In the past, they have always been able to borrow their way out of trouble or simply run up inflation at home.

... Or can the people discover their own power?

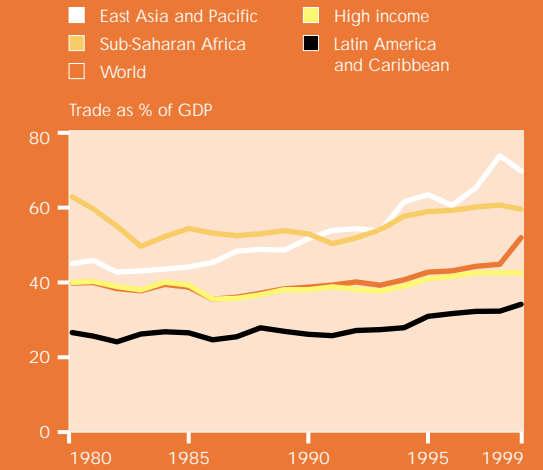
While there is much truth in that argument, it is also clear that better health and education is slowly reaching more and more people. Moreover, as these reforms benefit a greater percentage of the population, they can create their own economic dynamism and begin to challenge anyone who holds them back.

What pressures will the wider world bring to bear?

These internal changes have had several consequences—including a response from the outside world. During the past 20 years, brutal civil conflicts and financial crises have forced many societies to re-examine their values and rules. Where these crises have threatened international stability, international organisations and pressure groups have come in. They have brought with them truth commissions, demands for democratic change and environmental care, neo-classical economics and the recognition of indigenous peoples not previously included in political life. Rural populations have fled poverty to seek a better life in vast cities. Facing these

While East Asian economies become ever more integrated with the world and each other, Latin America drags behind. Low levels of trade integration increase its vulnerability to debt crises.

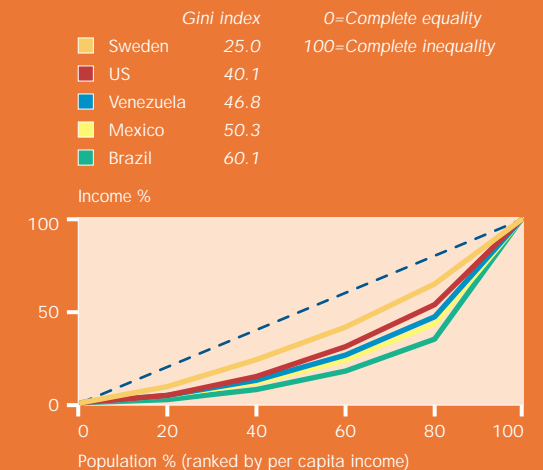
An Isolated Continent



Source: World Development Indicators 2001

The Gini Index measures inequality, and Latin American countries, especially Brazil, are famously unequal. Note that the richest fifth of Brazilians receive almost 70% of the country's income.

Income Inequality



Source: World Bank Data, 1997

pressures, governments everywhere have felt their controls slipping away. Some, like that of Mexico, have paradoxically chosen to decentralise their administrations in the hope of maintaining critical central authority.

Will the future be like the past?

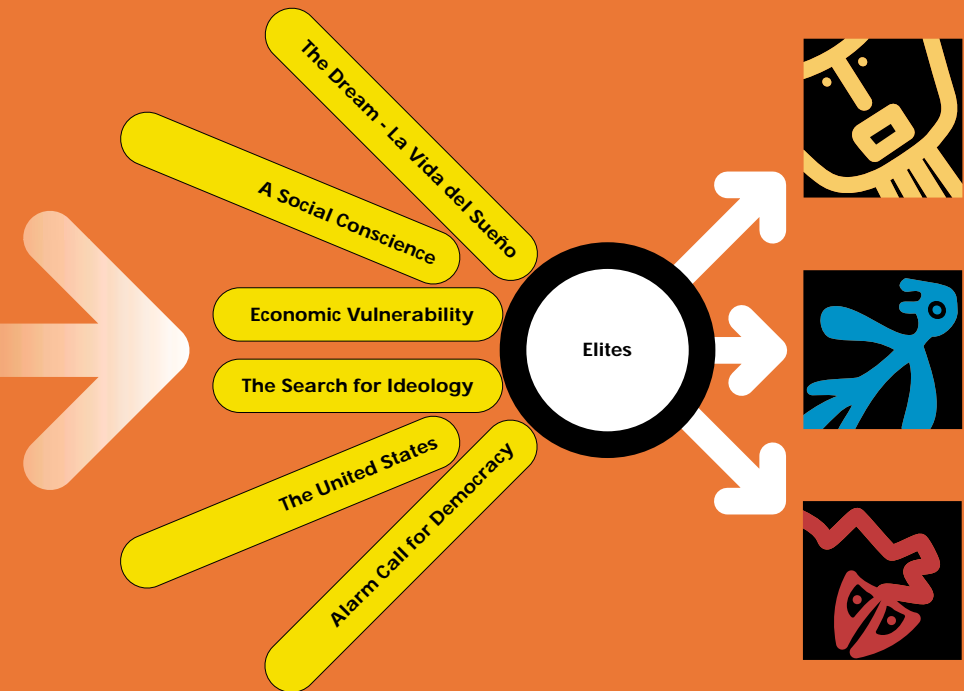
To answer this, we need to understand the nature of the relationship between the elites of Latin American societies and the bulk of the population. Will most people continue to circle any maypole that promises a better standard of living? Or will change, somehow, be imposed from outside? Alternatively, are there forces deeply buried within Latin American society with the capacity to transform the vestiges of a self-centred colonial system into something very different from the societies we see today? These are the questions our scenario stories seek to answer.

A diverse continent

While these scenarios are about Latin America as a whole, this general picture varies from country to country. There are wide variations in all the social and economic indicators, and the region is also heir to a variety of cultural traditions—European, African and indigenous—which tug at its societies in disparate ways. Such diversity needs to be factored into our scenarios, if only to see why and to what extent the region might have a common future.

Yet we can still divine common trends. From a past history of authoritarianism, repression and bouts of populist reform, Latin America, as a whole, has moved towards democratisation and elected governments. There has been a general conversion to markets and market reform, replacing statist economic policies.

We have developed three scenarios setting out three alternative futures for Latin America. They represent three paths which are possible for each country in the region, but whose relevance and likelihood will depend on the individual country being considered. The region may indeed move as a whole, but each country retains the potential, even the will, to go its own way.



The background features a series of overlapping, semi-transparent yellow and orange geometric shapes, including curved lines, rectangles, and circles, creating a modern, abstract design.

Cacerolazos

Democracy disappoints...

Liberal democracy has not been able to prove that it can deliver. The Washington Consensus has failed. There is a shrinking middle class, many of whom find themselves distinctly downwardly mobile, and increasing numbers of poor. The Argentine crisis proves to have been only the first of a series of liquidity shocks that hits the financial sectors of a number of Latin American countries, beginning initially among Argentina’s neighbours. Economies like Venezuela, and even Mexico, come under increasing strain as foreign investment drops. Problems of rising poverty and inequality, crime, corruption and the shaky political grip of a number of presidents, even elected ones, are far removed from the expectations raised after a decade of privatisation, deregulation and trade liberalisation. An angry reaction waits down the road.

In this atmosphere of simmering social unrest, the rising disaffection with the stuttering economies, inadequate public services and corrupt democracies leads to particularly severe and widespread protest across Latin America. There are vocal street demonstrations—much ‘pot banging’ and rioting against ineffectual governments. The tinder is dry and the weather is hot. The alliance of unemployed urban poor together with the aggrieved middle classes, wields tremendous power. Facing anarchy, some governments declare a state of national emergency, and use this opportunity to renege on past commitments both to the international institutions and to their own peoples.

... And the strong men return

Chavista-style populists, like Chavez and Menem, are the survivors of this kind of political environment. They feed on people’s desire for a *caudillo* leader, not to fashion new policies for a realistic future, but to fuel their fantasies of a utopia, by taking them back to a mythical past. People are in denial: rightly dissatisfied with their social and political institutions, they cannot accept their current circumstances, and they

look for a *deus ex machina* to resolve their difficulties. Populism turns out to be the political model of magical realism: completely out of touch with today’s reality. It is also extremely negative when applied to management and government.

These new leaders, distrustful of the institutions of state and of an independent media, fashion illiberal democracies. Indeed, in a few countries they assume dictatorship yet again. Restive military establishments, almost everywhere, assert a revived influence on the political process.

There are increasing numbers of cases where government policies—encouraged by weak institutions, lawlessness and bad habits—infringe on individual liberties, threatening hard-won human rights achievements. But only in a few countries is suppression of political freedoms a clear-cut government policy. On the whole, leaders seem to get away with populist practices, making them more attractive to others grappling with the same policy dilemmas. These practices spread, like a virulent contagion, across national borders.

The continent turns inwards, and the world turns away

Populism means a drive to protectionist policies, aimed at preserving, and even creating, jobs, regardless of the cost or the consequences. This, in turn, means an end to the liberalisation of ‘sensitive’ industries. Meanwhile, the United States’ intransigence over genuine trade liberalisation, and its blatant protectionism for special interests, such as the steel industry, pours more fuel onto the flames of protectionism. Indeed, so long as the United States can keep a relatively stable and secure Mexico as a buffer between itself and an increasingly fractious continent, as part of a containment strategy, the rest of Latin America, so it feels, may be left to its own devices. Any intervention in the region by the United States to fight the new wars against terrorism, drugs and migration, is sharply focused. As the United States grows more inward-looking and uninterested, the European Union countries do not rise to the challenge of filling the gap, preoccupied as they are in absorbing the consequences of their own eastward expansion.

Multinational companies emerge as the critical flash-point of political discussion on the benefits of globalisation. They are seen by many to have reaped the benefits of market liberalisation at the expense of ordinary people. And this perception is used by unscrupulous political leaders to deflect people's ire away from their own failings and towards the symbols of global capitalism, whether McDonalds, Starbucks or the international banks, as the culprits responsible for their country's woes.

In countries where currencies have been devalued, people complain that they are paid in debased pesos, while foreign companies insist on payment in dollars. Populism sees the adoption of nationalistic policies, in which foreign companies become the targets of witch-hunts and the United States government is regarded as a particular *bête-noire*. There is a high degree of market uncertainty, which proves impossible to dispel.

Different countries travel different roads

While the quality of democracy is generally eroded across the region, not all countries necessarily travel this same authoritarian route towards a common populist end. Brazil, for instance, takes a different path towards protectionism, spearheading a wave of left-wing governments coming to power, all committed to raising employment and to protecting existing workers' rights.

Meanwhile, other countries degenerate into increasing anarchy. Colombia sees its civil war spilling over into Venezuela and Ecuador, with drug barons and their private armies taking control of the outlying regions of these countries as well. This creates further problems for already embattled regimes and fuels the drive to seek populist solutions.

Environmental neglect

In the short term, populist policies deliver. Indeed for some countries, there are short-lived periods of economic boom, followed by bust. But in the longer term, the old structural problems remain. Governments seem compelled to interfere in what they regard as prestigious sectors

of the economy: heavy industries, petrochemicals and agriculture. They put a low priority on the environment, and multinationals face familiar dilemmas as they balance local demands with global environmental expectations.

Of course, political leaders do stress to the foreign oil companies their concern with environmental matters and socially responsible behaviour, alongside job creation. Populist leaders, after all, legitimise their rule by seeking to appeal to the people, and most poor people are concerned about environmental issues as they, unlike the well-off, cannot insulate themselves from the consequences of environmentally harmful behaviour. *Cacerolazos*-style rulers therefore make a big play over such issues. However, this only obscures the lack of any concerted action to encourage consumer energy conservation or to introduce environmentally sustainable measures that might prove politically unpopular. Their overall performance in this regard is abysmal, and their lack of progress in this area is marked by a series of ecological catastrophes, especially deforestation.

The elites stay in charge—the wheel turns full circle

“The history of the family was a machine with unavoidable repetitions, a turning wheel that would have gone on spilling into eternity were it not for the progressive and irremediable wearing of the axle.”

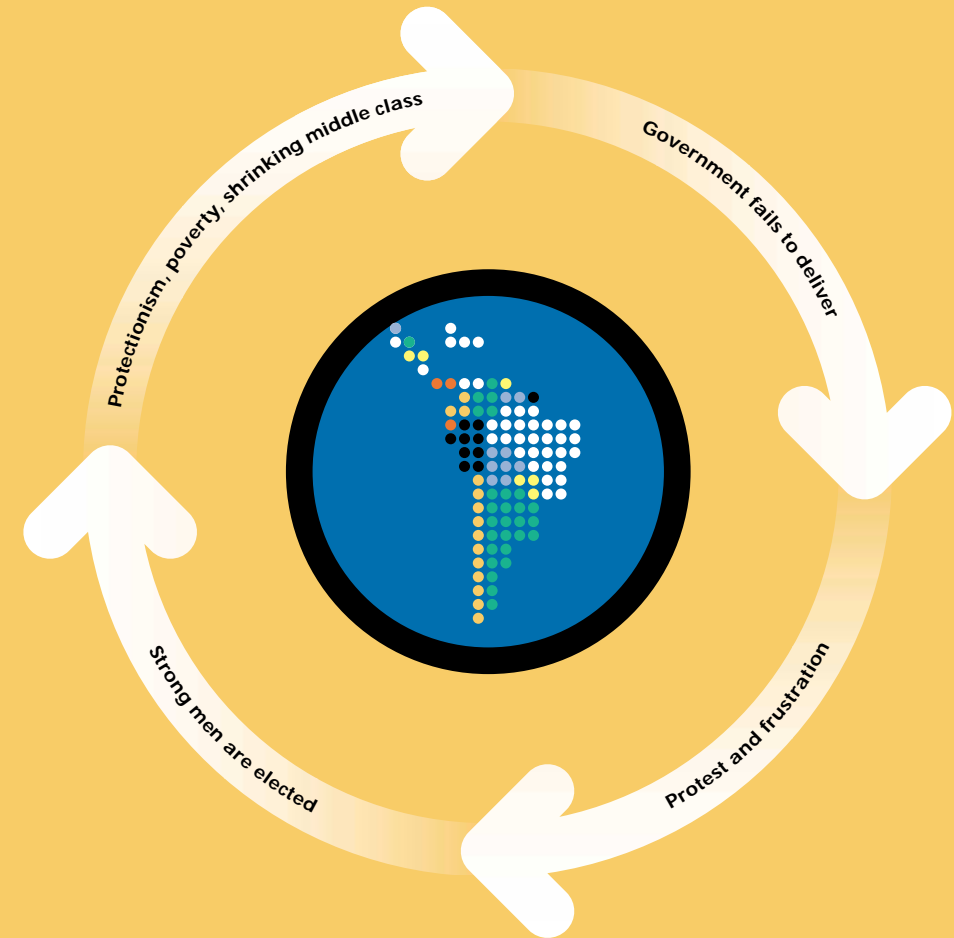
Gabriel García Márquez,
One Hundred Years of Solitude

Corrupt elites in every society maintain their close back-scratching relationships with each other, motivated by their shared desire to block the process of reform. The self-serving nature of dominant elites and ultimately, their fundamental lack of interest in their country and their fellow peoples, is the problem at the root of Latin America's failure to reform effectively. They can protect themselves within gated communities, or even locate their families abroad—and they do this, principally in Miami. So long as power and wealth remain concentrated in the hands of a few, sustained economic growth proves increasingly difficult to achieve.

But there is no effective opposition to these narrow elites, because there is very little trust between members of the wider society. It remains limited to the family and close relations, although amidst the turbulence, there is a strengthening of religious groups that helps retain a measure of social cohesion.

Cacerolazos is a scenario where Latin America turns inwards. Crisis leads to a revival of old Peronist-style thinking, rather than a search for new ideas. This is a story of unstable regimes and chaotic regression from present achievements, with frequent changes of government but (except for those few countries where dictators seize power) little change in political systems. Economies also fail to develop, continuing to rely heavily on agriculture and light manufacturing, as governments seek self-sufficiency and fall back on dirigiste regulatory policies to manage their economies. However, drugs money fuels an ever-growing black economy and criminal organisations assert greater influence.

By 2020, it is painfully obvious that what is missing in Latin America is a strategy for moving forwards. The political elites tend to offer fickle support to national leaders, because those elites feel ambiguous. They do not trust powerful presidents who could act against them—indeed, they feel threatened—but they are happy to be kept in the loop of corruption. *Cacerolazos* turns out to be a utopian dream for Latin America, and no more than that. There has been very little change over 20 years, and there is still not much trust.



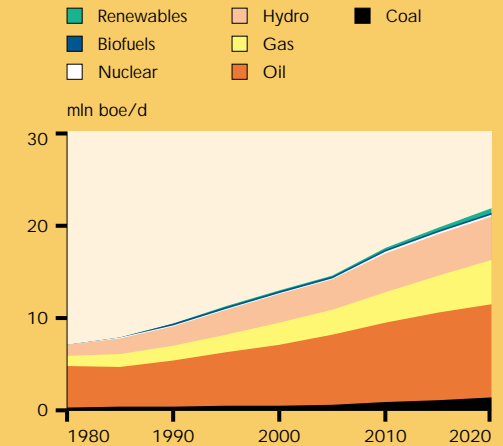
Energy in Cacerolazos

Economic growth throughout the region is volatile, but remains on average very low at no more than two per cent per annum. Weak economic growth is matched by fairly low energy demand growth, although it is higher than one might expect, boosted by inefficient energy consumption and the black market, which trades heavily in oil. Governments throughout the region are increasingly involved in the energy business. They support domestic hydrocarbon

businesses, such as Brazilian oil and Argentinean gas, and they resort to labour-hungry, old-style infrastructure projects like hydro-power. Otherwise, they rely on imported oil to meet the shortfall in supply, though cross-border pipelines prove hard to build in a low-trust environment. Investment in energy provision is largely state-funded: domestic investment proves hard to obtain, and foreign investment in the energy sector is minimal.

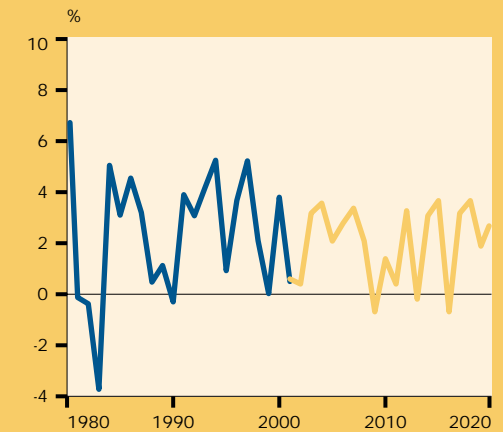
Weak economies with poor environmental standards mean little progress for gas or renewables.

Cacerolazos: Primary Energy Demand in Latin America



After a brief success for populist policies, there is a return to the old cycle: crisis followed by disappointing growth, followed by crisis once again.

Cacerolazos: Real GDP Growth Rates



Source: Historical data: Global Insight, 2002



Phoenix

Scenario

Why the crash is needed

The 'crash' is inevitable. A few countries—such as Chile and Mexico—have been through their crash and are performing well by any standards. However, most have lurched from crisis to crisis without ever having to wake up and face reality.

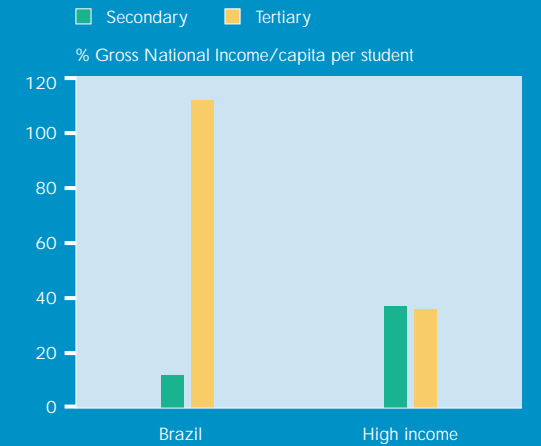
The Latin American elites have a pernicious grip on their societies, which they exploit. Spending on education in a country like Brazil is not bad by international standards, but the results are appalling, with universities educating the children of a narrow elite while the secondary sector is starved of funds. Vast numbers of the urban poor are denied loans to develop their businesses by absurd banking regulations, inappropriate bankruptcy laws, and lack of access to the formal property sector. The conclusion must be that such exclusion is no accident, but a race and class divide that will never be bridged without something approaching a revolution.

While the poor are cut off from society, many middle-class people find the situation intolerable. Sometimes this is because of government repression, a feature of most Latin American countries at some stage in the last 20 years. More often, though, it is the risk of crime, particularly kidnapping, which is becoming a fact of life in many areas, and not just for the super-rich. Emigration of skilled workers is common.

Latin Americans often seem to expect the impulse for change to come from outside. In *Phoenix* they are proved right. The world has a substantial influence in Latin America—both in terms of the 'soft power' of the US media and European leadership on the environment and human rights, and the 'hard power' of international courts, financial flows, and even military intervention.

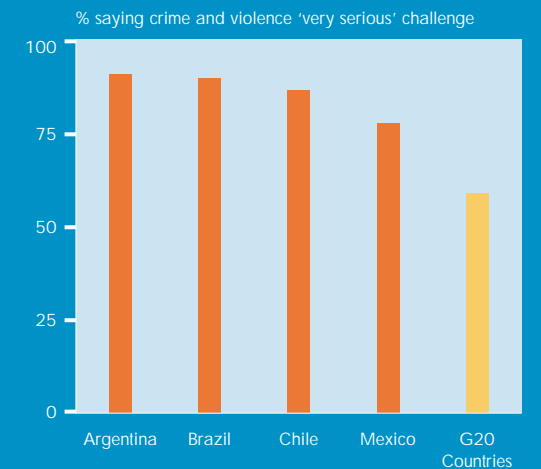
In Brazil, there is plenty of spending on education, but it is directed away from the masses in favour of well-funded places for university students.

Education Spending in Brazil: Reserved for the Elite



Source: World Development Indicators, 2001

Violence: a Growing Concern



Source: Global Issues Monitor, 2001

'Plan Colombia' becomes 'Operation Colombia'

For the United States, containment is not an option in *Phoenix*. Increasing obsession with national security, stemming flows of drugs, and the ever-present terrorist threat, lead to a modest but high-profile military intervention in Colombia's brown spaces in 2005. What many regard as an invasion below the isthmus is unprecedented in the modern era and leads to substantial political ramifications.

The US intervention both terrifies the Latin American elites and alarms European governments. Europe tries to exert influence through conditional support for Plan Colombia and through its own connections with Latin American nations. European concern begins to find a sympathetic ear as the doves in the US administration grow in influence.

From 2006, financial backing from the US and Europe floods into Latin America. This is partly for political reasons—to ensure local and European support for the US presence—but, more importantly, it is in response to a catastrophic financial crisis, beginning with debt default and devaluation in Brazil, and quickly spreading to Venezuela, Colombia, and many smaller countries. Mexico is hit hard but backed to the hilt by the US. Other countries are beyond saving, for the present.

After the crash

The political repercussions of such a crash are profound. New parties enter power: most are financially backed by Europe or the United States, who are trying to see their economic and political agendas carried through. The multilateral institutions push hard for new economic reforms, particularly spending on education and strengthening of property rights. Emigrants start to return, attracted by the possibility of participating in a renaissance. Many have had a chance to see how things are done in the US or Europe. Latin America—always so influenced by European thinking—gets a new dose of the best ideas the world has to offer.

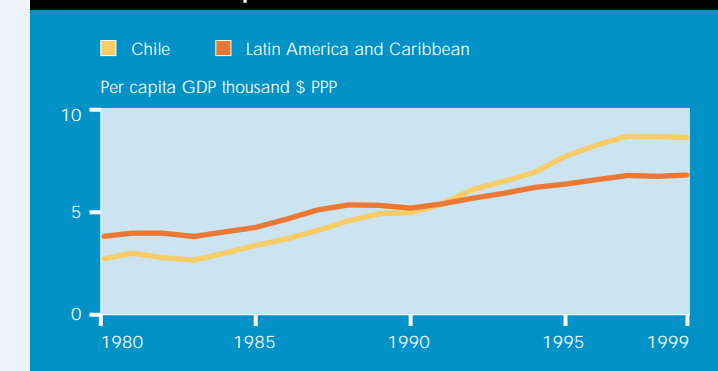
Phoenix Exemplar

Chile's stout performance since its own financial collapse in 1982 makes it a clear illustration of the possibilities of a *Phoenix*-style recovery—to the extent that in early 2002 Argentinean President Eduardo Duhalde made reference to the 'Chilean Model'. This model is a curious mix of market-based instruments under the guidance of a firm hand from government. It has four pillars:

- Fiscal discipline with a centralised government (unlike Argentina and Brazil), careful management of copper resources, and privatisation with other structural reforms.

- A flexible exchange rate, but with an autonomous central bank. This keeps inflation, and fears of inflation, in check.
- A private pension scheme—with compulsory savings—has helped to contribute to a high savings rate; cultural explanations may also be important.
- A solid and transparent banking sector: Chile's controls have been criticised by some as draconian, but the performance speaks for itself.

Chile's Growth Speaks For Itself



Source: Global Insight, 2002

Europe remains obsessed with the Latin American performance on human rights. The Pinochet case becomes viewed, with hindsight, as the first of many clashes between national and international pressure groups. The political power of human rights groups is very significant in many Latin American countries, and it is increasingly applied to a very broad concept of human rights. External political pressure channelled through those groups leads to continued reform of institutions along conventional Western standards.

The Washington Consensus: next time try harder

The new governments and their international backers have learned from the partial successes of the 1990s. The Washington Consensus is reapplied with new vigour and, most importantly, new attention is paid to previous omissions, in particular items two and ten of the Consensus's ten commandments.

Item two is the redirection of expenditure towards basic services: primary health and primary and secondary education. As the statistics for Brazil show, the question is not always how much is spent on education, but whether the education budget is spent on everybody, rather than just university education for the children of rich parents.

Item ten is even more profound: an attempt to enforce property rights for all, registering the informal assets of the urban slums and plugging those assets directly into the legal system, and therefore the network of international finance. Large utility companies can be privatised at 20 or even 50 times their previous value when their legal status is clarified, while small businessmen find new sources of funding and can expand their enterprises rapidly.

One of the key levers of change is an increasingly hard line from the IMF and other key international financial institutions: without full implementation of the consensus, external support will dry up. But the hard line is swallowed more easily by a new cadre of technocratic

leaders who themselves have backgrounds in the American universities and the multilateral institutions. The affirmation of informal property rights is followed by harder problems: the reform of bankruptcy law, the judicial system, and financial market regulations. Such reforms are politically challenging, but in the wake of the crash people are willing to try anything. Latin America puts on the 'golden straightjacket' of economic reform.

The effects of the reforms are rapid and profound. Latin America's economies bounce back strongly. The initial growth spurt is partly the making up of lost ground, and is funded by external sources, but subsequent strong growth is sustainable because of increasing dynamism at every level of the economy. Young entrepreneurs are better educated and better served by the legal system, while international businesses, both large and small, find barriers to trade dropping in their own countries and amongst their international partners. The Phoenix rises from the ashes.

The new social agenda

While some of the international agencies focus on economic reform, other elements of the international community—particularly the Europeans—have another agenda. Some point to the old problems of human rights abuses. Others try to fight corruption. Still more are keen to improve the environmental performance of Latin American countries.

While much of the agenda is internationally driven, there is a set of constituencies in Latin America who are keen partners. Working together as they once did over human rights, domestic and international NGOs focus on corruption as the next major target. Every institution is subject to increasing—and increasingly effective—scrutiny, with the result that the confidence of the typical investor (domestic or international) increases steadily throughout the decade.

Meanwhile, European influence on the environment (especially the Kyoto mechanism) leads to a carbon-trading mechanism from which many Latin American countries benefit. Brazil, of course, has massive carbon sinks and other countries pick up easy gains through the Clean Development Mechanism, whereby developed countries earn emission credits by investing in renewable energy in developing countries. This is another channel for external pressure to reform the system; between 2005 and 2015, investment associated with the Clean Development Mechanism makes up over five per cent of all foreign direct investment. It has an influence disproportionate to its scale, too, because of the high technology and the international scrutiny that go hand-in-hand with this kind of investment.

The crash also gets Latin American governments talking much more to each other—and energy infrastructure is a beneficiary. Indeed, discussions about cross-border infrastructure bring governments and people together. On such issues there are fewer vested interests and it is

6 Corruption is the new human rights.

Jose Zalaquett, leading human rights activist, Santiago, Chile

Candidates for the Crash

When these scenarios were drafted in early 2002, attention was focused on Argentina's meltdown, and some commentators argued that contagion would be limited. We argued otherwise and, sadly, were vindicated by events. A crash is always possible, it seems.

If the scenario were to affect the whole region, Brazil would have to be involved. In *Phoenix*, Brazil's debt burden becomes unsustainable through a combination of unfavourable currency movements and rising domestic interest rates. This 'debt escalator' is unsustainable, and the killing blow is a financial collapse elsewhere in the world, raising emerging market premiums.

Alternatively, *Phoenix*-style scenarios could also occur in individual countries or sub-regions, while recognising their interdependence. Contagion is one possibility: recently, for instance, this has occurred from Brazil to Argentina to Uruguay and Colombia and back to Brazil.

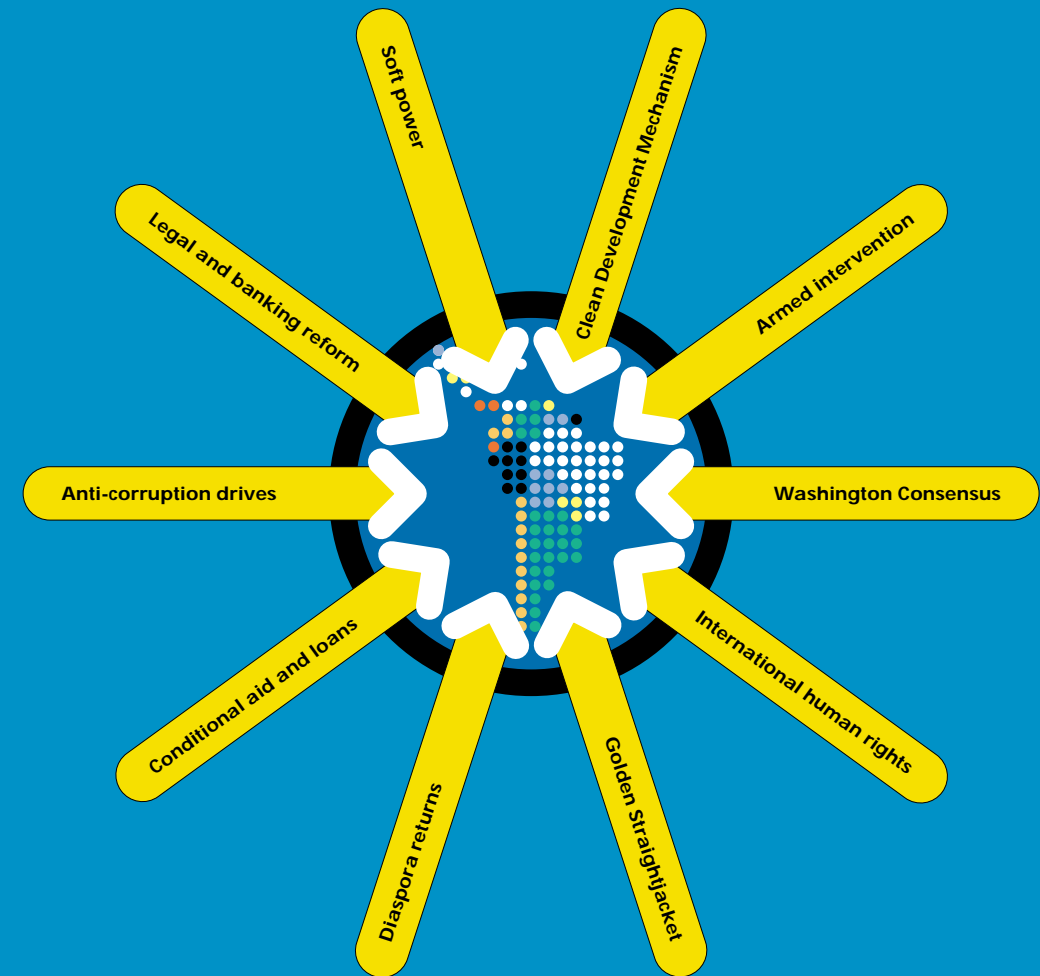
Commodity prices are another source of potential problems: Ecuador, Venezuela, Bolivia, Peru, El Salvador and the Dominican Republic have extremely volatile terms of trade. Agricultural and environmental problems can also strike: foot and mouth in Uruguay, El Niño in Peru and Ecuador.

Politics (Colombia, Venezuela, Cuba and others) can play a role too: political turmoil can deteriorate into chaos, or provoke unwise policies that tip the economy over the brink.

easier to agree than in other international negotiations. But once the ground has been broken, more difficult negotiations are attempted and trade liberalisation follows. There are bilateral agreements between different countries, but the most important trend is for Latin American countries to join NAFTA in a series of bilateral agreements. Negotiating with each country separately suits the US, which of course holds the whip hand in the post-crash environment. Many countries see jumps in trade like that experienced when Mexico joined NAFTA, if on a more modest scale. After 2010, the loose ends are tidied up in a series of multilateral negotiations along the lines once envisaged for the FTAA.

By 2020, we see a Latin America that has shown strong growth and a more practical, rationalist approach. The crises of the early twenty-first century are now seen as having been a necessary rite of passage.

Change is Inescapable



Energy Implications of Phoenix

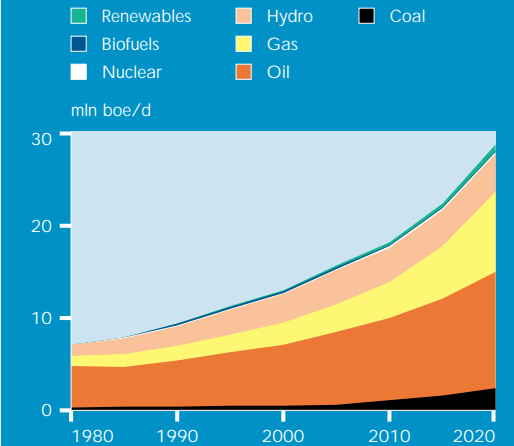
The very high GDP growth in the later part of *Phoenix* will lead to tremendous energy demand in the region between 2006 and 2020—probably averaging over seven per cent per year for more than a decade. Direct investment from abroad will be needed to keep pace with the high level of demand growth—and will be forthcoming, because of the credibility of the liberalised gas and power sector.

Cross-border gas will become feasible after 2010, with the initial possibilities explored before the crash, and the necessary agreements a major part of the early recovery effort.

Gas will also be favoured strongly by the Clean Development Mechanism (whereby developed countries pick up emission credits by investing in renewable energy in developing countries), although this will also provide support to the development of renewables. Despite all these substitutes, oil imports, and even some coal imports, will be necessary to keep pace with demand.

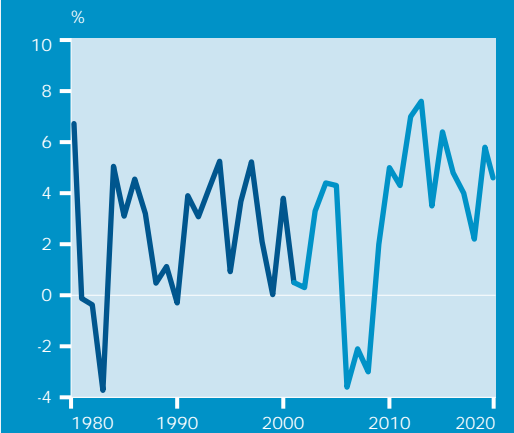
Dramatic growth in the next decade can be met only with cross-border gas deals. Renewables grow strongly, but remain relatively small.

Phoenix: Primary Energy Demand in Latin America



In addition to its political and social dimension, the economics of the crash are as severe as those of the early 1980s. But after the crash, high growth rates are sustained for over a decade.

Phoenix: Real GDP Growth



Source: Historical data: Global Insight, 2002



**Everybody
Who is
Nobody**

Everybody Who is Nobody

Consolidation replaces mad urban growth

The citizens of Latin America are not wholly helpless, passive people, waiting for great leaders to show them the way. Repeatedly they have looked around them and taken matters quietly into their own hands. That is why so many people have moved into the cities over the past 50 years, leaving behind a rural life of poverty for a relatively richer urban living. Now, Latin America is one of the most urbanised continents in the world.

Nor does the initiative stop there. One man's temporary shanty town is another's permanent home, a place that can be slowly transformed over years into an organised community of people, with paved streets, lighting and access to water and sewerage. These are not homes built by governments, but homes built by individuals who need them. This is self-help housing, creating owner-occupiers whose security of tenure is customary, soundly rooted in informal rules. Banks may not recognise the investment, but neighbours do.

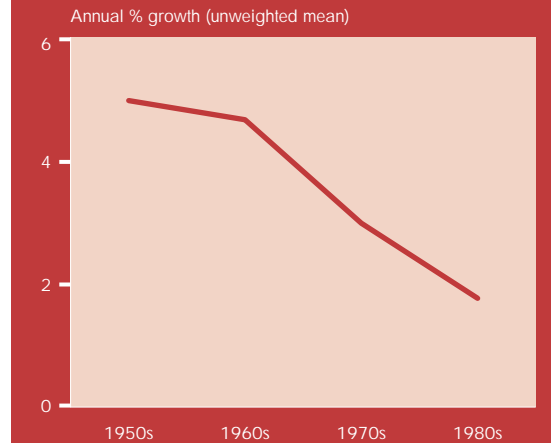
Self-help means self-esteem

Governments and foreign advisors begin to recognise that the neighbourhoods emerging from the shanty towns are vibrant and creative communities, urban spaces that are flexible, adapt to changing circumstances and suit each family's needs at a cost it can afford. As population growth slows down in the cities, the people of these despised corners of town find ways to cajole, threaten or simply lobby for better services.

Local governments are the first to respond. Porto Alegre is the first town to recognise the strength of local commitment to local improvements and find ways to give citizens a more direct say in the budget process. Over the next ten years, other towns follow suit, creating consultative spaces that are sometimes a sham, but provide the foundation for a vibrant local democracy. In the end, the services, not the politics, are what matter to people. However, they do pick up political skills along the way.

Latin American cities are famous for their explosive growth rates, but in recent years the large cities have not been expanding faster than the population of Latin America as a whole. This slowdown allows for consolidation and sows the seeds for profound change.

Consolidation Replaces Mad Growth Population growth in major Latin American cities



Source: Alan Gilbert, *The Latin American City*

These two street scenes from Atenas, Bogota show how much consolidation took place between 1979 and 1992. The street has been paved, the temporary lights replaced with permanent structures, and the housing transformed.

Source: Alan Gilbert, from *The Latin American City*, ©Alan Gilbert 1998. Reproduced by permission of the author.



As neighbourhoods become more important, politicians with national ambitions realise that they need to cut their teeth on local issues first. The megacities shift into new configurations, with neighbourhoods coming to function as little towns within cities. Economic activity also becomes more localised as a way of avoiding congestion.

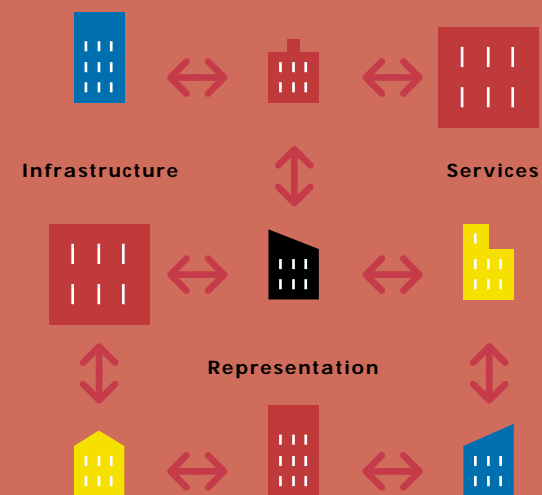
Previously despised activities gain a new respectability—a phenomenon first seen in the late 1980s when the Colombian *Asociación Nacional de Recicladores* (ANR) was established to improve the quality of life among the urban scavenger families of the country. Today in Venezuela, we can see the emergence of neighbourhood civic associations (*asociaciones de vecinos*) that act for their communities. These associations also grow in other countries, forcing governments everywhere to take them seriously. They are seen as a way of circumventing or blocking a corrupt political system, making it possible to deliver tangible benefits to ordinary people. They start with basic services, but new issues emerge as local groups gain influence, including air quality, traffic, public transportation and the education of street children.

Indigenous people are the last to benefit

While life in the cities is improving, the small towns and *pueblos* of the rural areas are still struggling. However, those who have remained are less willing to move. Many have overtly defined themselves as ethnic people whose rights in the land are permanent and inalienable. They have benefited from improved access to education, and can count lawyers, teachers and writers among their number. These individuals travel easily between country and town; many have lived and worked abroad, building important links with the outside world. They are not as easily frightened as they were by people in power.

“The purpose... is not to seize power... rather it is to create a space in which people can define their own power.”

Chiapas Revealed, Issue 1, 2001



There is also a growing recognition that the unequal struggles of the past 500 years do not need to define the future. The economic system is no longer so dependent on peasant labour, and, importantly, several international agreements and declarations support the idea that the cultures of indigenous peoples are important reservoirs of knowledge and practice that need to be respected and sustained.

ILO 169—words seeking actions over the next ten years

The convention used most often is the International Labour Organisation (ILO) Convention 169, which ambitiously seeks to create states that can live with people of different cultures and laws. Over the next ten years, more communities use this convention and the United Nations Declaration on the Rights of Indigenous Peoples which comes into force by 2005, to redefine their relationship with the governments of Latin America. First scholars, then local people, then governments, begin to realise that the underlying ideal of this convention is one that shakes modern nations to their foundations. It is nothing less than a movement to create a different kind of nation, one that is truly federal and pluralistic—in cultures, customs and justice.

One group after another begins to pressure their national governments to respect the ILO Convention 169 and its successors. The right to be consulted is used by local rural communities to reject many industrial developments, while the right to control resources of land and nature becomes a central bone of contention. Recognising this right means giving power to local communities, but as often as not heavy-handed force is used to avoid any serious transfers of land tenure. Following the example of pressure groups in Ecuador, however, international and local NGOs combine forces to monitor the observance of ILO 169. As these activities increase over the next ten years, the words of the convention come to have meaning in practice, not just on paper.

We do not want others... to decide for us. We want to participate directly in the decisions which concern us.

Subcommandante Marcos, 1995

The Promise of Porto Alegre

To those outside Brazil, the city of Porto Alegre is famous as the site of the second World Social Forum, held in January 2002, which aimed to establish a basis for an alternative, inclusive model of globalisation. But it is also a symbol of a new kind of local democracy. Porto Alegre is a kind of social laboratory, closely watched by international experts in urban planning.

For 12 years it has been innovatively governed by a left-wing coalition. In housing, public transport, highways, garbage collection, clinics, hospitals, sewerage, environment, social housing, literacy, schooling, culture, and law and order,

the city has made spectacular progress. The key to this success has been its 'participatory budget': the people of each neighbourhood decide what kind of services they want, and the system enables them to follow, in detail, how work is progressing and how the money is being spent.

This political experiment is controversial, and the coalition's room for manoeuvre is limited by the federal constitution. However, citizen satisfaction has been high: in the mayoral elections of last October the left-wing candidate received more than 63 per cent of the vote.

After centuries of ignoring Indians and other minority groups, national governments are stung by the realisation that the agreements they signed may need to be enforced. Slowly things begin to change. Latin Americans, in both urban and rural contexts, are motivated by the need to create a new magical realism that involves their own pluralistic heritage, assimilating not just borrowed European cultures but also indigenous cultures.

6 The rights of ownership and possession of the peoples concerned over the lands which they traditionally occupy shall be recognised.

ILO 169

UN Convention on Biodiversity

By 2010, the United Nations Convention on Biodiversity gains enough strength to reinforce the indigenous rights first established under ILO 169. Although this received ratification by all the Latin American countries, many governments did not appreciate that, buried in the detail, were articles linking intellectual property in biodiversity to indigenous peoples with knowledge of forests, rivers, plants and species. The knowledge of these peoples now has a value in the modern world.

During the years to 2010, the Biodiversity Convention is seldom regarded as a serious legal instrument, supported only by a modest budget from the United Nations. Those who have benefited from the extractive economy continue to push their advantages. Indigenous people suffer swindles, thefts of land and of knowledge, but they learn the hard lessons, becoming tougher and more skilful at exploiting all the resources they can muster to achieve reform. Little by little things begin to change.

The responses of elites

What do the old entrenched elites do, when challenged by the increasingly empowered urban poor and, much more slowly, the growing political awareness of indigenous rural people? It is not in their nature to sit back quietly while the little people take power away from them.

New International Conventions

ILO Convention 169 came into force in September 1991, and has since led to the UN Draft Declaration on the Rights of Indigenous Peoples. ILO 169 applies to: tribal peoples whose 'status is regulated wholly or partially by their own customs'; those who are descended from indigenous populations; and those who identify themselves as indigenous. Governments who sign it are bound to protect the rights and identity of these people and to 'eliminate socio-economic gaps that may exist between indigenous and other members of the national community'. The convention emphasises the need to create pluri-cultural nations, respecting different customs while recognising shared rights.

Can this be reconciled with the homogenising ambitions of most nation states? So far, nine important Latin American countries have signed the convention, while indigenous peoples are using it to support their demands.

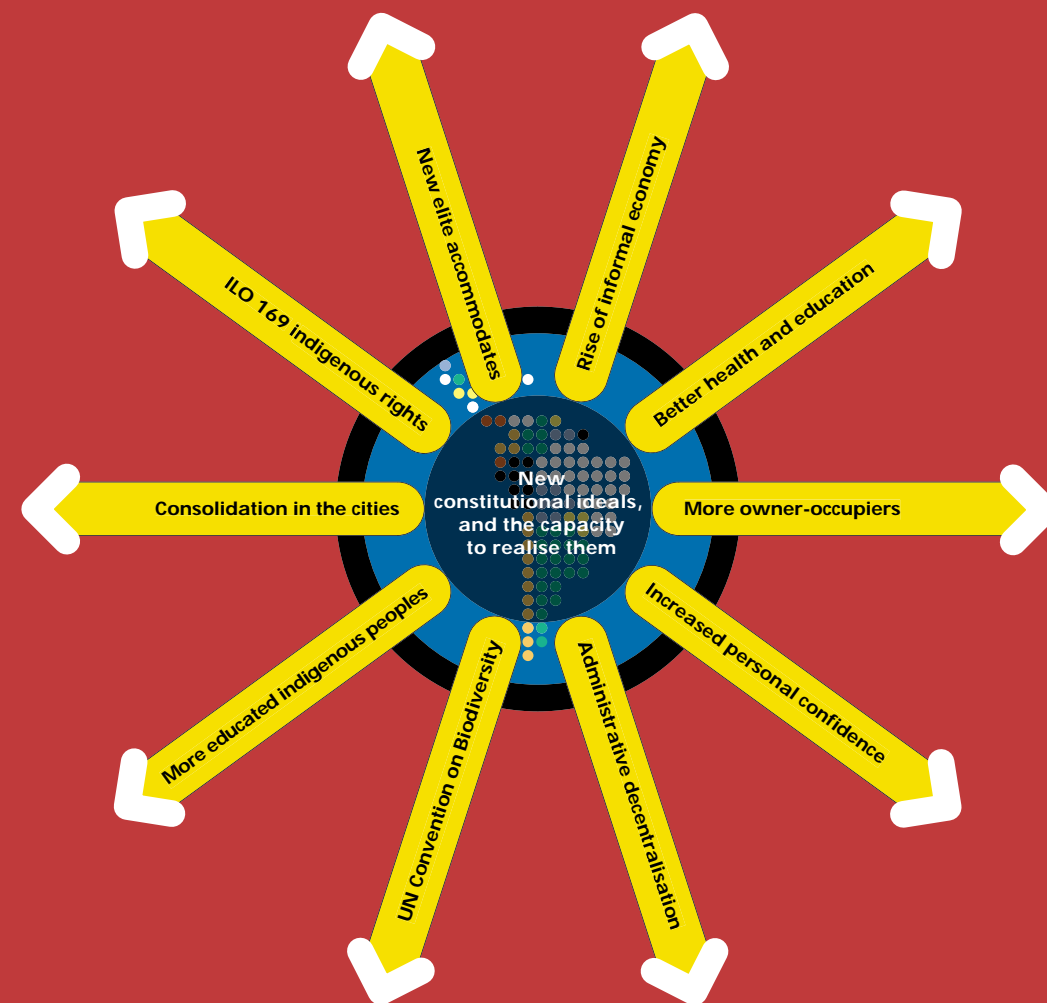
In 1992, over 100 countries signed the United Nations Convention on Biological Diversity. By 1996, all the Latin American countries had ratified it. To date, there is only a modest budget supporting the ambitions of the convention, but, significantly, it recognises the *in situ* conservation of diverse forms of life and the role of indigenous peoples in preserving ecosystems.

One response is to reinforce their position by joining forces with the new internationalised elite. This group have made their money from new small- and medium-sized businesses, using new technology. Reflecting the new politics, they are closely connected with the outside world. Their businesses diminish the agricultural- or capital-intensive basis of old elite wealth. Over time, the new and the old elite merge, as the old elite choose to accommodate rather than fight. Another response, particularly in societies with a high racial divide such as Brazil, is for the old elites to put up strong resistance to the newly empowered. The first response is chicanery and sporadic local violence to try to manipulate the system and keep the *sans cullotes* out of power. It doesn't usually work, leaving the old elites with a choice to make between compromise and a more visible confrontation. Their decisions depends on the strength of each country's democratic institutions—where these are too weak to work out political differences, the struggle is turbulent and nasty.

Constitutional challenges

By 2015, these dramatic changes in urban areas accompanied by more slowly evolving changes in rural areas, lead to constitutional challenges in various Latin American states. The new elites demand recognition of their economic importance within the formal political process. In rural areas, indigenous people are beginning to call for a constitution that specifically recognises and incorporates their local rights (such as the *Mapuche* proposal for local representation in Brazil). There is growing recognition of how plural societies are or have become, pushed by domestic and international NGOs.

A constitutional discussion begins in most Latin American countries around 2015. By 2020, some have incorporated indigenous councils into their legislative processes and give much greater political weight to popular participation from urban areas. Environmental and social issues are an important part of political debate throughout Latin America.



Particulate societies in national frames

By 2020, in rural areas across Latin America, a large number of small groups have firmly established their traditional territorial rights and benefited from the Biodiversity Convention. Indigenous councils and local groups control both biological and mineral resources. Some have developed financial agreements with northern chemicals and pharmaceuticals companies. Recognition grows that it is impossible to regulate mineral rights without respecting biological ones.

Local businesses and their multinational partners benefit greatly from the example of Cuban agriculture. Since the 1990s, when Soviet subsidies were withdrawn and they could no longer afford industrial pesticides and fertilizers, the Cubans have become leading developers of biologically sustainable agricultural systems. This becomes widely studied and imitated.

In urban areas, things look similar to now. Beneath the veneer, however, social and political life has been radically transformed. Nations are less centralised and more federal. New voices are pushing new concerns. Despite recurrent struggles, the virtues of plurality are recognised at last.

There is no integration of the continent as a whole, people are too focused on local concerns. Old-style partial regional integration efforts such as Mercosur, driven by the old political elites, have also failed. But new sub-regional integration does develop along culturally, rather than nationally defined, lines. Urban areas within the Southern Cone link up to discuss approaches to common concerns, and there is increasing trans-border cooperation. Rural areas throughout Latin America seek inspiration from each other, slowly building a distinctive Latin American identity.

There has been no violent revolution, but the political and social ground has changed. Although the soil may not have been turned, different seeds are now sprouting. Over time, these new shoots will give rise to an entirely different landscape, as Latin America comes to terms with its own unique heritage.

Energy in Everybody Who Is Nobody

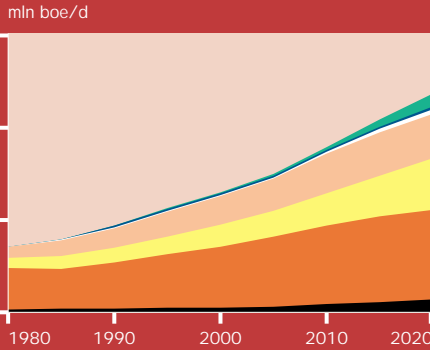
In *Everybody who is Nobody*, Latin America sees steady though modest economic growth of around 3.5 per cent per annum over the next 20 years; energy demand is dampened by local energy efficiency drives. Tax revenues are used to fund public transport and other public sector infrastructure. However, the liberalisation of gas and power services proves to be slow, particularly at the municipal retail level. Delivering energy to the urban poor becomes a priority.

Foreign investment in the energy sector is circumscribed by concerns over indigenous people's land rights and questions over who controls local resources. Cross-border pipeline projects also become difficult, as the project owners need to recognise the rights of local peoples when crossing their land. There is a search for innovative solutions which respect local rights.

Governments emphasise local renewables (with some Clean Development Mechanism support from the European Union) to help cut energy import dependence. Various projects are launched to tap photovoltaic, wind and wave power. Some urban areas in Argentina and Brazil even begin to look to nuclear options. New improved technology also enables coal to make a partial come-back. Meanwhile, the launch of a biofuels programme by the Organization for Economic Cooperation and Development (OECD) in 2010 helps support Brazilian industry.

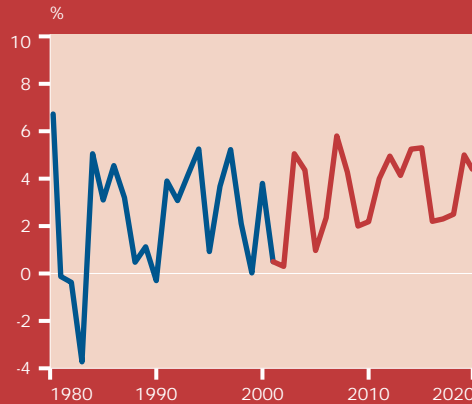
Moderate economic growth, combined with local energy-efficiency policies, keeps the need for oil imports in check.

Everybody Who Is Nobody: Primary Energy Demand in Latin America



Progress is gradual, but as the worst of the slumps are avoided, average growth rates are substantially raised.

Everybody Who Is Nobody: Real GDP Growth Rates



Source: Historical data: Global Insight, 2002

Will the future of Latin America be like the past? Will change, somehow, be imposed from outside? Or are there forces deeply buried within Latin American society with the capacity to transform it into something very different?