Globalization and Latin America: Turmoil or Transformation

IBI-MBC Seminar for Porto Alegre Officials
June 3, 2008
Brazil-US Ethanol Pact

- Designed to increase cooperation on biofuels technology and research between US and Brazil (which are responsible for 70% of the world’s ethanol production) and develop OPEC-like international standards for biofuels

- Envisions a special hemispheric carbon trading system to encourage preservation of tropical rain forests
Brazil-US Ethanol Pact Cont.

- Aims to make ethanol (from sugarcane) a major source of fuel in South America – ideally protecting South America from economic shocks due to oil prices and lowering greenhouse gas emissions

- Contains special provisions to help countries in Caribbean and Central America produce their own ethanol and revive their sugar industry

- Contains no provisions for bilateral trade between US and Brazil.
Criticisms of US-Brazil Ethanol Pact

- Expanding crops grown for ethanol production in South America will contribute to world hunger as farms produce less food crops.
- Pact (which is also supposed to help the US meet the 35 billion gallons/year alternative fuel standard) is irrelevant, as no Brazilian biofuel will reach the US market due to import protections for US corn-based ethanol.
- Pact is a political ‘band-aid’ attempting to improve the image of the US in Latin America.
- Pact is opposed by Venezuelan President Hugo Chavez, who stated that the US was trying “to substitute the production of foodstuffs for animals and human beings with the production of foodstuffs for vehicles, to sustain the American way of life.”
Praise for Ethanol Pact

- The pact will allow Latin American countries to decrease their dependence on oil and will assist the Brazilian economy by exporting more ethanol to neighboring countries.
- The pact is a step towards a stronger US-Brazil diplomatic relationship.
- The pact calls for regional development banks to support biofuel infrastructure and assist in creating more reliable modes of transportation and shipping in Brazil and South America.
- The pact encourages use of other domestic natural resources, including oil in Mexico and natural gas throughout South America.
- The pact could greatly and positively impact the environment with its goal to decrease reliance on fossil fuels.
"Abusing our precious croplands to grow corn for an energy-inefficient process that yields low-grade automobile fuel amounts to unsustainable, subsidized food burning," David Pimentel, Cornell Professor in the College of Agriculture and Life Sciences.
Snapshot of Brazil
Brazil’s Total Exports – 2000-2007

Export Total in Billions of Dollars

Year

Value of Exports (Billions of Dollars)
Brazil Facts

Brazil is the world’s leading exporter of sugar, coffee, beef, and orange juice.

Over the past 4 years, Brazil’s trade surplus has grown from $2.6 billion to $47 billion.

Second largest grower of Soybeans (US #1)
Third largest grower of Corn (US #1; China #2)

June 2 (Bloomberg) -- Brazilian local-currency bonds fell the most in a week after economists in a central bank survey pushed up forecasts for inflation and interest-rate increases.
Brazil’s Top Exports

To the US

- Crude oil
- Steelmaking materials
- Semi-finished iron & steel products
- Fully built civilian aircraft
- Engines & engine parts
- Footwear
Globalization
What is Globalization?

MUMBAI (Reuters) - Tata Motors Ltd <TAMO.BO> <TTM.N>, India's top vehicle maker, said on Monday it had completed the $2.3 billion acquisition of the Jaguar and Land Rover brands from Ford Motor Co <F.N>. Filed Monday, June 02, 2008 at 7:55 a.m. ET
What is Globalization?

- Happened this year/week?
  - Sub-prime Mortgage problem?
  - World Food price rise?
    - More than that

- Set of US policies?
  - free-trade agreements, privatization, balanced budgets (Washington Consensus)
    - More than that

- Global War with Terrorists?
  - What happens in the Middle East affects us here?
  - Poverty breeds terrorism?
    - More than that

- 1-2 million emails every second
  - (2/3s are spam or viruses)! (Radicati Group May 2006)

Not just search-and-replace ‘international with globalization’
What is Globalization?


- International flow of ideas and knowledge
- Sharing of cultures
- Global civil society
- Global environment
- Flow of goods and services, capital and labor
Seven Degrees of Globalization

1) Macro Forces
2) Networks
3) Traffic
4) Global Awareness

5) Global Policy
6) Global Governance
7) Global Citizenship
1) Macro Forces

- Technologies
  - microelectronic
  - computation,
  - telecommunication
  - transportation
  - [Nano]
  - [Biomedical]

- Economic Growth (GNP worldwide)
  - China and India
  - Brazil
  - EU

- Political Reform/Realignment
  - Demise of ‘communism’
  - “Democratization”
  - De-colonization
2) Networks

- Transportation
  - Airlines
  - Container ships
  - Intra-modal shipping

- Telecommunication
  - Internet
  - Satellite
  - Cell phones
  - Cable/Fiber Optics

- Corporate
  - M & A
  - Innovation partnerships

- Social Communities
  - Digital diasporas
  - Trans-boundary democratic movements
  - Care2
  - Facebook
  - Ebay?
3) Traffic

- Goods and services (technology)
- People
- Ideas
- Data
- Flora/fauna
- Disease
- Capital
- Currency
- Culture
- Identity?
- Ideologies?
- Norms?
- Other?

Implications: more interactions, more conflict and confluences? What moves along the networks seems to travel faster, into more places, makes things more volatile--pressure for economies makes things more standardized (?) bigger markets, more concentration of power?, markets spill over governance boundaries, loss of sovereignty? For all? Some?
4) Global Awareness

- Information from media
- Use of products and services
- Exposure through internet
- Impressions from travel
- Interactions with immigrants/people
  - Work
  - School

Direct and Indirect
  - Playground jokes
4) Global Awareness

Implications:

- Connectivity to events beyond our own control
- Builds new communities and threatens traditions
- Conflicting and merging cultures
- Diversity and standardization
- Modernism and tribalism
- Global and local

“Toto, I've [got] a feeling we're not in Kansas anymore.”  
*Wizard of Oz* (1939)
Rose example

☞ Tradition of Expenses Roses
☞ Internet Roses
☞ Grocery Store Roses
☞ Whole Foods Roses
Globalization Framework

Globalization
?
(Global) Policy
?
(Global) Governance
?
(Global) Citizenship

What does it mean to add global to each?
# Globalization Framework

<table>
<thead>
<tr>
<th>Managing the Unmanageable</th>
<th>Purposeful Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Globalization</strong></td>
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<tr>
<td>?</td>
<td>?</td>
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<td>(Global) Policy</td>
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<td>(Global) Governance</td>
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<tr>
<td>(Global) Citizenship</td>
<td>Cosmopolitans</td>
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<td>Pro-Globalization?</td>
<td>Anti-Globalization/Pro-Global Justice?</td>
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</tbody>
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Implications

Suggests that to address globalization issues:

- Nations less able to manage all interests on their own.
- Traditional multilateral institutions may be outdated.
- Our conception of boundaries – policy, constituency - may need to be shifted.
- Expectations for government roles and policy enforcement may be changing.
Implications

❖ How to formulate and implement public policies in a globalizing world?
❖ Government has less power outside and within its borders (sovereignty)
❖ Greater inflows and outflows
❖ Expanding roles of “third-parties”
❖ Lessened citizen allegiance
❖ Greater externalities and volatility
❖ Greater interconnectedness
❖ Greater diversity
Implications

- How to formulate and implement global governance in a globalizing world?
  - Declining role of Brenton Woods Institutions
    - UN, World Bank, IMF
  - Greater role of third-party governance
    - Corporations, NGOs
  - Greater role of Governance Meld
    - Nations, International, Third party, Global Citizens
- Global Values
  - McCain’s Coalition of Democracies
Globalization: Case of the IMF

System Integrity vs Local Preferences

- Loans with conditionality
  - Market discipline
  - Economic and Social Justice

- Private Lending (no conditions (??))
  - Defaults?

Where does the money come from?

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**Fewer Loans**

As many countries forgo IMF loans and the strict demands that come with them, lending has declined steeply from its all-time high in 2003.

<table>
<thead>
<tr>
<th>Year</th>
<th>IMF lending, in billions</th>
</tr>
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<tbody>
<tr>
<td>1998</td>
<td>$108.6</td>
</tr>
<tr>
<td>1999</td>
<td>93.6</td>
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<tr>
<td>2000</td>
<td>80.2</td>
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<tr>
<td>2001</td>
<td>97.4</td>
</tr>
<tr>
<td>2002</td>
<td>114.6</td>
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<tr>
<td>2003</td>
<td>116.9</td>
</tr>
<tr>
<td>2004</td>
<td>101.0</td>
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<tr>
<td>2005</td>
<td>56.4</td>
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<tr>
<td>2006</td>
<td>22.2</td>
</tr>
<tr>
<td>2007</td>
<td>16.0</td>
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Source: International Monetary Fund
The Washington Post
Globalization and the Future

Selected Issues
Consequences of Globalization

Some recurring Issues in Latin America include:

- Poverty and unequal wealth distribution
- Environmental degradation
- Unstable growth
- Privatization of basic public goods (electricity, water, social security) leading to corruption and decreased quality
- Indebtedness
- Loss of autonomy in deciding economic policies
Looking Forward

Some key components to consider as Latin America moves forward:

- Regional integration agreements (led by Brazil) to assist with International Trade negotiations are needed?
- Development plans should focus on equality, social justice, and environmental sustainability?
- Debt relief and the opening of markets for developing countries’ produce, without the limits of subsidies and non-tariff protections?
- An effort is needed to strengthen the human, social, and informational capabilities of the region?