



LATAM COMPILATION 2015

New times for Latin America

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Prologue

Currently, Latin America operates in a changing international context in which the Chinese economic slowdown and the negotiations on the Transatlantic Trade and Investment Partnership (TTIP) between the European Union (EU) and the United States and the Transpacific Partnership (TPP) between the EU and the Pacific Rim countries have increased its complexity. Each region needs to take its corresponding position in the world and play its role in order to achieve a comprehensive development.

In order to be competitive in this environment, Latin America must address a plan of structural reforms to put forward solutions and alternatives to the development slowdown affecting the whole region and thus avoid getting stuck in the “middle income trap”. All the reforms must be comprehensive and multidisciplinary, and governments should avoid implementing partial reforms to solve the problem to a degree, instead of completely removing it.

This is the case of the various legal reforms that most Latin American countries have addressed. Considering the efforts that these nations made to carry out these reforms, the results have been disappointing. However, their implementation shows that both the population and the institutions are aware of the need to complete these reforms, which is in itself a first important step towards the development of the region.

The reforms that the region requires should cover all areas of action to foster development in the countries which make up the region. Justice is an important development tool, but not the only one and, thus, a reform in that area would not automatically entail the economic growth of the region and would not cover all the needs of Latin America.

Latin America is ready to identify all the development and seize progress opportunities to stop being the region of the missed chances. It is the time to put on the table the necessary strength and efforts to become competitive and take build on the momentum provided by the Multi-Latin corporations and SMEs that are starting to grow, turning them into regional representatives and relationship facilitators.



Innovation shall be the main objective that all countries need to promote. The truth is, the environment will require the region to adapt to a market in which commodities will neither be the only, nor the main source of growth.

Moreover, Latin America must take advantage of the presence of its fellow citizens in the U.S. a country which offers various opportunities for development. Hispanic population is the largest minority in the country and, therefore, the relation between Latin America and the U.S. is crucial.

In the deepening of relations, Europe plays a key role thanks to the existence of cultural ties, a common language and shared values that have enhanced a relation that goes beyond the economic dimension. The relationship between the EU and the Community of Latin American and Caribbean States (CELAC) has to move in a new direction, seeking to generate a greater trust among both regions and thus turn the EU-CELAC relations into a strategic alliance which promotes the development and growth of both regions.

Therefore, Latin America must face this dynamic cycle and advocate for change and innovation, reforms and the deepening of relations as the foundations on which its development and prominence in the international arena should be built.

We need to make the efforts and have the willingness to continue fostering the development and growth of the region. It is everybody's work.

José Antonio Llorente
Founding partner and chairman



Latin America: structural reforms in the face of a business change of cycle

Madrid , April 2015

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1. INTRODUCTION
2. SIGNS OF A CHANGE OF CYCLE
3. A NEW REFORMING CYCLE
4. CONCLUSIONS

1. INTRODUCTION

“The party of high oil prices and low interest rates is over. We are entering a storm from an economic point of view... Besides the fall in oil prices, the United States will soon increase their interest rates. In this context, all currencies, included those of the developed countries, are depreciating against the US dollar... There is no doubt: hard times are coming, times of great volatility and tough adjustments where emerging economies will have to make a difference from one another in order to get out as soon as possible and dented as little as possible from the international turbulence”.

This text, written by Leo Zuckermann, analyst of the Mexican newspaper *Excelsior*, only confirms a feeling that is being gradually extended through Latin America. We are witnessing a cycle change, an end of an era in front of which the Latin American countries must react in order to adapt their economies to the new global and regional scenario. The slowdown and downturn signs are very obvious, caused by lower commodities prices, mainly set off by the economic downturn in China, the increase in external financing costs and prospects of fewer capital inflows. This, added to the own structural problems of the Latin American economies and to the global change that is taking place regarding the transfer of wealth from the Atlantic to the Pacific Ocean, forces the countries of this region to undertake far-reaching reforms in order not to fall behind in relation to the emergence of other regions such as sub-Saharan Africa and many Asian countries, nor lose ground in the reduction of poverty and inequality.

In fact, Latin America is not going through an unknown phase but through an experience which, with its nuances and specific features, had already occurred. Historically, the rise in international prices of commodities the region exports used to create a “virtuous circle” where income increased and trade deficit decreased becoming surpluses. This way, states received greater financial means thanks to those new revenues and expanded the public spending. Along this line, the Argentine economist, Ricardo Arriazu, points out that this initiates “a second stage in which demand (and production) increase in other sectors than automotive and agricultural machinery producers in Argentina’s case), and since production rises, employment and wages grow; at this stage the public sector benefits from a new increase in tax collection and imports start to grow. At the third stage, the process is accentuated due to the capital inflow, attracted by the greater economic growth and the improvement in the fiscal and external accounts. At this stage, public spending expands rapidly because governments feel confident due to the improvements in tax collection and some countries let their currencies appreciate due to the great increase in their reserves”. The boom ends when international prices start to fall and the increase in public and private spending results in

a deterioration of the internal fiscal accounts and the external balances and all added to a fall in the foreign investment.

Latin America's history is indeed a succession of serious crises, followed by major adjustments that precede booms linked to the high prices in commodities, accompanied by speculative "bubbles" that end up exploding in the midst of scandals of corruption and delegitimization of the State. After the traumatic beginning of the 19th century (1810-1850) Latin American States gradually settled in and the economy developed based on the growth of international trade and on the links with a Western Europe that demanded Latin American export products for their increasing industrial production and the population growth. The 1929 crash forced the region to reinvent itself for the first time and to promote import substitution industrialization, which was accompanied by a whole academic production giving it intellectual support (Raúl Prebisch's ECLAC school of thought).

The new system was supported thanks to the boom of the global postwar period and to the abundance of petrodollars in the 1970s. But the excessive indebtedness, the fall in oil prices and the regional economies' structural shortcomings (huge deficits and inflation) plunged the region into another serious crisis, the "Lost Decade" of the 1980s, as a result of which Latin

America had to reinvent itself again. The commitment to neo-liberal reforms (the Washington Consensus), to external openness, the reduction of tariffs, the stimulus to trade, the reduction of inflation and deficits (by reducing the size of the State through privatization) allowed the region to be ready (with its "homework done") to be able to benefit from and strengthen during the boom of the "Golden Decade" (2003-2013). First of all, during a virtuous six-year period (2003-2008) followed by, after the fall in 2009, a new growth period despite the international turbulences (2010-2013). As Rebeca Grynszpan, current Ibero-American Secretary General, states, "in the last 10 years more than 50 million people escaped from poverty. The majority benefited from the labor market dynamism –in particular men's remunerations, from 25 to 49 years old, in urban areas, in the region's services sector– and to a lesser extent through social transfers and the demographic dividend". In these years, a series of solid economic and financial policies, together with the tailwind of the commodities "super cycle", enabled Latin America to grow at an average rate of 4,2% since 2003.

However, since 2014, the tailwind does not blow with such strength and the development accumulated in the boom years has peaked since the region's challenges are different, more focused on avoiding the "middle-income countries' traps". The 2003-2013 boom prevented the region's structural problems from

being seen more clearly, unlike what happened in the 1980s and 1990s, Latin America failed to do their homework believing that the growth would fix them itself and in this second half of the present decade it is time to build more diversified, competitive and productive economies, that back innovation and investment in human and physical capital in order to make further progress on reducing poverty, destitution and inequality.

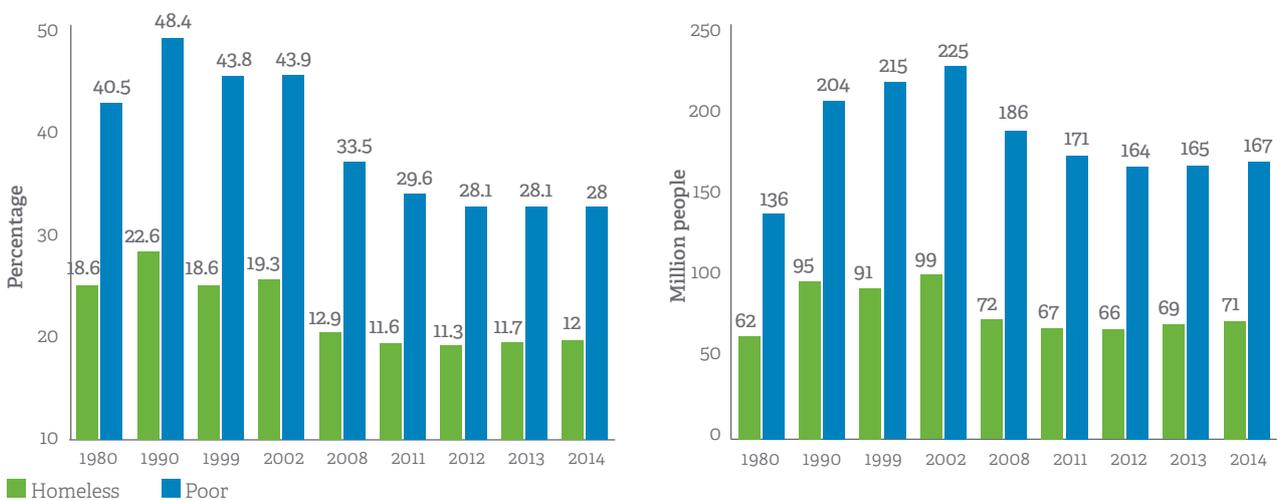
the region as regards inflation control, decrease in the tax and trade deficits as well as the resizing of the State apparatus. That era is history and now new challenges arrive for the Latin American economies that must face a new time of structural reforms in order to adapt to a more competitive world with lower and more volatile levels of growth where commodities are not going to be the only nor the main locomotive for growth.

2. SIGNS OF A CHANGE OF CYCLE

Latin America is currently going through much more than a change of cycle, is experiencing a change of era. The “Golden Decade” (2003-2013) brought a time of exports boom for the region based on orthodox approaches in terms of macroeconomy and on previous reforms, carried out in the 1980s and 1990s, that granted economic rationality to

There is no doubt that Latin America emerged strengthened from the boom years, what is also true, however, is that the whole momentum for reform that existed in the 1980s and 1990s was lost in the last fifteen years. It is also true that Latin America is facing this new change of cycle in a much stronger way than in the 1980s because from the “Lost Decade” (1982-1989) to the present time, the region managed to reduce its

Latin America: evolution of poverty and destitution, 1980-2014 (as a percentage and in million people)



Source: El País newspaper

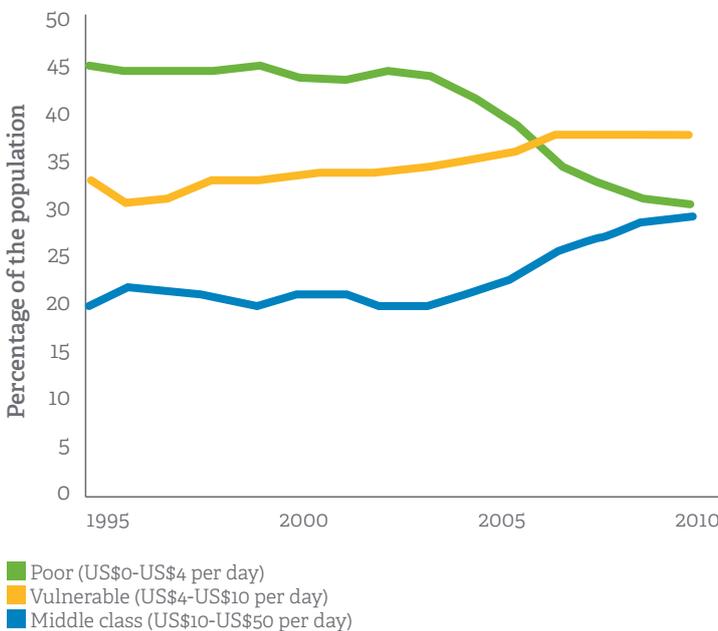
indebtedness, strengthened the financial system capitalization and made progress in reducing poverty and to a lesser extent, inequality. This nearly uninterrupted growth in the last years (except in 2009) was accompanied by a profound social change: Latin America greatly reduced its levels of poverty (from 225 million of poor people in 1990 to 164 million of poor people in 2013), enabling the emergence of a new and heterogeneous middle

class. Inequality, measured by the Gini coefficient, was also reduced, but in a less pronounced way.

The social structure in Latin America is now much more different from how it was fifteen years ago. The region's economic growth has led those 60 million people to get out of poverty and join an emerging and heterogeneous middle class. Although poverty reduction is still making progress in most of the countries, a significant part of these new middle classes are very vulnerable to an economic downturn and run the risk of falling back into poverty. After all, as stated by Alicia Bárcena, Secretary General of ECLAC: "It is true that millions of people have escaped poverty, but they do not belong to the middle class for their spare capacity, but for their borrowing capacity when buying imported goods".

Since the crisis of 2009, the region is facing a new economic cycle marked by slowdown. Latin America thought that the boom was going to be indefinite because China and the rest of Asia would grow at 8-10% rates for decades, which has finally not happened. The region has not saved in the way that had been expected and has backed a social spending of clientelist nature and current expenditure rather than boosting infrastructure, education or healthcare, which explains the protests that have taken place in Brazil, Chile, Peru or Colombia. Since 2010, growth

Graphic 1: Trends within middle classes, vulnerability and poverty in Latin America and the Caribbean, 1995-2009



Source: World Bank, based on data from SEDLAC (Socio Economic Database for Latin America and the Caribbean)

Note: the countries included are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Bolivarian Republic of Venezuela. The poverty thresholds and the incomes are shown un US\$ by days of the year 2005 at the exchange rate of Purchasing Power Parity.



levels over 5% have never been restored and in fact, rates have decreased from 4.5% in 2011 to the 2.2% forecast for 2015. After growing at an average rate of 4.3% in the period 2004-2011, the economies of the region have barely expanded at an average annual growth rate of 2.1% since 2012.

Another sign of this change of cycle is that poverty reduction has stopped and has even worsened. During the period 2012-2014, the poverty rate has remained at around 28% of the population, according to the household surveys of the Economic Commission for Latin America and the Caribbean (ECLAC) in 2014. The ratio of extremely poor people (with a

daily income of less than US\$ 2.50) rose up to the 12%.

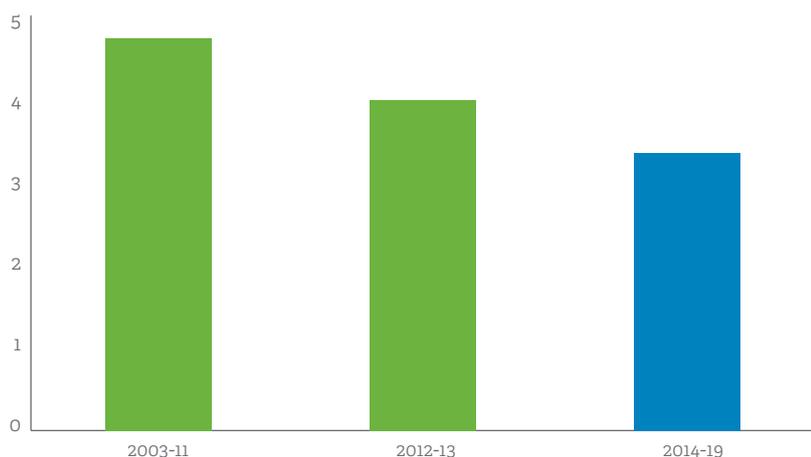
As stated by Alejandro Werner, IMF director for the region, in an interview for the newspaper *El País*: “Latin America is starting in 2015 a period of a change of cycle . Very possibly a change of political cycle, but certainly a change of a new economic cycle. The growth rate of 1.3% is rather low. We came from levels of 4%. It is the reflection of Latin America’s adjustments to the fall in the prices of commodities, minerals and agricultural products, after a period of sustained growth; the negative effect of the fall in oil prices; and the end of the momentum for reform carried out in the 1990s. This momentum has not been sustained and its effect is running out. We must anticipate the difficulties on the side of international economy in the commodities environment, accelerate the structural reform in education, continue with the important agenda on infrastructure that has been implemented and continue developing the commodities sector”.

The tailwind that marked the “Golden Decade” (2003-2013) is therefore finished and the signs of transformation within the international economic context that were clear by 2014 have been very obvious in 2015.

LOW ECONOMIC GROWTH

Latin America has had a low growth in 2015 that has not

Graphic 2: Average projected GDP growth 2014-2019¹
(Annual average percentage change)



Source: IMF (downloaded from <http://blog-dialogoafondo.org/?p=3991>)

¹ Projections based on a model CVAR, assuming that the prices of raw materials remain constant at the average levels of 2013. Simple average of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Honduras, Peru, Paraguay, Uruguay and Venezuela.

exceeded the 2.5% rate, clearly insufficient to confront the social challenges of the region. According to ECLAC, while the economy of Latin America and the Caribbean would recover in 2015, it would do it below its needs since the Gross Domestic Product (GDP) would reach an average growth of 2.2%, whereas in 2014 it reached a 1.1% rate, the lowest since 2009.

Likewise, the Development Center of the Organisation for Economic Co-operation and Development (OECD) and the Development Bank of Latin America foresaw that the region would continue in 2015 at growth figures far below the 5% rate, and therefore would continue facing a slowdown at its pace of economic expansion.

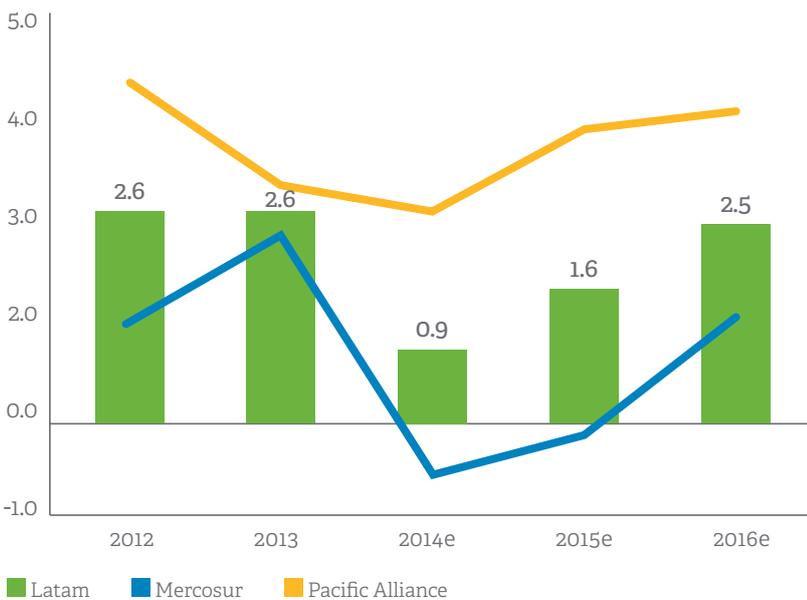
The growth forecast was within a range between 1% and 1.5% for 2014 as against the 2.5% and the 2.9% respectively recorded in 2013 and 2012. “Latin America is slowing down more rapidly than most of the emerging world”, says the World Bank’s Chief Economist for the region, Augusto de la Torre.

HETEROGENEITY IN THE REGIONAL SITUATION

Again, as has been happening in the last years, the region will grow, or slow down, at different paces. Latin America will have grown by 1.5% in 2015 and by 2.4% in 2016 but the Pacific Alliance countries (Chile, Peru, Colombia and Mexico) will have done it faster, at a 3.6% rate in 2015, than the Mercosur countries which will collapse into stagnation or even into crisis, especially Brazil, Argentina and Venezuela. At this juncture, the lower Chinese growth has struck the South American countries while Mexico and Central America could benefit from the economic upturn in the United States (although, at the same time, in Mexico’s case the fall in oil prices and the rise in interest rates in the United States will affect its growth).

“A stronger slowdown in China is still a key risk for the commodities exporting countries in Latin America and the Caribbean – assures the Director of IMF’s Western Hemisphere Department, Alejandro Werner-. The good thing is that Mexico, Central America and some parts of the Caribbean will benefit from a United States’ more vigorous recovery”.

Latin America: GDP growth (%)



Source: BBVA

Thus, two countries are on the verge of, or are already facing, an economic crisis: Venezuela and Argentina (in Brazil the forecasts show a situation of economic stagnation). Another group of countries will have a moderate growth: Chile, Colombia, Mexico, Peru and

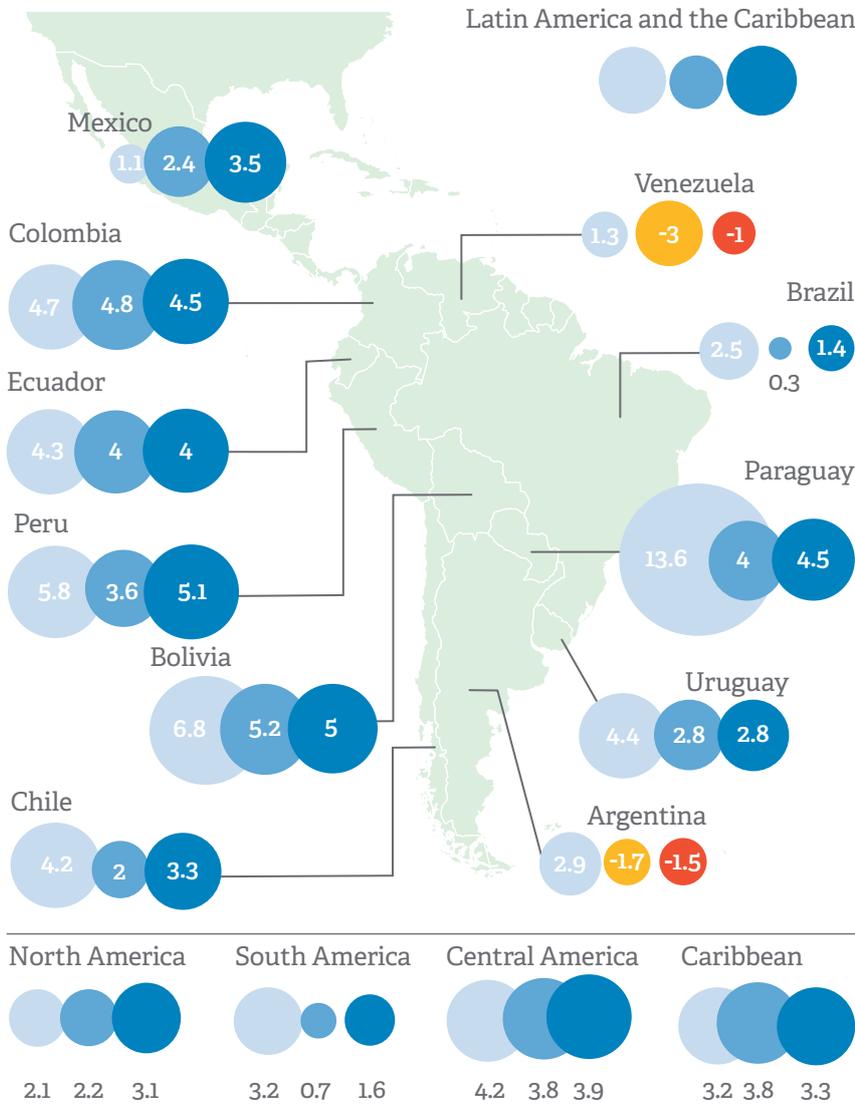
Uruguay would grow by 3.5% in 2015. Central America would grow at a 3.5% rate. For its part, Bolivia, Ecuador and Paraguay would be leading the region's growth at a 4-5% rate.

FALL IN COMMODITIES PRICES

The model of growth in Latin America has been based since 2003 on commodities exports at historically high prices. However, since October 2014, the international oil price (main export of Mexico, Venezuela and Ecuador) has fallen from 90 to 54 dollars a barrel. In the case of soya, the price is around 250 dollars per ton, far from the 600 dollars per ton it reached in 2008 and which explained the economic boom in the Kirchnerist Argentina. Copper, main export of Chile and Peru, is now 2.89 dollars per pound and is recorded at its lowest value since 1 July 2010.

The IMF ensures that the high commodities prices are already history for the next 2 or 3 years, which has serious consequences for Latin American countries and their tax revenue. The hydrocarbons expert, Carlos Miranda Pacheco, in Bolivia's case, expressed it very clearly in the newspaper *Página Siete*: "Oil at half of its previous price means that in 2015 we will receive as well half the gas exports earnings of this year, it will only be 3.2 billion dollars instead of 6.5 billion dollars".

GDP in Latin America



In %: ● 2003 ● 2004* ● 2005*

Source: La Razón newspaper

“The economic upswing brought prosperity and social improvements”

DEVALUATION OF LATIN AMERICAN CURRENCIES

The main currencies have lost their value against the dollar and as a whole, Latin American currencies have depreciated sharply. In particular, the Brazilian case stands out: the real has lost until March 2015 around 18% of its value against the dollar, and is the worst-performing among the major currencies. The dollar, which has become an investment shelter in times of volatility, has also benefited from the recovery in the United States as well as from the forecast that the US Federal Reserve will raise the short-term interest rates.

These four features described indicate a change of a cycle that follows a boom period in which the region stopped doing its homework, in contrast to what happened in the 1990s.

Generally, it can be stated that in these years there has been an excess of complacency among the Latin American leaders about the economic situation of their countries. The economic upswing brought prosperity and social improvements, but the traditional and historical problems Latin America is carrying (its economic vulnerability, lack of innovation, poor competitiveness and productivity, the existence of important bottlenecks –low investment in human and physical capital– or lack of their production and markets diversification) have been far

from being overcome or solved. The region has lived on income (on the homework done in the 1990s) and on an inertia supported by the good global economic context that favored its exports and discouraged the implementation of structural reforms. José Juan Ruiz, economist of the Inter-American Development Bank, states that “in the last 50 years, Latin America has not been able to converge in terms of welfare with the most developed countries. Although in relation to 1960 the per capita income in Latin America in constant dollars has increased 4.5 times, with respect to the U.S. citizen, today the welfare gap is 8% bigger than the one suffered by their parents or grandparents. Meanwhile, the Asian emerging countries turned the last decades into the platform for their take-off to development. Singapore, which in 1960 had a per capita income equivalent to the one Ecuador had, has already converged with the American one. Korea, in the 1960s as prosperous as Brazil, has a 66% of the US income today and has exceeded the standard of living of the Spanish citizen. China, with an income below the twentieth part of the American one, has reached 10,000 dollars in two decades”.

Despite the confirmation of this historical backwardness, the complacency and excess of satisfaction invaded the region and became a serious obstacle and a disincentive to undertake

“Latin America did not take sufficient advantage of the boom period”

reforms during the prosperity years. Enrique V. Iglesias, former Ibero-American Secretary General, warned in 2012 that “Latin America is changing, but we must be careful; we went too far with complacency; the global crisis is striking us; we are better prepared than ever, but it is striking us and we must think that Latin America must react in order to overcome the vulnerability that we will inevitably have –and we have– in the world we live in. There was much talk of why we opted for commodities. Well, to have commodities is a Providence’s blessing. It is not a curse. It can become a curse is if we go back to the 19th century’s business relations. It is important to emphasize that we have to exploit with great efficiency and sustain our commodities, which also develop the new forms of trade such as value chains. There is no need to export whole cars, we can export car batteries”.

Indeed, the great sin of the Golden Decade was complacency. Several examples are very illustrative of how regional leaders “got a big head” about prosperity:

- In 2011 Sebastián Piñera assured that “this 21st century was going to be the century of Latin America and the Caribbean and we are the ones destined to run and lead with one single aim and one single mission: to improve the life, the quality of life of our peoples”.

- In the same vein, although slightly more moderate, Felipe Calderón spoke of this being “the Decade of Latin America”.
- And they were not only politicians but also experts like Luis Alberto Moreno, president of the IADB, who did not hesitate to state in the newspaper *El País* in 2010 that “beyond the conjuncture, we are going to have a decade of good growth, and as long as there is a good growth there will be a natural attraction of private and foreign investment in Latin America”.

Undoubtedly, as stated by the Executive Secretary of ECLAC, Alicia Bárcena, the region erred in this excess of complacency: “Latin America did not take sufficient advantage of the boom period, this is the truth. I think Latin America could have done much more in order to invest, in order to turn this variable, investment, into the main bridge between the short and the medium term”.

3. A NEW REFORMING CYCLE

Augusto de la Torre (World Bank’s Chief Economist for Latin America): “Latin America can no longer rely on foreign countries to grow, and lacks alternative tools. The economic slowdown will continue if reforms are not carried out”.

In 2014-2015 this euphoria, excessive sometimes, of the

“It is about reforms aimed at making the economies of these countries more competitive and innovative”

last 10 years has led to the fear that the current slowdown results in a more profound economic crisis. Furthermore, the change of the international context (slow growth in the United States, crisis in the EU, slower growth in China and the emergence of other more competitive economic areas like Africa or some Asian countries) shows that it is necessary to change the form of Latin American inclusion in the world. As experts point out, “the party is over and the tailwinds have become headwinds” (José Juan Ruiz, chief economist of the Inter-American Development Bank (IADB)) and now it is time to boost a “painful process of reforms” but necessary (Alejandro Werner, Director of IMF’s Western Hemisphere Department). “With the reduction of the tailwinds that favored Latin American and the Caribbean during the last years, the region will have to resort to its own resources to stimulate growth. And these resources are in fact only one: productivity” concludes the recent report by the World Bank *Latin America Entrepreneurs: many firms but little innovation*, drawn up by Daniel Lederman, Julian Messina, Samuel Pienknagura and Jamele Rigolini.

The new cycle of reforms to which the region is faced up is characterized by its comprehensive and global nature. They are not only reforms on paper over the cracks but a bid to change the region’s economic model. First of all, it must come

from a broad consensus and political commitment (reach an agreement so that these reforms have a State policy nature with continuity over time). Secondly, it is about a change of mind and therefore hard. It is about reforms aimed at making the economies of these countries more competitive and innovative by boosting productivity. And for that, investment in human capital (in education) and in infrastructure is essential.

That is why they must have their origin in a clear political will because not only difficult challenges will have to be addressed but also considerable resistance in order to change the entrenched bad habits.

In short, it is about unlocking the bottlenecks in the region that hamper or slow down its development: at the institutional level, modernizing public and administration services; boosting the competitiveness, the productivity and the innovation of the regional economies; increasing the investment in terms of infrastructure (the region only allocates 3% of its wealth to the building of roads, subway, logistics, drinking water supply, electricity and telecommunications networks) and of education; strengthening the financial sector where companies have a poor access to financing, which prevents them from taking advantage of the investment opportunities. As pointed out by the IADB: “in Latin America and the Caribbean credit is scarce, volatile and

“There is not one single problem in the Latin American public administration”

expensive. The average credit to the private sector, nearly 40% of the Gross Domestic Product (GDP), is much lower”.

In order to adapt to this new and changing world there are seven areas on which the region's countries must emphasize and implement this second reforming cycle.

DEEPENING INSTITUTIONALISM

The reforms package the region needs in terms of productivity, competitiveness, investment in human and physical capital and commitment to innovation and diversification must be carried out under the protection of a strong institutional framework. Institutionalism is a historical deficit Latin America is carrying. The region was born in the 19th century devoid of institutions which took almost half a century to be created and consolidated (1810-1850). This state, fragile at first and then gradually stronger but small (1859-1929), became a progressively bigger state until it was oversized (1945-1980). The strong reduction in the size of the state after the “Golden Decade” (1982-1989), with privatizations and the state downsizing since 1989, has resulted in an administration with serious shortcomings when it is time to promote public policies. A state that does not offer security to the citizens, that fails to provide good services in such areas as education, healthcare and transports and that is burdened by a lack of legitimacy among the population due to its low

effectiveness and efficiency and its high levels of corruption.

In any case, there is not one single problem in the Latin American public administration but a range of problems and shortcomings since it is a multidimensional issue.

First of all, there exists a drawback in the scarcity of resources, in short, a fiscal problem. There is a very heterogeneous situation in the region: tax collection in Brazil represents 37.5% of its GDP, the greatest of the region, followed by Argentina, with 31.2%. On the contrary, in Guatemala is only 14%. However, there is a common feature either excessive or inadequate: the fiscal problem is caused by the low tax collection level (Guatemala or Mexico) or by the spending inefficiency despite the high tax revenue (Brazil and Argentina). Latin American and Caribbean tax systems are on average the ones that collect the least tax revenues in the world: in 2013 tax revenue reached the 21.3%. It is true that the tax burden has been increased in the last years: ECLAC recognizes the significant increase during the period 1990-2013 when tax burden grew by seven percentage points in 23 years, from 14.4 to 21.3% which is currently recorded. However, it is still 13 percentage points below the OECD countries average, 34.1%.

In the words of José Antonio Alonso, professor of Applied Economics at the Complutense University, “the institutional

“The great challenge for Latin American countries is to build an administrative apparatus and a fiscally sustainable and technically competent public service”

weakness is reflected in the fragility of the fiscal covenant on which the State is based. If citizens question the legitimacy of public institutions is difficult for them to feel encouraged to contribute with taxes to its maintenance. As a consequence, the tax burden is generally low; the evasion levels, high, and public spending is often regressive. This does nothing but to accentuate, in a sort of a vicious circle, the lack of legitimacy of the institutions, making it impossible for the State to fulfil the tasks entrusted to it as a provider of public goods to society. The tax reforms promoted in the region over the 1990s did not solve the problem, since by putting tax systems to rest on tax figures related to spending (instead of to income) they dissolved the most direct contractual relationship between citizens and State”.

When tax reforms are raised (to increase the tax collection base as well as the tax burden) it should also be taken into account that it is not only about a greater collection but also about a better management. The great challenge for Latin American countries is to build an administrative apparatus and a fiscally sustainable and technically competent public service. As pointed out by Carlos Santiso, Head of the Institutional Capacity of the State Division of the IADB, state apparatuses must have three fundamental features to gain legitimacy among the citizens: they must be more effective, more efficient and more transparent.

- **More effective states:** Since the 1990s, the different governments of the region have developed several initiatives in order to boost the professionalization of the administrative systems and the civil service. Despite the progress achieved, there is still a strong backwardness in three areas: regarding the adaptation of the legal and administrative systems, the one related to its modernization in order to reach international standards and on the effectiveness of the public policies promoted from the State.

According to Carlos Santiso “countries must forge effective governments. An effective government is the one that achieves results that meet its citizens’ needs. It manages according to the results and takes evidence-based decisions. Where to start? First, putting statistics at the forefront of policies design to base them on greater and better evidence. Government statistics are not sufficiently used as information base in the development of policies and government programs are rarely accurately evaluated. Second, an effective State requires a strong strategic focus –not a strong State–. The roles of president and prime minister, even though they are strong, are often technically weak. Chile, Paraguay and Uruguay have made

“Where to start?
Two main areas: the
professionalization
of the civil service
and the reduction of
bureaucracy”

significant steps in order to reinvent their “centers of government”, which improve the coordination and monitoring of the government programs”.

- **A more efficient administration:** Latin American countries have not managed to fully implement genuine systems of professionalized civil service. Although it is true that most of them have legislated in this regard and have laws on civil service in accordance with the latest developments on this subject, the implementation leaves much to be desired and is far from what the regulation says.

Santiso suggests in this regard that “countries have to promote efficient governments. An efficient government is the one that reduces the citizens’ costs in its interactions with the public sector and provides services of a certain quality at less cost. Efficient governments require the extension of solutions based on e-governments promoting the use of information technologies in an increasingly young and connected society. This also involves improving the quality of regulations and simplifying the administrative bureaucracy. Promoting a fiscally sustainable and technically competent public service is

one of the major challenges. Where to start? Two main areas: the professionalization of the civil service and the reduction of bureaucracy. The reduction of bureaucracy and the simplification of procedures play a major role for people when they need to turn to governmental entities to obtain a service or exercise a right. In this regard, governments are using technological innovations in order to improve the management of information and streamline the administrative processes, for example, by means of service portals and shared services.

- **Greater transparency in light of a more empowered society:** The corruption cases that have struck Latin America in 2015 have highlighted the serious transparency problems affecting the institutions of the region and which are behind the citizens’ disaffection towards parties and the administration in general.

Institutional weakness is still, together with inequality and corruption, one of the main Achilles’ heel that prevents the region from having a better quality democracy. According to the Latinobarómetro, trust in the main institutions of the representative democracy (parliaments with only 29% and parties with 24%)

“This low productivity takes place essentially in smaller companies”

continues to show low levels of support, a true reflection of the serious crisis of representation that is currently affecting a high number of countries in the region.

Therefore, Carlos Santiso stresses that “the countries must promote open governments. An open government is the one that is transparent, acts with integrity and prevents corruption. The relationship between State and citizens is being radically changed by technological innovation, whose speed often exceeds the governments’ capacity to adapt to it. Open governments actively support a greater access to information and promote its effective use to prevent corruption and improve management. Where to start? There are two priorities: to strengthen accountability and integrity systems and improve specific transparency policies. To strengthen and modernize the control and audit institutions is a defining challenge for the region and is at the same time a key mechanism for governments to give account of the results they achieve, thereby improving the quality of public management”.

INCREASE IN PRODUCTIVITY

José Juan Ruiz (chief economist of the IADB): “If Latin American

countries implement reforms that raise its productivity in the next 10 years, each country will increase its annual growth by almost 2 points. The growth rate would accelerate by 1.8 points and instead of growing at an annual 3% rate, we will come back to growing at a 4.8% rate during the next 10 years”.

Another of Latin America’s Achilles’ heel is its low productivity as compared with the one of the developed countries. In other words, its inability to raise productivity by finding more efficient ways to use labor improving not only their physical but also their human capital. This low productivity takes place essentially in smaller companies and affects, particularly, the service sector, where the majority of the population works. As the Inter-American Development Bank points out “low productivity is often the unintended result of a great number of market and state failures that distort investment incentives, prevent the efficient companies’ expansion and promote the survival and growth of inefficient companies. These market and state failures are more pronounced in low income economies –and Latin America is no exception– and they are an important factor that explains their relatively low levels of productivity”.

As shown in the following chart, the productivity rates not only have not improved in the last three decades but they have stagnated (Brazil), have

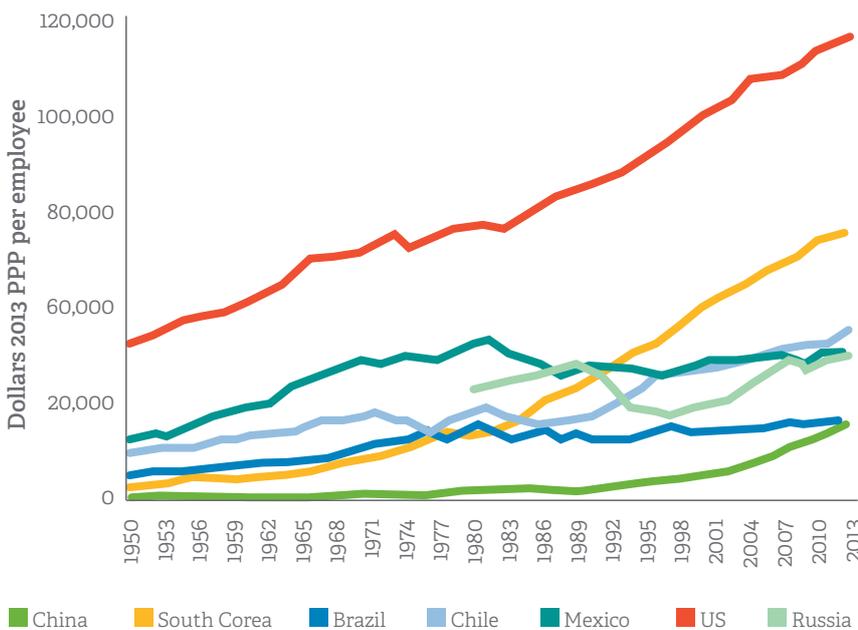
decreased (Mexico) and only in exceptional cases (Chile) have increased.

The Inter-American Development Bank points out that “over the last 50 years the growth of the working population and of the region’s capital stock has been higher than the one, for example, in the United States, and the levels of education have also improved. But the steady increase of the relative productivity gap has led the current Latin American and Caribbean citizens to have, as compared with the United States, a lower relative per capita income level than the one experienced by the generation of their parents and grandparents. Therefore, to create conditions in order to improve productivity growth rates is a primary

objective of the region’s strategy for sustainable development”.

In fact, as we see in the following chart, the so-called Asian tigers, from 1978 onwards, have been able to better close the productivity gap with respect to the United States. In this regard, Latin America has been left behind since it has not boosted the necessary structural reforms to reduce the difference with the US economy.

Indeed, the economic boom of the “Golden Decade” was not accompanied by an improvement of productivity by means of investment in R&D&I (research, development and innovation). The region’s countries, in the vast majority middle-income countries, can no longer compete with emerging economies through a decrease in wages but through the improvement of productivity. As pointed out by Mario Pezzini, Director of the OECD Development Center, “new actors have emerged, who have some technological capacity and also a large population in rural areas available for work for a low wage. Productivity and low wages, with this, those countries gained competitiveness and are a tough competition for others who do not have these conditions. The solution left is to increase the capacity for innovation. In Latin America there are countries that are implementing policies in this regard. There are examples of this in Argentina, Colombia, Mexico, Chile, and Dominican Republic. There is greater



Source: América Economía

attention to this subject and investment is starting but there is a lack of exchange of information, of knowing what to do and what not to do in order to progress on solid bases”.

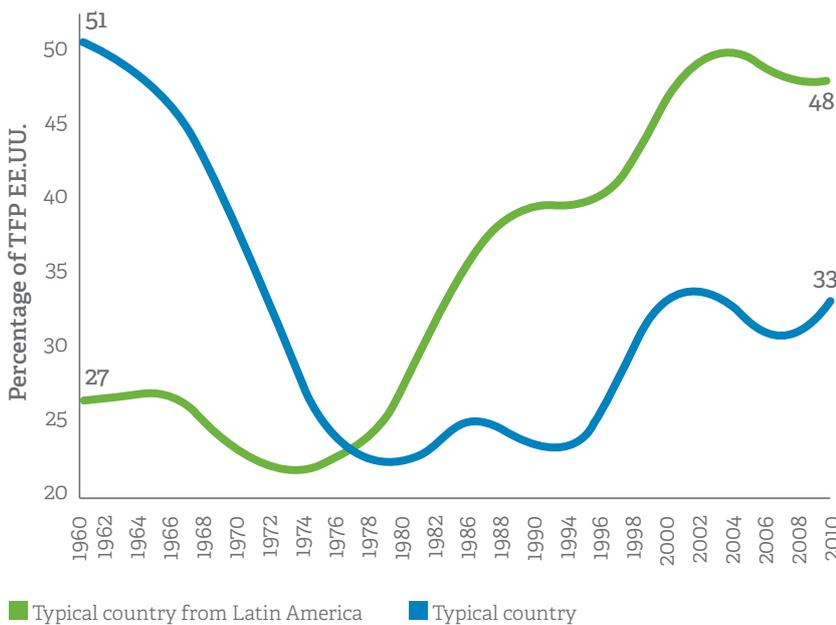
There are several factors that affect this low productivity although the IADB suggests that “the main cause of the region’s disappointing performance, and the fundamental factor on which policies need to be focused, is the low productivity with which production factors are used”. Improving the productivity and reaching a faster growth involves, among other things, creating a better environment that establishes the appropriate conditions to improve productivity, making

a better use of the existing production factors, promoting public policies offering better incentives, combating the informal economy characterized by its low productivity or improving the general quality of the education system.

Latin America, if it does not want to be surpassed by other regions, must focus on a high value-added production not only based on commodities exports and the cost-price being its only comparative advantage. Increasing productivity requires improving the logistics system and boosting an appropriate infrastructure for the global market. In fact, the region will have to find its own engines for growth, increasing productivity in economic sectors other than commodities.

As recalled by José Juan Ruiz, Eduardo Fernández-Arias and Ernesto Stein, economists of the Research Department of the IADB, in the book *Rethinking Productive Development*, “Latin America had less physical and human capital than the developed countries. Less machinery, less years of schooling. Although this explanation was correct, was partial: over the last 50 years the region has accumulated physical capital, created employment and improved its human capital quicker than the United States. If the convergence only depended on the accumulation of factors, Latin American citizen would have closed their welfare gap by 25% with respect to their

Graphic 1.3: Productivity gap with respect to the United States



Source: IADB

“The increase in productivity in Latin America requires structural measures and reforms in the medium and long term”

American neighbor. But quite the opposite happened. Therefore, the inference must be that the main problem is the efficiency with which the production factors are combined; what we economists call the total factor productivity. In that area, the region's achievements were more than disappointing; while Asia reduced by two thirds its relative productivity gap regarding the United States, Latin America doubled it, turning the convergence of the accumulation of factors into net welfare divergence. The levels of inequality, the informality in the labor market –more than half of the Latin American workforce works in the informal economy–, the size of companies, the shortcomings in education and health, the lack of infrastructure, the public safety, the institutional weakness, the corruption are, among others, relevant factors that contribute to the fact that the continent is not growing further”.

Thus the increase in productivity in Latin America requires structural measures and reforms in the medium and long term and it is associated with an increase in the investment in physical and human capital, in particular in three areas: infrastructure, technology and education. Productivity is the first step in order to be more competitive and this depends on the labor quality (education and training), the infrastructure (modernizing infrastructure, transport and communications) and the technology (promoting innovation).

MORE COMPETITIVE IN A GLOBAL WORLD

This low productivity is intrinsically linked to the region's low levels of competitiveness. A competitiveness that has worsened over the “Golden Decade” because the economic boom and the emergence of middle classes have led in many countries of the region to the real exchange rates appreciation, the increase in wages, the rise in the level of taxation, factors that have led to a loss of competitiveness in the economies of the region.

The *Global Competitiveness Report 2013-2014* of the World Economic Forum (WEF) precisely indicated a general stagnation of the competitiveness in the region: Chile (34th) remained leader in the regional ranking, above Panama (40th), Costa Rica (54th) and Mexico (55th). The worsening of Brazil stands out, which has lost eight ranks (56th). Likewise, it also stands out how Venezuela also drops eight positions and is the worst positioned country of the area, at 134th place, due to its high inflation and public deficit rates. Peru (61st) and Colombia (69th) remain stable thanks to the solid macroeconomic indicators, while Ecuador (71st) climbs fifteen places, as a result of the improvements in infrastructure, education quality and innovation. Uruguay (85th) and Argentina (104th) represent the sharpest drops in the competitiveness ranking, they drop eleven and ten positions, respectively, due to the deterioration of their

macroeconomic prospects, which affect, above all, the access to foreign financing.

The lack of Latin American competitiveness stems from a weak functioning of the institutions, insufficient infrastructure and inefficiency in the allocation of production factors. These shortcomings, which all the Latin American economies show, are the result of insufficient competition and a gap in training, technology and innovation, "that prevents many companies and nations from moving towards higher value-added activities". Even Chile, leader in terms of

competitiveness at Latin American level, which has strong institutions, low levels of corruption, an efficient government and macroeconomic stability, has a series of handicaps such as the weakness of the education system, which does not provide companies with a workforce with the necessary training.

So what Latin America needs to do in order to integrate into this emerging and global world that is now arising is to increase the levels of productivity and competitiveness. To that end, public institutions, in strong public-private partnerships, must create an enabling environment for innovation and business venture, must invest in physical and human capital and support the exports and markets diversification.

To ensure that Latin America is more productive and competitive it is necessary to reduce one of the main obstacles in the regional economy, informality. An informal sector which is around 50% of the working population and restricts the quality and effectiveness of the State and hinders its capacity for tax collection and its actual presence in the region. It also affects the effectiveness of macroeconomic policies and hampers the growth of small businesses, most of which have low productivity and are linked to a low level of education in employment and a poor access to financing.

Figures speak for themselves in this regard: more than 127 million

Global Competitiveness Report 2012-2013

Despite its progress in competitiveness in the last years, Latin America still faces great challenges, according to the report by the World Economic Forum, which ranks Switzerland as the country in the first place globally, and Chile as the best in Latin America



Latin American Panorama

- 

In Argentina, place 94, stands out the deterioration of its macroeconomics, the weak government effectiveness and the almost null employment flexibility
- 

The quality of transport and education, which does not correspond to a labour market increasingly sophisticated, with problems of Mexico and Brazil
- 

Venezuela is the last country of the region (126) due to its weak macroeconomic management and high inflation
- 

Uruguay, one of the worst falls (drops 11 positions), shows inflationary pressures and high public debt

Source: La Razón newspaper

* forecast

Source: IMF, infographics adaptation of La Razón newspaper

people (47% of the Latin American workforce) in the region have an informal job, which means that they fall outside the labor legislation, do not pay social security contributions and do not pay taxes. Informality affects some sectors more than others and has an impact especially on areas such as the construction industry, agriculture and domestic workers. The reduction of the informal sector in these years has been significant but it is still insufficient and runs the risk of increasing in view of the current slowdown: the informal sector dropped from 65% in 2000 to 47.7% in this decade. The countries with the highest rates are, according to the ILO, Guatemala, 77.7%, El Salvador, 72.2%, and Honduras 74.9%. Whereas in Mexico the

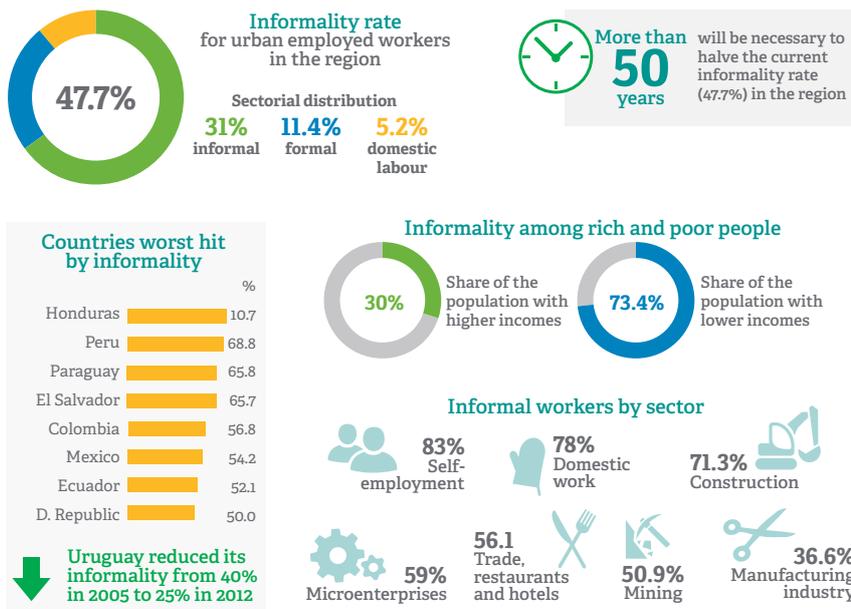
figure is 58%, in Brazil the informality rate is 37.8% and in Uruguay, 32.5%.

Elisabeth Tinoco, Regional Director of the International Labour Office of the ILO, points out that “the economic growth rate of 3-4% from the year 2000 onwards had a recent impact on the creation of formal employment. But now, with a slowdown that could be intuited from long time ago, the informal sector is back. People manage to eat by doing the most unusual jobs. It is the need for survival. The policies governments have promoted in order to generate formal employment are threatened by the economic downturn. That is the great fear”.

In this regard, Latin American countries must start taking steps to reduce the informal sector along the lines that the IADB has suggested: by means of an emphasis on institutional policies that create incentives to work or employ in the formal sector, designing a tax system that generates a “tax discrimination” and favors the formal sector with a lower burden. And also social security programs that benefit the workers paying taxes and carry out an improvement in access to credit.

Latin America and informal labour

In Latin America and the Caribbean 127 million people are affected by poverty and inequality, as a result of informal labour, according to figures of the International Labour Organization (ILO)



*Informal work is an employment relationship which is not subject to national legislation
 Source: América Economía with data by ILO

HIGH INCREASE OF THE INVESTMENT IN PHYSICAL CAPITAL

José Antonio Llorente (Founding Partner and Chairman of LLORENTE & CUENCA): “The future growth and economic

“A better infrastructure raises the quality of life of the population”

development of Latin American countries is to be found in the investment in infrastructure. Investing in infrastructure is investing in a country's development, especially if we are talking about Latin America... it is essential to understand that the region not only must increase its investment in infrastructure, but must do it in a more efficient way”.

There is a widespread consensus in the academic literature referred to the fact that investment in education and infrastructure is essential to achieving improved levels of competitiveness and productivity. In this regard, the promotion of investment in infrastructure becomes a crucial factor to make this necessary qualitative leap the countries of the region require in order to be successfully linked with an increasingly more competitive world. Ensuring the region's current and future economic growth depends, largely, on the decisions taken within the field of infrastructure.

As the Development Bank of Latin America (CAF) points out, generally, a better infrastructure raises the quality of life of the population, increases the economic growth, facilitates the regional integration and diversifies the production system. To which the Inter-American Development Bank adds that the rapid growth in the region's economy and in foreign trade in the last ten years has shown the

serious shortcomings of the region in terms of electricity, transportation infrastructure (roads, railways and ports), etc. This deficit is due to the insufficient investment effort, over all these years, both with regard to the public and private sector.

As the following chart shows, the majority of Latin American countries are below the global average regarding infrastructure: only Panama (30th place), Chile (45), Mexico (66) and Guatemala are on the top of the ranking:

In the 1980s, the region's investment in infrastructure was more than 3% of the GDP and this amount was mainly funded by the State (these were the days of interventionist states and the import substitution industrialization). This trend changed in the 1990s, following the wave of neo-liberal reforms, and dropped to 2%, with the private sector leading this kind of investments. Already in the first decade of the 21st century investment was reduced to 1% and since 2007 has risen over 2% and is again around 3% with a similar involvement between the State and the private sector.

But the amount invested in infrastructure, which already was insufficient to provide a sustainable basis to the boom the region has been experiencing during the “Golden Decade (2003-2013)”, is still very low to make the qualitative leap Latin America needs in order to raise its competitiveness and



productivity. In this regard, the Uruguayan economist Ernesto Talvi stresses that “governments should try to internally generate a boost to their economies stimulating those sectors in which there is a deficiency in the region, such as infrastructure and energy...we will have to get to work and do our homework properly”.

Along these lines, Juan Sosa, Vice-President for Infrastructure of the Development Bank of Latin America (CAF), points out that the region only allocates 3% of its GDP to the building of roads, subway networks, to the promotion of logistics, of drinking water supply, electricity or telecommunications networks: “Latin America is now facing a unique chance to develop and make a qualitative leap in the next decades. Without infrastructure, quality

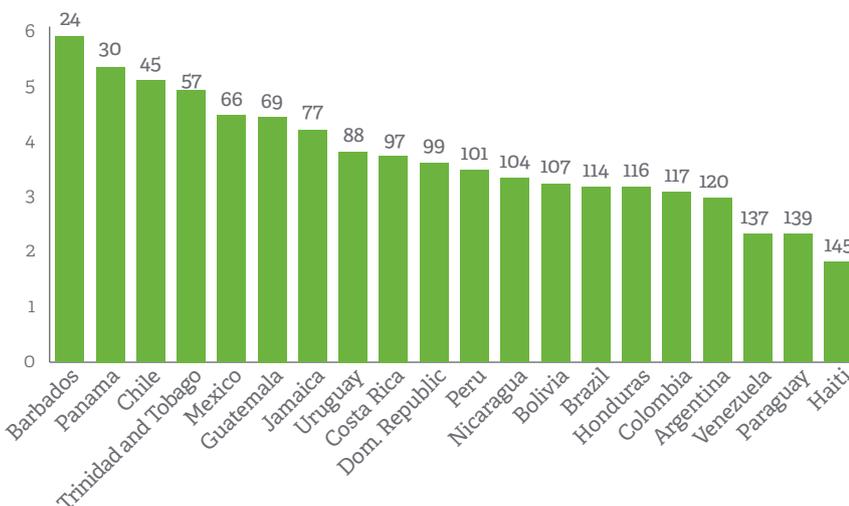
of life cannot be improved, since it supports the economic growth and business competitiveness. If there is no competitiveness, growth will not be sustainable over time”.

One of the keys to increasing productivity and competitiveness in global markets involves promoting the appropriate infrastructures enabling access to any attractive market, whatever it is and wherever it is located, from an advantageous position. Sustainable development and Latin American countries’ progress is intrinsically linked to infrastructure development because this investment not only brings social improvements (regarding the quality of life of the population), but also generates business and trade opportunities for companies. The main deficiencies the region shows concern roads, railways, water and sanitation networks, followed by ports and airports as well as the energy and telecommunications sectors. “There is a lack of rails, airports, ports, buses and subway stations, energy plants that need to be developed. Governments are starting to realize that if they want their economies to continue growing they need to support the sector and this is a huge opportunity”, says Lawrence Lam, director of Samcorp.

To sum up, in order to reduce the gap in the area of infrastructures (both in new investments and maintenance expenses thereof) two actions need to be

The lack of infrastructure in Latin America affects commercial development

Latin America and the Caribbean: Ranking for infrastructure in general, 2013-2014 of 148 countries evaluated



Source: World Bank (2014), Global Competitiveness Report, 2013-2014

“The State must increase its investments”

promoted, which, according to the Executive President of the Development Bank of Latin America (CAF), Enrique García, would be related to:

- Doubling investment from the current 3% of the GDP (Latin American average) up to at least 6%, following the example of Asian countries, whose current average capital in infrastructure is 10% of GDP.

A recent report by the World Economic Forum gave Latin American countries an average mark of 3.6 points out of 10 in infrastructure compared with the 5.4 points average of the OECD countries, where the roads and railway sectors are the weakest together with the electric power sector. Therefore, ECLAC has also estimated that the investment level required by Latin America to reduce the infrastructure gaps regarding the emerging countries from East Asia is equivalent to an investment of 7.9% of the annual GDP at least until 2020. This amount is equal to US\$ 286.3 billion a year.

- Creating partnerships with the private sector, which is essential when facing the infrastructure challenge because the Latin American states lack the necessary resources, and sometimes sufficient knowledge, and therefore the promotion

of “strategic partnerships” between the private and public sector is decisive”.

In this regard, as held by the CAF, the State must increase its investments and also deploy a group of public policies aimed at better targeting of subsidies, allocating greater resources to the maintenance of infrastructures, framing the sector’s policies in “an integrated sustainable development paradigm”, as well as strengthening public institutions.

INCREASE OF THE INVESTMENT IN HUMAN CAPITAL

Jorge Familiar (Vice President of the World Bank): “In a region where the access to education up to secondary level is almost universal, the main challenge is quality. And in order to raise quality, what happens in the classrooms or, more specifically, the skills of the people responsible for teaching is what is essential”.

Besides physical capital, investment in human capital (quality education) is equally decisive to achieve a productive development and to build a globally competitive economy based on innovation. Academic research, especially the one carried out by the IADB, concludes that education, when aimed at the student for him or her to acquire, throughout their academic and even working life,



skills and capacities applicable to their work environment, increases workers' productivity, raises their income level, contributes to the general well-being of society and encourages the introduction of innovation and new technologies.

Education not only has this economic component but another of a clear social aspect. Investing in quality education contributes to encouraging equal opportunities and social cohesion by means of an inclusive economic development. In fact, the major problem of education in Latin America is inequality since deep inequalities persist

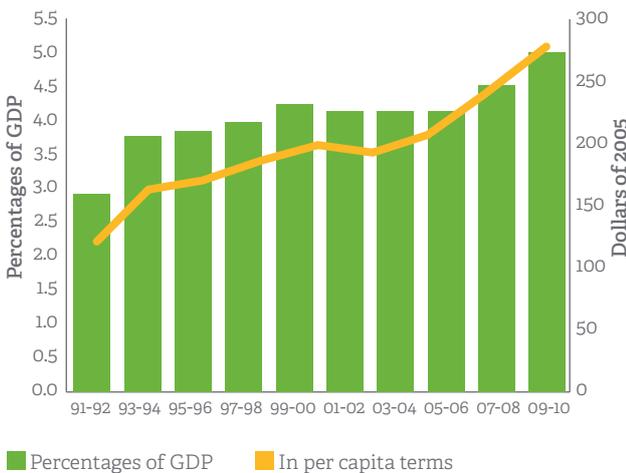
regarding coverage, quality and access (rural vs. urban areas), between more or less developed departments and between different social strata. To take only one example, in Colombia a study by the Fundación para la Educación Superior y el Desarrollo, Fedesarrollo, concludes that "education in Colombia, apart from having on average a poor quality, perpetuates inequalities and does not allow education to fulfil its fundamental role of being one of the important factors of social mobility".

Since the 1980s, Latin America has made significant progress

Public spending on education and health had a significant increase. How are results assured?

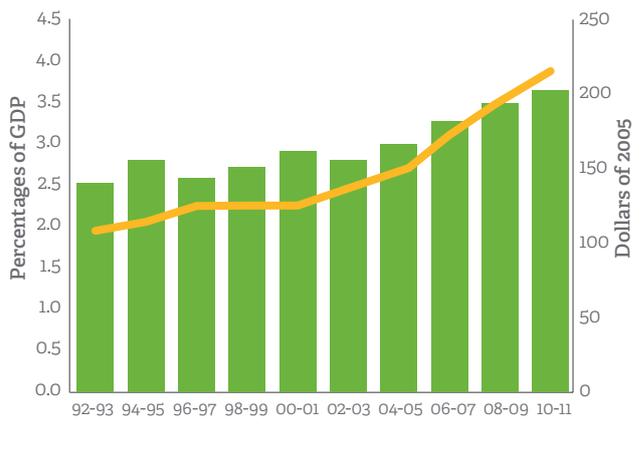
Latin America and the Caribbean (21 countries): Public expenditure on education

As a percentage of GDP and in dollars of 2005



Latin America and the Caribbean (21 countries): Public expenditure on health

As a percentage of GDP and in dollars of 2005



Source: ECLAC

“The main problem of education in Latin America is not only a matter of quantity but of quality”

in education coverage with a public investment that doubled in real terms. In 2010, according to ECLAC, the total spending on education was 5.3% of the GDP in Uruguay, while in countries like Mexico, Chile and Argentina it was above 6%. The result of allocating around 4.7% to education has been a great increase in coverage: the enrolment rate in primary and basic education is almost 100% and the youth and adult literacy rate is 90%.

In any case, public investment in education in Latin America is behind the one of developing countries in other regions and behind the one of the OECD countries, which is around 12% of the GDP. Besides, those unquestionable advances in Latin America in the area on education regarding coverage have been insufficient in pre-primary education, to which only 62% have access, in secondary education (between the ages of 12 and 15 years), to which only 70% have access, and middle school, between 15 and 17 years, to which only 40% have access.

Anyway, the main problem of education in Latin America is not only a matter of quantity but of quality. In this regard, ECLAC holds that what is important is not just spending more but doing it better, more effectively and efficiently. At a regional level there are many examples. One of them is Uruguay, the country that invests the most in education.

The Instituto Nacional de Evaluación Educativa (INEED) of this country emphasizes that the higher budget on education in the last decade has not resulted in an improved quality of education. Although investment has grown from 4.5% of the GDP in 2004 to 6.2% in 2012, the problem of education in Uruguay remains unsolved: “In the next decade –says the report by the INEEEd– the country must continue to increase the investment in education, but should do it in an increasingly more efficient way, carefully analyzing the allocation of resources among different education policy alternatives. Likewise, it should link a sustained effort of improved wages to reforms in the approach and conditions of the teaching work”.

Another spotlight in order to improve education quality in Latin America is the quality of the teachers. Mariano Jabonero Blanco, director for Education of the Fundación Santillana, points out that “the quality of the education system is never better than the quality of its teachers... attracting the best teachers to the profession and ensuring them an excellent and appropriate training, rigorously evaluating the teaching staff in exercise of their duties, holding them accountable for their performance, and lastly motivating and paying them consequently, is the model that has been successfully implemented for many years in the countries that are global

“Democratizing education, requires in Latin America profound changes”

leaders in education, as proved by their excellent results in PISA tests and similar ones. Conditions that are not fulfilled in almost no country of Latin America, which explains such negative consequences as the ones described in the mentioned report, like, for example, the loss of teaching time observed in the daily activities in classrooms: due to a lack of pedagogical and educational skills, the average of the teachers of the visited schools use less than 65% of their time in teaching and learning activities, spending the rest of the time in roll calling, bringing order, administrative tasks or simply wasting it”.

Improving the quality of the education teachers give involves irretrievably clashing with the strong interests created and the established corporate powers (teacher unions that, like the Mexican ones, refuse to change). The educational reform promoted by Enrique Peña Nieto in Mexico has clashed precisely with particularly radicalized unions, capable of mobilizing hundreds of thousands of teachers and of paralyzing a country and even prevent these reforms from being implemented in areas like Oaxaca and Guerrero.

“To ensure, says Jabonero, more and better learning for everybody, in other words truly democratizing education, requires in Latin America profound changes in the processes of selection, training, evaluation and payment of

teachers, as well as carrying out external standardized evaluation tests and widely disseminate its results. A process to which the need to redefine the relationships with teacher unions is not indifferent, unions, possibly the most powerful in the world until now, that have coexisted with such unfair and inefficient systems, and that have often clashed with educational transformation and improvement policies. The recent experiences in Mexico, Peru or Ecuador to modify the balance of power relationships between teacher unions and democratic governments, show that changes are possible”.

Additionally, the commitment to quality education involves increasing the number of school hours reducing half days and promoting full working days (eight hours), improving infrastructure (classrooms, work material...) and turning education into a big national project with the agreement of all actors around a State policy, protected against the ups and downs of politics and clientelism, with the aim of improving the quality and relevance of education.

In this regard, and following the IADB, the successful models, the ones that should be an inspiration for Latin America, are those which:

- **Promote continued training:** *“Countries have also understood that the education process does not end with a*

“Education and work training have followed separate paths in Latin America and the Caribbean”

secondary school diploma, not even with a university degree. It just never ends. Education systems in the labor market promote lifelong learning, thus ensuring an encouragement for production. In these systems, workers are permanently moving between the labor market and the education or training system throughout their working life cycle”.

- **Associate knowledge and skills acquisition with the labor market needs:** *“Latin America and the Caribbean have made no progress towards continued training nor have they paid enough attention to the school and training integration in the labor systems. Initiatives have disproportionately focused on expanding education systems and creating isolated work training niches with a limited coverage, leaving little room to review and improve their quality assurance mechanisms and the relevance of the skills taught, to better meet the production sector’s demands. Latin American countries seem to have simply assumed that a population with a higher number of years of study is a synonym for a better trained population. Education and work training have followed separate paths in Latin America and the Caribbean”.*

In conclusion, if Latin America wants to take the train of progress must

promote the investment in education like South Korea or New Zealand did, which has turned them not only into developed countries but also ones with high levels of social cohesion. This guarantees governability and the social and economic stability of a country. As Alieto Aldo Guadagni, former secretary of Industry and Commerce of Argentina, points out, “chronic poverty cannot be reduced without education that prevents the transmission of poverty from generation to generation. Economic growth in the 21st century does not depend on the abundance of natural resources, but on the quality of human capital accumulated by education and also by child health policies. In our country we are walking for a long time now through the path of social inequality, strengthening the intergenerational reproduction of poverty and annulling our former rising social mobility. Our education system does not only not promote and ensure equal opportunities, foundation of social justice, but it can neither contribute to a booming economic growth due to its poor quality”.

INNOVATION DEFICIT

Competitiveness and Innovation Division of the IADB: “The region resigned itself to exporting

its native wealth without transforming it, and nor was it concerned about creating another kind of innovative products for export. This is its greatest risk”.

Deficit in productivity and competitiveness the region faces runs in parallel with the deficit in innovation Latin America is suffering. Although it is true that the spending on research and development (R&D) has increased in the last fifteen years (the region is, after Asia, the world’s second with the highest growth in investment in R&D) it is also true that it is still far away from the OECD and Asia countries.

In Latin America investment in R&D is around 0.8% of the GDP (according to 2011 data from the IADB), which is an advance with regard to the 0.48% of 1990 and

the 0.57% of 2000. However, there is still a long way to go in Latin America to reach, or at least to show similar figures, the 2.8% in the United States, the 3.7% in South Korea, the 3.9% in Finland or the 4.3% in Israel.

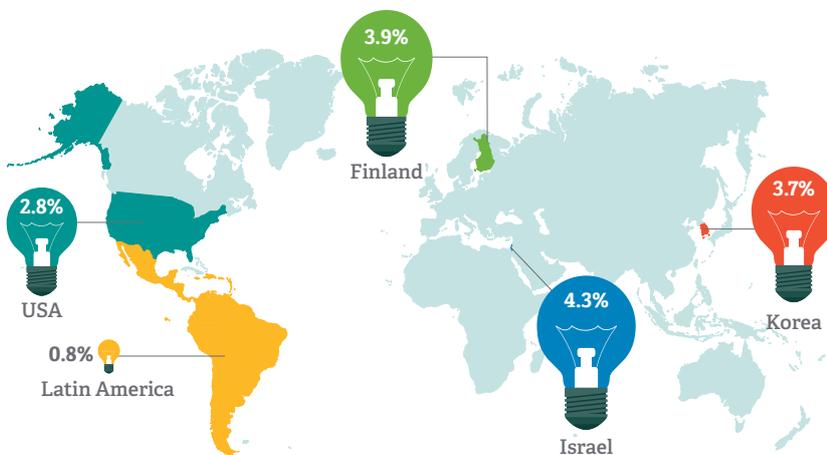
Alongside undeniable progress there are as well undeniable shortcomings. In these years the region has made progress in sectors like biotechnology and value-added production of certain commodities. This is Chile’s case, which has developed technology based on these exports (wine, salmon, etc.), cold exports, commodities packaging and has even developed a technological leadership in copper mining. But there are more cases since innovation has arrived in Latin America along very different paths. From traditional sectors (wine, nuclear technology and aeronautics industry) to undertakings with a shorter history (fine fruits, software, electronics, salmon and caviar).

But all this progress is, for now, exceptional because there is no comprehensive policy of support and investment in R&D. As the president of the IADB, the Colombian Luis Alberto Moreno, points out, “there is a huge shortfall in innovation in Latin America. There is no doubt that winds have changed, we had tailwinds with a very important consumption from China, good prices and low interest rates. All this is changing and this means that we have to do greater internal

Innovation is an engine for economic growth, and Latin America has not yet assimilated the idea

Expenditure on R&D in Latin America is systematically less than the one of developed countries and those with better performance globally (Israel, Finland and South Korea) are precisely the ones which have managed to match other developed countries in the last 30 years.

Expenditure on research and development as a percentage of GDP



Source: Instituto Mexicano de la Competitividad

efforts, we have to row more on our own and innovation is one of the ways to better row”.

Besides the insufficient spending on innovation, this kind of investment is very focused on a handful of countries. Brazil, Mexico and Argentina account for more than 90% of Latin American investment in research and development according to the report *El Estado de la Ciencia 2013* (The State of Science 2013), published by Red de Indicadores de Ciencia y Tecnología (RICYT). Brazil is the regional leader investing 1.2% of its GDP in R&D, while Argentina reaches 0.64% and Mexico, 0.45%. As compared with these figures, El Salvador and Guatemala are the countries with the lowest investment in R&D, in the range of 0.03 and 0.04%. This report indicates that in 2011, Latin America and the Caribbean invested US\$ 44 billion in R&D, 3.2% of global

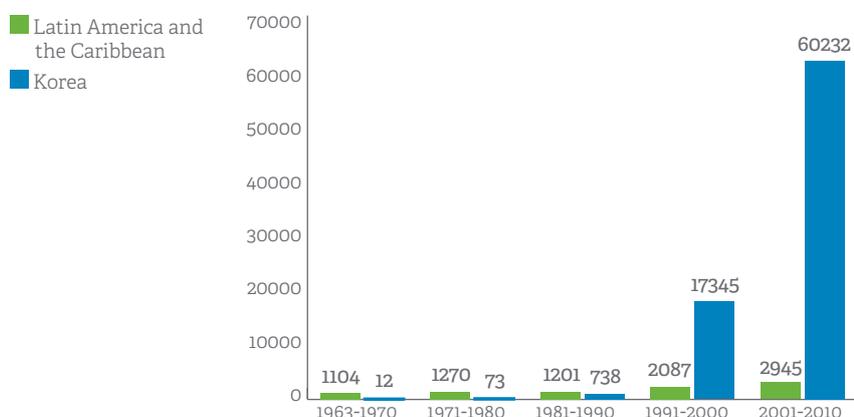
spending. This means that, for instance, the region’s companies are the ones that introduce the least new products in international markets or that no country, nor the region as a whole, approaches the more developed countries in terms of the number of patents. The example of Latin America and South Korea only in the last decade is quite clear: Latin America did not reach three thousand patents and South Korea exceeded sixty thousand.

As shown in the following chart prepared by ECLAC, countries like Singapore or the one from the example, South Korea, register twenty times more patents than Latin America.

Thus, the region is facing a chronic lack of innovation that goes hand in hand with the failures regarding improvement in physical and human capital. A higher investment in innovation would result in a better design of science, technology and innovation policies for them to have a greater impact on economic and social development processes. In addition, investing in innovation would contribute to giving support to a sector in which Latin America is certainly leader, the entrepreneurship sector. Finally, this lack of innovation hinders competitiveness and growth and has an impact on the creation of quality jobs.

The studies by the IADB have shown that the investment in R&D in Latin America and the

Patents in the Republic of Korea and Latin America and the Caribbean
Latin America, the Caribbean and the Republic of Korea: number of patents filed by the US Patent and Trademark Office (USPTO), 1963-2010



Source: ECLAC

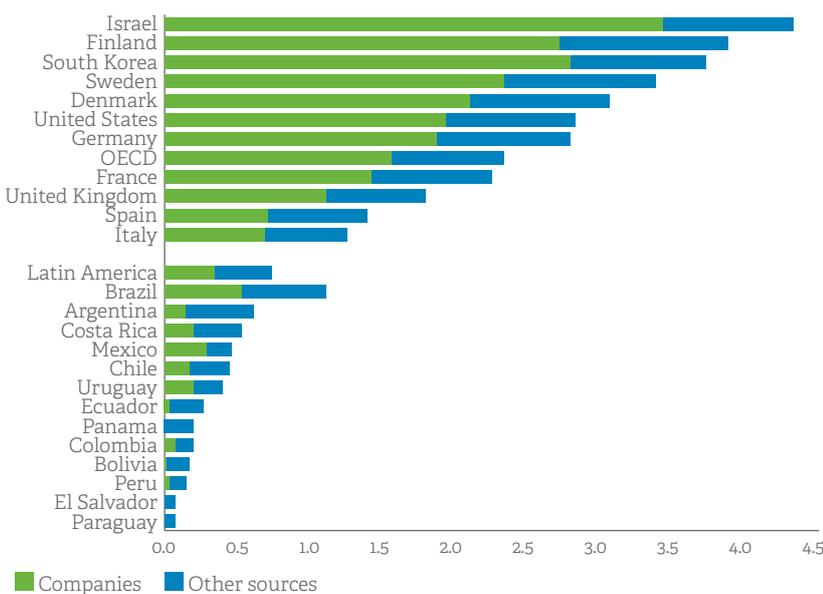
Caribbean is systematically lower than the one of the developed countries and that the nations that have managed to converge with developed countries in the last 20 or 30 years are the ones that make a greater investment effort in innovation both from the public and the private sector. The IADB recalls that “the private sector finances a significant part of the effort in R&D. While business investment in R&D in the developed countries accounts for more than 60% of national investment, in Latin America and the Caribbean this figure is lower than 35%. These data suggest an important deficit in investment in R&D in the region, especially in the private sector”.

The IADB concludes that “evidence suggests that Latin America and the Caribbean

under-invest in innovation...It is clear that the business sector in Latin America and the Caribbean suffers a lack of investment in innovation beyond what could be expected given the region’s financial development and accumulation of human capital”.

The region’s commitment must focus on giving a strong boost to innovation not only as a public policy but also coordinated with the private sector. As Gabriel Sánchez Zinny points out (president of Kuepa, initiative to introduce new technologies in Latin American education) there is a need to promote “innovation and entrepreneurship by creating government agencies or public-private institutions that give venture capital to new projects. This is the case of Inadem in Mexico, Start-Up in Chile, based in Santiago, Innpulsa in Colombia. Public-private partnerships are fundamental in this area and will be the ones that eventually allow the much-needed boost to innovation so that Latin America progress towards its next stage of development”.

Graphic 3.1: Innovation landscape in Latin America and the Caribbean
Expenditure on R&D as percentage of GDP and source of funding



Source: RICYT

DIVERSIFICATION OF EXPORTS AND MARKETS

The lack of diversification of the exported products as well as of the markets to which Latin America exports, is one of the historical problems of the region. An example case regarding the high concentration of export market is Mexico: 78% of its exports

go to the United States. An example case regarding the concentration of exported products is Venezuela (95% of its income comes from oil export). Even in Chile, country in which the share of products other than copper in exports increased between 1985 and 1997, since 1997, however, copper started to increase its weight due to the boom in the metal price (more than 40% of Chilean exports are linked to mining products). In 2003, exports based on natural resources accounted for 49% of the export basket of the region while a decade later the rate rises up to 60%.

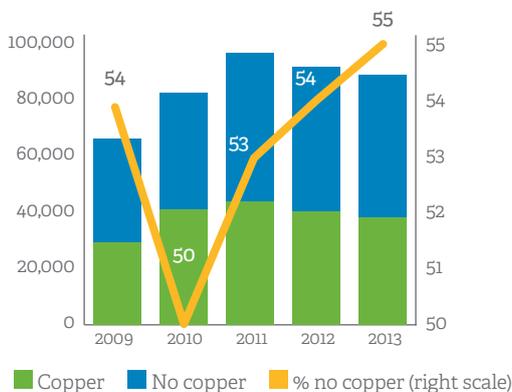
Besides, exports to Asia account for almost 50% of the total while at the beginning of the last decade it amounted to barely 34%.

Regarding the export markets, China's emergence as the place towards which to direct

exports, seemed to be in the last decade a solution for the diversification of the region in contrast to the traditional Latin American exports connection towards the United States. In ten years, trade between Latin America and China increased from US\$ 15 billion to US\$ 241.5 billion, with an average growth of 30%. Furthermore, Latin American exports to China are concentrated in a few products. Thus, soya represents around 53% of Argentine sales and 45% of the Uruguayan ones, according to ECLAC data. In Brazil, the concentration in iron reaches 45% of its sales and soya, 24%. Oil represents 94% of Ecuador's exports, 78% in Venezuela and 53.8% in Colombia. In Peru, the concentration in copper accounts for 38% of its exports and in Cuba, nickel represents the 71%. In total, 14 countries of the region target 75% of their total exports to China.

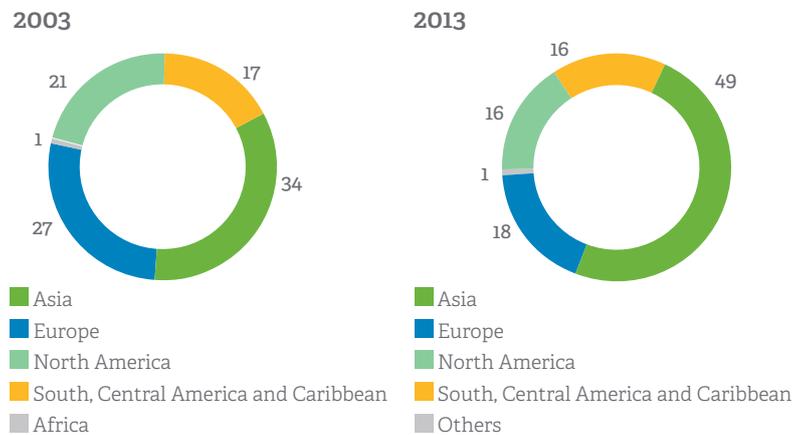
The map of Chilean exports

Total exports (by millions of dollars)



Source: Government of Chile

Exports of goods (by percentages)



“It is time to seek product diversification, we cannot depend only on commodities”

This has therefore been another of the unfinished issues of the Golden Decade. The IADB points out that “in a ten-year perspective, the export basket of Latin America and the Caribbean is more concentrated on primary commodities and its derivatives and therefore is more vulnerable to the weakening of those markets: in 2003, the exports of these products covered on average the 49% of the export basket of the region, while in 2013 the rate reached the 60%”. Reports by ECLAC point out that export growth in Latin America has occurred in an intensive way but not in an extensive way and has therefore obtained meager results from its strategy of diversification of the exports on the basis of the free trade agreements. From 1990, all countries, except for Venezuela and Uruguay, at least doubled the actual value of their exports, at a 7% or higher rate.

Alicia Bárcena, Secretary General of ECLAC, indicates that “the key product diversification for closing wider gaps within society is still pending. If a wave of better prices arises, we must enable these profits to be invested in other forms of capital and not to be spent only in current expenditure. It is time to seek product diversification, we cannot depend only on commodities. The time has come to take this issue very seriously in order to reduce structural gaps; we must focus on investment”.

4. CONCLUSIONS

Latin America is the region of the opportunities and the missed opportunities. A region that although it has progressed politically, economically and socially since its independence 200 years ago has not been able to reach the locomotive of development and modernization. It is a region where political democracy and freedoms prevail almost fully, but with signs of an institutional weakness in many countries. It is an area of the world where the economy has been strengthened since the 1990s and where there is a more balanced society thanks to the emergence of numerous and heterogeneous middle classes. But it is also a society and an economy which are still vulnerable to the changes in the international environment: the falls in the prices of commodities bring to light the weak spots of its economic structure and entail that wide social sectors might fall back into poverty. A reflection by João Pedro Brügger Martins, economist of the investment fund Leme, about Brazil sheds some light on the matter at a regional level: “there is the feeling that, once again, we missed the opportunities and did not take advantage of them, neither with the boom in the commodities prices nor with the World Cup, and the situation is not expected to change with the Olympic Games in Rio next year”.

In the current juncture of change and volatility in the international

“Reforms that, to be effective, have to start from a broad political consensus”

economic environment, the region cannot miss a boat on which, for now, it has not even jumped. A boat that leads to the economic and social modernization and that, in order to get on board, requires facing important challenges which stem from the historical problems the region suffers, in the words of the OECD, and which it has not managed to solve neither in the good nor in the bad times: low productivity, “black beast” in words of Ángel Gurría, Secretary-General of the OECD (in two decades it only registered an increase of 1.6% as compared with the 3% of countries like South Korea); inequality, informal employment, which affects 47% of the workers; the low tax collection weakening the State and its institutions; and the lack of investment in infrastructure (2.5% of the GDP as against the 6% of Asian countries) which greatly increases export costs.

The effort that is now required involves boosting an ambitious comprehensive reform. A change that affects institutionalism, politics, society and economy. Reforms that, to be effective, have to start from a broad political consensus between all or the majority of political and social forces. This is essential for its success because it gives the reformist strategy stability and continuity and because it protects them in the face of a possible resistance that might arise to those changes. A resistance that is going to be very high due to the entrenchment of some social

practices that are fomented by corruption and clientelism (an example for this is the protests and mobilizations against the educational reform promoted by Enrique Peña Nieto in Mexico).

From this basis, the basis of political-social consensus is from which profound and long-term reforms can be undertaken in order to improve institutional quality (a stronger State, not bigger), based on a suitable tax pressure for the public services citizens demand. Changes emphasizing on the diversification of their production structures and boosting innovation and knowledge, in order to try to be less dependent on commodities exports. Structural reforms that promote productivity and competitiveness since Latin American countries are playing in an increasingly competitive global market. Combating the current exports stagnation requires diversifying not only the local economy, but the markets to which products are sent in order to avoid possible shocks in sectors like the one oil is suffering now. The commitment must be to increasing the participation in global value chains in order to access to international flows of knowledge and technology. Furthermore, the diversification of export markets is very important: join traditional ones (U.S.A. and EU), not only emerging markets (Asia), and also promote interregional trade, which only represents 19% of the total trade. And



**“Future is built from
the present”**

to achieve this it is crucial to invest in infrastructure and the construction industry, sectors which not only generate employment, but also create production chains.

Future is built from the present. Latin America is stronger politically, economically, socially and financially than 35 years

ago. Besides, it has the capacity to jump on the bandwagon of modernity. Now we just need to have political will, strength and value to undertake the tough reforms needed to avoid the current stagnation. And in addition to all this, to square a very complex circle: “to do more with less” to have a more efficient spending.



Justice in Latin America as an essential factor for development

Madrid , May 2015

d+i developing
ideas

LLORENTE & CUENCA

1. INTRODUCTION

1. INTRODUCTION
2. LINK BETWEEN JUSTICE AND DEVELOPMENT
3. INSTITUTIONAL BLOCKAGE OF JUSTICE IN THE REGION
4. PROMOTING JUSTICE REFORMS
5. JUSTICE REFORMS, THEIR SCALE AND RESULTS
6. MISTAKES MADE AND LESSONS LEARNED
7. CONCLUSIONS

The analysis of justice in Latin America requires considering three fundamental aspects that have an overall effect, although to a different degree, on the entire region. These aspects include the existing institutional blockage of justice, the efforts towards reform that have taken place by all Latin American nations in their respective justice systems, the limited results of these reforms and the lessons learned in order to undertake new reform initiatives.

In the last 30 years, significant budget allocations have been set aside for justice reforms, which have taken place in nearly all Latin American countries. This shows a significant change in awareness regarding the importance of justice, an area that has been traditionally marginalised in the region. However, despite these efforts, the results have fallen short.

The analysis of these matters originates from the importance of justice as a "tool" for development, both in a general manner as well as in a purely economic perspective. In the last instance, the justice system's correct operation is an essential pillar for any democratic system as well as for the economy of a democracy. To do so, the state must have the authority to ensure that the legal system is the only criteria for regulating social relations, in general.

The existence of an independent, reliable and efficient judicial system provides the best setting possible for investments and growth. However, these characteristics must be accessible to all citizens. The aim is to establish a justice system that does more than simply favour economic growth and development. Justice cannot be created only for businesses; it must exist for all citizens. In fact, investments and growth cannot be assured if the rules and the justice system do not guarantee the protection of the basic rights for all citizens. This is the only way for the judicial system to be legitimate and therefore have enough credibility so that laws are followed and so it can exercise its role as a comptroller of other state bodies, therefore guaranteeing the best return possible for economic growth and development.

In the past, the link between justice and the economy has never been quite as clear as it is nowadays. There is currently a general consensus between economists and jurists regarding this link, to such a degree that it is understood that a nation's economic and social development does not depend merely on its natural resources or its economic policies. Although economic growth can occur without a solid and efficient judicial system, as some authors have defended, the economy will not be able to reach its full potential and growth will not be solid. In other words, full development

“It is useless to carry out a reform without an accurate diagnosis of the causes”

is not possible without guaranteeing the development of institutional capabilities, modernising legislation, reforming the judicial system, protecting and defending basic citizen rights, fighting against corruption, reforming criminal justice systems, access to justice and the methods for controlling violence, and guaranteeing citizen safety and coexistence.

Increased awareness of this link is evident because for years international development organisations, including multilateral development banks, have considered governance and a stronger rule of law as areas of interest and for analysis. The role of agencies and of international cooperation has been important for the reform process in the region, and it has also been partly responsible for the limitations and the failures of these reforms. These agencies, along with Latin American governments, carried out a wave of reforms in the 1990s, and although progress was made, these efforts were limited and even failed. The general conclusion is that if there have been improvements, they are not in proportion to the efforts put forth.

However, the goal is not to place blame but rather to highlight the complexity of these reforms. The most obvious solutions are not always the best alternatives. Investing additional resources and hiring more judges are not necessarily the measures to fix justice issues. Having an

unlimited budget or doubling the number of professionals who work in the justice system are not necessarily solutions either. The issue is not always (or merely) a matter of quantity. Experience has shown that it is useless to carry out a reform without an accurate diagnosis of the causes that hinder the system's operation. In fact, this is one of the main reasons behind the failures or the limited results obtained from reforms.

This failure does not show that it is impossible to reform justice, but rather that reforms must have a better design. Hopefully the region will not give up on the effort to improve justice, especially because of the accumulated experience and knowledge that should be taken advantage of. Initiatives are present, along with awareness regarding the need to strengthen the state and its institutions. This is a fundamental starting point.

However, this has not always been the case, and the interest shown since the 1980s in the region's justice systems is unprecedented. Historically, judicial power has been a footnote in Latin American history. Unlike other regions, Latin America's political, economic, social and cultural histories have taken place independently from the operation of its judicial powers. However, regardless of their results, reforms have shown that unlike the past, it is understood that it is no longer possible

“This overall well-being is what guarantees a solid and sustainable economic impact”

to continue ignoring judicial power since it plays an essential role. Its decisions affect the stability and development of our economies, the ability to control political corruption, the defence of human rights, and levels of insecurity. In summary, judicial power is important in terms of basic aspects for the development of Latin America. This new perception can continue promoting the willingness to resolve the justice issues that currently exist.

2. LINK BETWEEN JUSTICE AND DEVELOPMENT

It is not a matter of stating that economic development and growth depend on how justice operates, but rather that it is a fundamental element that supports and favours the amount and clarity of development, and additional factors must be involved in order for this to be possible.

In addition, development should not be understood in a narrow manner and based on restricted indicators that are merely closely tied to the market and to business opportunities. The concept of development must be interpreted with regard to the general population's well-being and quality of life. In fact, this overall well-being is what guarantees a solid and sustainable economic impact, to which justice makes an essential contribution. However, justice should not be interpreted in a narrow or

isolated manner. The potential for having justice operate better does not only depend on the judicial bodies and their institutional strength. Justice will improve visibly if other state structures are also solid.

Based on this extensive perception of justice and development, by considering cases such as Chile, Costa Rica and Uruguay it is possible to reveal the degree to which it is essential to consider institutional strength in general as well as the strength of justice as an element that is extremely important for guaranteed development. These three countries are prominently positioned compared to the rest of the region in terms of their civil liberties, democratic quality of life, institutions, and legal and judicial systems. It is not a coincidence that they also stand out in terms of economic growth and development indicators. In fact, these nations clearly receive the most praise in the region in terms of:

- Civil liberties, covering judicial independence and the rule of law.
- Perception of corruption – international transparency–.
- Governance –World Bank–.
- Democratic development – IDD–.
- Legal structure and secure property rights –Fraser Institute–.

“This data confirms the democratic quality, institutional strength and operation of the judicial system”

- Democracy, market and transparency –CADAL–.
- Institutional quality –CIIMA – ESEADE–.
- Uruguay, with regard to Police fees –CEJA–.
- Costa Rica and Chile, in terms of access to judicial information via the Internet –CEJA–.

Chile is superior in other measurements, such as:

- Protected property rights -Heritage Foundation and Wall Street Journal (Uruguay also stands out in this aspect).
- Competitiveness –World Economic Forum–(Uruguay and Costa Rica as well).
- Economic freedom –Fraser Institute– (accompanied by Costa Rica).
- Doing business –World Bank–.

In the judicial system measurements, Uruguay and Costa Rica stand out in terms of:

- Faith in justice – Latinobarómetro–.
- Judge and defence counsel fees –CEJA–.
- In terms of case resolution fees and budget allocation per capita to public prosecutor's offices, Chile and Costa Rica spend the most resources per capita on Advocacy –CEJA–.
- Costa Rica has the highest proportion of lawyers for every 100,000 residents – CEJA–.

This data confirms the democratic quality, institutional strength and operation of the judicial system, while making it possible to verify the improvement in the development indicators of the aforementioned nations:

- Growth in GDP, income, electrical consumption, energy usage and number of Internet users (World Bank).
- Lower child mortality rates, improved life expectancy at birth, increased direct foreign investment levels, and higher average annual growth for actual and per capita GDP (UNCTAD).
- Chile's progress in the measurement of human development (UNPD) was evident, as well as that of Costa Rica and Uruguay, due to lower economic inequality and the smaller gap between the population's 10% wealthiest and 10% poorest.

In summary, the data and its links show that as these three countries benefit from greater consistency and institutional predictability than the rest of the region, their potential for well-being and overall positive quality of life for residents in

“The coincidence in the link between justice and development appears from all perspectives”

a sustained manner is much higher, as proven by reality¹.

Aside from the statistical data, the opinions of professionals who are (and are not) directly involved in justice agree in establishing the correlation between development and justice. Judicial system agents, professionals and political leaders all confirmed the importance of justice for development, and that improving the justice system's operation would affect development². The evidence obtained gives shape and essence to the road towards development built by nations that, through work, consistency and following rules, helped bolster the trust of their societies and public sectors.

Most specialists agree, and many factors must be considered in order to understand the development of a specific reality. For this reason, there is a certain level of simplification in supposing, as Julio H. G. Olivera has done, that a country's economic growth rate depends on its degree of legality, and he believes that in a global economy, resources shift from countries with low legality to those with high legality³. This statement would require

empirical verification, and if this is done using specific cases, it will not always match reality. However, there is no doubt that the degree of legality is a very important factor.

However, the coincidence in the link between justice and development appears from all perspectives as well as from the judicial world. In this regard, Enrique Mendoza Ramírez, who was President of Peru's Judicial Power, believes that “it is not possible to measure a nation's level of development if the quality of justice services is not taken into consideration.”⁴ There is no doubt that Latin American societies need stable and reliable judicial systems in order to make predictable progress towards development.

3. INSTITUTIONAL BLOCKAGE OF JUSTICE IN THE REGION

In order to analyse the main issues of justice, it is recommended to provide data that highlights the main issues that affect justice, even to a different degree, throughout the region.

SOCIAL PERCEPTION OF JUSTICE

A distinction must be made between the social image of

¹ The corresponding data is available in Luis M. Palma, *Justicia y desarrollo en América Latina*, (Justice and Development in Latin America) the Belgrano theses, University of Belgrano, 2013,

² *Ibid.*, the author, interviewed a sample of professionals located in Argentina.

³ *Ibid.*

⁴ Peru & Lex: *Investments and Justice*, Lima, 2014.

“Faith in the judicial system has remained stagnant at 37%”

justice and the state of justice. The population's perception does not always match the institutional reality, but it is an important indicator since citizen views provide information regarding justice's level of legitimacy and credibility. The lack of prestige and faith on behalf of the population has become part of the definition of justice.

According to the Latinobarómetro, this assessment is among the worst, along with that of the police, compared to other institutions. This source states that since 2003, the population's faith in police has risen to match justice levels, while faith in the judicial system has remained stagnant at 37% since 2004⁵. In the eyes of citizens, justice is slow, expensive, corrupt, and associated with power. This means that according to this perception, justice is not independent, impartial or accessible to all.

This depiction basically coincides with the characterisation that describes populations with limited resources. Based on a survey carried out in poor, urban sectors of Chile, it was verified that their access to justice depended primarily on wealth and that they believed that discrimination and corruption acted against them⁶:

- Nearly two-thirds (63.5%) stated that judges behave differently with the wealthy and the poor.
- Only one-fourth of those surveyed (26.3%) perceived that judges did not accept bribes.
- Almost 90% believed that lawyers were too expensive.
- 17.4% believed that the top goal of lawyers was to earn money (as opposed to defend individuals) and that they would delay proceedings in order to charge more money.
- About 80% agreed that lawyers were corrupt.
- Approximately 90% believed that Chile had justice for the wealthy and a different justice for the poor.

This perception of justice by underprivileged sectors could be applied to most countries in the region. In fact, it could even be worse since Chile is one of the nations where institutions have one of the highest levels of faith and trust.

However, the fact that poor people believe that wealthy individuals have better justice does not mean that the wealthy are much more satisfied with the justice system. This problem

⁵ Latinobarómetro, 2003-2006.

⁶ Corre, Jorge and Barrios, Luis (eds.), *Justicia y marginalidad. Percepción de los pobres*. (Justice and marginalization. Perception of the poor) Corporación de Promoción Universitaria, Santiago, 1993.

“The rich and powerful
cannot always rely on
justice”

affects their investments directly. Alejandro Werner Wainfeld, Director of the IMF's Western Hemisphere Department, confirmed that corruption and conflicts of interest hinder productive investments in Mexico. According to this high-level representative, "The fact that we have a justice system that is inefficient, unpredictable and slow clearly makes us much less competitive against other countries equipped with a justice system that is much more agile, impartial and focused on resolving commercial conflicts⁷."

Although these are only a few examples, they seem to properly depict the social perception that exists regarding the justice system. This is a problem that currently affects society as a whole, although in a different manner. Another aspect that must be mentioned is the access to justice due to a lack of resources as one of the main issues of justice throughout the region. However, the rich and powerful cannot always rely on justice. The issue is much more complex and it cannot be resolved only with money. For the wealthy and the business class, impartiality, corruption and slowness can also be a problem.

Rare instances of cases that are resolved quickly or when the accused are powerful groups that have also held high-level positions in the state administration are not necessarily good examples of judicial rigour and competence. In reality, many cases involve the application of selective justice. Accused individuals immersed in a fight for power between influential groups will lose, and this explains why they are accused and then convicted quickly and expeditiously. Therefore, trials are a reflection of the power relationship between strong, opposing interests, instead of a potential example of rigour, effectiveness and the application of the principle of equality for all citizens before justice, regardless of their social, economic and political condition⁸.

This lack of faith in justice results in a number of serious implications. One is the search for justice outside the law. This includes cases in which popular justice is applied, without any type of guarantee or presumed innocence for the "supposed" criminal, that usually result in lynchings. Aside from these types of dramatic cases, a concept worth mentioning is the search for alternative formulas

⁷ "Conflictos de interés y corrupción en México inhiben las inversiones, alerta Alejandro Werner (Conflicts of interests and corruption in Mexico inhibit investments, alerts Alejandro Werner)", 15/02/15, <http://www.sinembargo.mx/13-02-2015/1248829>.

⁸ "Frühling, Pierre, *Violencia, corrupción judicial y democracias frágiles. Reflexiones sobre la actual situación en Centroamérica* (Violence, judicial corruption and fragile democracies. Reflections on the current situation in Central America) *Cuadernos del Presente Imperfecto* 6, Guatemala: F&G Editores, 2008, pp. 341-343).

“Between 2005 and 2006, the number of pending cases quadrupled the number of cases accepted”

for resolving conflicts that also avoid the involvement of state justice since it is considered ineffective and slow. Apparently the Mexican business world is a fairly good example. "Twelve years ago we supposedly created a bankruptcy law that was the best in the world and reflected the best practices on an international level. Then we had issues that could have been handled in the courts, such as Comercial Mexicana and Cemex corruption matters. Nobody wanted to go to court and everyone said "we'll work it out on our own because if we enter the judicial system, we're going to be held up". The relative efficacy of legislating laws is just as interesting if the judicial system does not operate properly.

This opinion damages the legitimacy of the justice system and of the state, with the corresponding risk of this dynamic on economic and social development.

THE STATE OF JUSTICE

There is data that reaffirms citizen perceptions. This is confirmed by statistical data. One of the obvious symptoms of the problems that exist is made apparent by the low rate of cases solved in relation to the

crimes committed. According to data provided by the Justice Studies Centre of the Americas (JSCA), during the one-year period between 2005 and 2006, the number of pending cases quadrupled the number of cases accepted in countries such as Argentina, Brazil, Costa Rica, Ecuador and Mexico⁹.

Within this statistic, there are countless issues that are related to limited judicial access and independence, followed by a long list of problems, such as an inadequate administration of the staff members, resources and cases that reach justice; insufficiently trained and skilled civil servants; improper incentives; and a lack of operational transparency. Since the 1990s, attempts at reform have been unable to avoid the collapse of a power that has not achieved independence, that still has not democratised its governance system, that has not been able to control abuse in how state powers are exercised, and that does not provide guaranteed access to justice for everyone, as has been the case of the Andean region¹⁰. These internal issues are combined with a lack of coordination with other institutions whose efforts directly affect investigations and therefore the ability to clarify events. As a result, in many cases

⁹ *La Seguridad Pública en las Américas: retos y oportunidades* (Public security in the Americas: challenges and opportunities) OEA, 2008, p. 30. <https://www.oas.org/dsp/documentos/Observatorio/FINAL.pdf>.

¹⁰ VVAA, *La reforma judicial en la región andina. ¿Que se ha hecho, ¿Dónde estamos? ¿Dónde vamos?* (Judicial reform in the Andean region. What has been done? Where are we? Where are we going?). Lima: Comisión Andina de Juristas, 2009.

“Justice is the power with the least authority”

the relationship between the public prosecutor's office and security forces is based primarily on distrust and obstruction rather than on coordination and collaboration¹¹.

As a result, judicial decisions are late, inconsistent, unpredictable, uncertain, and insufficient in terms of reasoning. Specialists agree that the justice system does not provide what is expected of justice, which is access for the entire population in conditions of basic equality, a reasonable period of time for resolving the conflicts that are submitted and impartial decisions that impose appropriate solutions. However, these issues are anything but new; they have existed for a long time.

Any attempt to understand the reasons behind this situation must accept that they are not new, they affect the system's structures and are related to the judicial power's lack of independence with regard to formal as well as informal authority. Ultimately, justice is the power with the least authority and it is influenced by third parties. The consequences of the problem not only affect the citizens that are directly impacted by the judicial system, but also the social system as a whole as well as the initiatives and the projects of any nature that are undertaken since the authority aimed at resolving conflicts and executing the limits

established by law for the actions of those who govern is weak.

In order to understand today's issues, the reforms, their concerns and objectives must be analysed since this will provide information regarding their limitations. This step is essential for a proper diagnosis that delves into the causes that hinder the correct operation of justice.

4. PROMOTING JUSTICE REFORMS

In this point, which considers the state of justice and its main issues, it can be assumed that part of the state of justice can be explained by a lack of attention to this power and its absolute isolation. This has been the case historically, but not in the last 30 years. In fact, after this time, ambitious reforms have taken place throughout the region.

The origin of this drive contains a convergence of different processes, but the judicial system holds a relevant position in all of them, which is why it has been necessary to undertake the reforms. Firstly, the economic transformation that began in the mid-1980s and that deregulated markets and modernised the economy must be considered. The second factor is the democratisation process and the importance of human rights. The third factor, increased insecurity, appeared during

¹¹ Frühling, Pierre, *Violencia, corrupción judicial y democracias frágiles. Reflexiones sobre la actual situación en Centroamérica*, (Violence, judicial corruption and fragile democracies. Reflections on the current situation in Central America), pp. 344-347.

“Market economies increase judicial conflicts”

this time (in the 1990s). The last factor is the emergence of new concessions and social demands of an ethnic, cultural and gender nature, which also turned to justice for acceptance.

STATE WITHDRAWAL AND MARKET GROWTH

To a greater or lesser degree, all the countries in the region began an economic transformation process with the state's withdrawal. The intervening state, which was so characteristic during the second half of the 20th century, began to dismantle itself. This means that as it ceases to be the largest investor, the largest employer and the entity that controls prices, social and economic conflicts are no longer resolved in executive courts and in judicial districts.

Open market economies are established, and differences and conflicts are resolved in the market; beyond this area, the judicial system must resolve them. This aspect gives the judicial system a more important role along with additional pressure to guarantee its correct operation. Market economies increase judicial conflicts because of deregulations as well as more and increasingly complex business transactions. As a result, this area has requested the creation of more courts, higher judicial budgets, efficient budget management, additional judicial training in commerce

and finance matters, and the search for alternative conflict resolution systems.

DEMOCRATIC TRANSITIONS

Along with the demands involved in market deregulations, democratic transitions are another factor that has pressured judicial reforms. Defending human rights becomes a central issue, and the way in which human rights violations were resolved in past dictatorships is an additional reason to highlight judicial power. It is understood that judicial power is an important pillar for defending the rule of law and for protecting basic citizen rights.

In line with this approach, the main concern from this perspective is the democratisation of judicial power by increasing the adherence of judges to democratic values as well as their independence.

CITIZEN INSECURITY

Since the 1990s, increased criminal violence and the establishment of organised crime has been another important reason for promoting criminal justice reforms. This matter has been a constant concern, and ultimately it has become a priority for all citizens. This social pressure has required all the governments in the region to pay close attention to the need for these reforms.

“The justice system. Overall, the level of ignorance and of knowledge regarding the justice system is rather shocking”

ACKNOWLEDGING DIVERSITY

Justice has also gained importance by having to resolve complex conflicts related to matters that have inspired debates throughout society. The progressive acknowledgement of diversity from individual, social, ethnic and cultural perspectives has resulted in crimes that must ultimately be resolved by the courts. Matters of discrimination against women or the rights of gays and of indigenous people have given the concept of justice a special importance and presence, as opposed to its traditionally socially insignificant power¹².

In effect, the convergence of the highlighted matters removes justice from its historical isolation, as it had always held a secondary position in Latin America. This trend has progressively shifted in the last 30 years. It has even been the focus of the media's attention, although the issues and problems addressed have been handled with a good dose of sensationalism but without thoroughness or rigour. However, for quite some time, universities have not focused on studying the justice system. Overall, the level of ignorance and of knowledge regarding the justice system is rather shocking.

5. JUSTICE REFORMS, THEIR SCALE AND RESULTS

Once the issues have been stated and the factors that play a role in increasing awareness of the need to undertake justice reforms have been considered, the wave of reforms taking place is clear proof of the understanding of this power's importance.

THE SCALE OF REFORMS. THEIR SCOPE AND REPERCUSSIONS

The scale of the changes, the efforts put forth and the resources invested are proof of the importance given to the sector. Since the 1980s, changes have been made to the legal framework, organisation and budgets of the justice systems of nearly all the countries in the region. Numerous reform programmes with virtually unlimited funds from foreign agencies were designed. Also, since then, judges and public prosecutors have continued to exchange national, regional and international experiences through debates focused on important matters, such as the role of judicial power and the institutions related to its efforts. The material resources that courts began to have access to, were just as important, and their modernisation, computerisation and general improvements were visible and tangible.

¹² For information on the causes that have boosted the importance and visibility of justice, while favouring its reform, please refer to Jorge Correa Sutil, *Acceso a la justicia y reformas judiciales en América Latina. ¿Alguna esperanza de mayor igualdad?*, (Access to justice and judicial reforms in Latin America. Any hope of greater equality?) <http://www.cejamericas.org/Documentos/DocumentosIDRC/117Accesoalajusticiayreformasjudicial.es.pdf>.

“Access to justice was also addressed”

Analysing some of the reforms gives us a more accurate idea of their scale and scope. As part of their transitions to democracy, Argentina, El Salvador, Panama, Peru, Costa Rica, Colombia, Paraguay and Ecuador changed their constitutions to create "Councils of Magistrates" aimed at governing their judicial branches. At that time, Guatemala, Honduras, Chile and Nicaragua discussed similar constitutional reform projects. A similar number of countries reformed their constitutions to guarantee that a minimum amount of state budgets would be allocated to judicial power, establishing that the magistrate bodies would administer the money in question. This was the case of Costa Rica, El Salvador, Guatemala, Honduras, Panama, Bolivia, Paraguay and Ecuador. The efforts made to regulate judicial careers so they are only based on professional merits have been just as important. Most Central American nations modified their constitutions for this aspect: El Salvador and Panama in 1991, Honduras in 1992, Costa Rica in 1993 and Guatemala in 1985. Argentina did the same in 1994. Other countries, such as Colombia in 1991 and Paraguay in 1992, changed their systems for appointments, and Chile and Peru made similar modifications in 1998 and 1992, respectively.

Changes have also been made to criminal proceedings and to strengthen public prosecutor's

offices. In the same decade, Argentina, Guatemala, Costa Rica, Colombia, Peru, El Salvador, Uruguay, Venezuela, Chile, Honduras, Ecuador, Bolivia, Nicaragua and Paraguay approved legislation for this matter.

In addition, most of the countries in the region did not ignore the importance of providing continued education to their judges and in training those who aspired to be judges. Judicial Schools were created for this purpose, and the efforts put forth by Costa Rica, El Salvador, Guatemala, Honduras, Panama, Bolivia, Colombia, Chile, Paraguay and Uruguay deserve a special mention¹³.

Lastly, access to justice was also addressed. To ensure that it was available and universal, programmes for improving free legal assistance were discussed, and the role of "Public Defender" was established or considered. In addition, programmes and projects for alternative conflict resolution systems were implemented in all the countries throughout the region and judicial offices were modernised.

ISSUES ANALYSED AND ACHIEVEMENTS ATTAINED

However, despite everything, there is full awareness that the link between the effort made and the results obtained is not proportional. The results have been limited. The main issues that were focused on were the

¹³ Ibid., about these reforms.

“Increasing human and material resources is not necessarily the solution”

independence of judicial power as well as the efficacy of justice and its accessibility. The main improvements were noted in the independence of judicial power, while the two other matters remained far behind.

- **Independence:** Considerable progress has been made. Major steps have been taken in terms of establishing formulas that hinder the interference of other powers. However, the independence of judges is a matter that remains primarily unresolved.

Some countries, but not all, have adopted systems that are more transparent for defining the profile of a judge, public prosecutor or public official, along with mechanisms for transparency throughout the process. Selection criteria continue to be based primarily on personal relationships instead of professional merits. In the same sense, evaluation methods are just as necessary, but Colombia seems to be the case that stands out the most.

- **Efficiency:** A number of processes were carried out for this purpose in the 1980s and 1990s. The main issue is that they addressed management matters without taking into consideration other reforms. In the 1990s, aside from this compartmentalisation, efficacy was considered to be an issue that only affected administrative matters.

A number of cases can be mentioned, such as Colombia and partly Chile and Peru. In these cases, computerisation was introduced as a tool for increasing efficacy. However, increasing human and material resources is not necessarily the solution if the same management issues are repeated. In other words, improving efficacy is not necessarily a matter of adding more human or material resources if the issues that truly hinder efficacy are not resolved. In reality, the aim is to organise the justice administration according to rational criteria. This is not always a matter of quantity, but rather of quality.

Another issue is the resistance of judges and public prosecutors since certain reforms could modify the structure and distribution of power within the organisation, thereby lowering the position of these agents. In addition, applying partial and insufficient changes has made it impossible to reach a level of efficiency that is unacceptable in many cases.

- **Access to justice:** This is a pending matter that reforms have not been able to resolve. The economic, social, cultural and ethnic inequalities that exist in the region also affect justice. A significant portion of the population faces considerable inconveniences in order to access justice

“A multi-cause perspective must be used to perform a complete analysis”

(distance, a lack of resources, language issues¹⁴), but even if these matters are overcome, justice fees and discrimination are additional barriers that make it difficult to implement the ancient principle of 'equality before the law'. However, this issue goes beyond justice; it affects the basic characteristics of society. The solution to this issue does not lie in the justice system, and therefore any reforms that are applied for this matter will not be able to resolve the problem of inequality and discrimination that is present in all orders of society¹⁵.

In this area, it is worth highlighting that despite the importance of the progress that has been made, it is not enough. The current benefit is that the level of accumulated experience and knowledge is much higher than in the 1990s, making it possible to undertake pending reforms with more criteria and precautions. It is important to continue with matters that have already been undertaken, but with a different focus and approach.

6. MISTAKES MADE AND LESSONS LEARNED

A main issue that explains the limitations and even the failures is the lack of knowledge in this area and the fact that it has not always been addressed properly. In any case, a single cause does not exist that explains the limited results of reforms. A multi-cause perspective must be used to perform a complete analysis.

The existence of reform failures does not mean that there are no solutions available for justice issues, regardless of their gravity. This is why the design and application of reforms must be examined. This information is essential since errors can be avoided by examining the changes that were intended to be implemented and how they were carried out so mistakes are not repeated.

Everything indicates that failed reforms are primarily due to a lack of a proper diagnosis of the issues to be resolved, the correct selection of appropriate solutions, insufficient aptitudes for executing them, and the inability to overcome opposition to change. All these limitations have affected reforms to a certain degree and they explain the limited results.

¹⁴ The fact that Peru has redacted a sentence in Aymara is good news (although symbolic). This would be an example of accessibility to justice in multi-ethnic and multi-cultural nations. *El País*, 21/03/2015, http://internacional.elpais.com/internacional/2015/03/21/actualidad/1426967054_237944.html.

¹⁵ For information on progress and limitations of reforms, refer to Luis Pásara, *Reformas del sistema de justicia en América Latina: cuenta y balance*, (Reforms on the judicial system in Latin America: account and balance) <http://www.juridicas.unam.mx/inst/evacad/eventos/2004/0902/mesa11/278s.pdf>

“The specific reality of each country must be considered”

In this regard, the lessons learned are essential since they provide additional possibilities for establishing a reform that adapts to reality. The most advisable alternative would be to identify items that can feasibly be undertaken. In general, prior reforms have focused on objectives for the justice system that are not viable for resolution through the system in question. Social justice, real equality or resolving all conflicts have repeatedly been the objective of judicial reforms throughout the region. Strictly speaking, these aspects are not the responsibility of the justice system but rather of policies.

Realistic objectives are those that address conflict resolution between individuals as well as the constitutionality and the legality of government actions. Any attempts beyond this, to the degree that the justice system's capabilities are exceeded, will undoubtedly lead to failure and frustration. In summary, the aim is to adapt expectations and to establish objectives that are much more modest and in line with existing possibilities. To do so, the specific reality of each country must be considered. With regard to this specific reality, the strength of the State in each case will be an essential element in designing more ambitious reforms and it will be increasingly possible to execute those reforms successfully.

With this generic approach, it would be advisable to focus on more specific matters related to the approach for the reforms, the nature of the issues, the

agents that have carried them out and the funds available. The combination of these factors shows the complexity of a reform:

- **What is the best reform?:** The first matter is to consider the best reform since the most obvious one is not always the most suitable. Classic solutions, such as new laws, higher budgets, more courts or mass judicial purges have not had spectacular results, and at times they have even been counter-productive. It has been confirmed that higher salaries, on their own, do not lead to better results since they do not guarantee sentences that are less corrupt or more appropriate. As far as the threat of purges, these can result in more abuse by individuals attempting to gain illegal benefits before leaving their posts.

Beyond opposing or hindering change due to individual interests, as has occurred in many instances, it is not enough for everyone to agree that a reform is necessary; instead, everyone involved must agree on what should be changed. Once this consensus has been reached, it must also remain. Aside from starting the reform, this consensus must continue in order for the reform to be applied. Certain participants may decide to leave the alliance once they have reached their objectives, or their decision to abandon may be due to the fact that

“Evaluations must continuously take place”

continuing with the process will interfere with their direct interests.

A basic criterion for defining a reform is to make a good diagnosis. Problems cannot be resolved if their causes have not been identified. For this reason, comprehensive and thorough analyses are essential, and they must not be performed by the interested parties (or at least not alone). Many actions have been undertaken armed with only basic knowledge and without a strategy, resulting in categorical failures.

However, in addition to identifying issues and their causes, evaluations must continuously take place in order to detect potential and unforeseen reactions to the changes made. This will allow making the necessary adjustments for reaching the proposed reform objectives. A certain degree of flexibility is needed in order for the project to be adapted to new circumstances.

- **Focus of reforms:** A basic matter for an appropriate diagnosis is based on the focus used to address the issues. The focus has traditionally been mechanistic. Using this approach, the aim was to resolve the justice system's issues by introducing isolated innovations through the approval of new laws. The

reference for this was the experience of other nations, primarily European countries and the United States.

The process of overcoming this approach, which was implemented by national and international agents, commenced in the 1990s when people began to understand that isolated solutions could not provide suitable results. Issues were usually caused by multiple factors that should be addressed concurrently. As a result, in the wave of reforms that took place in the 1990s, international agents began to adopt increasingly complete and integrated strategies. It was not enough to change laws. It was also necessary to address staff training, appointment systems based on recommendations instead of merits, administrative systems that were vulnerable to corruption, poorly equipped facilities, etc., but in an integrated manner and in accordance with the specific circumstances of each country.

The alternative of applying a systematic focus, as has been done in recent years, has generated results. However, structural issues must continue to be addressed since they have not been resolved. Using this approach, more laws have been modified, but without focusing on their quality. Investments have been made in infrastructures, equipment

“All of this highlights the complexity of judicial reforms”

and training programmes, but appointment systems are still controlled by personal contacts and subjective criteria, disciplinary and evaluation systems do not exist or are not applied, and the number of unresolved cases continues to grow. The judicial system has continued to be purged, but vacancies are filled with recent graduates who are not properly trained.

All of this highlights the complexity of judicial reforms. There is clearly more than one way to create the best reforms. Effective institutional change works through a series of interrelated mechanisms and depends on their combined influence as opposed to their individual impact. Reality makes it clear that despite all the efforts, it seems that they are not enough and that a specific diagnosis for each case is needed.

- **Budget:** In the 1990s, international agencies issued blank cheques. Assistance from US-AID, Europe and Japan, loans from the World Bank and the Inter-American Development Bank, and higher budget allocations for justice in each Latin American republic have made it clear that the issue is not just a matter of money, but rather of how it is spent.

Today it seems that unlimited funds, although not yet fully under control, are no longer

available. In any case, access to additional resources and higher budgets thanks to external funding resulted in a considerable waste of resources. It is easier to build new offices, buy computers and hire staff than to change the existing staff. This method does not resolve issues, but there is no resistance from the sector and the results can be seen quickly although with a short duration. Structural obstacles remain and become more serious since there are more employees and offices reproducing the same issues that have existed in the past. Beyond budgets, without rationalised expenses, control mechanisms or transparent usage, instead of resolving issues and regardless of the resources available, corruption practices may become increasingly common.

- **Human Resources:** Once it is clear that the availability of resources is not always the solution, as has been shown in the field of justice, an essential aspect is the training available to the individuals who comprise the justice system. In this case, there are major shortages. There is a significant lack of education and training for the staff performing justice duties. However, the limitations are more extensive because even if it were possible to replace those workers, candidates with additional training are not available.

“It is important to contemplate the mistakes made and the lessons learned”

Selection systems must be improved, but this will not be enough if universities do not provide the right training and education. If universities are unable to prepare the professional staff needed for reform processes, then those reforms cannot be carried out.

- **Consensus:** Consensus is needed to design as well as to apply reforms. Despite identifying the best reform possible, if there is a lack of agreement, then it may be difficult to execute. It is recommended to involve multiple entities and to avoid exclusions. This is a basic matter, and if it is not followed, then excluded sectors may place obstacles and resist the proposed changes in order to boycott the process. The essential participants of a reform include judges, public prosecutors and lawyers. Latin America's experience has made it clear that these are the main agents who oppose change. However, it is useless to attempt a reform without their involvement since they play major roles. Together with them, politicians must strengthen rules and approve budgets, civil society organisations and international cooperation agencies.
- **International agencies:** Their distinction is justified due to their importance in Latin American justice reform processes, as opposed

to the weakness of national agents. There are many cases in which reform initiatives have been driven by international agencies. With time, there is a certain degree of national appropriation of justice reform processes in most countries. This means that although international agencies play a major role in providing funding and technical assistance, they no longer fill that original role.

These initiatives have enabled reforms in certain countries, and agencies have even protected local groups that pushed to implement changes. In reality, no changes would have been possible without their presence. However, this does not mean that their mistakes should be ignored. Transferring institutional designs without considering the special characteristics and adaptability of each case, wasting resources without a clear strategy, and carrying out activities aimed at boosting their own image rather than improving real issues are some of the matters that have occurred repeatedly. Actions that were easier to carry out when national agents did not show a great deal of interest in assuming the necessary roles and responsibilities.

7. CONCLUSIONS

Following the description of the current state of justice and of

“The positive effect of a justice system that operates well on development is undisputed”

the failed reform attempts that have taken place in the region, it is worth asking whether a reform that would resolve all the issues in question can be designed. In other words, can justice be reformed? The answer is definitely "yes".

As stated earlier, it is important to contemplate the mistakes made and the lessons learned. This is essential in order to begin an appropriate diagnosis, and even if there is not enough data, the reality is that the deficiencies that have been detected must be resolved in order to carry out improvement projects.

Beyond all the factors mentioned, rhetoric must also be omitted. The extraordinary expectations attached to executing reforms have only resulted in disappointment and scepticism towards new initiatives. The importance of justice and the need for reforms must be made clear, but this does not mean that reforms are the solution to economic and/or social problems because, regardless of how justice operates, it has no control over those matters.

In this regard, it is surprising that the solution to the top concerns of Latin American citizens, such as security and development, are the responsibility of the justice system. Although the justice system's operation is an essential element for both matters, this does not mean that they can be resolved through justice reforms. The operation of criminal justice would lower the high levels of

impunity that currently exist, and this would affect insecurity, but because violence and crime are driven by other factors, improving justice would only have a partial improvement, without resolving the issue.

Development should be understood in the same manner. The positive effect of a justice system that operates well on development is undisputed, but since development does not depend only on the justice system (although it is an essential pillar), justice alone will not generate economic growth.

The best approach is the realistic one. Reforms must be delimited by their results in order to avoid additional disappointments, which ultimately affect the credibility of new initiatives. It is unrealistic to expect a justice system with magnificently trained professionals if universities are unable to educate them at that level, or a justice system without corruption if corruption exists in the rest of society. It is also important to understand that the justice system's operation depends on institutions that go beyond their authority and jurisdiction, and if these institutions do not operate properly, this will ultimately affect justice. Therefore, it is advisable to consider existing limitations when establishing reform objectives. This may result in greater achievements than those attained to date.



The Latin American population in the United States: a “sleeping giant?”

Madrid , April 2015

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1. INTRODUCTION

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2. DEMOGRAPHIC PROFILE OF THE LATINO "GIANT"
3. THE POWER OF THE LATINO COMMUNITY AS CONSUMERS AND VOTERS
4. CONCLUSION: THE LATINAMERICANIZATION OF THE UNITED STATES

This report aims at describing the Latin American community and analyzing its weight and its level of economic, political and social influence, as well as its contribution to the American society.

The census in the United States published in 2010 considers the "Hispanic or Latino" origin as the cultural heritage, nationality, lineage or country of birth of a person or of his/her parents or ancestors prior to his/her arrival to the United States. The people who consider themselves as Hispanic, Latino or Spanish can be of any race. The term "Hispanic or Latino" refers to a Cuban, Mexican, Puerto Rican, Central American or South American person or a person of other origin or Spanish culture, regardless of race¹.

Since 1970, its remarkable growth has transformed the "face" of the United States, given that its presence as a strong minority has changed at least the country's ethnic and cultural identity, which has traditionally been considered as white-European. However, the future predictions about Latinos point to these changes going beyond those of physical appearance, since they are expected to reach considerable levels of economic and political power in just a few years. Nevertheless, in order to understand the present and future Latino potential, it is necessary to dispel some stereotypes which reflect a simplified image that does not correspond to the reality of the prejudiced Latino community. Defining it will highlight the diversity concerning its demographic, social and political configuration. This will shed light about their current contribution to the American society and their extraordinary potential.

One of the most common generalizations is to assume that the Latino community is homogeneous. The American society does not know the differences between the various nationalities, their traditions and cultures. These differences are emphasized not only by the newly arrived immigrants but also second and third generation immigrants living in the US. Yet, this diversity is not limited to the various nationalities and their respective traditions; it also includes a whole social universe which covers great fortunes, wealthy and middle class and poor sectors. In most cases, social gaps are linked to the academic background, which also explains to a great extent this diversification of the economic and social stratification. Nonetheless, in the eyes of the Americans, this diversity boils down to the Latino category, identified as a Spanish-speaking and catholic population. At most, a Latino can be identified as a Mexican person occupying the least qualified posts in the service sector.

¹ <http://www.census.gov/prod/cen2010/briefs/c2010br-04sp.pdf>.

**“Far from being asleep,
this population is well
awake and very active”**

In line with these stereotypes, special attention should be paid to the terms repeatedly used to describe this community, which is often considered as a “sleeping giant”, both in the media and in academic articles. In terms of size, this community can rightly be defined as a giant, but this word should also be used to describe its potential. Since 2002, the Latinos are the largest minority in the United States. According to the 2010 census, their number increased to 54 million people. This spectacular growth has occurred at an extraordinary pace, since a significant emigration flow started in 1970 and it has been growing exponentially ever since.

However, the adjective “sleeping”, is more questionable. It is used to express the low political participation of the members of this community, both as voters and electors, in relation to their electoral universe. The exercise of their voting right would undoubtedly provide them with more pressure and power opportunities. Yet, even if this is true, everything suggests that it is a matter of time which will be solved as the integration process (in terms of training and social promotion of its members) progresses. This does not mean though that there is not a robust network of organizations and social and political activism representing the main demands of the newly-arrived legal or illegal emigrants and the US-born

Latinos. It should also be taken into account the fact that these dimensions give the Latinos a specific importance as voters, although not all the electorate votes, as well as clients and consumers. This occurs to the extent that, for some time now, it has become the “object of desire” of not only political parties but also of many companies. Thus, far from being asleep, this population is well awake and very active.

The power obtained by their status of consumers and voters creates a dynamic of interest which leads to the Latino community and the Spanish language constantly being in the spotlight. The efforts made by entrepreneurs and politicians to attract this enormous social group make this community visible as well as its singularity and language, whether the members of this group wish this visibility or not. This is an undesired effect for some sectors that are in favor of the integration of the immigrant population. This possibility appears more and more distant, although bilingualism state policies leave much to be desired.

Therefore, the initiatives of the Latino community and the interests of the American society, far from blurring the Latino features, empower and perpetuate them, thereby increasing their projection.

“The transformation of the foreign population structure was radical”

2. DEMOGRAPHIC PROFILE OF THE LATINO “GIANT”

The 2010 census reported an increase in the Hispanic population of 15.2 million people between 2000 and 2010, which represents more than 50% of the 27.3 million-growth of the total population of the US. This implies an increase of the Hispanic population of 43%, four times the country’s growth rate (9.7%)². This demographic growth is unprecedented in US history and it also seems that its future prospects are also notable, since, according to the figures, in 2010 they represented 16% of the total population and the percentage is expected to rise to 21% by 2020.

This phenomenal growth can mainly be explained by the decisive change in the migration policy in 1970, when immigrants did not represent more than 5%³. Since then, the new and less restrictive measures adopted led to a real demographic revolution from a quantitative point of view and a change in the origin of immigrants, as there is an important migration flow from Latin America and Asia, to such an extent that the country’s ethnic structure has been modified.

The aforementioned transformation of the foreign population structure was radical and rapid. Europeans’ rate fell from 75% in 1960 to 15% in 2000, accounting for 4.4 million compared to the previous 7.3 million. And although the Asian sector has also undergone a significant development and represents a quarter of the total with 7.2 million people, Latinos remain as the largest force. China, the largest source of that region and the second as regards nationalities, provides 1.4 million, six times less than Mexico, which is the main source. In order to find such a high rate of a single nationality, we must look back at the 1890 census, when 30% of the immigrants came from Germany.

Nonetheless, the official sources that count the Latino population do not take into account those people living and working illegally in each state. The Pew Research Center estimated that, in 2011, there were 11.2 million undocumented people in the country, which represents 3.5% of the country’s population. The majority of people without documents are Mexican, who constitute about half of the illegal immigrants in the country. The main characteristic of this population is that, even though

² <http://www.census.gov/prod/cen2010/briefs/c2010br-04.pdf>.

³ In this sense, the repeal of the laws of National Origins, in force since the beginning of the 20th century, was crucial. These laws established a system of nationality-based quotas, which favored the Western countries and limited immigration.

“The non-Hispanic white population has become the new minority in the country’s 100 largest cities”

they represent 3.5% of the US population, they account for 5.1% of its work force.

However, a trend announced many years ago was confirmed in 2012: illegal immigration has dropped after more than a decade. This trend can be explained by various factors occurring at the same time. In order to understand this, the American economic crisis, since 2009, must be taken into consideration, in contrast with the economic prosperity of the region, and the increase of security measures in the US border and the ageing of the Mexican population.

All this notwithstanding, and despite this drop, the US has become after Mexico, the second most important community in the world as regards the Hispanic community.

This population evidences the importance of this group in the following years and, given their youth and their high birth rate, there is no doubt that, beyond the migration flows, their growth will be sustainable for many years. Hence, in California, since the 90s, it is the birth rate that ensures the growth of the Latino population and not migration flows. Of equal significance is the fact that, in certain areas, they no longer are a minority and have exceeded the non-Hispanic white population. In fact, according to a study

conducted by the Brookings Institution (2001), the non-Hispanic white population has become the new minority in the country’s 100 largest cities. They fell from 52% in 1990 to 44% in 2000.

GEOGRAPHICAL DISTRIBUTION

In 2010, 37.6 million (75%) Hispanics lived in the eight states with over a million Hispanic inhabitants (California, Texas, Florida, New York, Illinois, Arizona, New Jersey and Colorado). As regards the main states, percentages were significant. In California, they amount to 14.0 million (28% of the total Hispanic population), 9.5 million (19%) in Texas and, 4.2 million in Florida (8% of the Hispanic population of the US). Their presence in some metropolitan regions such as New York and Chicago is also noteworthy.

However, during the last decade, they have expanded throughout the country, beyond the areas where they traditionally settled. Hispanic population has increased in all 50 states.

Illegal population should also be counted, even though the difficulties this process entails. They are concentrated in certain areas, mainly six states –California, Texas, Florida, New York, New Jersey and Illinois– where 60% live.



“Mexicans represented around 75% of the growth of the total Hispanic population”

GROWTH OF THE DIFFERENT LATIN AMERICAN NATIONALITIES

The national diversity is a characteristic of this group, although it has been overshadowed by the “Hispanic” category. However, Latin American people prefer to be identified by their nationality rather than being included in the Latino category. Mexicans have always been the traditional and majority group, well ahead of the Puerto Ricans, Cubans, Salvadorians and Dominicans. It should be noted, however, that a diversification process regarding this issue is taking place, whereby other nationalities have been incorporated into this migration flow. These “new Latinos” have also undergone significant growth and thus the diversity of the Latino community has also grown, and that makes their homogenization in the Latino or Hispanic group even more questionable.

As regards majority groups, the Mexican group has been and still is the largest one, accounting for 63% of the total Hispanic population in the United States. This group increased by 54% and recorded the greatest growth, going from 20.6 million in 2000 to 31.8 million in 2010. Mexicans represented around 75% of the 15.2 million growth of the total Hispanic population between 2000 and 2010.

By states, they represent the biggest Hispanic group in 40 states, more than half of which are located in the South and Western regions of the country, two of them in the North East and in the 12 states of the country’s central region.

Puerto Ricans, who constitute the second largest group, represented 9% of the Hispanic population in 2010, below the 10% registered in the year 2000. The Puerto Rican population increased by 36%, from 3.4 million to 4.6 million. Puerto Ricans were the largest Hispanic group in six out of nine northwestern states and in one western state (Hawaii), with 44,000 people.

The Cuban-born population increased by 44%, from 1.2 million in 2000 to 1.8 million in 2010. Cubans represented around 4% of the total Hispanic population, both in 2000 and in 2010, and they were the biggest Hispanic group in Florida, reaching 1.2 million.

As regards other nationalities, they have been gradually diversified, as noted, although Central Americans have acquired a growing presence for reasons of geographical proximity. Since the year 2000, three groups of Hispanic origin surpassed the 1-million mark: Salvadorians (1.6 million), Dominicans (1.4 million) and Guatemalans (1.0 million).

The community of Salvadoran origin (3% of the total Hispanic

“The Latino population has a national presence and is a structural element of the American demography”

population) increased significantly between 2000 and 2010, with a growth rate of 152%. As regards Guatemalans, they notably increased between 2000 and 2010, with a growth rate of 180%, representing 2% of the total Hispanic population in 2010.

As for Hispanics of South American origin, they experienced a growth of 105%, from 1.4 million in 2000 to 2.8 million in 2010. This population accounted for 5% of the Hispanic population in 2010⁴.

On the basis of the demographic information provided, many different conclusions can be drawn:

- Since 2000, the census highlights the spectacular growth experienced by the Latino population, both for grounds of immigration and birth, becoming the largest minority of the country.
- Since 1970, there are new flows that increase the pre-existing volume and diversity and explain this exponential growth experienced in recent years.
- Likewise, new trends are emerging concerning the distribution of this

population, since they have gradually spread across the United States although, at the same time, their traditional settlements have been consolidated. Thus, the Latino population has a national presence and is a structural element of the American demography⁵.

SOCIAL BACKGROUNDS AND LEVEL OF EDUCATION

Generally speaking, a large part of the immigrant community usually belongs to the more vulnerable sectors of the population and fill poorly paid, unskilled jobs that the nationals do not want. This is the case of the Latino population, since they traditionally represented a lower level of education, compared to other immigrant groups, which has resulted in a higher rate of unemployment, lower income and significant poverty rates.

Nevertheless, this situation does not apply to the entire Latino population and this is less and less the case as second generations enter the education system. The Latino social world has a diverse spectrum of education level, income and employment status.

⁴ All demographic data provided have been obtained from the 2010 census, <http://www.census.gov/prod/cen2010/briefs/c2010br-04sp.pdf>.

⁵ As regards these characteristic features, see, M^a Jesús Criado, *Inmigración y población latina en los Estados Unidos: un perfil sociodemográfico*, (Immigration and Latin population in the USA: a socio-demographic profile) Instituto Complutense de Estudios Internacionales-Fundación Telefónica. (2007).

“Cubans are the group with the best level of education and income”

It is therefore not surprising that long-term immigrants or US-born Latinos are in a different situation than newcomers. The progressive improvement of the second generation and previous ones, also born in the US, makes it possible for them to have better training opportunities, which translates into better wages and salaries. Yet, Salvadoran and Guatemalan immigrants, in addition to Mexicans, as noted above, are the ones with the lowest level of education of all minorities and thus, the groups of the lowest social classes, followed by Dominicans, Peruvians and Ecuadorians.

At the other end of the spectrum, Cubans are the group with the best level of education and income. A greater proportion of them have secondary and university education. In addition, other South American groups, such as the Colombian community, have a similar level of education. The difference is that, while Cubans acquire their education in the US, other South Americans were provided a good education in their countries of origin, except for Caribbeans or Central Americans.

However, it should also be noted that, in spite of all the improvements made, school failure and early dropout (before graduating from secondary education) rates among the Latino population widely surpasses those of other minorities. This issue

jeopardizes the image that one US sector has in relation to Latinos, whose members, according to these figures, are presumed to have a lack of interest and even lack of capabilities for self-improvement. And due to this image, the difficulties and obstacles inherent to marginality and poverty are not taken into account. In fact, early school dropout is often due to the need to work in order to earn a salary. Yet, we should again stress the difference in relation to second generations, in which both the school performance and the level of education are higher. It is no coincidence that newcomers have the worst school performance, thereby proving the precarious living conditions of the immigrant population and the limitations of the education system to integrate them.

However, within the group of newcomers, we should distinguish the *dreamers*, who, despite being a group of illegal young people, have a high level of education, even university education. In many cases, they have even studied in the US and then stayed illegally in the country after their visas expired, being permanently at risk of deportation. President Obama is well aware of the contribution these young people, trained in the US, can make and that, due to their irregular situation, they will not be able to launch their business initiatives despite

“Special attention should also be paid to an increasingly strong thriving middle class”

the potential benefits for the American economy and competitiveness that can be derived from them. This group is included in President Obama's reform agenda.

Beyond this particular group, the level of education is reflected in the social status and the salaries. In fact, the aforementioned educational profile explains to a great extent why Latino immigrants have low-skilled jobs but are not the only ones. Besides the Hispanic elite that has managed to settle in the US and whose names are published in the ranking list of the most influential Hispanic people in the US⁶, special attention should also be paid to an increasingly strong thriving middle class, represented by second generations with a higher level of education.

All the above-mentioned factors suggest a general change in the Latino population though which more training and social promotion opportunities can be expected, as we have seen in the last decade. This assumption is based on the decline of the immigrant population since 2007 and the natural growth of the Latino population already settled in the United States. This social group has more resources and opportunities to provide the necessary education to their children and thus, to improve their economic

and social status. Therefore, many of the stereotypes about the Hispanic population in the US have been refuted by reality, since it is formed not only by newly arrived, destitute and low-skilled people but also by a whole social and economic world that, depending on the case, has been settled in the country for a long time.

3. THE POWER OF THE LATINO COMMUNITY AS CONSUMERS AND VOTERS

This population's spectacular quantitative growth and the progressive improvement of its social status and purchasing power make it a priority area for entrepreneurs and parties. For some years now, the demands of this community have reshaped the national market, which is a real market with an extraordinary potential, but, at the same time, they have also forced a change in the political agendas of both the Republican and Democratic Party.

Latinos are now more present in the American society thanks to this interest in the Latino population. In other words, the advertising and electoral campaigns seeking clients or voters, far from hiding it, make both Latinos and the Spanish language more visible. However, this is not always promoted by the state administration, which, in many states, encourages the *only English* policy instead of bilingualism.

⁶ See *Time* magazine 2005.

“Most of the Hispanic companies are small and small businesses are creating two out of three jobs in the US”

LATINO BUSINESSPEOPLE AND ENTREPRENEURS

The dimensions of the Latino community have not gone unnoticed neither for Latino nor for American entrepreneurs, who have noted the existence of a market that tends to consolidate with the growth of a young middle class.

The evolution undergone by the Latino society’s business sector, which has experienced a strong growth since the nineties, proves its dynamism. Most Hispanic companies are small companies and their success is evidenced not only by their constant employment creation but also by the development of an entire Hispanic business culture that boosts the economy of the country. According to Javier Palomarez, President of the United States Hispanic Chamber of Commerce (USHCC), “most of the Hispanic companies are small and small businesses are creating two out of three jobs in the US”. He also pointed out that while small businesses went into decline and stopped creating new jobs during the crisis, between 2008 and 2010, Hispanics created 581,000 new businesses during the same period. Last January 2015, small businesses created 46,000 of the 257,000 new jobs in the country. Thus, the general unemployment rate was 5.7%, while the Latino rate was 6.7%. Hispanics “are probably one of the most important communities for job creation in the country”.

The Hispanic community not only contributes to the national economy and generates employment but it also offers new alternatives to traditional businesses. On the other hand, Palomarez stated that, to the sectors that were traditionally promoted by Latinos, such as construction, services, agriculture and transport, we can now add the IT industry. The main cause of this situation is related to the average age of the Latino entrepreneur (26) compared to the overall average (43). According to Palomarez, “since we are younger, we have a better grasp of technology”.

This statement is confirmed by the official data and by different representatives of the Latino entrepreneurship. María Contreras-Sweet, Director of the Small Business Administration (SBA), who also corroborates the “growth and strengthening of Latino-owned companies”, recalled that more than 3 million Latinos own small businesses in the country which represents an injection of “500,000 million dollars per year” into the economy.

One aspect of special interest should also be noted: these initiatives promote the development of a special business culture, since the Latino community is creating its own companies, the number of which is three times higher than the national average. Again, the reality contradicts the stereotype

“Hispanic society has become a key engine for consumption”

of the Latino community existing in the American society. This community is not only composed of low-income people and it does not lack initiative and ambition. The image shown by these figures is very different from the generalization of the Hispanic immigrants that supposedly have no ambition and are not eager to surpass themselves⁷.

This diversity is evidenced by the example of the Mexican population, which has serious education issues and a worse economic situation than other groups. However, according to a study published by the Fiscal Policy Institute in 2012⁸, Mexican entrepreneurs own many more small businesses in the United States than any other group of immigrants. As reported by this study, “this should not be surprising given the fact that Mexicans are the largest immigrant community in the country, although the image of immigrants as business owners is not always the prevailing perception.”

CONSUMERS

This capacity to progress and to improve the welfare

of the community is clearly demonstrated through its purchasing power. Hispanic society has become a key engine for consumption. Its purchasing power was set at one trillion dollars in 2010 and it is expected to reach 1.5 trillion dollars by 2015. If the Latinos who live here were considered as an independent economy, it would be the ninth largest economy in the world. This potential is seriously taken into account by American companies and entrepreneurs, who are now aware of the importance of penetrating the Hispanic market. In addition to the middle class, there is also a large group of people between the middle class and the low-income population, who also have a considerable purchasing power and are the focus of interest for many entrepreneurs⁹.

Due to these market opportunities, entrepreneurs are forced to enhance their means to attract customers and satisfy their specific demands. That is why the specificities and particular demands of the Latino market are currently analyzed in the initial advertisements, mainly those

⁷ The aforementioned data can be found at: <http://www.univisionsandiego.com/2015/02/13/la-cultura-empresarial-latina-impulsa-la-creacion-de-empleos-en-ee-uu/>, 13/2/15.

⁸ Report *Dueños inmigrantes de pequeños negocios. Una importante y creciente parte de la economía* (Immigrant owners of small businesses. A significant and growing part of the economy)

⁹ In order to characterize the Latino market, please see Nielsen Report: *State of the Hispanic Consumer: The Hispanic Market Imperative*, <http://www.nielsen.com/us/en/insights/reports/2012/state-of-the-hispanic-consumer-the-hispanic-market-imperative.html>, 17/04/12.

“Since the mid-twentieth century, there is a higher concern for Latino voters”

of money transfer companies, translated into Spanish.

The search for their favorite products of consumption shows the interest existing in this market and its development. Not only that, the willingness to attract these new clients is also making the companies look for the most appropriate locations and environments. This explains the proliferation of Latinos malls, where their favorite clothing brands and sizes are carefully selected according to their tastes¹⁰.

VOTERS

Since the mid-twentieth century, there is a higher concern for Latino voters, yet Bill Clinton's 1996 campaign was a significant turning point for the Democrats' strategies and messages addressed to the Latino community¹¹. Ever since, no candidate, either Democrat or Republican, has been able to totally disregard the Latino population and their concerns.

Quite on the contrary, they want to attract their attention and, for this purpose, they directly speak to them in Spanish.

This growing interest is not surprising considering the extraordinary dimensions of the Latino voters and their progressive growth. Of the 55 million Hispanics, who represent 17% of the US population, 25.2 million have the right to vote. This electorate is constantly growing at the same pace as the Latino youth population. Thus, according to Arturo Vargas, Director of the National Association of Latino Elected and Appointed Officials, “every month, around 50,000 young Latin American citizens reach the age of 18 and become part of the potential electorate”. The experts emphasize that this growth is not related to the newly arrived immigrants but to second and third generation Latinos, US citizens by birth, who grew up in the US and whose parents or grandparents are Latin American.

¹⁰ In this sense, the existence of companies which advise American companies in order to attract the Latino consumer is very interesting. This is the case of the effort made by the entrepreneur José de Jesús Legaspi, founder of The Legaspi Company, who has worked in these initiatives since 1977 and teaches American suppliers how to adapt to Hispanic consumer's tastes and sizes. “Hispanics have smaller feet. American manufacturers think that they do not like their shoes because they do not buy them, yet the problem is that they never have small sizes and that is why Hispanic consumers never buy their shoes”. Legaspi tries to make Macy's, Marshall's or Forever 21's shopkeepers understand that Latinos wear smaller sizes and, unlike the American clients, “they like to buy when someone assists them and tells them the characteristics of the product they are interested in”. He also states that “we work with suppliers to help them intellectually recognize how the Latino consumer is, for them to be able to develop their marketing sense and to better reach the Hispanic market”.

¹¹ The drafting of the document *Latino Communications Strategy, 1994-1996*, produced by Andy Hernández, and the creation of an office where all the material addressed to the Hispanic audience is prepared (elaboration of press kits, briefings, notes and translation of documents) for the Democrat Committee, shows the importance that the Hispanic vote is slowly acquiring.

“The power given to the Latino community, could be even stronger if the participation rate of the Latino electorate was higher”

Considering the dimensions of this electorate, nowadays it does not seem unreasonable to imagine the next US President being Hispanic. In fact, he might already have been born and would become president in 20 years' time¹².

This electorate has become more significant than ever before, given the importance it has acquired in the electoral campaigns. Each party has a group or office responsible for this community; they develop websites, organize weekly auditions in Spanish and have a great interest in appointing Latino representatives to run for elective offices, since this is the only way to attract these voters.

Furthermore, the concerns of the Latino community are included in their speeches; both groups consider themselves to be logical option for Hispanic voters (one, because of their traditional protection of the rights of minority groups and the other, because they represent the traditional family values normally attributed to Hispanics) and criticize and dismiss the efforts made by their opponent, who they accuse of devoting all their energy and resources in a mere marketing campaign.

This competition stems from the willingness to win votes throughout the country, since the Latino population is spread

across the whole territory and even has a significant importance in certain states. Of the 50 states, only 9 are in dispute, since the others are already decided given their historical political inclination towards one party or the other. And among these 9 states, 15% to 20% of the voters are Latin Americans, which translates into 3 million votes, as notes Antonio González, President of the William Velázquez Institute. The weight of the largest minority will mainly be felt in Nevada, Colorado, New Mexico and Florida, as was seen in 2004 when President George W. Bush and, later, President Obama won the elections.

All these figures show the power given by the number of voters to the Latino community, which could be even stronger if the participation rate of the Latino electorate was higher. Despite its rising trend, the rate of electoral participation and the number of eligible persons are low. Even though 11.2 million Latinos voted in the 2012 elections, they only accounted for 48% of the total electorate. Yet this participation rate was even lower than that of 2008 (49%). As regards the candidates, the number of representatives of the Latino community is still not significant and although the elections held on November 4,

¹² *El País*, 19/10/14, http://internacional.elpais.com/internacional/2014/10/19/actualidad/1413733870_041970.html, *La República*, 29/01/09, <http://www.larepublica.pe/26-01-2009/aseguran-que-el-primer-presidente-hispano-de-eeuu-ya-ha-nacido>.



“The affirmation of the Latino identity cannot be reversed”

2014 had a higher percentage of Hispanics (29 seats in the Congress and 3 seats in the Senate, which represents 8% of the US Congress), it is still far from the percentage they represent among the American population.

Nevertheless, in addition to the growing number of citizens of Hispanic origin entitled to vote, the number of candidates for posts at any level, (local, state or even federal), is also increasing. “This scenario strengthens the idea that, election after election and year after year, the Hispanic influence is ever growing both in the society and, of course, in politics”¹³.

The overview of the topics addressed highlights the power of the Latino community stemming from its size and its capacity:

- Its growing purchasing power facilitates the creation of a permanently growing specific market, in which Latino entrepreneurs are very active. Consequently, the middle and professional class are active as well.
- Its political presence is still growing, but at a slower pace, which does not mean

that this community is decisive for the electoral results and thus an “object of desire” for the Democrat and Republican parties.

4. CONCLUSION: THE LATINAMERICANIZATION OF THE UNITED STATES

Despite the figures recorded not so many years ago, in the early 2000s, it was doubted whether the Latino community itself was going to survive, together with the Spanish language as its identifying trait. The data presented in these pages as well as this society’s initiatives and progresses may probably have revealed that this possibility is apparently no longer possible. The affirmation of the Latino identity cannot be reversed and it has definitely become a structural element of the American society, with all the changes it implies.

The dynamic triggered within the Latino community is especially interesting, since it constantly recreates and feeds its existence and its importance. The Latinos themselves are not the only ones taking part of this dynamic, a large part of the rest of the society is also involved. Their ambition to attract consumers and voters gives more and more importance

¹³ D. Ureña and I. Royo, *El papel del voto hispano en las elecciones de noviembre en EEUU*, (The role of the Hispanic vote in the USA’s Election in November) ARI, 51/4014, Real Instituto Elcano, http://www.realinstitutoelcano.org/wps/portal/web/riecano_es/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/eeuu-dialogo+trasatlantico/ari51-2014-urena-royo-papel-del-voto-hispano-elecciones-de-noviembre-eeuu-2014#VQAk9PmG9E4.

“The use of the Spanish language is now compulsory for governmental institutions”

to Latinos and the Spanish language. Hence, in addition to the more or less firm willingness of this community to maintain its traditions and language, there is a spontaneous social dynamic resulting from the relevance acquired by Latinos that has also been instrumental in promoting the latinamericanization of the United States.

This process is contrary to the idea of the Anglo-Saxon nation united under the cultural assimilation. Although some people still support it, it does not seem realistic to maintain the cultural assimilation processes carried out with the previous waves of immigrants, since the language diversity has traditionally been considered as a threat for the unity of the nation. This is the reason why the previous waves of immigrants (Germans, Italians or Polish) lost their linguistic heritage. Since the nineties, the effort made to establish the only English system, has resulted in the prohibition of the use of languages other than English in public administration in half of the

states. Within this tendency, bilingualism is not considered as a solution either and thus, in some states, bilingual education has even been banned. This position completely contradicts the candidates to popularly-elected posts, who promote the Spanish language and the standardization of its use by speaking Spanish with their potential voters.

Indeed, the use of the Spanish language is now compulsory for governmental institutions, despite the resistance, given the demand for services of the Latino taxpayers. Therefore, hospitals, firefighters and public security forces promote and encourage, in one way or another, the linguistic skills of their members¹⁴.

In short, considering the evidence of the reality and the generalization of a multicultural view, there seems to be no future for assimilationist approaches. However, this does not mean that, since Latinos are voters, taxpayers and consumers, segregation and discrimination have disappeared from society.

¹⁴ The doctors of the New York-Presbyterian Hospital, for instance, linked to Columbia University and located at the heart of Washington Heights, where a large Dominican community is concentrated, take an intensive course on basic terms and knowledge related to this area. They continue their training with other courses during the year. In Texas, police officers must pass a Spanish language course, paid by the institution, in order to obtain the rank of senior-officer. In Phoenix (Arizona), in July 2002, the first immersion programme was launched in a fire station with the objective of increasing the bilingual staff. This process also concerns the field of education. In Dallas (Texas), where Hispanics represent 57% of the school district, 30% of whom had limited English proficiency, a Spanish language training (worth one million dollars) was approved in October 2002 for teachers who had prior knowledge of Spanish.

“Bridges for dialogue and reciprocal knowledge should be built”

The existence of the Latino community will surely depend on the willingness of its members to be identified as such and to preserve its distinctiveness. In any case, they clearly have the power to project themselves as a community and hold an important position in the American society. According to many observers, “the future of the United States is Hispanic”¹⁵, and this is evidenced by the current reality. Nonetheless, not everything depends on the Latino population; it must also be considered whether the society is prepared to welcome this population from an economic, political and cultural point of view.

A reform of the migration policy is pending to be carried out since 2013. At the time, the Congress approved, with the support of both parties, a revision of the migration system. However, due to different reasons, the process has not progressed. Since January this year, in an attempt to change this situation and to fulfill an electoral promise, President Obama decided to introduce a partial reform through presidential decrees. However, this is still only an attempt, since the judicial power has blocked it again.

All these difficulties make even more necessary to find a solution. This reform is undoubtedly important, since it aims at regularizing the status of 11 million people unlawfully present in the country. Nonetheless, this reform would not be enough, although it now seems to be the solution to all problems. Even if it was entirely approved, the integration of 50 million Latinos who live in the US must still be carried out. For this purpose, bridges for dialogue and reciprocal knowledge should be built, leaving any simplistic prejudices behind. In order to achieve this integration, a dialogue between compatriots must be developed, as they must know each other and recognize each other as such. Latinos and their children should therefore continue learning English as well as the history of the United States. But, at the same time, the white majority will have to learn to live in a diverse world, such as their own national reality, where they will have to take into consideration the perspectives of their Spanish-speaking¹⁶ fellow-citizens. Therefore, the challenge exists both for the Latino community and for the whole American society.

¹⁵ Daniel Ureña, *El futuro de Estados Unidos será Hispano*, (The future of the USA is Hispanic) 20/03/2014, <http://www.elmundo.es/opinion/2014/03/20/532b5084268e3eb20a8b458d.html>.

¹⁶ As regards this integration proposal, W. Carrigan y C. Webb, *La reforma de la inmigración y la historia hispana en estados Unidos*, (The immigration reform and the Hispanic history in the USA) 1/03/15, http://internacional.elpais.com/internacional/2015/03/01/actualidad/1425166727_525835.html



Towards where should the strategic relation between the EU and Latin America and the Caribbean move?

Madrid, May 2015

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LLORENTE & CUENCA



PRESENTATION BY JOSÉ ISAÍAS
RODRÍGUEZ

TOWARDS WHERE SHOULD THE
STRATEGIC RELATION BETWEEN
THE EU AND LATIN AMERICA AND
THE CARIBBEAN MOVE?

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PRESENTATION

The EU-CELAC Summit took place in Brussels on 10 and 11 June and brought together the most senior figures from the 28 Member States of the European Union and from the 33 countries that make up the Community of Caribbean and Latin American States (CELAC).

The relationship between Europe and Latin America is deeply rooted in the history of the two continents which, despite their distance and the great ocean that lies between them, are much closer than they are with others connected by land.

Cultural ties, common languages and, above all, a set of values shared by their respective societies, have woven connections that, even with the dizzying development of the world around them, show the importance of a Western vision of the world of which they form part.

In the game of chess that is played on the board of the planet, Latin America and Europe must play the role that is theirs as a result of being leading players in the development of societies founded on democracy, the rule of law, the social market economy, inter and intra-generational solidarity and that defend a policy of progress and welfare for their citizens.

Economics, that science invented in Europe, also greatly influences European-Latin American relations. The EU is the largest foreign investor in CELAC and its second largest trading partner. This economic relationship is not based on the extraction of the greatest possible profit per se and in the short term, but instead is structured around quality, social responsibility, job creation, technology transfer and the promotion of research and innovation, all of that with an approach seeking continuance over time.

The importance of summits lies in the generation of ties and strategic visions. However, if they are not followed up and the commitments made by the parties in their "Final Declarations and Conclusions" are not implemented, we will be in the interminable territory of the game "snakes and ladders" in which we will be unable to progress up a ladder without being sent back down by a snake.

The history of European-Latin American Summits suggests a certain diminishing marginal utility, or in other words, it is as if one more unit of summit at the margin produces effects contrary to those expected. There is a certain mental fatigue, a lack of ideas and of political will. There is too much rhetoric, complacency, passivity and a lack of the vision required to understand that we need strengthen the ties between Europe and Latin America, if

we really want to occupy the position that corresponds to both regions in a world where "nothing is, everything changes".

In the Europe-Latin America relationship, expectations were created which, later, clashed with the reality of the disagreements that are to be found in any negotiations involving economic interests. That has left a feeling of scepticism which is enhanced, at the same time, by the mutual impression generated by thinking that both are looking for other dance partners on the international stage.

The crisis, which has been impregnating Europe with its penetrating perfume for longer than, in principle, some imagined, has affected not only the internal EU but also, undoubtedly, its external relations. Latin America has not been unaffected and, in this regard, we have seen a change in direction which, in my opinion, is mutual. Asia and the Pacific area are now top-level trading partners for South America, while the EU has strengthened its position as privileged partner of Mexico, Central America and the Caribbean. Our old and beloved Europe, in addition to continuing to look to its own market, also has its eyes on Asia. This questions the strength of the European-Latin American relationship in the exponential dynamic of globalisation.

Indeed, two major agreements currently occupying the cross-ocean negotiating space are likely to change the balance of world trade. I am referring to the "Transatlantic Trade and Investment Partnership" (TTIP) between the EU and the USA, and the "TransPacific Partnership" (TPP) between the USA and countries bordering the Pacific. In one way or another, they will affect EU-CELAC relations, as well as the internal processes of regionalisation in Latin America.

We don't have a crystal ball allowing us to clearly see the future impact of the changes arising from these mega-agreements. However, asymmetries must appear as a result of the heterogeneity of what we could call "Latin Americas". Nevertheless, and without needing to be a fortune teller, we can say that we have arrived at a moment to give a new impetus to strengthening the ties between the European Union and Latin America. It is unavoidable to reach an approach offering convergence around the values shared in the bi-regional relationship, in order to find solutions to the challenges facing them both.

There is a need to modernise the language that surrounds the European-Latin American relationship; there is a need to convey more credibility and understanding to the public about what it is intended to achieve and, as the British say, with tangible things;



there is a need to give continuity to the commitments made which should contain elements of ambition, realism and perseverance; there is a need to respect the differences between the two regions, managing them without impositions; there is a need to have a civil society which, in both Europe and Latin America, plays an increasingly important role; there is a need to align our policies on topics debated in international forums.

The philosopher Flavius Philostratus (third century BC) said: “Men know what is happening, the gods what is coming and the wise men what is looming”. Belonging to the first of these groups, I am aware that we have done a lot to construct the ties between Latin America and Europe. However, I am also aware of everything that we still need to do to deepen and develop these. The EU-CELAC Summits must be the time to strengthen the ties and must represent a turning point in the development of both regions.

José Isaías Rodríguez

Vice-President of European Affairs at LLORENTE & CUENCA

“The common history and those shared values are the base of a relation”

TOWARDS WHERE SHOULD THE STRATEGIC RELATION BETWEEN THE EU AND LATIN AMERICA AND THE CARIBBEAN MOVE?

1. LATIN AMERICA AND EUROPE, A SHARED WESTERN “VIEW”

The link between Europe and Latin America and the Caribbean is giving signs of fatigue for over a decade. The challenge of the current leaders on both sides of the Atlantic involves reviving and giving it a renewed dynamism. European and Latin American political leaders have the necessary capacity to achieve this. A capacity that makes reference to the historical links that characterize the relation and which have not only survived, and grown, for over 500 years, but which also make reference to the new and multiple common elements that exist currently and which have been emerging over the last half century, especially, since the 1990s.

Undoubtedly, the task is not easy because the world has become, progressively, much more volatile and complex. On this new global stage, where geopolitical, geostrategic and geo-economic balances are changing rapidly, China in particular and Asia in general are already a reality that has come to stay and that unbalances and conditions the Euro-Latin American relation. However, this link contains, in itself, its own strengths that are neither temporary nor artificially created.

Against China's emergence with its full commercial and foreign investments potential, the relation between Europe and Latin America and the Caribbean is supported, firstly, on its belonging to the same cultural area and the identical identity matrix, the Western one. This is one of the most singular aspects of its identity and where its legitimacy is based in order to become an international actor with strong aspirations to have global influence.

As stated once by the former Ibero-American Secretary General, Enrique V. Iglesias, the link dates back to “*whole centuries of intense relations between America and Europe. It is not possible to understand Latin America and the Caribbean without including the heritage of the European tradition. Just as Latin America and the Caribbean cannot be understood without Europe, it is also not possible to understand Europe without the deep flow of resources, ideas and fresh airs that has circulated towards the other side of the Atlantic*”¹. This link, this culture and this shared western “view”, is a connecting link that does not exist with regard to the emerging Asia.

The common history and those shared values are the base of a relation which has by no means become stagnant, but which has

¹ Adrián Bonilla (coordinator): *De Madrid a Santiago: Retos y Oportunidades. Balances y perspectivas de las relaciones entre la Unión Europea y América Latina y el Caribe*. (From Madrid to Santiago: Challenges and Opportunities. Balances and perspectives of the relations between the European Union and Latin America and the Caribbean). Flacso. San José, 2012 downloaded from <http://segib.org/es/node/8329>.

“A common history
and shared values are
substantial grounds for
fighting”

evolved. The English influence in the Caribbean made up the idiosyncrasy of an important part of the Caribbean nations. The French and Spanish culture and political ideas –from the Cadiz Constitution of 1812 to the great Spanish thinkers of the 19th and 20th centuries– nurtured the new nations that were formed in the 19th century in Latin America. Despite the political and cultural predominance of the United States –another vertex of this western tradition– in the 20th century, Latin America and the Caribbean continued to look to Europe in many aspects, even after the Second World War.

In the words of Enrique V. Iglesias: *“We took from Europe the three great messages where we coincide: first, the western democracy which had its both theoretical and practical roots in the European continent...we were influenced by the welfare state, which was born in Europe (...) and we were influenced by the way of integration”*². Indeed, the successive Euro-Latin American statements, as well as the political and institutional leaders of the bi-regional relations, have constantly stressed their support to that set of values rooted in the Western tradition, in the history and in the Latin American and European identity itself. Values based on democracy –validity of human rights and on the rule of law–, on social cohesion, on the defense of

multilateralism, of peace and of international cooperation.

A common history and shared values are substantial grounds for fighting and striving for keeping the relation alive, as well as for deepening it. But, the truth is that there are many other ingredients that complete this bi-directional relation, especially since the 1980s-1990s, and that have been extended until today. To the institutional relation formalized in 1999 have been added economic and commercial links –European investments in Latin America and the Caribbean and the new ones that arrive in Europe led by Multilatinas– and social links –the European support in the form of development cooperation and the migrations by Latin Americans to Europe and now, since the 2008 crisis, by Europeans to Latin America–.

As Federica Mogherini, High Representative of the European Union for Foreign Affairs and Security Policy, recalls, *“here again, deep economic ties bind our peoples on both sides of the Atlantic. The EU is the second trade partner and the first foreign investor in the Community of Latin American and Caribbean States (CELAC in Spanish) with a considerable stock of investments of 464 million euros, which means a higher figure than the sum of EU investments in China, India and Russia together. I believe that*

² Adrián Bonilla (coordinator): *De Madrid a Santiago: Retos y Oportunidades. Balances y perspectivas de las relaciones entre la Unión Europea y América Latina y el Caribe*. (From Madrid to Santiago: Challenges and Opportunities. Balances and perspectives of the relations between the European Union and Latin America and the Caribbean). Flacso. San José, 2012 downloaded from <http://segib.org/es/node/8329>.

“The link also has to be enlivened by being aware of how the world has changed”

it is fair to define EU investments as quality and socially responsible investments, with added value in terms of job creation, technology transfer, research and innovation. Sustainable development and corporate social responsibility are at the core of our trade agreements, which we hope to be able to expand to more countries in the region. But trade and economy are in general two-way streets. Latin American and Caribbean investments in EU countries grow every year and Brazil is now the second investor in EU countries after the United States, which contributes to the creation of our own jobs and grow”³.

The European Union is the second trade partner in the region and since 1999 the trade in goods has more than doubled: it reached the figure of two billion dollars in 2010. The European Union is also the main foreign investor with 385 billion dollars accumulated in foreign direct investment in 2010 (more than 43% of the total direct investment in the region). It has been historically a commitment to promote quality and long-term investments that generate, for their part, quantitatively and qualitatively significant jobs.

All this network is what needs to be preserved and fed now. Not doing it ex novo, but from an already built base (the bi-regional history itself and the experiences during the last years). But the

link also has to be enlivened by being aware of how the world has changed, how the international role of the European Union and Latin America and the Caribbean itself has transformed and how the society, the economy and the international trade are not what they were, not in 1989 or 2001, but since 2008 with the beginning of the sub-prime crisis that has hit the western world: first the United States (2007-2009), then the EU (2009-2014) and now Latin America and the Caribbean with the 2009 crisis and the slowdown of the years 2014-2015.

It is very opportune to think about which path should follow the relations between the EU and the CELAC and, at the same time, propose a specific roadmap to preserve what has been progressed, avoid the deadlock the relation is suffering and find paths along which to walk together, doing it at a faster pace and more efficiently.

2. THE RELATION BETWEEN THE EUROPEAN UNION AND LATIN AMERICA IN VIEW OF CHINA'S EMERGENCE AND THE RENEWED PRESENCE OF THE UNITED STATES (TPP AND TTIP)

HISTORY OF A TRANSATLANTIC RELATION (1970-1999)

The recent history of the relation between the EU

³ Federica Mogherini, *Un año trascendental* (A momentous year). Published in the newspaper *El Espectador*, on 27 January 2015. Downloaded from <http://www.elespectador.com/noticias/elmundo/un-ano-trascendental-articulo-540403>

“Spain and Portugal
became the main engines
for the transatlantic
rapprochement”

and Latin America and the Caribbean can be divided into three clearly differentiated periods. A period of “prehistory” of the institutionalized relation (1974-1994), a boom time of the transatlantic link (1994-2006) and the current situation of stagnation and deadlock of the relation (since 2006).

- **The prehistory of the institutionalized relation (1984-1994):** This “prehistory” of the relation begins in the 1970s with meetings in which the objective was to bring relations closer and strengthen commercial ties between Europe and Latin America. It was the meetings between the parliaments of both regions which, in 1974, gave rise to the biannual conferences between the European Parliament and the Parlatino. A much more institutionalized approach between the European Union and Latin America took place already in the 1980s, with the San José Dialogue, in 1984, which contributed to the peacekeeping efforts in Central America and, at the same time, built bridges between the two regions thanks to the political dialogue between the then EEC and the Rio Group.

A long-term strategic vision and mutually beneficial for both parts is the great treasure that the Euro-Latin American relation built up in the 1980s and 1990s, and it is, probably, what is now most at risk. As the professors of the Complutense University of Madrid, Christian Freres and José Antonio Sanahuja, point out, “*the then EU policy towards Latin America responded to a strategic and long-term design; and was relatively well adapted to the Latin American needs while responding to European interests. It was able, therefore, to define an agenda of common interests: in the 1980s, the peaceful resolution of the Central American crisis; in the 1990s, the diversification of external links and the international impact of both regions*”⁴.

Those steps taken in the 1970s, and continued in the 1980s, opened the door to a much more deep and institutional relation in the 1990s. Since then, Spain and Portugal became the main engines for the transatlantic rapprochement as clearly viewed in the “Joint declaration of intent” on the intensification of relations with the countries of Latin America, attached

⁴ Christian Freres and José Antonio Sanahuja, *Hacia una Nueva Estrategia en las Relaciones Unión Europea – América Latina* (Towards a new strategy in the relations European Union – Latin America). Downloaded from <https://www.ucm.es/data/cont/docs/430-2013-10-27-PP%2001-06.pdf>

“A policy of exclusive
cooperation for Latin
America and the
Caribbean was proposed”

to the Treaty of Accession of both countries to the then European Community (EC). The Euro-Latin American dialogue became institutionalized with the “Rome Declaration” of December 1990. If until that moment, the EC had signed with those countries non-preferential trade agreements, the so-called “first generation” agreements, from that moment on the “third generation” agreements (advanced cooperation frameworks with political dialogue) were encouraged.

The next strategic step in the relation took place in the mid-1990s (1994) when the EU developed a new relation strategy with regard to Latin America, in which the establishment of a “bi-regional partnership” was regarded as a final objective, based on the existing “third generation” agreements and which looked towards the future, in particular to the new “fourth generation” agreements that were to be signed in the future.

- **The golden time of the relation (1994-2006):** The European Council in 1994 urged the Commission to start talks with

MERCOSUR, Mexico and Chile in order to achieve the signing of fourth generation framework agreements that would allow to lay the ground for the forthcoming signing of partnership agreements. In 1995, the Commission laid down those new general guidelines for the cooperation with Latin America in a Communication to the Council and the European Parliament entitled: “European Union-Latin America. The present situation and prospects for closer partnership (1996-2000)”⁵. There, for the first time, a policy of exclusive cooperation for Latin America and the Caribbean was proposed. The Commission underlined, already then, the strategic interest of the relations with Latin America, based on historical and cultural factors, proposing a strategy for the strengthening of the relations EU-Latin America in the political and economic fields.

The project, in the 1990s, had, therefore, objectives and a clear narrative that had full validity in its pillars. In this regard, José Antonio Sanahuja thinks that “*since the mid-90s, relations between the*

⁵ European Commission (1995). *European Union-Latin America. The present situation and prospects for closer partnership 1996-2000*. Communication from the Commission to the Council, COM (95) 495 final. Brussels. This document may be consulted at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:51995DC0495&from=FR>

“Political relations based
on the peacekeeping
and stability”

EU and Latin America and the Caribbean have been shaped by an interregionalist strategy devised by the Commission and the Council, under the leadership of the former Vice-President of the European Commission in charge of the relations with Latin America, Manuel Marín, and the German Presidency of the Council. This strategy was based on the “cartography” of Latin American regionalism and on the redefinition of European regionalism from the mid-90s, and for at least a decade and a half, it has defined a relationship model to be achieved, while providing a narrative, a story and ambitious, long-term and strategic goals for the bi-regional relationship.”
...the aim was to establish a framework of high-level political dialogue and to create a network of partnership agreements, including free trade agreements, which would go beyond the traditional model of “north/south” economic relations between both regions. Although the strategy started with a more limited proposal –the trade agreements would be limited to Mexico, Chile and Mercosur–, the proposal of signing partnership agreements was

subsequently broadened, not without resistance from the EU, to the Andean Community of Nations (CAN) and Central American countries. And the Cotonú Agreement in 2000 included, as part of the redefinition of the EU’s relations with the ACP countries, a possible economic partnership agreement with Caribbean countries”⁶.

The European Commission proposed this strengthening of the political relations based on the peacekeeping and stability in the region, the support for democratic processes, the promotion and protection of human rights, and the intensification of the economic and free trade integration. As a logical consequence, since the mid-1990s, both sides went a step further and gave an important boost to dialogue, organizing the first Summit between Heads of State and Government of Latin America and the Caribbean and the European Union, held in Rio de Janeiro in June 1999. After that would come the subsequent summits of Madrid (2002), Guadalajara (2004), Vienna (2006), Lima (2008), Madrid (2010) and Santiago de Chile

⁶ José A. Sanahuja, *La Unión Europea y CELAC: Balance, perspectivas y opciones de la relación birregional* (The European Union and CELAC: Assessment, prospects and options in the bi-regional relation) in Adrián Bonilla and Isabel Álvarez (editors) *Desafíos estratégicos del regionalismo contemporáneo: CELAC e Iberoamérica* (Strategic challenges of the contemporary regionalism: CELAC and Ibero-America). Flacso. San José, 2013.

“Seven summits EU- Brazil have been held”

(2013) which became the first summit CELAC-EU. As stated by Enrique V. Iglesias *“the importance of the summits lies in the linking capacity, but also in the possibility of thinking about the region strategically (...) a region with the capacity of joining Europe. The appropriateness was mutual since European countries benefit from a very big market”*⁷. In a parallel and complementary way, political dialogue processes were established between the EU and the Andean Community (CAN), MERCOSUR, Chile and Mexico, in addition to a high level dialogue on the drugs problem.

To sum up, by 2004, twenty years after the beginning of the process, a broad network of relations between the two regions was created based on three pillars: political dialogue, intense economic and commercial relations and development cooperation. This period (1994-2004) was the most brilliant of the transatlantic link since some major advances were achieved, among the most important ones were the “Association Agreement with Mexico in 2000” or the “Association Agreement with Chile in 2002”:

- » In 1997, the European Union reached with Mexico its first “Association Agreement” with a Latin American country that institutionalized the political dialogue and expanded cooperation. This agreement came into force in 2000. Since 2009, with the signing of a Strategic Partnership between the EU and Mexico, this country, together with Brazil, became two fundamental references of the relations between the EU and Latin America and the Caribbean.
- » The Union concluded with Chile an Association Agreement in 2002, which is based on three pillars: a chapter on political dialogue, another on cooperation and a third one, in which a free trade area of goods and services is proposed.
- » With Brazil, a Framework Cooperation Agreement was signed in 1992 and in 2007 a Strategic Partnership was established. Since that year, seven summits EU-Brazil have been held.

⁷ Adrián Bonilla (coordinator): *De Madrid a Santiago: Retos y Oportunidades. Balances y perspectivas de las relaciones entre la Unión Europea y América Latina y el Caribe*. (From Madrid to Santiago: Challenges and Opportunities. Balances and perspectives of the relations between the European Union and Latin America and the Caribbean). Flacso. San José, 2012 downloaded from <http://segib.org/es/node/8329>.



“A new model to
strengthen the link”

- » With Central American countries, a Political Dialogue and Cooperation Agreement in 2003 and an Association Agreement in June 2012 were signed –the first one between regions concluded by the Union– which provided as main objectives the creation of “a privileged political partnership based on common values, principles and objectives” and aimed at “strengthening human rights, reducing poverty, fighting inequalities, preventing conflicts and promoting good governance, security, regional integration and sustainable development.
- » The relations between the European Union and the Caribbean are structured on the Cotonou Agreement, signed in 2000 by 79 countries of Africa, the Caribbean and the Pacific, and the Economic Partnership Agreement EU-CARIFOUM, signed in 2008.
- **Loss of momentum of the relation (2006-2015):**

However, since 2006, many analysts and authorities on both sides of the Atlantic do not stop insisting on an idea, repeated since then: the one that there exists “certain exhaustion, possibly the result of an excessive rhetoric, given the lack of follow-up of the agreements reached and the overlap and duplication of the frameworks of this dialogue”. The changes at a global level (China’s emergence as a global actor) and inside both regions (the European institutional and economic crisis together with the increase in the autonomy of Latin American countries thanks to the boom time they have experienced), have transformed the relation and can even be regarded as an “end of a cycle”. At least, in the way they established the Euro-Latin American relations since the 1990s.

Therefore, since 2006, the idea that has been constantly pursued with a very dissimilar success is the one of finding a new model to strengthen the link. Thus, for example, in 2008 the European Union, which historically had opted for negotiating trade agreements bloc by bloc, took on a new strategy opening up the possibility of negotiating with individual countries –the only exceptions until then had been Mexico and Chile because both countries were not included within any sub-regional bloc–. The EU opted for breaking with its traditional policy in the interest of pragmatism as explained by the German chancellor,

**“The traditional strategy,
bloc by bloc, has not
been abandoned”**

Angela Merkel: *“In the EU we know from experience that at the beginning we were six members, then 15, today 27, and in the future we will be more. We cannot always wait for the last one, sometimes we must also be able to move forward with a single group of countries being already willing to do it”*⁸. Like this, an era was concluded and since 2008 bilateral agreements with Colombia and Peru or strategic partnership agreements with Brazil have been signed.

Nevertheless, the traditional strategy, bloc by bloc, has not been abandoned. Among the achievements of the Madrid Summit in 2010, the renewed impetus which resulted in subsequent years in the signing of the Association Agreement with Central America (plus Panama), in 2012, stands out and was the first of this kind concluded by the EU in its relation with Latin America. Furthermore, new initiatives were launched such as the EU-LAC Foundation or the Latin America Investment Facility (LAIF), a fund of 125 million euros aimed at channeling a larger amount of resources for interconnection, energy infrastructure, renewable energies, transport, environment, social cohesion works and promotion of small and medium-sized enterprises.

This change of strategy, which has constantly achieved success, has also been highly controversial for changing one of the pillars of the relation between both actors. In this regard, Jean Grugel, professor of International Development and head of the Department of Geography at the University of Sheffield, points out that *“for years the EU has promoted a cooperation strategy based on the support to the processes of regional integration, contributing with resources and technical assistance to their strengthening. This highly normative approach has given rise in the last years to a more pragmatic vision of the European economic interests in the region. The EU has proceeded to work with those countries more likely to deepen economic relations. This has led to the questioning of what until now was conceived as a differentiated European approach that included other dimensions in the negotiations. The strategy has designed a complicated and diffuse multi-level scenario of economic relations given that the relations of the EU with other regional blocs, the relations with individual countries and the relations of the member States, in turn, with third*

⁸ Quoted by *El Mundo* newspaper, 16 May 2008, downloaded from <http://www.elmundo.es/mundodinero/2008/05/16/economia/1210920888.html>

“Of developing and
consolidating the EU-
LAC mechanism of
coordination”

*Latin American countries
have been combined”⁹.*

All this attempt to renew the European general strategy regarding Latin America had its origin in a first trial to renovate the foundations of the link towards Latin America: in 2009 the European Union submitted its proposal of a different model in its relations with Latin America and the Caribbean for the next five years, defined as “a partnership of global actors”, and whose objectives focused on “new political guidelines and recommendations” in the solution of issues like climate change, economic and financial crisis, energy security and migration. The model included four main aims:

- » The first one, intensifying and focusing bi-regional dialogue on priority areas –macroeconomic and financial issues, security and human rights, employment and social affairs, environment, climate change and energy, higher education and technology and innovation–.

It also included the proposal of developing and consolidating the EU-LAC mechanism of coordination and

cooperation in the fight against drugs and continuing the structured and global ongoing dialogue on migration “in an open and constructive way”, according to the comprehensive approach of the EU on migration.

- » The second focus aimed at consolidating the regional integration and interconnectivity.
- » Consolidating bilateral relations and taking diversity more into account was the third aim of the new model, which insisted on taking advantage of the existing strategic partnerships, existing Partnerships Agreements (Chile and Mexico) and bilateral Cooperation Agreements.
- » The fourth aim considered “adapting and adjusting the cooperation programs with Latin America in order to generate sustainable growth with low-carbon emissions, create employment, achieve a better income distribution and mitigate the effects of the economic and financial crisis”.

⁹ Jean Grugel, *Entre las expectativas y las posibilidades: las relaciones económicas Unión Europea-América Latina tras treinta años* (Between expectations and possibilities: the economic relations European Union-Latin America thirty years later), downloaded from http://issuu.com/pensamientoiberoamericano/docs/8_03_grugel.

“Since 2001, the
international
scenario has changed
significantly”

From the Summit held in Santiago de Chile in 2013, two documents emerged: the Santiago Declaration, which reaffirms the political will to work together, and an Action Plan, which includes two new paragraphs focusing on gender issues and investments and undertaking for sustainable development, in addition to the two existing ones, adopted after the Madrid Summit in 2010: science, environment, regional integration, migration, education and employment for social inclusion and the global problem of drugs.

CAUSES OF THE CRISIS IN THE RELATION

Beyond the efforts of reactivating the bi-regional relation –which were set in the Action Plan 2010-2012, drawn up in the Madrid Summit– the truth is that the link, does not seem to have been able to escape from its stagnation. Especially because of the structural problems the bi-regional relation itself is suffering as well as for the transformations that are taking place at a global level, the changes that have occurred inside both blocs, all of which affects and has an impact on the Euro-Latin American link.

Those changes are different in magnitude and scale and could be summarized in two great transformations: the one of the international scenario in general and the one experienced by the two blocs in particular (the EU and Latin America and the Caribbean):

- **Transformations within the global scenario:**

- » **Change of the international environment:** Since 2001, the international scenario has changed significantly and the world in which Europe and Latin America move has little to do, not only with the one of the start of the institutionalized relation (the Cold War in the 1980s), but it is also very different from the unipolar world of the 1990s. The current international scenario is experiencing a dynamics marked by a profound restructuring of the international balances in the geopolitical, economic and commercial areas due to China’s emergence and some loss of prominence of the United States and the EU –which among academics is referred to as a “transfer of power from the West to the East”–.

Furthermore, Enrique V. Iglesias points out *“three intertwined factors are eroding the strength of the multilateralism, as happened after the Second World War (...) The first factor is the transfer of power of the last years from the West to the East. This also involves moving from the predominance of institutions and regulations which make*

“China is now the main
trade partner”

up the pillar of the West, to conversations and non-written negotiations that have a long tradition within the Eastern life and customs. The second factor is that the WTO has been involved in issues of interest which has not been able to conclude. For instance, it has not been able to conclude the Doha Round. Few believe that its completion will be feasible. The third factor is the profusion of bilateral and regional agreements that are taking place in the world in general and in Latin America in particular”¹⁰.

- » **Emergence of new relevant international actors:** All these changes are linked to the emergence of new actors who have affected and altered the global balance and also the relation between Europe and Latin America and the Caribbean. The emergence of the region Asia-Pacific has turned China into the main trade partner for some countries of the area, especially several of the South American ones –for example, Brazil–. China has transformed the global insertion of

the region by moving in 20 years from being the seventeenth destination of Latin America and the Caribbean’s exports to becoming currently the third one, receiving around 10% of the total exports of the region.

An illustrative example of this process is that since the 2008 crisis the EU has lost its first place as Chile’s trade partner accounting for only 16% of its trade now. China is now the main trade partner due to the Free Trade Agreement signed in 2005, which has been accompanied by an increase in the demand of commodities, especially mineral and agricultural ones, from Asia. However, the EU is still the main investor (accumulated investment), which reflects that commercial relations are stable with improvement prospects in the future.

Susanne Gratius,
professor of Political
Science and International
Relations at the
Autonomous University
of Madrid and associate
researcher at FRIDE,

¹⁰ Enrique V. Iglesias, *Nuevos acuerdos regionales: riesgos y oportunidades* en María Salvadora Ortiz (Compiladora), *Las Américas y la Unión Europea ante los nuevos escenarios en las relaciones comerciales y políticas* (New regional agreements: risks and opportunities, in María Salvadora Ortiz (Compiler), *The Americas and the European Union in the face of new scenarios in the commercial and political relations*). Flacso. San José, 2014, downloaded from <http://segib.org/sites/default/files/las-americas-y-la-ue.pdf>.

**“The region can opt for
a closer relation with its
traditional partners”**

recalls in this regard that “for Latin America, the new international context, marked by the rise of China and the relative decline of the United States and the EU, new options of global insertion are open. Thus, the region can opt for a closer relation with its traditional partners from the North (US and the EU) and/or intensify the relations with China and other Asian countries whose share in Latin America’s imports have increased from 2% in 2000 to 14% in 2010, exceeding the share of the EU in the region. According to ECLAC data, the United States was the most damaged by the trade diversion towards Asia, since between 2000 and 2010 saw its share in Latin American imports reduced from 49% to 32%, and in sales, from 58% to 40%. Therefore, China has emerged, not only as an alternative to the EU –which has kept its commercial position stable–, but also to the US. This reduces the asymmetric dependences on Washington and, although it creates new risks –the sustained Chinese demand of commodities and the deindustrialization–,

increases the region’s autonomy”¹¹.

Furthermore, the boom of the Foreign Direct Investment (FDI) of the EU towards Latin America in the 1990s lost momentum with the beginning of the 21st century due to the channeling of these resources towards the new EU member countries and to the crisis itself Europe is suffering. In addition, the Latin American lack of competitiveness in relation to Asia discourages the arrival of European investments –in the last fifteen years Latin America and the Caribbean is the only region in the world that is losing weight as a receptor of European FDI–. It is estimated that the EU directed around 60% of its FDI towards the Eurozone itself and the one targeted towards developing countries does not go to Latin America and the Caribbean but towards other European countries outside the EU, Asia and Africa. Even the EU’s destination of FDI towards Latin America is very concentrated: Brazil and Mexico absorb three quarters of the total.

¹¹ Susanne Gratius, *Europa y América Latina: la necesidad de un nuevo paradigma* (Europe and Latin America: the need for a new paradigm). FRIDE, Madrid, 2013 available at <http://fride.org/publicacion/1104/europa-y-america-latina-la-necesidad-de-un-nuevo-paradigma>.



“The EU’s destination of FDI towards Latin America is very concentrated”

» **Readjustment of the relation between Latin America and the Caribbean and Europe:** China’s rise has coincided with the crisis in the United States (2007-2009) and in the EU which has continued until now. The crisis in the EU – institutional, in the last decade, and economic since 2008– has caused Europe to lose much of its charm and appeal in the eyes of Latin America as a role model and, for its part, Latin America has gained it during the known as “Golden Decade” (2003-2013), in economic autonomy – the majority are already middle-income countries– and has tried to gain own specific weight in the geopolitical area as well as with the creation of bodies such as CELAC.

In relation to the first factor, the economic crisis in the EU has caused the fall in European investments, in trade, in remittances from the EU and in the Official Development Assistance (ODA). Besides, this has been accompanied by a change of priorities in the EU: the crisis in Ukraine and the Greek crisis have accentuated the period of

European introspection. Actually, the alienation between the EU and Latin America is a long process which is rooted in the enlargement of the EU towards the East, countries with little links with Latin America and the Caribbean, region, in addition, which they viewed as a competitor regarding agricultural production.

With respect to the second factor, the one of a greater regional autonomy, as stated by Sanahuja, “it is not about, as in the past, a performance of external actors –either the United States and/ or the European Union– involving themselves, helping, collaborating –not to use other less politically correct terms–, to resolve the region’s problems. Now the region is very aware of the fact that these problems are of a different nature and, specially, has a very clear will to try to solve them by itself, with a different relation with those external partners”¹².

- **The structural problems of the relations:** The transatlantic relationship also suffers from internal

¹² José Antonio Sanahuja, *La UE y la CELAC: revitalización de una relación estratégica* (The EU and the CELAC: revitalization of a strategic relation). EU-LAC Foundation. Hamburg, 2015, consulted at http://eulacfoundation.org/sites/eulacfoundation.org/files/Published%20version_ES.pdf.

“The relationship’s
stagnancy has become
the norm”

and structural problems which could be summarized as the excess of expectations regarding what could be achieved thanks to this relation, and the underlying disagreements in economic matters. These are two hindrances which have not been able to be solved despite all these years of relations, turning it all into a big burden.

The relationship’s stagnancy has become the norm over the last few years, especially because of the widespread feeling that there is a big gap between the expected outcomes and the goals actually achieved during the last thirty years of institutional relations. What these unfulfilled high expectations have eventually brought about is the beginnings of scepticism on both sides. In the words of Julio María Sanguinetti, the former president of Uruguay, *“Europe is right to feel like this towards Latin America, which has always looked divided, sometimes very frustrating, and still quite complex, and to which staying grounded in reality is so difficult (...) In Latin America, on the other hand, there also exists a kind of skepticism towards Europe because, back in the day, the agrarian policies divided us...*

Europe never fully understood our needs”¹³.

This can be seen, for example, in the economic and commercial fields, in which Latin America is far from becoming the strategic partner for the EU, as it was contemplated in 1999. This did not happen for three reasons:

- » **Low commercial exchanges:** In the field of trade, the exchange levels between both regions are low: in 2009, they barely reached 5.9% of the European commerce with the rest of the world. This situation has deteriorated with the Eurozone crisis and the emergence of China, all of which has further weakened the dialogue of Europe as a trade partner for Latin America and the Caribbean. As the UNECLAC remarks, the EU is far from reaching the commercial importance of the United States, Latin America’s main trade partner, which accounts for about 35% of the foreign trade of the region. Moreover, the relationship between Europe and Latin America is extremely unbalanced: over 90% of

¹³ Julio María Sanguinetti, *Ni escepticismo ni utopía* (Not skepticism nor utopy) Adrián Bonilla and María Salvadora Ortiz (Compilers) at *Balances y perspectivas de las relaciones entre la Unión Europea y América Latina y el Caribe* (Balances and perspectives of the relations between the European Union, Latin America and the Caribbean). Flacso. San José, 2012, consulted at <http://eulacfoundation.org/sites/eulacfoundation.org/files/pdf/De%20Madrid%20a%20Santiago.pdf>.

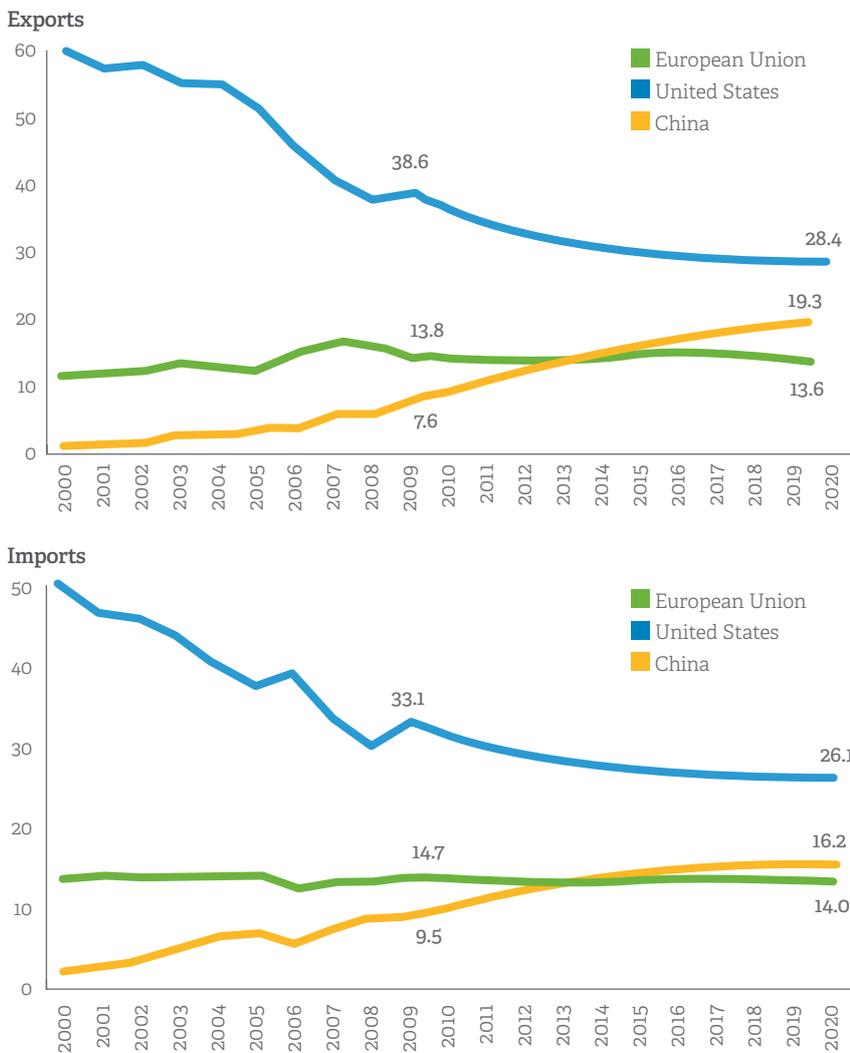
the European products which the region imports are industrial goods, half of those with a high technological content. On the other hand, 60% of what Latin America and the Caribbean sell to Europe are commodities

or manufactured products with a low level of elaboration.

Therefore, the crisis of the EU and its reorientation towards the East, as well as the changes in Latin America during this decade, have caused a change of the mutual priorities. Europe is not as important for Latin America anymore, even though the EU is still its main investor. Their relations have branched out, and now Asia and the Pacific region lead the commerce with Brazil, Chile, Colombia and Peru, while Central America and the Caribbean have increased their interdependence with the United States. The external economic relations of the EU – dominated by Germany – are increasingly focused towards Asia. In 2011, 40% of the EU imports came from this continent, while Latin America did not even reach 6% trade, according to data from that same year.

Jean Grugel points out that, in this sense, “*bi-regional negotiations always run aground at the same point: economic aspects. They have become the Gordian knot of the bi-regional relationship, and the modest advances in*

Graphic 1 Latin America and the Caribbean (16 countries): participation of the main destinations in the total of transactions, 2000-2020 (in percentage)



Source: ECLAC

“Only 5 out of 33 Latin
American countries are
big partners for Europe”

the economic relations have always entailed strong critics about how small their relevance was in comparison to the economical bonds that both regions have with other areas of the world. This has led to questioning the relationship, in a period of growing economic globalization, where inter-regional agreements are seen with suspicion in terms of the World Trade Organization (WTO) rounds of negotiation”¹⁴.

- » **A very focused relationship:** Only 5 out of 33 Latin American countries are big partners for Europe. Argentina, Brazil, Chile, Colombia and Mexico represent 75% of the commerce from and to the EU. Meanwhile, 5 European nations (Germany, Spain, France, Great Britain and Italy) take up almost 60% of the Latin American sales.

Besides, the relationship has historically been burdened by the Latin American heterogeneity, which has never (not even after the creation of the UNECLAC) managed to speak in unison. The

EU, having so much trouble in finding a spokesperson to channel the relationship, has progressively lost interest in Latin America, focusing more in its relations with USA and China, while expanding to the East. Andrés Malamud, assistant researcher in the Institute of Social Sciences of the University of Lisbon, points out that in this sense the old maxim still applies: “What number should I dial if I want to speak with Latin America?” This Henry Kissinger clever joke about Europe could be perfectly applied to the New World. Latin America is purportedly linked by its language, history and culture on top of its geography, and so a coherent international behavior is expected by some. This is what the European leaders must have anticipated when they summoned the first summit between the EU, Latin America and the Caribbean in Río de Janeiro in 1999. This was followed by five others, and yet today Latin America is just as far from having a common phone number –even less so, if you count the Caribbean

¹⁴ Jean Grugel and Borja Guijarro, *Entre las expectativas y las posibilidades: las relaciones económicas Unión Europea-América Latina tras treinta años* (Between expectations and possibilities: the economic relations European Union-Latin America thirty years later). University of Sheffield, 2011.



“What number should I dial if I want to speak with Latin America?”

as part of the region—. The careful observers realized this at the very beginning, but it is only recently that the EU authorities seem to have acknowledged it. Ever since, it has decided to keep on with the routine of the biannual summits”.

- » **The next commercial mega-agreements:** The outlook we have analyzed so far faces a new challenge in the second half of this decade due to the reconfiguration of global commerce. The two biggest transoceanic commercial agreements being negotiated right now –the Transatlantic Trade and Investment Partnership (TTIP) between USA and Europe, and the Trans Pacific Partnership (TPP) between USA and the Pacific countries– are not only going to transform the commercial layout of the world, but their effects are also going to reach Latin America and affect the relations between the UNECLAC and the EU.

As Enrique V. Iglesias points out, “in the last

years two new initiatives have started up with the aim of promoting two big commerce and investment agreements which may change the global layout of commercial relations. One of them is the TTIP agreement, which would link the United States to the European Union, and the other has been built around the Pacific area for the last years. It is not possible to ignore the huge repercussions that these changes in international relations will have over global commerce and the investment in Latin America”¹⁵.

Thus, the biggest mystery now is how these two mega-agreements will affect Latin America, especially given that the region does not fall within the TTIP. Opinions are divided in this respect. Some analysts see the glass half full. This is the case of José Ignacio Salafranca, former Spanish deputy at the European Parliament, for whom “*the European Union has agreements with Mexico and Central America, and because of this the region will not suffer a negative impact*

¹⁵ Enrique V. Iglesias, *Nuevos acuerdos regionales: riesgos y oportunidades* (New regional agreements: risks and opportunities) at María Salvadora Ortiz (Compiler), *Las Américas y la Unión Europea ante los nuevos escenarios en las relaciones comerciales y políticas* (The Americas and the European Union facing new settings in the trade and political relations) Flacso. San José, 2014. At <http://segib.org/sites/default/files/las-americas-y-la-ue.pdf>

**“The region does not
fall within the TTIP”**

from the negotiations of this agreement between the European Union and the United States. Quite the opposite: this agreement will probably favor the demand of commodities from other regions and will benefit the export of products from Latin America towards this greater transatlantic market. The European Commission analysts assure that, independently from the beneficial effects that both parts will experience, other areas of the world will also be positively affected, with an impact of over 100 billion euros per year”¹⁶.

Other analysts remain more cautious regarding the potential effects of these agreements on Latin America. Such is the case of Federico Steinberg, analyst and researcher at the Elcano Royal Institute, who describes these results as “uncertain”, since they may stimulate global commerce on the one hand, but they may also disarticulate the regional markets on the other, shattering the integration processes even further.

Following Steinberg, it may be concluded that Latin America as a whole could experience an increase in its exports,

since it mainly exports commodities, where an eventual diversion of trade would be low. Even so, it could damage the countries which hold bilateral agreements with USA and the EU but which are not big commodity exporters, such as Mexico or the Central American countries.

From a geopolitical perspective, the effects are even more difficult to predict: while the countries that constitute the Pacific Alliance are partly integrated in the TTP –three out of the four member countries (Mexico, Chile and Peru) are participating in the TTP negotiations–, others like Brazil could become isolated. According to Steinberg, *“Latin American countries could lose policy space, which would create flexibility problems in their development and export diversification strategies. In order for Latin America to really be able to take advantage of this new commercial situation, a higher degree of integration would be needed in the Latin American market, so that the region can benefit from the economies of scale and be integrated in the global supply chains*

¹⁶ Ibidem.

“The time has come
to reactivate, rethink
and reconsider the
bonds between Europe,
Latin America and the
Caribbean”

*beyond the exportation of
commodities”¹⁷.*

Something does look clear:
the effect will not be even,
given how heterogeneous
the region is, and also
given the heterogeneous
nature of the relations and
commercial bonds that
the different countries
from this region keep with
USA and the EU.

3. THE MAJOR AXES OF THE REACTIVATION OF THE NEW TRANSATLANTIC LINK

In this way almost forty
years from the beginning of
institutionalised relations and
with a history of five hundred
years the time has come to
reactivate, rethink and reconsider
the bonds between Europe, Latin
America and the Caribbean. On
the whole, there is an academic
consensus –and a political one–
on the need for such changes.

To reactivate that relationship it
is necessary to address it from a
pragmatic point of view and start
gaining ground in the short-term
to achieve the main goal. This
final goal –the philosophy that
should permeate all the project
and the changes undertaken– is
none other than managing to re-
launch the bi-regional association
sustained on shared, perceived
and heartfelt values, both by the
EU and by Latin America and the

Caribbean, as useful elements
to find solutions to the main
problems and challenges that
both parts currently face.

For this reason, in this reflection
developed here, the following
measures and reforms are
proposed in a comprehensive
manner to motivate the
relationship. Reform measures
that refer on the one hand, to
the change of the relationship
format and, on the other hand,
to the development of an agenda
which, dealing with the challenges
that both societies face and are
affected by, give more legitimacy
to such relationship:

- Changes in the format of the
relation EU-CELAC
- Gaining social legitimacy

CAMBIOS EN EL FORMATO DE LA RELACIÓN UE-CELAC

The summits EU-CELAC should
gain effectiveness and their results
must have not only continuity
over time but also a specific
weight regarding its societies. For
this reason, it is necessary:

- **Transform the format of
the summits:** The aim is that
the European Union-CELAC
meetings have a more efficient
format, with less protocol,
more depth in contents and
give rise to short and concise
documents on a specific

¹⁷ Federico Steinberg, *América Latina ante el TPP y el TTIP* (Latin America facing TPP and TTIP). Elcano Royal Institute. Madrid, 2014. File 44/2014 - 30/6/2014, consulted at http://www.realinstitutoelcano.org/wps/portal/rielcano/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/comentario-steinberg-america-latina-ante-tpp-y-ttip

“The aim is that the
European Union-CELAC
meetings have a more
efficient format”

topic relevant for both parts. Meetings that allow a direct and honest dialogue between the main leaders.

So that the summits gain credibility and legitimacy amongst the population it is necessary to turn these meetings into something closer to the citizens, with tangible achievements, follow-up mechanisms between the summits and conclusions far removed from unattainable utopias and excessively ambitious agendas.

- **Design a new plan and a renewed narrative:** The Summits came into being in 1999 with a clear aim and a spirit which, over time, has disappeared. In the words of the former president of Uruguay, Julio María Sanguinetti: *“We have been swinging between utopia, the idealisms of the foundational meetings and the pessimism that that has installed itself progressively”*.

In the face of this situation the rhetoric that sustains this relation and the objectives to be achieved have to be renewed. Objectives that should not be so ambitious that their non-attainment lead to despondency –as has occurred recently-but that,

at the same time, should not be so short-sighted and narrow-minded that they make the relation something pointless– which is the risk that exists nowadays.

As José Antonio Sanahuja points out there is a *“fatigue in the relation that is only possible to renew recreating the narrative and renewing the plan and the objectives. A plan and objectives that are based on the premise that the relationship should be between equals, mutually beneficial and contribute to the sustainable development in diversity”*.

- **Building with political commitment a relationship based on clarity and with a strong leadership:** The former should be provided by the leaders of both sides of the Atlantic. The former president Sanguinetti himself points out that *“it is necessary to provide the crisis with a dose of willingness not to turn this into a utopia, but to move forward on those matters that are achievable. The point is to focus on what we can do and move forward”*¹⁸.

The latter, continuity requires a solid institutional framework. Work is needed, a lot of continuity work between summits. For this reason there

¹⁸ Julio María Sanguinetti, *Ni escepticismo ni utopía* (Not skepticism nor utopy) Adrián Bonilla and María Salvadora Ortiz (Compilers) at *Balances y perspectivas de las relaciones entre la Unión Europea y América Latina y el Caribe* (Balances and perspectives of the relations between the European Union, Latin America and the Caribbean). Flacso. San José, 2012, consulted at <http://eulacfoundation.org/sites/eulacfoundation.org/files/pdf/De%20Madrid%20a%20Santiago.pdf>



“Continuity requires a solid institutional framework”

is a team of civil servants, led by a strong political leadership, so that each summit is not an eternal return, but a chance for continuity and effective monitoring of those agreements reached in each meeting.

In that sense, more than ever, the problem of the relationship between the EU and Latin America and the Caribbean is a doubly political problem:

- » **Of leadership on both sides:** In Europe, on the one hand, because it has moved its attention towards the East and towards Asia, and because it is currently concerned about the situation in Greece, and its implications for the viability of the European project. On the other hand, in Latin America, the heterogeneity, the internal divisions (the axis of the Atlantic and the Pacific) and the geopolitical confrontations (Mexico-Brazil) have made it impossible for this region to speak with one voice.

The Latin American project should be resumed with force in Europe together with, not only Spain and Portugal, but also with the important European hubs which in the United Kingdom, France and Germany

have strong political and economic interests in Latin America and believe that this transatlantic link should be reinforced. Moreover, there is a challenge that must not be avoided: to convince the countries from Eastern Europe inside the EU that Latin America is much more than a competitor in commercial and agricultural matters.

On the Latin American side, the leadership can only be the result of the concerted action of the two main regional powers, Mexico and Brazil, as articulators of the region and of the transatlantic relationship.

The serious problem is that these leaderships are far from being reached: the Mexico-Brazil axis does not exist and, what it is worse, it would be far from the possibility of being achieved, as they do not even coordinate their initiatives in the G-20 Summits. And in Europe, with the influence of Spain and Portugal reduced, it is Germany who should see this relationship in a more global way without just being focussed on its important relations with Brazil.

- » **Of lack of political imagination:** “Politics

“Latin America is much more than a competitor in commercial and agricultural matters”

are important” and the politicians on both sides are those that should recreate the project, filling it with new life and finding new paths through which the relationship should be channelled, avoiding the dead-end road, only in appearance dead-end, in which they are at present. The relationship currently has an important deficit of “political capital” and that is where investment should go in the short-term.

In fact, as Félix Peña, professor at the National University of Tres de Febrero (UNTREF) of Buenos Aires, points out, *“the possibility of demonstrating the validity and efficiency of the system of the interregional Summits will depend, to a great extent, on the interest that the political leaders of the EU show in reaffirming the idea and in updating the goals”*. In reality the intention to build a strategic relation between the EU and Latin America and the Caribbean has existed since 1999, which at the moment of truth, has never been fully developed, nor given a real content, nor a global vision.

In 1999 the bi-regional relation acquired a

new narrative based on linking these two regions trying to build a socio-economic sustainable model, with a fluent political dialogue within a framework of intensified commercial relations through a network of association agreements with sub-regional entities. One of the roots of the current deadlock in the relationship is the fact that the narrative of 1999 is no longer sufficient to explain the bi-regional relationship. The evolution of international trade makes that narrative of 1999 still necessary but not sufficient: an important part of the agreements are already endorsed with Central America, the Caribbean, Colombia, Ecuador and Peru; and will be signed sooner or later with MERCOSUR.

This new narrative should strengthen the relationship within itself: have more confidence, a more honest, direct and very political dialogue with very fluent, open and transparent communication channels that help understand the concerns of each of the parts. A dialogue on a political level with a more

“This new narrative
should strengthen the
relationship within itself”

strategic vision to which political capital must be added. A political capital that should come from both parts and not only from the EU. The agenda must be fine-tuned and should not aspire to all-inclusive proposals, but learn how to manage those matters on which they disagree on the basis of an agile and fluent communication.

The most evident case of that lack of communication between both parts (EU-CELAC) is found in the negotiations between the EU and the USA. As Rafael Estrella, vice-president of the Real Instituto Elcano and president of the Ibero-American Network for International Studies (RIBEI), points out *“an effort will be required to explain to these countries and, in particular, to Mexico, but also to the other countries, that this is not a northern bloc that is strengthened in order to weaken the southern bloc, quite the opposite. That is why it will be important that the European Union give credit to this message, this speech, with practical facts and with a wider vision not only of the political dialogue, but even beyond this,*

updating and deepening the existing relations and closing agreements with Brazil and the other members of MERCOSUR”.

- **Encourage a greater participation of civil society:** The relationship between Latin America and the Caribbean and Europe goes beyond economic, commercial, historical and cultural matters. Nowadays, it is a crossroad of relations and networks on both sides of the ocean. These professional and academic organizations, NGO, etc. have a lot to say and a lot to give opinions about, and it is necessary to take them into account to enliven the relation and give it a useful content for the societies on which they operate.

It is necessary to open the relationship to the new actors of the civil society and to build the appropriate mechanisms so that a direct dialogue with official levels can exist. This new relationship should, also, base itself on specific and tangible results which be understood by society, rather than on impossible, long and pompous declarations of intentions or ambitious agendas out of touch with reality which, moreover, never end up materializing themselves in the way that they were planned from the beginning.



“Open the relationship to the new actors of the civil society”

GAINING SOCIAL LEGITIMACY

It is not just necessary to change the philosophy that permeates the summits or even the actual dynamics and functioning of them, but, in addition, the link should gain in social legitimacy.

To progress in that legitimacy and for this relationship to take roots in both societies it is necessary to promote projects which are important for the population of both regions. To tackle in a coordinated way cross-cutting problems which affect both societies and which refer to institutional matters –deepening of democracy–, change and transformation of the productive matrix and impulse to social development (fight against poverty and inequality).

- **Improvement of the quality of democracy:** The EU and Latin America and the Caribbean suffer, in different degrees, a crisis of their democratic models especially because of the increasing disaffection of the citizenship towards the political parties, their representatives and the institutions. In Latin America, the new agenda of the emerging middle classes is not being channelled in a proper way by the different States of the region, or by the political parties. The lack of response to the requests for better public services –transport, health service, education and public safety– and for greater inclusion and equality of

opportunities is behind the surge of social mobilizations and protests which the region has experienced in the current decade (Chile, Brazil, Argentina, Mexico, etc.).

In Europe, meanwhile, the long economic crisis has had social and economic consequences and also political ones: the party systems, on which the different democracies of the area were based, until now very solid, are suffering profound changes. The old forces that dominated the political panorama enter into crisis in the presence of the rise of radical and even populist forces which pick up the social discomfort towards politics and politicians –the cases of France and Greece are paradigmatic in that respect–. In addition, in different degrees and in various ways, corruption is an important element present on both sides of the Atlantic. A phenomenon which has a very strong element of corrosion and illegitimacy for the system and which encourages disbelief and disregard towards the democratic model.

Thus, it consists in a challenge shared by the EU and by Latin American and the Caribbean. The interchange of experiences between both areas is vital for the mutual learning of what should and what should not be done. The European Union

“The interchange of
experiences between
both areas is vital”

has been capable of building efficient, autonomous and solid institutions –at least in comparison with what occurs in Latin America–. In addition, it has a Welfare State model that, although with problems and questioned, continues to work and respond, on the whole, to the demands of the society on issues concerning public services and the fight against delinquency. The contribution in both fields of the EU would be very important and would provide the region with a distinguished role in the Latin American scenario. In matters of security, the European experience in the fight against the lack of public safety and against organized crime is vital for Latin America where 12 of the 18 Latin American countries consider that insecurity is the main problem.

In addition the European experience can be very valuable when it comes to creating an efficient bureaucracy for the management of public affairs, just when social demands and those of the emerging middle classes require better public services and a transparent and non-corrupt management. The strengthening of institutionalism depends on improving the capacities of the State –broadening the fiscal basis– in order to make public expenditures and social

politics more efficient and effective so as to boost public services –education, health care, transport and public safety– which the emerging middle classes demand.

- **Change in the productive matrix:** Latin America and the Caribbean have a serious deficit in their current productive matrix which is not based on innovation and has not gained in productivity, efficiency and competitiveness. In addition, it has not diversified either its markets or its export products (except cases like those of Mexico and Brazil). The rise of commodities makes the region very exposed to economic fluctuations.

The road to avoid this situation, with the consequent risk of vulnerability, depends on opting for productive modernisation that allows the region to diversify its productive structure and its exportations to move towards a productive model with greater added value and technological content. As Santiago Mourao, who was managing director of the European Department of the Ministry of Foreign Affairs of Brazil, points out, *“our relationships have to be structured in a relation whose main vector is science, technology, innovation and education. With clear goals (...) the clear goal here is to*

“The rise of
commodities makes the
region very exposed to
economic fluctuations”

improve competitiveness as it is what we need, this is the biggest challenge that we face”¹⁹.

The increase in productivity, especially of the SME’s, is a common deficit in Europe and Latin America. Europe can learn from Latin America in respect of ability for entrepreneurship and has a lot to offer in innovation, development, competitiveness and productivity in the promotion of the role of the SME’s as growth engines, as well as in higher education.

In that sense, the EU is a partner for Latin America and the Caribbean of great relevance for:

- » Promoting investment, quality employment creation and technology transfer.
 - » Promoting an economic cooperation focussed on higher education and on R&D programmes.
 - » Supporting small and medium-sized enterprises with exporting ability.
- **To fight against inequality:**
Inequality is a historical

problem in Latin America and emerging in Europe, thus itself becoming a space in which both regions can collaborate. An inequality which is social but also generational –youth unemployment is a serious problem on both sides of the Atlantic– as well as of gender –worse employability of women implies worse salaries and fewer possibilities to access decent jobs–.

Once the cycle of super prices of commodities within the so-called “Golden Decade” (2003-2013) is finished, Latin America is facing an economic cycle change. To avoid the slowdown it is necessary to start a new period of changes which try to build a more competitive, productive and innovative economy. The great challenge on both sides of the Atlantic is that of social inequality and that of promoting politics which support social cohesion. The central axes which should establish the social cohesion strategy in Latin America, and where the EU can play an important role, are three, which are focussed on building a system of universal social protection based on two strong pillars: solid institutions and a progressive

¹⁹ Santiago Mourão, *La integración UE-CELAC en el marco de un escenario cambiante* (EU-CELAC integration in the framework of a changeable scenario), in Adrián Bonilla (coord.): *De Madrid a Santiago: Retos y Oportunidades. Balances y perspectivas de las relaciones entre la Unión Europea y América Latina y el Caribe* (From Madrid to Santiago: Challenges and Opportunities. Balances and perspectives of the relationship between the European Union and Latin America and the Caribbean). Flacso. San José, 2012 downloaded from <http://segib.org/es/node/8329>.

“Latin America is
facing an economic
cycle change”

fiscal system. In this sense, the European experience can be an example when building in Latin America a universal Social Protection System, sustainable from a political and fiscal stance.

Moreover, the cooperation policy of the EU should be adapted to the challenges of those middle-income countries that at present are most of the countries of Latin America and the Caribbean, creating a wider agenda that contemplates not only the fight against poverty and destitution – typical in Central America and the Caribbean, as well as in areas of the Andean region– but also development and social cohesion. The challenge for most Latin American countries resides in finding solutions to the vulnerabilities inherent to the “trap of those middle-income countries”. A trap that can be summarized in the fall of productivity and competitiveness with regards to other emerging economies and with regards to the most developed countries.

- **Greater international prominence:** It is necessary to build a relationship in which both parts are seen as strategic partners on

the basis of shared values on global matters. That the EU-CELAC be, in the international sphere, an actor that works in a coordinated way in subjects such as the protection of Human Rights and democratic principles –a value of the Western world–.

Both regions face a changing world with new challenges. Together they will be stronger to face all those challenges. Separately, divided and fractioned, they will be able to propose very little in comparison with the dynamic emerging powers. As Jorge Valdez, executive director of EU-LAC Foundation, points out, “China is a reality; Asia, in reality, is the future. The challenge hereto is: are we going to face that challenge together or separately. And I believe that this is what can lead to this development of a shared global vision between Latin America and the European Union”²⁰.

4. PROPOSALS TO STRENGTHEN A STRATEGIC ALLIANCE

For the sake of clarity and with a desire to be very specific and direct, in this report five proposals are made to give a new boost to the Euro-Latin American relation.

²⁰ Jorge Valdez, Introduction, in *Bases renovadas para la relación Unión Europea, América Latina y El Caribe* (Renewed basis for the European Union, Latin America and the Caribbean relationship). *Actas del Seminario EU-LAC/GIGA*, 17 & 18 September 2012, Hamburg consulted at http://eulacfoundation.org/sites/eulacfoundation.org/files/actas_seminario_eu-lac-giga_2012_0.pdf

“China is a reality; Asia,
in reality, is the future”

CHANGES IN THE STRUCTURE OF THE RELATIONSHIP

- **The creation of a permanent forum of chancellors with annual meetings to provide political content and strategic approach to this relationship:** The main goal is to maintain an open, constant and transparent dialogue between both partners with a constant communication. In the present situation to rebuild confidence between the two sides of the Atlantic makes reference to “putting one’s cards on the table” in anything affecting the negotiations that the EU maintains with the USA and those which are conducted by different countries of Latin America, especially in what refers to how these new alliances and agreements can affect the bi-regional relation.

Without mutual confidence, nowadays very weakened and undermined, any effort to promote this relationship again would lack content and would end up being unfeasible.

- **Promotion of the EULAC Foundation not only as a centre of academic reflexion but also as a tool to give continuity to the initiatives of the summits during the period between summits:** The need for an effective and autonomous bi-regional executive structure of the Summits is more and

more evident; a Euro-Latin American request to develop the approved declarations.

The role that the Ibero-American General Secretariat (SEGIB) plays in the Ibero-American Community of Nations is the one that should be played by an organization like the EULAC Foundation not only as a forum of reflection but also as a coordination tool between actors to give follow-up, continuity and strategic meaning to the relationship.

- **Diversification of the relationship:** Even though the dialogue and the bi-regional link have to continue, the relation must diversify and structure itself in different levels that some experts define as “variable geometry”.

The new design of the relation diversifies the types of links between the two regions. As professor Sanahuja points out “the bi-regional Association has to be based on the combination of common strategic frameworks and an architecture of “*variable geometrics*” with universal vocation –open to all–, which according to the subject allows changing groups of countries to be made to cooperate more intensely and make progress in different matters of the bi-regional agenda, or, given the case, for a political dialogue which

“The new design of the
relation diversifies the
types of links”

*in the wider bi-regional
framework is not feasible”²¹.*

A relationship that should be developed in three differentiated levels to gain flexibility and agility and to adapt itself to the Latin-American and Caribbean reality:

- » Strategic alliances with the two big regional powers –Mexico and Brazil– and with three countries with strong specific weight – Argentina as member of the G-20; Chile as the most developed economy of South America and as member of the OECD; and Colombia as fifth regional economy–.
- » Privileged dialogue with small and medium sized powers –Venezuela, Ecuador, Bolivia, Peru and Uruguay–.
- » Maintenance of the traditional North-South cooperation with the two big regional blocs that include those countries with lower development levels: the Caribbean and Central America.

Susanne Gratius, professor of Political Sciences and International Relations in the Autonomous University of Madrid and associate researcher in the Foundation for International Relations and Foreign Dialogue (FRIDE), points out that *“the tools of cooperation should adjust themselves to these three groups of countries instead of this current practice of “coffee for everyone”. Cooperation for development in both ways. With regards to the future, it does not make much sense to expect the Latin American countries with a medium and high income to maintain an important position in the European official development assistance flows. Although under the umbrella of the “South-South cooperation”, Brazil and other Latin American powers belong to a group of new donors. The triangular cooperation between the EU and the new Latin American powers in third countries inside and outside the region will be the future cooperation formula. In a near future, Brazil could also be an important investor in European countries”²².*

²¹ José Antonio Sanahuja, *La UE y la CELAC: revitalización de una relación estratégica* (The EU and the CELAC: revitalization of a strategic relation). EU-LAC Foundation, Hamburg, 2015, consulted at http://eulacfoundation.org/sites/eulacfoundation.org/files/Published%20version_ES.pdf.

²² Susanne Gratius, *Europa y América Latina: la necesidad de un nuevo paradigma* (Europe and Latin America: the need for a new paradigm). FRIDE, Madrid, 2013 available at <http://fride.org/publicacion/1104/europa-y-america-latina:-la-necesidad-de-un-nuevo-paradigma>.

“Cooperation for
development in
both ways”

NEW PILLARS OF THE RELATION

- **A new agenda of cooperation with middle-income countries:** The world has changed profoundly in the last fifteen years and the cooperation policies of the EU have not done so at the same rhythm, as they have not been sufficiently flexible and agile. The EU lacks an agenda and a strategy to carry out the cooperation relations with these middle-income countries as are most of the Latin American nations now. European cooperation has been historically focussed on cooperation with the poorest countries, but has not managed to adapt itself to the changes in the region. Middle-income countries need another type of cooperation especially to avoid the so-called “trap of the middle-income countries”.

This new agenda should be more focussed on social cohesion policies –quality employment– and on the development of competitiveness and productivity through innovation –support to technological transference and promotion of the creation of a common space of higher education–. It is not about abandoning the North-South Cooperation with the areas of highest poverty levels –Central America and the Caribbean–

but about diversifying cooperation, adapting it to the needs of middle-income countries which need to be more competitive and productive by means of a decisive commitment towards innovation and investment in physical and human capital.

In this sense the strengthening of the Latin America Investment Facility (LAIF) is considered one of the most useful tools as the investments that it promotes are directed towards strategic sectors such as energy, environment and transport, all of them key sectors for improving the quality of development. It depends on a commitment to unblock several of the bottlenecks of the regional economy: both the social and physical structure at the same time, and encourage the creation of SME´s. Instruments such as LAIF adapt themselves better to the new challenges that the majority of the countries of the region face up to, more characteristic of middle-income countries. This type of investment also looks for sustainable development and the preservation of the environment with regards to climate change. The environmental objectives are very present in the LAIF since European investment is a world leader in subjects related to protection of the environment, climate change and corporate social responsibility.

“This new agenda should
be more focussed on
social cohesion policies”

As a recent report of the EULAC Foundation points out “*cooperation policies cannot be limited to classic international help and to the North-South relation pattern in which, to a large extent, they are based on, and they go beyond the simple transfer of resources of the North-South official development assistance and its efficiency agendas. They consist more in global development policies than in help policies, and the latter, to be effective, will have to be replaced in wider international cooperation frameworks, capable of mobilising the collective action and ensuring the provision of global and/or regional public goods. The same can be said about the emerging South-South cooperation of Latin America and the Caribbean, which should be placed in a multilateral framework, and not only answer the national or regional agendas, so that they play a more relevant role in global development governance and in the definition and achievement of the objectives and goals of sustainable development which will be defined from 2015 onwards, once the cycle of millennium development goals ends*”²³.

Apart from the subject of cooperation, the common agenda must treat, from a dialogue between equals, topics which concern both parts: the construction of a governance at a global level, or shared problems such as the fight against climate change, the preservation of natural resources like water and the efficient use of alternative energies; the fight against drug trafficking and organised crime, and against insecurity in urban areas (maras and youth gangs), as well as the management of migratory flows.

- **A fluid relationship with civil society:** The summits and the Euro-Latin American link cannot live turning their backs on society, but they should legitimate their existence in it and include it in their own functioning.

For that reason, to begin with, a powerful webpage of the Summit should exist that allows citizens to come closer to the advances of the process, even involving the different sectors of civil society. It is society that should enliven and give meaning and content to this link.

How? Implementing “from the bottom” the presence of the

²³ José Antonio Sanahuja, *La UE y la CELAC: revitalización de una relación estratégica* (The EU and the CELAC: revitalization of a strategic relation). EU-LAC Foundation, Hamburg, 2015, consulted at http://eulacfoundation.org/sites/eulacfoundation.org/files/Published%20version_ES.pdf.



“The construction of a governance at a global level”

different networks of that civil society, including the business and academic spaces.

In order to give shape to this business and academic space and to the different social organizations it is necessary to build a structured, institutionalized and formal framework on solid pillars which already exist: the ones of a common history and a common identity and above all based on the benefits that come from investment in human and economic capital on both sides of the Atlantic.

How would this business contribution to the formation of a Euro-American space be consolidated?

Through a more fluent and bi-directional relationship with society, creating joint areas of academic reflection, sharing experiences and giving answers, within the business framework, to the social demands and increasing the level of coordination and alliances between companies from both sides of the Atlantic.

The institutional relationship should contribute to the creation of platforms which help develop the Euro-Latin American business and academic link which, should also accept not only big companies, but also those small and medium sized enterprises and be aware of the needs and demands coming from civil society.

This space can also constitute itself as a “virtual hub” which facilitates the contact between businessmen, academics and social organisers on both sides of the Atlantic to carry out common alliances and projects and insert the two regions in the production of value chains.

5. CONCLUSIONS

The future of the relationship between the European Union and Latin America and the Caribbean is at stake during the EU-CELAC Summits. The relation, to gain legitimacy and not forget the purpose for which it was created, should leave the current and already too long standstill –with a few moments of renewed euphoria such as in 2010– carrying out a set of structural reforms and changes which, at the same time, require important consensus between actors, as well as political imagination and boldness between the leaders of both sides of the Atlantic.

It consists in changes which, in short, transform the relationship from top to bottom, from the summit to the plain. From the “top”, re-politicizing –adding political capital– the link, removing red tape from it and introducing a strategic approach, at the same time as opting for a more fluent, clear and direct relation. From the “bottom”, converting the link and its institutions and mechanisms in tools that can be seen as useful and necessary for both societies and for the citizens that integrate

“Changes which, in short, transform the relationship from top to bottom”

them. Only in this double way the EU-CELAC association will gain the legitimacy that, to a large extent, has gradually lost over the last years.

History is important and it lays the foundations from an ideological and identity point of view of what it wants to attain, but history is not enough to reinforce the roots which should sustain the relationship. The world has change, and is going to keep changing in many spheres: geopolitics counts on new emerging actors (China) which coexist with the traditional powers (USA and the EU); the commercial links have become more diversified and complex, and these middle-class societies are much more difficult to govern.

The EU-CELAC link should react and find answers from a pragmatic stance in the face of these changes. It is necessary to have a global and strategic vision in order to give itself total meaning. However, many of the proposals must touch ground so that they have visibility and

practical effects in the day to day life of the citizens on both shores. In those subjects that are truly central for development, which concern both sides of the Atlantic and which have as a final objective the improvement of the quality of life.

As José Ortega y Gasset said referring to the Argentinians but which nowadays is a comparable thought to the Euro-Latin American relationship: *“Argentinians! Get to the heart of the matter; get to the heart of the matter! Leave behind previous personal questions, suspicions, narcissisms. Do not boast about the magnificent leap that this country will take the day that its men decide for once and for all to, bravely, open their hearts to things; to take responsibility for and to show concern for them directly and without further delay, instead of living on the defensive and of having their eminent spiritual powers, their curiosity, their perceptiveness, their mental clarity, all hijacked by personal complexes, restricted and paralyzed”*²⁴.

²⁴ J.R. Lucks, *Literatura y reflexión* (Literature and reflection). Struo Ediciones. Buenos Aires, 2007 p. 185.

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Latin family businesses: more governance, better enterprises

by Manuel Bermejo

Madrid, April 2015

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LLORENTE & CUENCA

PRESENTATION

PRESENTATION BY ALEJANDRO ROMERO

LATIN FAMILY BUSINESSES: MORE GOVERNANCE, BETTER ENTERPRISES BY MANUEL BERMEJO, DIRECTOR OF EXECUTIVE EDUCATION AND PROFESSOR AT IE BUSINESS SCHOOL

1. INTRODUCTION: FAMILY BUSINESS AND CORPORATE GOVERNANCE
2. AN ETHICAL APPROACH TO THIS ISSUE
3. THE FAMILY BUSINESS OF THE 21ST CENTURY
4. THE TEN RULES TO MANAGE FAMILY/BUSINESS RELATIONS
5. ORGANIZING CORPORATE GOVERNANCE
6. A KEY PROCESS: SUCCESSION
7. FAMILY GOVERNANCE: FAMILY COUNCIL
8. BUSINESS GOVERNANCE: BOARD OF DIRECTORS
9. CONCLUSION. THE PARADIGM SHIFT IN FAMILY BUSINESS: FROM AN ABSOLUTE MONARCHY TO A FEDERAL REPUBLIC?

Human beings are born, grow, live and die. These are stages of our lives, phases which we cannot skip; they are part of our existence. The same can be said of enterprises. Companies are similar to a living being as they too go through various stages of development, although each enterprise is different and the duration of the aforementioned phases may vary.

As regards family businesses, there are several particular features that are inherent to this type of companies, which lead to several specific stages during its life cycle: founding, growth and handover.

A family business arises from an idea, an illusion, a dream of its founder. It becomes, from the moment of its inception, a key part in the life of the latter.

Just like that father who has his son in his arms for the first time, the wish of the founder when he creates the company is to see the enterprise grow, evolve and strengthen. In business terms, this is translated into business growth, expansion and internationalization.

However, this is not all that he desires, as the founder also wants his descendants to take over the operation of the company so that it lasts forever.

In this context, the question that must unavoidably be asked is: can both wishes be fulfilled? It all depends on the management and planning implemented during the various stages that the enterprise has to face during its whole life cycle.

As I was saying, family businesses have unique features, inherent to their condition and which determine the success therefor –or subsequent failure–. The emotional involvement, the sense of identity, of belonging, the existence of a shared culture and the leadership of the founder are some of the keys to achieve business growth and success in a family enterprise.

Nevertheless, these businesses also have certain negative attributes due to the family nature of these corporations, such as the overlapping of responsibilities or conflicting interests.

First generation companies greatly depend on the founder and, thus, significant difficulties arise when the operation of the company is handed over. This transition calls for a wide range of changes: family relationships, ownership structures, management structures and leaderships must often be readjusted.

Therefore, when this “second dream” starts, new threats arise, such as the active or passive resistance to succession, fear of loss of control, lack of knowledge regarding the steps that need to be taken to achieve this end or mismanagement regarding internal and external communication.

However, threats during the growth and handover stages can be reduced, even removed, through a sound management and planning from the beginning and during the whole life cycle of the enterprise.

It is important for the founder to know that the growth of the family will entail conflicting interests and these need to be managed and solved. Likewise, measures need to be taken to avoid confrontations. To achieve this, it is essential to lead the communication process.

Furthermore, the founder needs to hold, until the end, the power to continue or destroy what he created and, logically, must plan the succession process. In this sense, it should be noted that the families that do a good job training young people to join the family business usually pay much attention to the dreams and needs of their children.

It is essential to create an environment where family members feel comfortable debating their dreams and common future, where the feasibility of the shared dream is permanently analyzed –when conditions change, the aspirations of people change too–, where solutions are sought in order to align the family needs with those of the company and where individual dreams are not below the needs of the business. Only so can a lasting success of the family business be guaranteed.

Anyhow, and although the aforementioned points are essential, the truth is that the success or failure of the process ultimately depends on the capacity of the family to achieve confidence in their successors. Thus, the five c’s must be met: Competence –of the family members part of the company–, Congruence –the family knows that the leader will do what he says–, Coherence –in relation to the principles of the family, promoting the interests of the family over personal interests–, Compassion –when facing difficult situations that might harm certain members of the family– and Communication –in relation to feelings and ideas, in a clear, consistent and timely manner by all members of the family and management team–.

In this sense, to ensure the success of the company it is essential to have a family protocol, i.e., a document that regulates and develops the rules of action and conduct bi-directionally between the property-business-family and establishes the framework for its development.

This is a framework agreement between the members of the family regulating the economic and professional relations between the family partners and the enterprise, as well as certain aspects within the management and organization of the latter. In fact, it goes beyond a mere agreement; it is a code of conduct for both the family and the business.

The objective of the protocol is to analyze, discuss and regulate conflict situations so as to objectively ensure the continuity of the enterprise and avoid, on one hand, family problems to affect business objectives and, on the other, family problems between partners of the company entailed by achieving business objectives.

In short, appropriately managing the appointment of new generations ensures business continuity and growth and, thus, is the cornerstone to make the founder's dreams come true. Few experiences can be compared to the huge satisfaction produced by managing a family business and seeing the enterprise thrive well into the future.

Alejandro Romero

Partner and CEO of LLORENTE & CUENCA in Latin America

“The desire of continuity is, therefore, key in this type of particular organizations”

LATIN FAMILY BUSINESSES: MORE GOVERNANCE, BETTER ENTERPRISES

1. INTRODUCTION: FAMILY BUSINESS AND CORPORATE GOVERNANCE

Nowadays, the importance of family businesses in the international arena cannot be denied; it can be affirmed that it is the main type of business. In a study carried out by EY, around 80% of the global enterprises were family businesses. This important role played by family businesses is also significant in the field of large corporations. Thus, family business and mismanaged family SME should not be mixed. Estimations show that 25% of the TOP 100 European Businesses are family enterprises. And within emerging economies, according to recent data collected by McKinsey, around 60% of the listed companies in said countries valued at over USD 1 billion are family businesses as well.

The qualitative relevance of family businesses and their contribution as regards job and wealth creation should also be noted. Indeed, in Spain these types of businesses account for 70% of the GDP and employ around 14 million people.

Thus, helping family businesses is the same as promoting the development of the society, given their great contribution in terms of employment, wealth and welfare. The clear advice that should be given to family businesses is to responsibly manage their businesses which, undoubtedly, depend on the creation and enhancement of

their corporate governance systems. That is the aim of this paper: to reflect on the governance of family businesses with a special focus on the Latin American context.

I like defining the concept of family business as a project and values that are shared for generations. The desire of continuity is, therefore, key in this type of particular organizations. To this end, family businesses must have an efficient system of corporate governance, since the object of corporate governance goes beyond its contribution to transparency and accuracy in financial statements. Promoting corporate governance translates into an essential contribution towards the management of assets, both tangible and intangible, which will ensure the feasibility of the continuity of the enterprise in the future.

For over two decades, I have been in constant contact with the context of the Latin American family business through my activity as Professor at IE Business School, lecturer at international events and advisor to several regional companies. This extensive contact restates the importance of institutionalization within family businesses.

Good governance translates into a quality leap towards excellence. The leading family businesses generate opportunities for economic growth and the creation of both wealth and jobs.

“Any organization, and particularly a family enterprise, must have an effective governance as the basis of the institutionalization of management”

Thus, they contribute to the creation of a strong middle-class. And this, in turn, entails balance and is the best possible guarantee for the consolidation of strong democratic states which foster prosperity. This is the degree of importance of the matter in hand, beyond the specific interests that each company has.

Corporate Governance is usually seen as an intangible. Thus, it is something unrelated to the urgencies of the business and, therefore, expendable. I think this is a clear mistake. Latin people also tend to focus on short-term issues. Making plans is difficult for us. The objective is not starting a debate between intuition and rigor, but to efficiently mix both attributes.

I believe that any organization, and particularly a family enterprise, must have an effective governance as the basis of the institutionalization of management. Nowadays, many family businesses are growing into regional or multinational corporations. In this expansion process, the credibility that the company can obtain through a rigorous and institutional management is crucial. Having efficient governance bodies as regards family and business, clear rules governing both fields, to establish the principles of the relations between them and a sound planning for business and family are elements that make the difference. Developing the business and attracting partners, talent or investors is simpler through the aforementioned

measures. Based on my experience in this matter, I have identified a series of critical steps to face the challenges of institutional management in family businesses:

- **Strong will to do it:** In my particular approach regarding today's organizations, Corporate Governance is, above everything, the watchtower of strategic thinking that should govern the activities of any company, regardless of its size, field or origin. That is, the space where companies should place their capacity to design their strategy, monitor its implementation and important affairs to sustain the business project.
- **Splitting family and business affairs:** Were we to dismiss this point, we would end up in a permanent situation of confusion and conflict of interests which would greatly hinder the continuity of the family business. Governance bodies should be created both for the family and the business, and measures should be implemented to promote communication between both areas. In fact, if we take a closer look at the largest family businesses in the world, the most common trend is to reduce the presence of the members of the family in governance positions, both regarding the business and the family, as well as upper management

“The presence of family members in management and governance allows, among many other things, to continue respecting the principles on which the company was founded”

executive positions. The presence of family members in management and governance allows, among many other things, to continue respecting the principles on which the company was founded. Value-based management is an asset that confers important competitive advantages in a family business.

- **Count on external assistance:** My experience as advisor to several companies in these processes shows that the contribution that independent advisors can make is a huge added value. An expert advisor provides good practice and helps the family to cope with more institutional and rigorous parameters. The advisor brings “fresh air” in debates that, in many occasions, are inefficient due to the lack of external opinions in many family businesses.

Similarly, training is key for the family business. For the new generation of many enterprises in Latin America it is mandatory to attend prestigious business schools in the U.S. or Europe. A good example to follow.

- **Progressing gradually:** As occurs in many different areas, progress should be done in a gradual manner. Testing, learning and using the best possible tools for each specific case. Honestly,

it does not make any sense to go from zero to infinity. Between the corporate governance practices of large listed companies and being an almost non-existent company, there is a huge world that needs to be discovered. Progress should slowly be consolidated to enhance corporate governance, both as regards the business and family.

- **Holistic vision:** The family business is a multifaceted organization. There are many interests and several challenges have to be faced. There is a need for balance to manage business affairs, generally marked by financial parameters, and family issues, where socio-emotional issues predominate.

Thinking that establishing a family protocol is enough to control this complex reality is a rather naive perception. As we will see throughout this paper, it is mandatory to develop a more global strategic thinking, so as to develop the corporate governance of the family business.

To sum up, I believe that the institutionalization of these corporations is essential to achieve the objective of continuity they seek and also gives meaning to entrepreneurial families. On the other hand, Corporate Governance also helps us promote competitiveness. We should not forget the

“The family business is the example we should follow to find an ethical approach for business management”

globalized world we live in, where Competitiveness prevails. Thus, I encourage regional family businesses to fully address such important issues as family and business governance.

2. AN ETHICAL APPROACH TO THIS ISSUE

In general, both in the academic and consulting sectors, family businesses have been analyzed according to their problems. Perhaps, this approach has been influenced by psychology, and this point of view has not been precisely positive.

I must confess that I have always distanced myself from the aforementioned theory. On the contrary, I believe that the family business is usually influenced by a set of values that I think are missing in many other areas of our lives. Thus, I think that the family business is the example we should follow to find an ethical approach for business management. A key point, in my opinion, to put a definite end to the Great Recession and, above everything, to face a more promising future.

This issue is particularly relevant given it is the dominant type of business all around the world.

In order to overcome certain clichés about the family business, I would like to point out, taking as a reference the report of Banca March written by me colleague at IE Business School, Cristina Cruz, that the average market profitability of European family

businesses is higher than that of non-family businesses and they have lower insolvency and market risks. Along these lines, I would like to highlight the data published periodically in the Family Business Barometer published by KPMG and IEF (Institute of Family Business in Spain), which show that the performance of Spanish family businesses is higher than that of their non-family counterparts, marked by a better and more flexible adaptation to the Great Recession and, ultimately, to this ever-changing society which globalization and digitalization greatly influence.

Based on these data, as well as over two decades advising and training family businesses in Europe and Latin America, I can say that I know nothing as powerful as a family business that knows how to manage well its singularities. The deepest root of this sound management is, undoubtedly, a management that shares a project, shares values. Because values give a sense of transcendence to the family legacy. It is this ethical side of the family business that I want to address.

To this end, I had been working for the last years and recently finished my doctoral thesis “An ethical vision of the family business: consequences of accounting manipulation from the perspective of the shareholder and stakeholder within the family business”, whose conclusions I will share below. In order to analyze

“Family businesses have their own singularities, which could be defined as their desire of intergenerational transference, long-term vision”

ethical behavior, the parameter that was taken was accounting manipulation, which ultimately implies reporting fake accounting figures.

A simple observation of reality shows us several accounting and financial scandals, combined with constant cases of corruption, illegal financing of several organizations such as political parties or trade unions, accounting manipulation or creative accounting... Thus, it does not come as a surprise, that all these kinds of institutions have lost their credibility. Furthermore, social networks allow us to immediately and clearly see types of activism against these reprehensible behaviors.

Family businesses have their own singularities, which could be defined as their desire of intergenerational transference, long-term vision, strategic objectives beyond economic profit and the role played by family members in governance and management bodies. These singularities undoubtedly give the family shareholder the capacity to influence the organization through control and surveillance actions that the former might exert on the decision-making process. To summarize, in family businesses the agency costs between owners and managers are reduced as there are conditions for a strategic alignment between both parties.

The sample from which we have obtained empirical evidence was comprised of 1,275 international

companies, listed and non-financial during the period 2002-2010, from 20 countries.

The empirical evidence shows that family businesses are less prone to accounting manipulation. Within the family business, the owners have the power and incentive to control the management decisions and prevent their managers from acting in an opportunistic way. The risk of expropriation by managers decreases in highly concentrated ownership structures with fewer informative asymmetries and the larger controlling power of majority shareholders. In short, there is evidence of a greater ethical behavior among family businesses from an accounting perspective.

If we take a closer look at the issue in question, evidence shows that the accounting manipulation actions increase the market valuation in the short term, where investors and stakeholders cannot identify these practices. However, they penalize these companies with a loss of reputation, combined with other negative consequences for the corporation, such as an increased activism by stakeholders and other regulatory bodies. Nevertheless, these consequences can be moderated by the presence of a family in a corporate enterprise, which maximizes its utility function not only regarding monetary affairs, but also in relation to the loyalty, succession and legacy of future generations. All these issues now fall under the known as socio-emotional objectives of the family business.

“The family business literature has coined the concept of “familiness” to design the distinctive and characteristic feature of the internal resources of a family enterprise”

In short, with this study I wanted to clearly show something that those who work with family businesses have patently witnessed. An ethical attitude ultimately generates value, not only for the shareholder, but for all stakeholders. It is the basis for the creation of shared value.

In contrast with apocalyptic perceptions of the family business, the truth is that it can find an important source of competitive advantage in its own singularity. Based on the classical theory of resources and capabilities, a family business has a sustained competitive advantage that cannot be copied by its closest competitors thanks to its internal resources (capital and social network, values, organizational culture or transfer of tacit knowledge, among others). These features provide a competitive advantage to family business; a unique and valuable resource which cannot be copied by its competitors. To the extent that the family business literature (Habbershon and Williams, 1999; Sirmon and Hitt, 2003) has coined the concept of “familiness” to design the distinctive and characteristic feature of the internal resources of a family enterprise, which allow it to keep strong competitive advantages, such as human capital, social capital, values or governance structure.

For these competitive advantages to flourish –which are based on ethics and value-based management– it is essential for the entrepreneurial

family members to understand the importance that organizing a sound corporate governance structure has in order to address priorities such as:

- Defining a project and shared values that will become the tangible basis for the family legacy.
- Designing and implementing a strategic program regarding family and business.
- Creating the necessary conditions, resources, time and efforts, to build the needed strategic alignment of interests between shareholders, managers and employees. The entire organization must know that they are not merely working, but building something important.
- Methodical monitoring of the implementation of the action plans.
- Development of the concept of adaptive innovation to complement traditional values with the necessary adaptations that the dynamic society of change demands in terms of business models, management styles or market approach policies.

3. THE FAMILY BUSINESS OF THE 21ST CENTURY

We live in highly competitive and sophisticated environments and this context undoubtedly forces entrepreneurial families

“The respect for tradition and stability sometimes translates into immobility”

to think in a different way. We live in what I usually define as the society of change, strongly influenced by globalization and digitalization. Too often, the entrepreneurial family has focused on internal debates; solving family issues, managing conflicts (in many occasions artificially created) or favoring personal affairs over the general good. In addition, the respect for tradition and stability sometimes translates into immobility. These families do not notice that the current scenario of business competition calls for a much more pragmatic, rational, flexible and professional approach in order to face new challenges in a swift and decisive manner. Many family businesses –nowadays leading corporations– have understood this new situation and should serve as a benchmark for the remaining companies. They are the 21st century family businesses, in many cases already governed by descendants who managed to find very successful management formulas in which they mixed the academic training with the experience of closely working with the founders of these corporations. In short, notable entrepreneurs who have respected tradition, retained values and, on that basis, have brought innovations to the business models, management forms or product and services. That is, the perfect balance between values and adaptive innovation. We speak, therefore, of true family entrepreneurs and entrepreneurial families that have understood that their companies had to face new challenges; that

in scenarios of a more closed economy, the existence of family SMEs run in a traditional way could be successful, although with huge commitments. However, these companies are now forced to be managed rigorously, institutionally and must strive for growth, the quest for leadership in order to be competitive in dynamic, global and sophisticated markets. In short, to create strategic thinking platforms: corporate governance.

My model –inspired by these processes– can be explained through the Chart 1.

Any organization starts through the impulse of its founder, which we will call “family entrepreneur”. This founder has the features of the excellent entrepreneur (achievement-oriented, hardworking, persevering, creator and leader of teams, capacity to identify business opportunities, spirit of innovation, etc.) but is also strongly linked to his corporation, his work, which translates into his wish to make the company last for future generations. It is then when the family nature of the business organization arises. I define this initial stage with the concept of **family entrepreneur**.

The consolidation of the initial project is reached when the business starts to transcend its founder and slowly becomes what I call a **family business**, meaning that several family members become involved in the business. The transfer towards a family business calls for the

“The transfer towards a family business calls for the development of a corporate culture where the foundations for the future will be laid”

development of a corporate culture where the foundations for the future will be laid. This culture is defined by a series of values. The first should be the wish for business continuity in the hands of the family which, as previously stated, is one of the main elements of family businesses.

From my point of view, only family businesses with values and principles that are a strong part of the corporation will be capable to set the bases for growth and leadership. Moreover, these principles and values are like flowers, they decorate and add value to the extent that the owner cares for them. Therefore, managing this issue is, for me, a priority objective for entrepreneurial families. Another challenge of corporate governance.

When these values are defined and accepted, it is meaningful to acquire further tools which will help transform the founding venture into a family business. I am referring, among other things, to the protocol, transfer plans, Family Council, the Assembly or Board of Directors (or whatever the name is of the governance body of the corporation). But let

me insist, these measures will only be efficient if they are based on truly shared principles and values. Without fulfilling this condition, we would be putting the cart before the horse, as the saying goes.

According to the model, once we have obtained values and tools that give meaning to the family business, we must start establishing significant business challenges. My theory is that family business is particularly forced to grow. First, for competitiveness reasons due to the highly crowded and increasingly global environments. Second, in order to remain an important source of income and/or assets for a family that further expands over the generations. The latter is a particularly significant matter in Latin American contexts, where the family tends to be large and its vocation and reality is to remain united. Therefore, I consider that entrepreneurial management is essential to ensure competitiveness, profitability and the growth of the business which will ultimately allow the corporation to become a **leading family business**. A leadership that is initially local, but will end up being national, regional... or global.

Chart 1: Management model for family business





“Once we have obtained values and tools that give meaning to the family business, we must start establishing significant business challenges”

4. THE TEN RULES TO MANAGE FAMILY/BUSINESS RELATIONS

As I am explaining, from my point of view and based on the experience I have gained through my relationship with Latin American family businesses, I would like to provide a Decalogue of general principles to ensure the foundations of corporate governance in family businesses. I will now establish the ten rules that should be followed by family businesses to then further elaborate on the development of each of these ideas.

UNITY: DEFINING A PROJECT THAT BRINGS THE FAMILY TOGETHER

Families that have developed a long-term entrepreneurial project always highlight a common project and values that combine

their interests as one of their main competitive advantages.

In this context there is a feeling of pride of belonging, the need to move forward, to face new challenges, to overcome obstacles both external –due to financial situations or the emergence of new competitors, a worsening in some of the conditions of the economic and social context, the emergence of new technologies that strongly influence the business model, etcetera– as well as internal – personal conflicts related to the family/business relations–.

GENETIC CODE: IDENTIFYING THE VALUES THAT HAVE BROUGHT SUCCESS TO THE COMPANY TO CONSCIOUSLY AND FORMALLY INCORPORATE THEM INTO THE GENETIC CODE OF THE FAMILY BUSINESS

There are successful family businesses that have achieved their status not only because of the competitive advantages that this type of business model entails, but also thanks to certain values that also were sources of competitiveness. In fact, I have seen many family businesses with a strong presence in the market whose success can be explained precisely through these values, since their business model offered no distinguishing or unique features.

My advice is to spend time on identifying which values could contribute to the enhancement of their products, to help the workers be more involved, even

Chart 2: Rules to manage family / business relations

UNITY	Defining a project that brings the family together.
GENETIC CODE	Identifying the values that have brought success to the company to consciously and formally incorporate them into the genetic code of the family business.
FAMILY HARMONY	Taking care of the family.
ROLES AND LEADERSHIP	Defining roles and leaderships.
CONFLICT	Lay the foundations for conflict management.
COMMUNICATION	Saying things in an honest way.
RESPECT	Creating the conditions for an environment of mutual respect and trust.
EDUCATION OF CHILDREN	Ensure future harmony.
DEFINING PRIORITIES	Family vs Business.
GREAT GOAL	Identifying a long-term objective.

“A family corporation must have a soul, values embodied in its founders and successors, values that constitute the genetic code of the family business”

more, proud of the project. The values that could help the business be recognized across the corporate world, to build long-term relationships with suppliers and customers and, ultimately, to create a climate of trust in the company and its environment.

A family corporation must have a soul, values embodied in its founders and successors, values that constitute the genetic code of the family business which will establish the guidelines for the future and become a legacy for whoever becomes involved in the business in the future –whether they are family members or outsiders–.

FAMILY HARMONY: TAKING CARE OF THE FAMILY

As I have previously stated, the challenge that the family entrepreneur needs to face is a two-way hurdle, as two elements need to be addressed; family and business –hence its respect and impressiveness–.

Managing a business is a given within the entrepreneurial world. Often, the large amount of time that needs to be devoted to fulfilling this task relegates the family and this is a mistake. A family business should be governed by harmony.

This harmony is clear in points such as close relations between the members of the family group, a high sense of commitment as regards family matters, an obvious sense of pride of belonging or great respect

between all members and, above everything, respect for the senior members, the true guardians of the values and principles of which the genetic code of the company is comprised, as pointed out in the previous point.

Thinking that all this will occur in a spontaneous manner, merely because we all are part of the same family, is leaving things to chance, which always translates into a high-risk threats.

Promoting family harmony requires quality time, dedication, energy, efforts, work... It basically must be accepted as another priority of corporate governance.

ROLES AND LEADERSHIP: DEFINING ROLES AND LEADERSHIPS

Successfully managing a family business –understood as the combination of a healthy, united family and a company marked by growth and profitability– will require, as one would expect, the efforts of many. It always calls for teamwork.

Establishing roles must be done through a rational process that takes into account factors such as the character, skills, experience or willingness of those who take part in the family project. It is important for every member to hold the perfect position for their characteristics, as well as their willingness.

It is obviously important to have an entrepreneurial leader in each generation. A

“It is obviously important to have an entrepreneurial leader in each generation. A visionary”

visionary. It is often said that one of the most important assets a company can have is a leader whenever one is needed and for them to work for enough time as to provide stability to the project and develop long-term policies. An enterprising leader who, as I have already stated, is much more than a good manager; the leader must be able to mobilize projects, people and illusions. A leader that helps do what must be done. But just as important as this business leader is the family leader. This person must be respected by the whole family, must have moral authority and should guide the family whenever a controversial affair arises. In the Latin American sphere, this role has been commonly played by the mother. The mother is the person who traditionally spent time raising their children and compensated the long and justified absences of the entrepreneurial father.

Many successful entrepreneurial families have insisted on the important role played by the family leader to facilitate the reaching of consensus, avoid conflicts or manage them in a wise manner when unavoidable, to foster a feeling of union and harmony governed by the spirit of coexistence, mutual respect, generosity, loyalty, a commitment towards the common project and where personal interests are secondary to the global objective.

CONFLICT: LAY THE FOUNDATIONS FOR CONFLICT MANAGEMENT

A common topic in family businesses is conflicts –and rightly so– since many failures of this type of businesses are attributed to these confrontations. Conflict is inherent to the human condition. Whenever two people debate about the same topic they might have two different opinions, even antagonistic. It could even be possible for both to be legitimate. For example, is it better to exploit a market opportunity by carrying out an aggressive growth strategy through the purchase of a competitor that is going through a difficult time or should the family business be run in a conservative way? Both positions may be reasonable from a business point of view. In fact, these dilemmas arise continuously in the family business sphere.

Consequently, I think that any business will have to face these conflicts. Yet, in my opinion, the real problem is that these situations are worsened in family businesses due to two questions:

- The first is the presence of various interest groups that gradually increase as the company grows: family members who work in the company and hold shares, family members who work in the company and have no shares, family members which do not work in

“A common topic in family businesses is conflicts –and rightly so– since many failures of this type of businesses are attributed to these confrontations”

the company but hold shares, family members who neither work in the company nor have shares, in-law family members who might or might not work in the company and/or have shares and third parties who might work and/or have shares. These groups have rather different perceptions of the situation based on their own interest.

- Second, and especially among Latin American businesses, conflict tends to be personal, and this worsens the debate and hinders the prospects of finding a solution. Thus, in my opinion, it is essential to handle these discussions following two key principles: first, the debate should focus on the specific question at hand, since there is a risk of starting a conversation about increasing the expenditure for the launch of the new shop and end up saying how much of a slacker your husband is, who by the way adds nothing positive to the business and dad already hated him when you both were dating. From there on, anything is possible. Second, rationalizing the debate with objective data to avoid the aforementioned personalization and help the company make the best possible decision in a logical way. This is the reason for which quantifying everything is really positive and every member should avoid talking loosely, or more

precisely, quarrelling without a reason.

- Thinking that the conflict will be avoided is only a pipe dream. There is no doubt that a united family, with a genetic code that establishes the shared values and where communication is open will find it easier to solve conflicts calling for the old principles and always bearing in mind that the general good for the project shall prevail. When the family suffers from other symptoms the conflict usually lasts for an extended period of time and in many cases, it only ends with the disappearance of the firm or its break-up. This happens because in some occasions the own interest prevails over the objectives of the business. This situation has sometimes been caused by people who preferred to create a suffocating environment when they did not achieve their personal objectives, such as being appointed as the next leader of the firm to replace the previous generation or when they could not impose their decisions or management style.

Prevention work is critical. A crucial part of the work of leaders, both as regards the business and the family, is precisely having the foresight to understand when could these conflict situations occur and try to avoid them.

“A crucial part of the work of leaders is precisely having the foresight to understand when could these conflict situations occur”

COMMUNICATION: SAYING THINGS IN AN HONEST WAY

Based on my experience, I have come to the conclusion that this feature is the largest difference between the Latin American and the Anglo-Saxon business world. Latin American people often prefer to not say what they think so as to not hurt the feelings of others, agreeing when we really do not, not directly addressing someone and rather use third persons hoping that the message will ultimately reach the person in question, to ignore things that actually bother us until we finally blow up in anger. For all these reasons, I think that communication is one of the main points to successfully manage a family business.

It is essential to create channels and spaces to facilitate an open and honest communication. Always in a respectful manner and understanding the cultural differences that have to be taken into account; things need to be said in a clear manner so that the other person/s understand/s us without any doubts.

Communication is a basic element to convey the set of values that a united family has and which should serve as a guideline and incentive for future generations.

Communication is also a key point to create debate spaces and where, with respect, conflicting positions might be faced so as to reach agreements or seek enhanced

solutions through the contribution that different positions can generate.

Promoting an open and honest communication is the same as decisively contributing to create healthy relations and environment. Thus, one of the main objectives of corporate governance is precisely to facilitate communication channels and the exchange of information.

RESPECT: CREATING THE CONDITIONS FOR AN ENVIRONMENT OF MUTUAL RESPECT AND TRUST

We have been talking about the concepts of communication, conflict, united family, group harmony and it seems obvious that all the aforementioned features stem from the same attribute: respect. When respect governs the relations with others, it is easier to reach agreements, consensus, have dialogues and empathy to put ourselves in the other's shoes and understand other point of views, to listen and value the opinion of others.

It is easier to not respect, label people and take for granted that the things other people have to say do not deserve the slightest attention. Yet, I think that respect has to be earned; through a balanced behavior, being coherent and doing what one says, having a nice training and professional experience, with an honest and clean past, a good career full of achievements, etc.

“Communication is a basic element to convey the set of values that a united family has”

This is what we call credibility. This is the reason for which business with well-trained managers who complement each other can easily be successful, as the conditions are met so as to generate mutual respect and, from then on, an environment of mutual trust is achieved, which allows the distinction of roles, delegation and facilitates agreements.

This is one of the reasons for which creating a climate of professionalism and rigor seems so important in relation to the management of both the family and the business. When the appointments does not conform professional criteria, but merely for belonging to the family, meeting the aforementioned respect conditions seems an almost impossible task. Respect, like leadership, cannot be imposed, but is the result of professional and personal actions governed by credibility.

EDUCATION OF CHILDREN: ENSURE FUTURE HARMONY

All topics so far are clearly related to a perspective of continuity. There is no point in achieving some years of harmony thanks to shared projects, visions, respect and communication if, at a given moment, the conditions change.

And, at the end of the day, we are talking about people, and it is precisely them who are in charge of creating environments in the company and the household.

Thus, when managing a family business, a type of company that is defined by its desire for continuity, I think it is essential to handle all issues with a long-term perspective. Within these approaches, the education of children is a key point.

Raising children is a huge challenge, but if they are to become the new leaders and will have to ensure the continuity of the firm, it becomes an even larger difficulty.

It is no easy task advising parents in relation to this issue, since each family and business are a different case, but for what it is worth, I will share the educational advice that an important Colombian entrepreneur gave me: “Manuel, the best thing we can leave our children is education and culture”.

DEFINING PRIORITIES: FAMILY VS BUSINESS

The combination of family and business generates a cocktail of emotions and unique situations which, strictly speaking, should be managed for them to become a source of competitive advantages for both the business and the family.

This is simple in theory yet complex to carry out. We only need review statistics of failure regarding family business, or even simpler, review own situations or those of acquaintances who work in family firms to understand the aforementioned statement.

Chart 3: Life cycle of the family business



The important idea is for each entrepreneurial family to know that combining family and business might entail conflicts of interests and therefore, it is essential to create mechanisms to predict these situations and solve them.

However, it is true that the family business evolve, as occurs with any dynamic structure where human beings work and, among other things; this process usually affects the order of priorities.

I will explain my theory regarding this point with the Chart 3.

It is common for the founding generation to be a complete mixture between family and business. They live in a kind of exciting chaos which is rather common at the peak of entrepreneurship: all attention is focused on the survival of the firm, improvisation and informal management are ordinary and, if the project is successful despite this chaos, it is only thanks to the impressive efforts made by the family entrepreneur, who is able to face all the challenges thanks to his huge efforts.

In many cases of entrepreneurial families, the end of the stage of the family entrepreneur coincides with the consolidation of the business. When there is a clear succession –usually the older children who have joined the family project– the entrepreneur can hand

over control of the business to the next generation, once the business has a network of loyal clients who guarantee the economic feasibility of the project.

It is then when the short-term urgencies disappear and, since the next generation had the chance to obtain better training, the new management makes decisions such as the delegation of important functions to non-family experts, the implementation of management surveillance systems, an enhanced efficiency is sought through improved processes, the management cares about the creation of mechanisms for inter-departmental coordination, etc.

On the other hand, the second generation usually gives rise to the singularities of this type of business which, if not correctly managed, might entail severe conflicts. Namely, there are many new family members, different roles as some will work in the firm while others will not, some will be shareholders and others will not... the number of in-law family members and their influence will also increase; there might be jealousy or rivalry between parents and their children, between children or even cousins.

In short, this is the key phase in which the business will have to make crucial decisions to prioritize and ensure the conditions to take

“Family and business should take the professionalization route, but, in many cases, certain factors prevail which prevent the family from making the correct decision”

a qualitative leap towards business leadership as well as the consolidation of the role of the entrepreneurial family. From the objective point of view that distance gives, it seems pretty obvious that family and business should take the professionalization route, but, in many cases, certain factors prevail which prevent the family from making the correct decision. To sum, sometimes certain unbelievable mechanisms seriously jeopardize the survival of the firm, greatly concerning all involved members, except those who have the capability to revert the decision, but are blinded by highly selfish approaches. Their actions inevitably lead to lose-lose situations.

After the third generation, the enterprise might have happily solved all the problems related to the priority setting process and could be focused on growing to be more competitive and become a leader in its sector. Long-term planning now becomes a key issue, the great objective is to exploit new business opportunities – what we call, entrepreneurial management– to ensure, for a long period, a feasible and sound business project and, at the same time, keep the harmony in a united family, whose size is now impressive. If the challenges that the second generation had to face have not been successfully met, the firm will now start declining and, quite often, family relations

will crumble as well, ultimately resulting into bankruptcy or the firm being divested combined with severe personal crises that might even translate into a family breakdown.

GREAT GOAL: IDENTIFYING A LONG-TERM OBJECTIVE

Another feature that I have frequently seen in successful family businesses is establishing long-term objectives. Challenges that slowly shape the dreams of the entrepreneurial family and which usually take place on round dates (2000, 2020) or with anniversaries of the family business (20, 50 or 100 years).

These projects are expected to be fulfilled in 10, 15, 20 or more years... and thus, go beyond contextual circumstances that the economic cycle or any internal or external factor might produce. We have repeatedly insisted on the importance of this long-term approach, as it undoubtedly is a huge source of competitive advantages for the family business.

5. ORGANIZING CORPORATE GOVERNANCE

Once the family culture has been created, based on their principles, rules and short and long-term objectives, I consider the enterprise to be in a position to establish formal tools to develop a more institutional management so as to facilitate growth of the entrepreneurial

“If the challenges that the second generation had to face have not been successfully met, the firm will now start declining and, quite often, family relations will crumble as well”

activity and strive for a leading position in the market. From that comfortable position, the enterprise will have greater credibility in order to attract people and resources to tackle new projects or to enhance competitiveness. Again, I insist on the importance of addressing this process through a holistic approach as I have previously mentioned.

I would like to propose a scenario which would be recommended for large family business which are diversified across several sectors. In any case, smaller firms should also implement these tools according to the pace at which the corporation grows.

To better understand this point, please see the chart 4.

This is not designed to specifically address the legal and tax-related aspects that family organizations need to tackle, nor is this the author's area of expertise. Therefore, this analysis will mainly focus on the strategic, business and family-related features that justify the use of these tools and the ways to optimize their use. However, behind some of these decisions, there are also clear possibilities of optimizing the legal and tax aspects, in accordance with the legal framework established by each country and, logically, it is always worth hiring experts in trade, tax and civil law to have their advice in order to tackle projects of this importance. Incidentally, in countries like

Spain, where a strong family businesses' association operates, important developments have been made in the field of regulatory management of the family business. Thus, in the following pages we will address this topic and the various mechanisms to be used.

When family businesses experience a significant growth they usually create several corporations or legal organizations to carry out their activity. For example, various corporations can be created to address the activity in several countries where the business operates or to diversify the company's activity across several sectors which complement the original activity of the company founded by the first generation.

In these cases, the recommendation for reasons of tax optimization and legal protection –although I insist, this point has to be reviewed in each specific geographic area since tax regulation might greatly vary between countries, regions or cities within the same country– is to create a holding corporation. Moreover, from a managerial point of view, it allows the corporation to create synergies and achieve a sound external image of the business group. This holding corporation will have the shares of all family members and will act as partner in the various businesses of the family. In turn, both the holding and the remaining corporations shall have their own Board of Directors, focused on

strategic elements and a Steering Committee to manage matters of a more tactical nature.

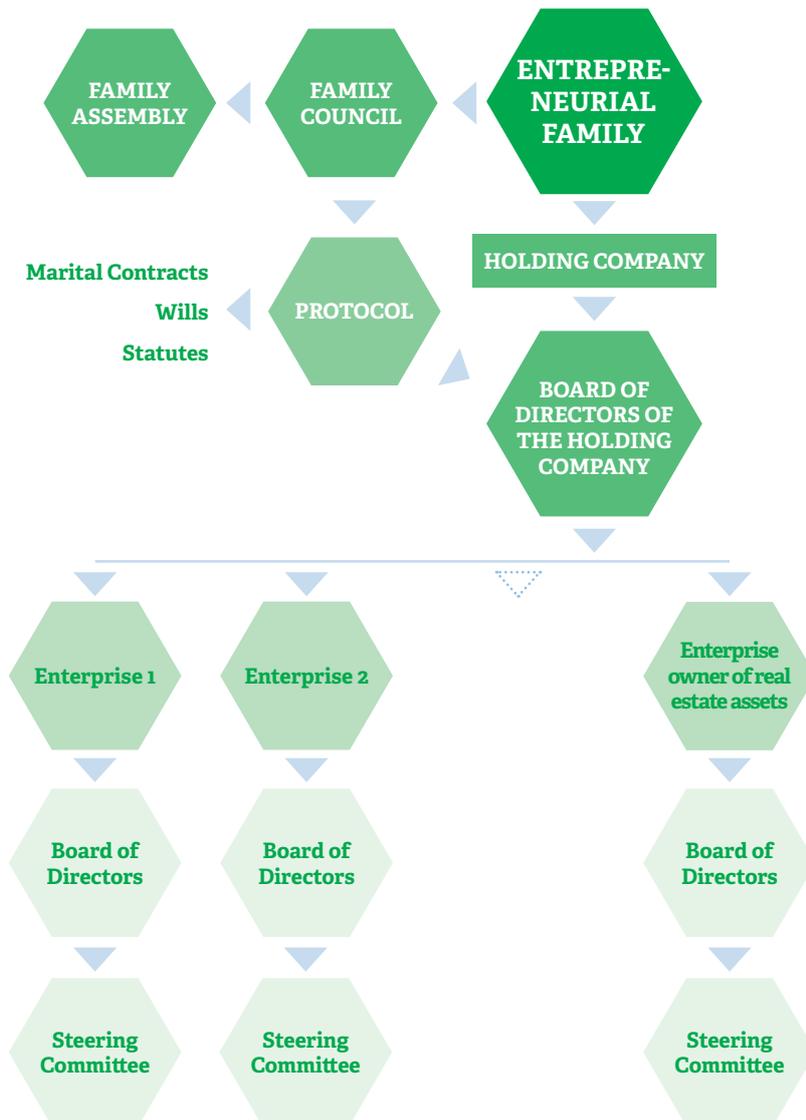
In order to keep the essential separation between family and business two institutions should be formally established: the Board of Directors for the governance of business-related affairs and the Family Council to manage family-related issues. Since the Family Council, for

reasons of convenience and efficient operationalization, cannot hold all members of the family, regardless of its size, it is important to create a tool, the Family Assembly, where the whole family shall meet and whose main objective is to inform the current status of the enterprise and ensure family harmony and coexistence.

In turn, the main rules of the game of coexistence between family and business are contained in the protocol, a document similar to what the constitution is to a country, and which states the great principles that shall govern the management thereof. Subsequently, it shall detail the laws and regulations as occurs in family businesses with specific decisions that affect both the firm (pay system, marketing plans or technological investments) as well as the family (policies regulating how new generations should join the company or succession planning). In turn, it is very likely for certain decisions made when the protocol is established to be subsequently specified in public documents such as marital contracts, wills or corporate bylaws.

I must confess that it is much more important for the family to know that certain situations must be anticipated and this requires having specific mechanisms rather than having special tools. Incidentally, experience shows that all

Chart 4: Organizational lay-out of the entrepreneurial family



“In order to keep the essential separation between family and business two institutions should be formally established: the Board of Directors and the Family Council”

periods of change in the life of both the business and the family are critical.

6. A KEY PROCESS: SUCCESSION

One of the most crucial processes in the management of a family business, given its inherent desire for continuity, is succession. Therefore, it must be part of the discussion and planning of corporate governance.

MANAGERIAL SUCCESSION

First, it is important to understand that it is a stage that stirs up many emotions if the family is lucky enough to be able to organize it without any external circumstances rushing the process. As regards the former leader, thoughts arise about the retirement, loss of power and influence, not having much time left or fear of a new situation. The next manager also will go through a difficult time since he needs to overcome many doubts in order to successfully tackle this new challenge and fulfill all expectations put on him. The new leader will also have to overcome the fear of being constantly compared to the prior manager –even more depending on the degree of success achieved by the aforementioned leader–, potential insecurities entailed by working with already-formed teams that need to be won through personal and professional respect,

the pressure of being in the spotlight of many people with high hopes...

Anyhow, the worst possible scenario would be to need to face this challenge without previously developing, at least, mechanisms to manage this process. To seriously and rigorously lead a succession process, the family will ensure that both parties agree on carrying out this procedure, whenever planning is possible.

SUCCESSION PROCESS

Although this process is too complex to be broken down into a mere guide, for easier understanding we will list a series of logical steps that might help formalize the succession. We will start from the assumption of several possible successors –as occurs in families with various generations– and multiple candidates. In the opposite case, the situation is much simpler and the key will be to train the sole successor so that, were he willing to take over the firm, he would be able to meet this challenge under the best possible conditions.

In short, if several candidates were to take part in the succession process, I would follow the recommendations below, which each family may modify according to their own circumstances:

- Succession debates generally revolve around personal affairs. That is,

“Succession debates generally revolve around personal affairs”

simplifying the matter to a mere question: Who should be chosen? Juan, María or Ana? I do not agree with this approach and, in my opinion, this process should start with strategic and business analyses so as to answer the following question: What route do we want to take? Therefore, as shown in the figure below, succession must be carried out clearly knowing where we want to go. Precisely, one of the advantages of a rigorous succession is that it allows to define a strategic business plan for the long term –five, ten or twenty years–. Having clarified this issue, we are now in the position to define the new profile for the next master of the family vessel. To continue with the sea metaphor, and despite my complete lack of knowledge on nautical issues, it is logical to think that the skills of the captain of a recreational vessel who sails near the Dominican Republic fishing for marlin will differ from those of a captain who sails from Veracruz to Hamburg, through the Atlantic Ocean, on a cargo vessel.

Thus, the succession process should be initiated, in my opinion, with the development (or review) of the strategic business plan to meet its future challenges and establish the main priorities for this new

stage. From there on, it will be much simpler to better define the profile of the best possible candidates to take over the business.

- Once the plan has been defined, the business may appoint a family member or an external person for several reasons: there might be no family successors, they might be too young or they could prefer to work in a different sector.

In the second case, the company could still continue with its original features, but with an external leader. To this end, the best option is to hire the services of a professional headhunter who will carry out the pertinent search and recruitment process to appoint a new manager. Another possibility is to identify a non-family member within the company with enough experience and sufficient skills for this position. The advantage of the latter is that the company ensures that the person shares the project, family ideas, there are no doubts about his commitment and he fits in the business. The only question in this respect is whether he has enough recognition within the company; whether the remaining members of the organization will recognize, respect and support this appointment. When these

“In other cases, the lack of succession has entailed the sale of the company, since the family considered that it would be difficult to keep the balance between the family and the external leader”

circumstances are not met – or when the enterprise seeks a new strong driving force – the best option is to bring an external, well-known expert, who might even have an easier time managing this stage of change.

In other cases, the lack of succession has entailed the sale of the company, since the family considered that it would be difficult to keep the balance between the family and the external leader.

- If there were multiple family candidates, the objective would be to choose the most suitable person. Besides being the best candidate to successfully implement the new business plan, there are several features that successors usually have:
 - » They know the company, are committed to it and have expressed their willingness to lead the new era.
 - » They represent the family values.
 - » They have leadership skills.
 - » They are able to manage interpersonal relationships through empathy.
 - » They are good team managers.

- » They have a sound decision-making ability.
- » They are independent.
- » They are mature from both a personal and professional point of view.
- » The whole organization considers them to be a clear alternative thanks to their professional experience and their personality.

This last point is extremely important so that the new leader has the support of the whole firm thanks to his achievements, professional career, experience or skills and not only because he is the son of the previous leader. Incidentally, in the case of a clear succession because there is only one suitable person, it is important to keep working on the aforementioned points in order to enhance the credibility of the next leader both within and outside of the organization.

What I do not particularly like, given the times that we live in, is suggesting sexist or ageist stereotypical approaches. Let me be clear, the eldest son does not have to be necessarily the next leader. The youngest daughter might be better suited to carry out the job. Thus, please, stay away from

“Certain companies decided to diversity and appoint several leaders in order to avoid conflicts”

preconceived perceptions regarding these matters. Gender or age discrimination is a waste of talent.

In cases where several candidates are real alternatives, this issue will certainly become more complex. Certain companies decided to diversity and appoint several leaders in order to avoid conflicts. When implemented in businesses which diversify across several unrelated sectors, I think this might be a sound solution. In other cases, in my opinion, the firm ends up losing the advantage of having synergies and has critical sizes to compete, thus the option of diversifying becomes less attractive. In the aforementioned approach personal interests prevail over business interests.

There have also been cases where the corporation decided to implement a co-presidency to avoid taking sides between two potential candidates. If the skills of both are different, yet complement each other's abilities, as well as their interest areas and a sound culture of consensus, mutual respect and loyalty is created along with efficient coordination mechanisms, the structure might work. Although in my opinion, these mechanisms

cannot be permanent, but temporary.

Sometimes certain companies appoint a transitional leader. This usually happens when the eventual family leader is too young and lacks the personal and professional maturity to hold such an important position. In these cases, the family appoints a person they trust, with high expertise and no ambition to improve his position within the company, to guide the firm during this stage and also to train the young successor. This process is very interesting and enriching, particularly when a sound temporary leader is appointed. This leader must understand that he is carrying out a transitional work, for a fixed period of time and should not seek to become an alternative to the family leader –and the latter should not feel this way either–. On the opposite, the key is for the future leader to completely trust the moral authority that his mentor has acquired thanks to his experience and knowledge. Thus, it is important to appoint someone with no ambition to move up in the company.

- Once the successor has been appointed, a detailed succession planning should be agreed with him. This plan might greatly vary

“There have also been cases where the corporation decided to implement a co-presidency to avoid taking sides between two potential candidates”

depending on the features and circumstances of the company and the people involved in this processes.

- And with all the homework done, let us be blessed by luck during the implementation of the succession process. This basically means the same as hoping that the successor rises to the occasion, does not give in to pressure and shows the same capacity that he has developed in other positions where he always successfully met the objectives. It means that the collaboration team must give the best of itself, the family shall unconditionally support the new leader and allow him to develop his action plan without any interferences and he must preserve and transmit the set of values and principles of the family. It means for the environment to recognize him for his training and past professional achievements, for this transition periods to not further complicate the process with severe sectorial, personal or family-related issues, for him to have health to fully carry out his work... In short, many elements will depend on luck and in others a sound succession planning will definitely enhance the chances of the process being successful.

Therefore, we insist on the importance of appropriately planning the succession

process and the role of the current leader is essential to implement it. Companies should not make the mistake to confuse succession and cloning; it is impossible to have exactly the same leader twice. On the opposite, the successor should be a new entrepreneur, a business leader capable of guiding the entrepreneurial management that we promote.

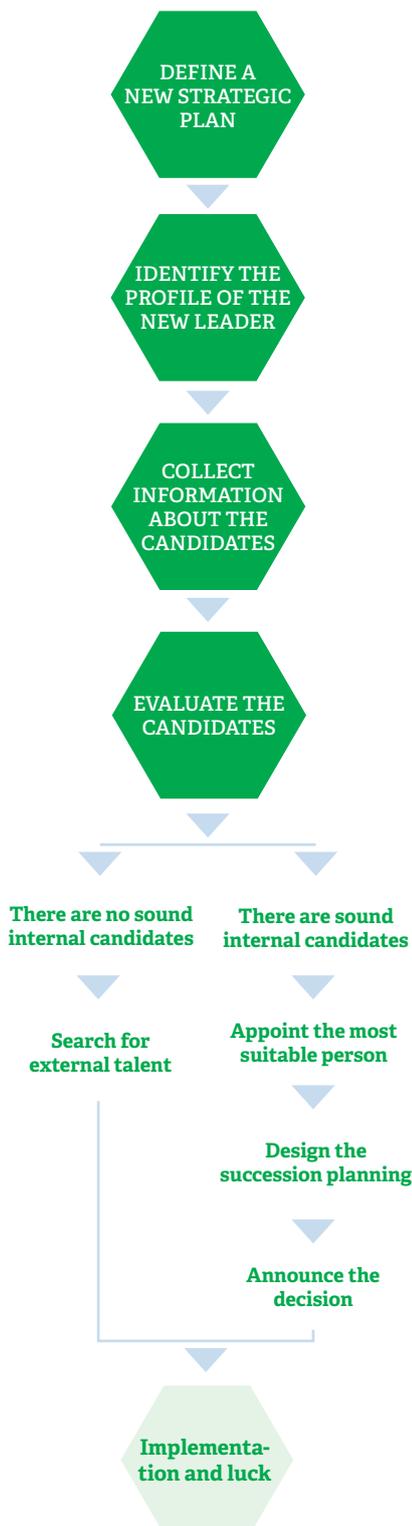
In general, many people are involved in these complex processes: not only the family, but also the Board of Directors, key employees or external consultants. The role of the latter is particularly interesting when they contribute to greatly objectify a task where passion often prevails. Any parents will agree with the fact that their son is a better candidate than their nephew.

As regards the formalization of the process, my unequivocal position is that the Board of Directors –or a similar body–, as the highest governing body within the company, should appoint the new leader, generally proposed by the Family Council.

SUCCESSION IN RELATION TO OWNERSHIP

Succession as regards management should not be confused with succession in relation to ownership. As regards ownership, it should be noted that, based on the principle of equity and if the shares of the company are inherited equally

Graph 5: Lay-out organize the management succession



as younger generations become involved, governance conditions will be greatly hindered in a rapid manner.

Therefore, certain entrepreneurial families decide to surrender ownership shares of the business only, or to a great extent, to a/several descendant/s through the estate apportionable at will provided by the succession law of many countries. It is increasingly common for the successor or successors that will manage the business to receive a larger share package in order to run the firm on favorable terms. The remaining members shall be compensated by inheriting other family assets unrelated to the business activity.

In other cases, the company might set non-voting shares that might allow their holders to obtain dividends or proceeds from the sale of the company in the future, with the voting shares being held by the family members that are professionally involved in the management of the company.

Sometimes, these companies implement majority reinforce policies which promote agreement cultures or set mechanisms to avoid deadlocks. This issue is really important and should be reflected upon so as to avoid the aforementioned transfer of family values towards the business, a misinterpreted equity in this case, which creates conditions that could severely hinder the

business activity in relation to the agility and rigor that are so necessary for today's businesses.

Lastly, it should be noted that there have been cases of families which, in order to ensure the development of the business project, seeking to achieve a greater credibility in the markets and generate trust both within and outside of the organization, have forced all heirs to guarantee their permanence within the family group for a fixed period of time.

To sum, the transfer of shares is a highly important issue and an affair on which significant decisions should be made to shape the future of the business. The responsibility of entrepreneurial families forces them to carefully manage this point and take rigorous and thought decisions in a more complex and refined context than the usual environment. Therefore, I have repeatedly insisted on the need to develop communication within the family, both natural and in-law, in relation to these points as it will contribute to the creation of harmonious and peaceful relations and will enhance the understanding of certain decisions.

7. FAMILY GOVERNANCE: FAMILY COUNCIL

The Family Council is the essential governance body for family affairs and the space where relation policies between family and business should be

“The Family Council is the essential governance body for family affairs and the space where relation policies between family and business should be designed”

designed. Its role is similar to that of the Board of Directors as regards business affairs. In this effort to carry out the necessary separation between the family and business spheres, it is necessary to create a space where families could debate and reflect on their areas of interest without interfering with the management of the business or affecting it as little as possible. This area is covered by the Family Council in large entrepreneurial families, since a true Family Assembly can be used to bring together all members of a family if the size of the latter is not particularly large.

From my point of view, and especially as the size of the family grows, this body should have three main objectives that are connected to communication to a greater or lesser extent:

- **Make the family understand and support the business strategy.** At the present time, many companies need to grow to be profitable and competitive and must make decisions rapidly in order to take advantage of the market opportunities or meet new challenges. I understand that in these new scenarios the family, represented by the Council, must share this business approach that, in certain occasions, might go against the short-term interests of some of its members. It should be noted that,

quite often, dividends will be allocated to the creation of future value. Sometimes, against more passionate approaches, the decision might be to sell the company which has been part of the family group for generations, but has ceased being profitable or has lost its strategic value. Another potential possibility is keeping certain people in their current position because they might lack the necessary skills to hold high management positions –regardless of them being relatives–.

The Family Council must ensure maintaining the support towards the business strategy and the people in charge for implementing it. Logically, the business strategy will be influenced, among other things, by the interests and genetic code of the family. In this sense, this body will be where the family will send messages to the managers of the firm such as the level of risk that the family is willing to take, the expected returns or the possibility of discarding businesses or management practices in accordance to the family principles.

- **Transferring the family values, its culture, principles and the way it wants to be seen by the business community.** As the company grows, it is easy to

“The Family Council must ensure maintaining the support towards the business strategy and the people in charge for implementing it”

understand why it would slowly have an increasing number of outsiders and managers who are not part of the family and, unless the family pays attention, the company might be at risk of losing its features. Therefore, the family has the legitimate interest of transferring its vision, mission and culture towards the various teams, as it wants them to share the project that unites the whole family and make them feel proud of being part of the project. In short, the point is to create the feeling that the company is unique, where the end does not justify the means. The enterprise has certain behavior patterns that need to be adopted. It is quite important to emphasize these own features of each family –which ultimately allowed them to create an important business project– and make all employees understand this point. This point should not be imposed, but promoted so that the whole company believes that these guidelines are the best possible route for the company.

- **Being the channel through which the family can debate about their issues of interest.** This point covers many different possibilities. For example, the family might decide to write a book about the history of the family with an upcoming event, such as a centenary.

Several issues that affect the family, but not the business, might be discussed too; whether it is the divorce of a member of the family, the severe illness that a relative might have and whose treatment might entail a significant economic outlay.. Lastly, this is the forum where the family interests shall be defended, through a single voice, thus enhancing coordination and efficiency. If this body is well managed, it will not be necessary for each member of the family to personally call the CEO to request specific information or insist on the importance of certain decisions.

Experience shows us that issues that greatly concern the family are usually related to monetary affairs –dividends policy, family wealth management or the possibility of selling participations– and also to the professional relations of family members who work in the company –possibility of joining the business, required conditions and salaries–. The Family Council is the perfect forum to discuss the aforementioned issues.

Apart from these main generic objectives, the following tasks are common among Family Councils:

- Management of the various aspects covered by the family protocol. Thus, it is the space where the protocol is implemented.

“Experience shows us that issues that greatly concern the family are usually related to monetary affairs and also to the professional relations of family members who work in the company”

- Addressing possible changes of the protocol, whenever the family circumstances or those of the environment, people or priorities have changed.
 - Planning and managing the future of the family by establishing a real strategic plan for the family, defining the role to be played by the former in the family project –which again, might change as time passes and circumstances change–.
 - Ensure that the principles and values of the family are respected, implementing them in the protocol or ethical code and transfer them into business management guidelines.
 - Solve any relationship problem between family and business.
 - Promote family succession policies –although, in my opinion, the appointment of the leader of the business should be carried out by the Board of Directors. In this sense, the Family Council might propose candidates for them to be included into the Board of Directors or the succession process. As regards the latter, the role to be played by the Family Council is highly important – particularly when an external leader is appointed– as it should promote the values, style and projects of the family and everything that facilitates the understanding of the family’s genetic code.
 - Develop mechanisms to defend the rights and interests of all members of the family –whether they are partners, workers or none at all–.
 - Foster the creation of an atmosphere of family harmony, specifically as regards the establishment of communication links between all members.
 - Report and share the business strategy and ensure that key decisions are supported by the managers.
- It is advisable to have a reduced number of people in the Council –between 5 and 11 members–, including representatives of all sensitivities and interests which coexist in the company –avoiding, as far as possible, the overlap of functions so as to prevent any kind of conflict of interest–. This process should prioritize criteria of skills and available time to take on these responsibilities. In general, the family establishes fixed periods of time to hold the position of family counselor – three/four years– so as to ease alternation, particularly in large families. Again, let me insist on the importance of carrying out a truly rigorous work to ensure the equitable presence of all branches of the family. A very common situation is having an external consultant –especially at the beginning– so that the family has external assistance

“Family Council separates business and family, the Board of Directors splits ownership and management”

to structure the operation of the body and provide enough formality and rigor to the process which, sometimes, might be difficult to achieve given the trust that family relations usually entail.

8. BUSINESS GOVERNANCE: BOARD OF DIRECTORS

The Board of Directors is the highest governing body of the company and the place where the business' strategic decisions are made. Just like the Family Council separates business and family, the Board of Directors splits ownership and management.

From my point of view, it is essential for the entrepreneurial family to take a qualitative leap and understand that there are highly important matters such as the day-to-day affairs which, although not urgent, are still rather relevant.

Certainly, when talking about the professionalization and institutionalization of the family business I consider that the first element that should undergo this process is its governing body. Professionalizing a company goes beyond hiring an external Marketing Director or CEO.

This being said, I would like remind that any entrepreneurial family that seeks to achieve a leading position in the market should have its Board of Directors meet the following objectives:

- Defining the strategy of the company and its main objectives in the medium/long-term so that the business is no longer managed in an action/reaction kind of way. Having the capacity to develop a strategic thinking which allows anticipating changes and being in a position to create value for the shareholder in a sustained manner. The Board is the place where the business should forget about the stress of needing to address urgent issues, meet its everyday tasks and achieve the budgetary targets for the current year in order to carry out a reflection work to clearly define the route that the business must follow. In this sense, the Board is a platform to analyze the competitive reality through environmental observation or the study of the data collected by the company itself. This reflection should provide the planning, objectives and resources that the company needs in order to achieve the expected results which, from then on, will become part of the foundations of the long-term management of the company.
- Monitoring the implementation of the strategic plan which, unavoidably, depends on its capacity to appoint or remove the CEO of



“The Board of Directors should ensure the sound governance of the business, guarantee it does not lose the strategic focus and be in a position to offer satisfactory feedback to its stakeholders”

the company. Therefore, as I already pointed out when I referred to succession and the role of the Family Council, the family might promote the implementation of the succession plans; but it is the Board of Directors who has the final say. In a broad sense, this body should ensure the sound governance of the business, guarantee it does not lose the strategic focus and be in a position to offer satisfactory feedback to its stakeholders.

- Being the institutional representative of the business before the business community. Besides the issues related to sound governance that we mentioned in the previous paragraph, the truth is that the management of stakeholders requires developing certain relationships –whose standards are usually established by the Board–. It is even usual for Board representatives to carry out this work directly.
- Ensuring that the interests of the family, its values and culture are kept and become part of how the company acts. In this way, the Board acts as a communication body with the Family Council through the mechanisms that the protocol establishes. Even though it might not seem

particularly important, this issue is incredibly relevant. For many authors, myself included, some of the advantages of family business lie in the stability that value and principle-related management provides, as well as long-term approaches, the psychological advantage that employees and managers have since they know for whom and with whom they work as well as the sense of pride in belonging to the company. Certainly, these issues do not magically happen, but need to be achieved through work and, in my opinion, this task should be preserved and enhanced by the highest governing body of society.

Meeting these objectives makes it possible to create a list of tasks that can be assigned to the Board of Directors, some of which –as can be easily understood– will disappear once they have been achieved, while others will be permanent. We can therefore highlight the following tasks:

- Working to align the interests of both the company and the family, defining the pertinent policies to this end and establishing communication mechanisms between both groups.
- Approving the strategic plan and the annual budget.

“The Board acts as a communication body with the Family Council through the mechanisms that the protocol establishes”

- Defining strategies and objectives in the medium and long-term.
 - Developing the annual accounts.
 - Making decisions involving the mobilizations of funds that exceed an internally-established figure.
 - Creating reporting systems for the Board to have valuable and efficient information to make strategic decisions.
 - Defining long-financing policies which ensure the availability of resources to implement future growth plans.
 - Appointing the CEO and, where appropriate, the management team as well as organizing the pay systems and the organizational structures of the company.
 - Ensuring that the company has the means, tools and processes that the strategic plan requires.
 - Defining and taking part in the institutional policy of the company.
 - Guaranteeing that the company has a good corporate reputation and its behavior is socially responsible.
- Taking part in the succession process according to the role it has to play in each case.
 - Authorizing important corporate decisions (buyouts, mergers, strategic alliances, incorporating investment partners, etc.).
 - Defining and taking part in crisis policies.
 - Promote policies that might be, at a given time, on the agenda of priorities of the company.

In many cases, tasks that were initially responsibility of the Board might be delegated to the Steering Committee for their implementation and/or follow-up once the Board has made the decision. Likewise, as the company grows, there are changes in relation to the issues to be managed by the Board. Such is the case, for example, with modernization processes of the management systems. During a specific period, it might have been the Board which promoted and monitored the process but after some time, it becomes a responsibility of the pertinent executive department.

As regards the composition of the Board, it should gather a sufficiently large group as to represent all interests but, at the same time, remains small enough to be efficient in the decision-making process. Therefore, a figure between 5 and 13 might be appropriate to meet both conditions. It is

“In many cases, tasks that were initially responsibility of the Board might be delegated to the Steering Committee for their implementation and/or follow-up once the Board has made the decision”

clear that the membership of the Board should be reserved to people with enough expertise, training and skills to efficiently manage the important affairs that the Board has to face and which cover the previously described areas. Thus, in compliance with the previous statement, it would be reasonable to include:

- Representatives from all Groups of Shareholders, which in a large family business translates into a counselor for every family branch who owns of a considerable percentage of the shares of the company. It is also common for minority groups to unionize to combine a percentage of capital so as to acquire a seat on the Board. Moreover, if the business has non-family partners, they are usually given a seat on the Board depending on the agreements that have been reached between both parties.
- External Directors –also known as “Independent Directors” in certain countries– who provide expertise in important business strategic affairs and, in general, in corporate governance matters. It is common to include people with recognized expertise in critical areas for the business at a given time, such as: internationalization, search and connection with investing partners,

IPO, modernization of management and implementation of new management practices or relations with institutions particularly in regulated sectors. Their role is very important, as they provide objectivity in the debates that might confront opposite interests –as is the case with directing shareholders and shareholders that do not work in the company–. In order to be considered independent, they can neither work for the company, nor have family ties with shareholders or the Upper Management of the organization.

- There might be managers mainly represented by the Managing Director in order to ensure the necessary sensitivity towards the business and the status of the company as perceived by those who see it on a daily basis. They are the Executive Directors.

The most important objective is making sure that the Council works in a rather executive way. As previously stated, the competitiveness index of the company is given by the degree of functioning of the Board. To this end, certain obvious conditions need to be met: establishing an early schedule of annual meetings, set a specific agenda of issues for each meeting and even establishing a time schedule

“Having independent directors to enrich the debate thanks to their expertise in important areas for the company as well as providing objectivity”

for each of the issues, send all pertinent information in relation to these issues to the Board members before the meeting... And having independent directors to enrich the debate thanks to their expertise in important areas for the company as well as providing objectivity by basing their analysis on pure reason and not belonging to specific interest groups.

9. CONCLUSION. THE PARADIGM SHIFT IN FAMILY BUSINESS: FROM AN ABSOLUTE MONARCHY TO A FEDERAL REPUBLIC?

My intention with this provocative heading is not to create a political confrontation, but to facilitate the debate about the future of the family business and its governance. A future marked by leadership, as I have already mentioned several times in this paper.

There is a classical conception of the family business that has always reminded me of absolute monarchies. Based on these assumptions, the family business was founded by a hyper-charismatic leader with exceptional qualities that ranged from an astonishing intelligence to an innate gift to identify business opportunities, a brutal working capacity and incredible commercial skills. If we take a closer look, many of the family businesses, particularly among successful ones, implemented

this model. Therefore, based on the pragmatism of the evidence, the aforementioned approach is perfect.

In a classical example, the leader is expected to be replaced by other members of the family –men or women of the next generations– who are expected to become a replica of the previous manager. And it was also thought that perpetuating a specific business activity was the element that united the family and created a legacy.

Lastly, in this traditional approach, absolute shareholding control would rest with the family. Let me insist on this point, evidence shows several examples of the benefits that the classical approach entailed.

But, let us not forget the fact that, when the family business started being analyzed and doctrinal principles on good management were established, the world was quite different, despite this phenomenon taking place only two or three decades ago.

Our world is one where the most valuable and better-valued companies to work are the classical firms of digital economy and technology. Apple, Facebook, LinkedIn, Twitter, Google, Amazon, Yahoo... A world where a mere group of 50 people can create such a huge project as WhatsApp, whose actual sale value amounts to USD 16 billion and has almost 500

“There is a classical conception of the family business that has always reminded me of absolute monarchies”

million clients every month. Or a world that has recently witnessed how Alibaba obtained a world record figure with the largest IPO ever. Can the continuity of a family business be guaranteed in this society of change through the exploitation of the same type of business that the founder created? Is the character of the family business lost by carrying out businesses with non-family shareholders? Does the business lose its family nature by selling the traditional business at a given time? Is it simple to find a successor with the exact same features as the previous leader, who had an exceptional entrepreneur quality? The answer to these questions probably translates into a new perception of the family business. A new concept that, in my opinion, and with the uttermost respect for the traditional model, is much better suited to face the new context. In fact, we are already witnessing situations –which are even slowly becoming referents– such as: appointing

non-family CEOs and having family members in governance bodies, selling the traditional business to carry out new activities, creation of business conglomerates that cover other sectors under the leadership of new generations, integration of family businesses into larger groups to better face the challenges that globalization poses, etc. In short, an infinite number of strategies and decisions that, in my opinion, would not remove the family business' nature from these companies. Actions that, at the end of the day, and following the example of the forms of governance that countries have, are much more similar to a Federal Republic. **Underlying this issue lays the idea of an evolution of the entrepreneurial family model, of the perpetuation of a specific activity towards the creation of shared value through generations. This evolution of paradigms arises during the strategic debate when family companies implement their corporate governance bodies.**

Author



Manuel Bermejo is Director of Executive Education and Professor at IE Business School in the areas of corporate governance, entrepreneurship, family business, private equity and franchise. Over more than two decades of professional life he has combined his work in IE with senior management and corporate governance duties in different companies operating in sectors such as private equity, entertainment, technologies, food processing and industry. He is the author of the following books: *Hacia la empresa Familiar Líder* (Financial Times Prentice Hall, 2008), *Gente Emprendedora*, *Gente de calidad* (Plataforma Editorial, 2013); and co-author, among others, of: *La reputación de la empresa familiar* (Fundación Nexia, 2012), *Aquí quien manda: levantando el mapa del poder de las organizaciones del siglo XXI* (Financial Times Prentice Hall, 2011), *Crea tu propia empresa* (McGraw Hill, 2003). www.mabermejo.com

manuel.Bermejo@ie.edu



The multilatinas

by Ramón Casilda

Madrid, June 2015

d+i developing
ideas
LLORENTE & CUENCA

PRESENTATION BY ALEJANDRO ROMERO

THE MULTILATINAS BY RAMÓN CASILDA, PROFESSOR AND IBEROAMERICAN BUSINESSES CONSULTANT

1. A GLANCE AT THE LATIN AMERICAN ECONOMY
2. DEFINING THE MULTINATIONAL ENTERPRISE
3. DEFINING THE MULTILATINAS
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7. THE WORLD'S LARGEST MULTINATIONAL AND MULTI-LATIN CORPORATIONS
8. PROSPECTS OF MULTILATINAS, MORE PROMINENCE AND GREATER RESPONSIBILITY

PRESENTATION

The changes undergone by the business world during the last decade and, more specifically, by Latin American organizations, can be clearly seen: many multinational corporations have increased their investments in emerging countries such as Brazil, China or South Africa. Until recently, the latter were mere receptors of foreign investment, and have now become important investors in international markets.

This is the case of the Multilatinas, Latin American business groups that are part of the known as “emerging multinational organizations”. This idea may match the definition and objectives of multinationals. However, in this case, this organizational conglomerate belongs to a single region: Latin America.

Even though Latin American corporations have been part of the markets for centuries, it is necessary to understand the financial importance and strength that they currently hold, competing with the largest business groups around the world and, sometimes, even reaching leading positions, as in the case of Latin American airlines, a sector where regional companies prevail and which Ramón Casilda thoroughly analyzes in this paper.

The value of multinationals for the countries in which they operate cannot be denied, and particularly now in a period where the Latin American region will experience an economic slowdown and negative forecasts have been made as regards the development of the region compared to that of recent years. Multilatinas have become a key element to enhance the economic forecasts of the region. However, it is crucial for these businesses to focus their business strategy in innovation, an essential feature which will help them be competitive in other business environments, beyond the regions that they already control.

This international and regional expansion of Multilatinas cannot be explained through an intelligible mathematical formula; but through foundations that have made it possible for these businesses to be successful and achieve leading positions in their markets. Ramón Casilda identifies five competitive advantages that improve their presence in the business environment: a high-quality upper management, access to capital market and founding tools, leadership in the local market, acquisitions and joint ventures and a sound corporate governance.

Therefore, these are part of the conditions that other Latin American companies will need to meet in order to become Multilatinas, although they will face a highly competitive market. Besides the already known leading Multilatinas, almost all of them state-owned organizations from the petrochemical, energy and commodity sectors such as Pemex, Petrobras and YPF, there are several private Multilatinas across all sectors. The latter includes companies such as Mexican Gruma and Bimbo, Brazilian enterprise JBS-Friboi or the largest cement company in the world, the Mexican organization Cemex.

Special attention should be paid to Multilatinas located in Spain, a market where they have found a niche through which they can penetrate into Europe. Their entry into the Spanish economy can be partially explained through the historical, cultural and linguistic ties that link them and also thanks to the facilities that Spain provides to any organization willing to invest.

At this point, it would be interesting to wonder what the future of the Multilatinas will be: Will they become responsible for the changing of the economic map in the next decade? Everything suggests that their expansion will gradually increase and this will provide greater potential and international influence to Latin America.

Alejandro Romero

Partner and CEO of LLORENTE & CUENCA in Latin America

“The region is now expected to grow by 1.3%”

THE MULTILATINAS

1. A GLANCE AT THE LATIN AMERICAN ECONOMY

Latin America (LA) has a GDP of USD 5,657 billion, which accounts for 8% of the global wealth, and a population of around 588 million people, comprising 8.5% of the world's population. The region has grown over the past three decades, also managing to reduce poverty and raise the income level of its citizens to USD 9,536 at current prices or USD 13,000 according to purchasing power parity (PPP)¹. However, it still has not been able to close the welfare gaps between the region and more developed countries.

The region is slowly losing its increasingly important role within the global arena. Experts and international organizations have downgraded its growth forecasts due to a mild, yet persistent, generalized slowdown. Every New Year usually gives rise to renewed optimism, but the prevailing feeling among many Latin American countries is that of anxiety, as 2015 began with a further reduction in the growth expectations, according to Alejandro Werner, Director of the Western Hemisphere Department of the International Monetary Fund (IMF): “The region is now expected to grow by 1.3%, about the same low rate

as in 2014 and almost 1 percentage point below our previous forecast (October, 2014)². The challenging external circumstances are an important burden for many countries. But it is not too late to define a list of resolutions for the New Year in order to address the internal weaknesses and improve the growth prospects”.

The prices of commodities have continued dropping due to the unexpected weakening of the demand in several major economies, such as China. The best example was oil, where the growth of supply has also played an important role in relation to the price drop. In this context, the IMF revised the forecast for world economic growth to 3.5% in 2015. The growth prospects in the U.S. have improved, but the weak state of the Eurozone, China and Japan is affecting the global activity.

Within the context of global economy, in general, it is expected that the fall in oil prices will be neutral for Latin America and the Caribbean as a whole, but the effects at national level will greatly differ (Table 1).

In 2015 it grew by 3%, in 2013 by 2.5% and in 2014 by 0.8%, figures well below the ones recorded in the years before the crisis (4%-5%).
South America fell sharply due

¹ For more information, see: Ramón Casilda Béjar (2015): *Crisis y Reinención del Capitalismo: Capitalismo Global Interactivo* (Crisis and Reinvention reinvention of capitalism: interactive global capitalism). Editorial Tecnos. Madrid.

² FMI. Regional Economic Outlook (October, 2014): *América Latina y el Caribe: Enfrentando tiempos complejos* (Latin America and the Caribbean: facing complex times). Washington.

to internal factors, worsened by the economic slowdown that most of its international business partners suffered and the severe consequences in some of the major economies entailed by the global drop in prices of commodities. On the other hand, the growth of Mexico and Central America has stabilized thanks to the strengthening of the U.S. activity (WB, *Global Economic Prospects*, January 2015)³.

Similarly to international organizations, most analysts consider that there will be some recovery as a result of **exports which will be boosted**

through the recovery of high-income countries, as well as the arrival of major capital flows which should rise the GDP to an average of 2.6% between 2015 and 2017. However, the possibility of a stronger slowdown in China and a sharper fall in prices of commodities and oil pose significant risks (GEP, January 2015).

In order to achieve a long-term growth, it is essential to implement structural reforms and, in general, promote access to more diverse funding sources and vastly enhance the business environment and climate. This environment is also suffering these negative consequences and, according to a study carried out by the Brazilian Foundation Getulio Vargas (FGV, October 2014), has recorded its lowest level since July 2009. The same has happened to the economic climate index, which dropped from the 84-points mark in July 2014 to 75- points by January 2015⁴. This is the lowest score in over five years (July 2009), when the region was suffering the effects of the international economic crisis. These 75 points are below the average of the last ten years, which stood at 102 points.

The study warns that this has been the fifth consecutive quarter in which Latin America

Table 1. Latin America and the Caribbean: growth of real GDP (percentage)

	2014	2015
LATIN AMERICA AND THE CARIBBEAN¹	1.2	1.3
FINANCIALLY INTEGRATED ECONOMIES ²	2.4	2.8
NORTH AMERICA		
CANADA	2.4	2.3
MEXICO	2.1	3.2
UNITED STATES	2.4	3.6
SOUTH AMERICA		
ARGENTINA	-0.4	-1.3
BRAZIL	0.1	0.3
CHILE	1.7	2.8
COLOMBIA	4.8	3.8
PERU	2.5	4.0
VENEZUELA	-4.0	-7.0
CENTRAL AMERICA³	3.7	3.8
THE CARIBBEAN		
ECONOMIES DEPENDENT ON TOURISM ⁴	1.4	2.0
NATURAL RESOURCE EXPORTING COUNTRIES ⁵	2.6	2.9

Sources: IMF, Perspectives for global economy (WEO report) and calculations from technical staff at IMF

¹Weighted average by PPA.

²Simple average of Brazil, Chile, Colombia, Mexico, Peru and Uruguay.

³Simple average of Belice, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

⁴Simple average of Bahamas, Barbados, Jamaica and States member of Eastern Caribbean Currency Union (ECCU).

⁵Simple average of Guyana, Suriname, Trinidad and Tobago

³ World Bank (January, 2015): *Global Economic Prospects: Washington*.

⁴ Survey conducted quarterly by the FGV in partnership with the Institute of Economic Studies of the University of Munich among 1,071 experts of 117 countries.

“The access of enterprises to capital markets is limited”

continued at a negative level. The fall of the business climate in Latin America contrasted with the slight global improvement thereof, rising from 105 points in October 2014 to 106 points in January 2015, fostered by a better environment both in the U.S. and the EU, where the index rose from 104 points to 113 points in three months and a slow improvement is taking place in Japan and Spain.

As regards promoting access to more diverse funding sources, the global economic crisis has taught us one of the most significant lessons. The World Federation of Exchanges confirms that the Santiago Stock Exchange (Chile) and Bovespa (Brazil) are among the exchanges that have channeled the most funding to their respective enterprises in 2013. In aggregate terms, the stock exchanges of the region have translated into over USD 50 billion, a figure that doubled the previous one. This is good news, as it shows the right path and the progressive improvement that all countries should strive for. However, similarly to the situation in Spain and other European countries, the access of enterprises to capital markets is limited, as these are mainly reserved for major companies. Thus, there is a common objective; granting a broader and deeper access to

funding through stock markets for smaller companies, which would help them to grow and gain importance.

In this regard, the World Bank, in its report: *El emprendimiento en América Latina: Muchas empresas y poca innovación* (Latin American entrepreneurs: many firms but little innovation)⁵, states that: “60% of the Latin American employees work in enterprises with five or less people. Thus, entrepreneurship in the region is high, but the companies that survive, grow at a much slower pace than those in other regions of average income. The economic outlook in Latin America is such that business starts as small enterprises and remain small. There is no problem with being small, but remaining small forever is a problem for survival”.

Moreover, size is not always the best indicator of growth potential and quality jobs. In fact, many multinational firms in Latin America are much less innovative and Multilatinas also suffer from a lack of innovation which affects their dynamism, that is, their competitiveness. Thus, the report suggests the creation of an economic environment that promotes innovation and competitiveness, therefore reducing the power of monopolies, improving

⁵ Ramón Casilda Béjar. Coordinator, with the World Bank, of the Conference: *Retos y oportunidades del emprendimiento en América Latina* (Entrepreneurial challenges and opportunities in Latin America). Fundación Ramón Areces. Madrid, June 24, 2014. www.worldbank.org/content/dam/Worldbank/document/LAC/LatinAmericanEntrepreneurs.pdf

“Latin America is a middle-income region”

productivity and diversifying the risks⁶. Furthermore, the report shows that multi-Latin companies launch their products at a slower pace than their counterparts in other developing countries. In fact, in Ecuador, Peru, Jamaica, Mexico and Venezuela the launch rate of new products is less than half of that in Thailand or Macedonia and well below the rate recorded in South Korea.

Consequently, this lack of innovation hurts competitiveness, slows down growth and affects the creation of quality jobs, and thus, the desired virtuous circle is not completed. It is a matter of creating an innovative business class, where first class companies, those which export goods, services and even foreign direct investment, as occurs with multi-Latin companies, start competing with multinational enterprises of developed countries⁷.

This whole situation might put Latin America in the known as “middle income trap”. It should be taken into account that Latin America is a middle-income region: the typical country has a per capita income 25% higher to that of a typical global country,

but 80% lower than the per capita income of a developed country. This translates into a decline of its relative position: 50 years ago the region was in a much better condition compared to the rest of the world and, despite recent developments, it has been unable to converge with, for example, the U.S. (IDB, *Rethinking productive development*)⁸.

2. DEFINING THE MULTINATIONAL ENTERPRISE

Collective nouns are a useful abstraction when defining an idea or a thing with a certain degree of accuracy, but are dangerous when taken as an end by themselves. The collective definition of “multinational” has been and still is subject of discussion and debate within specialized literature, largely due to the broad diversity of these organizations and their evolution in time⁹.

Perhaps the most striking feature of multinational companies is the amount of time it took for them to obtain a collective noun and, therefore, the possibility of a distinct identity. This denomination was coined by

⁶ *Retos y oportunidades del emprendimiento en América Latina* (Entrepreneurial challenges and opportunities in Latin America). www.worldbank.org/content/dam/Worldbank/document/LAC/LatinAmericanEntrepreneurs.pdf

⁷ World Bank Report (2014): *El emprendimiento en América Latina. Muchas empresas poca innovación* (Latin American Entrepreneurs. Many firms but little innovation). Office of the Chief Economist for Latin America. Washington.

⁸ Inter-American Development Bank. 2014 Annual Report (Edited by Gustavo Crespi, Eduardo Fernández-Arias and Ernesto Stein): *Rethinking Productive Development. Sound Policies and Institutions for Economic Transformation*. Washington.

⁹ For more information, see: Ramón Casilda Béjar (2015): *Crisis y Reinención del Capitalismo: Capitalismo Global Interactivo* (Crisis and reinvention of capitalism: interactive global capitalism). Editorial Tecnos. Madrid.

“This form of internationalization beyond the traditional meaning of international”

David E. Lilienthal¹⁰, during his speech at the Carnegie Institute of Technology (April 1960): *Multinational Corporations*. During the speech, Mr. Lilienthal referred to the special problems of American companies with industrial or business transactions abroad with direct management responsibility, offering the following definition: “I would like to define such corporations –which have their home in one country but which operate and live under the laws of other countries: as multinational corporations” (Lilienthal, 1960)¹¹.

In order to obtain acknowledgement of the authorship of the aforementioned term, the Wall Street Journal had to edit his article *The European Common Market*. “As far as I know, during my conference at the Carnegie Technology, it was the first time that the word “multinational” was used: thus, I am inclined to think that it was me who coined it to refer to this form of internationalization beyond the traditional meaning of international”. In any case, it was positive for this term to become part of the economic language. Lilienthal deserves the credit for the term and his authorship and reasoning has been recognized, as he stated that the multinational

corporation had three defining characteristics¹²:

- Has, at least, a production base or some form of direct investment in a foreign country. It has a truly international scope, since its management makes the fundamental decisions about marketing, production and research according to the available global alternatives.
- The top management of the company takes full responsibility for foreign operations, so that the international division is established as an independent department in charge of all international operations.
- But, above everything, multinationals should be considered as an integrated organization. The object is to achieve the greatest profits, even at the expense of the interests of a particular part of the whole.

The simplest definition of a multinational is: “a corporation that owns and controls productive assets in more than a country” (Dunning, 1974). Also: “a company of a specific nationality with partially or wholly owned subsidiaries

¹⁰ Initially, he was the Director of the Corporation Tennessee Valley, the Atomic Energy Agency and, since 1955, the CEO of Development and Resources Corporation in New York, jointly established with the investment bank Lazard to grant loans to less developed countries. Lazard is the parent company of the Lazard Group, a global independent investment bank with offices in 27 countries in Europe, North America, Asia, Australia, Central America and South America.

¹¹ Fieldhouse (1990).

¹² *Business Week*. New York, April 25, 1963.

“The common element is the control of a business activity abroad”

within at least one other national economy” (Gilpin, 2001). A more detailed one: “company that conducts its activities at an international level, without taking into account national borders, designing its actions based on a strategy managed by the corporate center, that is, its headquarters, located in the country of origin (Vernon, 1971).

As can be seen in the above definitions, the common denominator or common element is the control of a business activity abroad being present in, at least, two countries, one being the origin country (the one to which the company belongs) and the other being the country where the company is established (where the country owns assets or has subsidiaries).

The multinational enterprise is considered to be a historical continuation of the great modern industrial corporation. It can be said that, as we know them today, their development started after WWII, during the 50s and 60s, a time that greatly promoted agreements or arrangements of collaboration between businesses, which led to the proliferation of horizontal and vertical integration processes. Consequently, multi-sectorial enterprises greatly developed, entailing the creation of industrial groups.

Mergers, takeovers and acquisitions in the European Economic Community (EEC), during the 60s and the 70s, transformed large European

companies into multinationals similar to U.S. multinational corporations. Unlike the U.S., the European boom in the growth of external businesses was marked by horizontal integration, with the removal of competitors and, thus, an increase in the degree of business concentration.

However, Japanese multinational enterprises are more recent. During the 60s and, particularly, the 70s Japan considerably acquired importance within the global arena through exports. This rose during the 80s, when the trade balance showed a significant surplus as regards the U.S. and the EEC, which led to both countries pressuring Japan to give greater facilities to import industrial products from abroad. The response was to increase capital export through direct investments in third countries, a prominent strategy in the 80s.

In all this corporate policy, the incredibly powerful Ministry of International Trade and Industry (MITI) played a quite important role, as it was responsible for the creation, for many years, of the policies that would increase industrial growth, ensuring that the capital was channeled towards the most productive sectors of the Japanese economy and also avoided the proliferation of widespread destructive industrial processes. The MITI was considered to be the ministry with the largest direct influence on the economy of a country.

“Local companies
that started
conducting business
across the Americas”

According to these definitions and conceptualization of the multinational corporation, it could be said that their nature is defined by the control and ownership they hold in the various countries in which they operate.

3. DEFINING THE MULTILATINAS

Originally, Multilatinas were defined by the magazine *América Economía* in 1996. Its aim was to describe local companies that started conducting business across the Americas. In this sense, it could be said that collective nouns are a useful abstraction when they define an idea or a thing with a certain degree of accuracy.

Their origin, which took place during the 90s, coincided with a general context of economic boom in the region (although with ups and downs), and the implementation of the Washington Consensus, whose policies facilitated the changes that Latin American economies experienced during the last three decades, which led to a greater productive modernization and transformation as well as the international integration thanks to increased openness and liberalization. And all of this,

benefiting from good economic times, mainly due to higher prices of raw materials, which increased thanks to the strong Chinese demand and a favorable international environment.

Just like multinationals, which originated from industrial and mining manufacturing companies, Multilatinas first started among the mining sector and then expanded to the industrial manufacturing sector, finally reaching fields as diverse as the cement industry, construction and engineering, cosmetics, agribusiness, biofuels, food, telecommunications, steel, petrochemical, audiovisual, distribution, department stores or aircrafts.

The closest example of Multilatinas can be found in the “Spanish multinationals”¹³ (which I have been analyzing and following up since they began their internationalization process across the region), which also capitalized on the economic momentum and context with the incorporation of Spain to the European Union and the Single Market. Since the Spanish economy has leading multinationals, its transformation has been significant as regards its

¹³ For more information, see; Ramón Casilda Béjar (2002): *La década dorada. Economía e inversiones españolas en América Latina 1990-2000* (The golden decade. Spanish investment and economy in Latin America 1990-2000). Ediciones de la Universidad de Alcalá. Madrid; (2008): *La gran apuesta. Globalización y multinacionales españolas en América Latina. Análisis de sus protagonistas* (The great bet. Globalization and Spanish multinational enterprises in Latin America. Analyzing the players). Editorial Granica and Norma Editorial. Barcelona and Bogota; (2011): *Multinacionales españolas en un mundo global y multipolar* (Spanish multinational enterprises in a global and multipolar world). ESIC Editorial. Business & Marketing School. Madrid.

“The regional expansion were favored by the implementation of several trade agreements”

dimension, organization, modernization and international scope, and thus Spain's weight has prominently increased, becoming an important international player.

4. REGIONAL EXPANSION OF MULTILATINAS

The regional expansion of Multilatinas, as previously described, coincided with a general positive economic context and a favorable international environment, which was crucial for the start of a vigorous growth cycle throughout the region, entailing excellent results which, in turn, led to an increase in the confidence of investors in their respective countries.

The regional expansion strategies which sought to achieve greater size, diversification and benefits, were favored by the implementation of several trade agreements whose objective was the promotion of regional integration through exchanges between the various economies that take part in these regional treaties and have participated with different intensity, such as: MERCOSUR, CAN, CARICOM and more recently the Pacific Alliance¹⁴.

According to the data annually published by the magazine *América Economía*, which ranks the 50 most important Multilatinas, Brazil held in

2014 the top position with 14 organizations, followed by Mexico with 12, Chile with 11 and closing the list, Colombia, Peru and Argentina with 3 respectively (Table 2).

During 2014, the total sales of the top 50 Multilatinas grew by 29% over the previous year. A first analysis shows that the internationalization of the operations is a good way to protect the enterprise against the economic policies of each country (economic cycle), while risks are diversified and synergies exploited.

Over the last two decades, Multilatinas have gradually expanded throughout the region and, thus, across the international markets, promoted, as previously described, by the economic liberalization and openness policies of the Washington Consensus, but also, and this point has to be reminded, thanks to the open regionalism of the ECLAC.

The implemented growth strategies are various and are strongly influenced by the singularities of the countries of origin and destination, although they share certain common points. For example, Chilean companies still lead the ranking of mergers and acquisitions. An illustrative example is the merger between Chilean airline LAN Chile and Brazilian TAM, which resulted in “LATAM”, among

¹⁴ Ramón Casilda Béjar (10-06-13): *La Alianza del Pacífico y la Cumbre de Cali* (“The Pacific Alliance and the Cali Summit”). www.economia.elpais.com

Table 2. The 50 largest private Multilatinas in 2014

2014 RANKING	MULTI-LATIN ENTERPRISE	COUNTRY	SECTOR	SALES 2013	% EMPLOYEES ABROAD
1	CEMEX	MEX	CEMENT	14,953.90	77.7
2	LATAM	CHI	AIRLINE	13,266.10	77
3	BRIGHTSTAR	USA/BO	TELECOM	10,600.00	84
4	GRUPO JBS - FRIBOI	BRA	FOOD	39,658.00	59.2
5	SUDAMERICANA DE VAPORES	CHI	SHIPPING	3,206.00	83.1
6	TENARIS	ARG	METAL	10,597.00	74
7	TERNIUM	ARG	METAL	8,530.00	70
8	AVIANCA-TACA	CO/SV	AIRLINE	4,609.60	70
9	MEXICHEM	MEX	PETROCHEMICAL	5,177.00	72
10	AJEGROUP	PER	ALCOH. BEVERAGES	1,745.00	77.7
11	TELMEX	MEX	TELECOM	10,277.10	75
12	GERDAU	BRA	METAL	17,016.60	55
13	GRUMA	MEX	FOOD	4,138.00	58.8
14	AMÉRICA MÓVIL	MEX	TELECOM	60,079.70	58
15	MASISA	CHI	MANUFACTURING	1,364.70	68.4
16	ARAUCO	CHI	PAPER	5,145.50	37.6
17	CENCOSUD	CHI	RETAIL	19,648.00	60.3
18	NEMAK	MEX	AUTOMOTIVE COMPONENTS	4,390.90	49.5
19	SONDA	CHI	SOFTWARE	1,277.30	72.5
20	SIGMA	MEX	FOOD	3,744.10	95.2
21	ARTECOLA	BRA	CHEMICAL	128,196.00	61.6
22	EMBOTELLADORA ANDINA	CHI	ALCOHOL BEVERAGES	2,905.30	77.9
23	CMPC	CHI	PAPER	4,974.50	43.8
24	MARFRIG	BRA	FOOD	8,007.20	30.9
25	INDRA	BRA	MULTISECTOR	4,011.60	53.7
26	COPA AIRLINES	PAN	AIRLINE	2,608.30	24
27	GRUPO ALFA	MEX	MULTISECTOR	15,560.30	28.9
28	ISA (INTERCONEX ELEC)	COL	ENERGY	1,872.70	63.3
29	FEMSA (3)	MEX	BEVERAGES	19,640.40	21.8
30	GRUPO BELCORP	PER	CHEMICAL	1,963.00	79
31	GRUPO BIMBO	MEX	FOOD	13,785.00	39.8
32	MARCOPOLO	BRA	AUTOMOTIVE COMPONENTS	1,766.80	60.2
33	PDVSA	VEN	OIL/GAS	116,256.00	6
34	IMPESA	ARG	ENERGY	689.6	54.8
35	SQM	CHI	MINING	2,203.00	4.4
36	MADECO	CHI	MANUFACTURING	415.9	75
37	VALE	BRA	MINING	43,323.50	19.1
38	COCA-COLA FEMSA	MEX	ALCOHOL BEVERAGES	11,931.70	47.7
39	LOCALIZA	BRA	LOGISTICS	1,483.80	93.4
40	WEG	BRA	MANUFACTURING	2,915.10	18.2
41	GRUPO NUTRESA	COL	FOOD	3,156.10	32.8
42	PETROBRAS	BRA	OIL/GAS	130,150.30	11.6
43	POLLO CAMPERO	GUA	FOOD	400	47.8
44	NATURA	BRA	PHARMACEUTICAL/CHEMICAL	2,966.70	80.2
45	CONSTRUTORA ODEBRECHT	BRA	CONSTRUCTION	4,101.50	32
46	GRUPO MODELO	MEX	BEVERAGES	6,771.70	7
47	SUZANO PAPEL E CELULOSE	BRA	PAPER	2,428.30	6
48	ALICORP	PER	FOOD	2,047.80	46.7
49	METALFRIO	BRA	ELECTRO.	344.1	53
50	FALABELLA	CHI	RETAIL	12,653.30	47.7

Source: América Economía. Ranking 2014. Santiago de Chile.

the top 10 airlines worldwide, providing transport services for passengers and cargo to over a hundred destinations in twenty countries. A similar strategy was carried out by the largest private Brazilian Bank, Itaú, which merged its subsidiary in Chile with Corp Banca Colombia, through which the Brazilian company was granted access to the markets of Colombia, Peru and Central America. The resulting company: Itaú Corp Banca, will have Itaú Unibanco and Corp Group as main shareholders.

This shows that the Latin American business map is subject to rapid changes and variations, as evidenced by the intense activity that Colombian and Chilean groups are carrying out, having acquired important European multinationals that decided to leave the region. Among the latest transactions, the following stand out:

- Grupo Aval (Colombia): Purchased Banco BAC Credomatic in Central America, financial arm of General Electric, for USD 1.9 billion.
- Grupo Aval (Colombia): Acquired AFP Horizonte in Colombia previously owned by BBVA for USD 530 million.
- Grupo Aval (Colombia): Controls Editorial El Tiempo of Spanish Grupo Planeta after purchasing it for USD 300 million.

- Grupo Aval (Colombia): Acquired the historical subsidiary of BBVA in Panama for USD 646 million.
 - Davivienda (Colombia): Took over the operation of HSBC (UK) in Costa Rica, Honduras and El Salvador for USD 801 million.
 - Grupo Gilinski (Colombia): Took over the operation of HSBC (UK) in Colombia, Uruguay, Paraguay and Peru for USD 400 million.
 - Grupo Sura (Colombia): Purchased ING Netherlands, assets in pensions, insurance and mutual funds in Chile, Mexico, Peru, Uruguay and Colombia. The transaction computed USD 3,763 million.
 - Grupo Argos (Colombia): Acquired several assets of the French cement company Lafarge in the U.S., with a total cost of USD 760 million.
 - ISA (Colombia): Purchased the subsidiary Intervial Chile of Cintra (Spain) for USD 580 million.
 - Corpbanca (Chile): Purchased Grupo Santander, Santander Colombia, for USD 1,225 million.
 - Corpbanca (Chile): Purchased Helm Bank in Colombia for USD 1,278 million.
 - Cencosud (Chile): Acquired French hypermarket Carrefour and its stores in Colombia for USD 2.6 billion.
 - Compañía Sud Americana de Vapores (Chile): merged with Hapag-Lloyd, its German competitor in containerized liner shipping services, becoming the fourth largest company in the sector with a turnover of USD 8.7 billion. The headquarters will be located in Hamburg and the regional center in Santiago de Chile.
 - Abbott Laboratories (EE. UU.): purchased CFR Pharmaceuticals, specialized in generic drugs, one of the largest companies in the region as regards development, production and sale of drugs, present in 15 Latin American countries and Vietnam. It has 7,000 employees and manages production plants and research centers in Chile, Colombia, Peru and Argentina. The purchase amounted to USD 2.9 billion and the total cost is USD 3.33 billion if the debt of the Chilean enterprises is added. Abbot will double its presence in the generic drugs market in Latin America and its revenues will rise by 900 million annually.
- It should be noted that these transactions show a significant change in the growth pattern, since until recently, these

“These transactions show a significant change in the growth pattern”

acquisitions were almost exclusively carried out by multinationals of developed countries, such as Spain¹⁵. This rise of Multilatinas indicates their excellent skills to adapt and transform resources to successfully compete at a regional level, as occurs in the Latin American airline sector.

REGIONAL GROWTH STRATEGIES OF AIRLINES

Due to their nature, the airline sector is constantly transforming, seeking expansion paths to successfully compete at an international level. Competing globally is a capital-intensive project, with network economies that facilitate the integration of subsidiaries in several countries and the possibility of creating global brands.

At the same time, because of its strategic nature, it is a highly regulated and protected sector by national governments. In fact, it is one of the few Latin American sectors where foreign owned enterprises are limited by law. These factors have resulted in a partial consolidation of the industry, completely dominated by regional corporations.

During the opening and liberalization of public services, which took place during the 90s, it could have been thought that airlines would follow the same path as energy or telecommunications enterprises and would end up being controlled by foreign groups. However, the outcome has been quite different.

In fact, purchases by international investors were scarce and unsuccessful. The main transaction was the purchase of Aerolíneas Argentinas by Iberia and Marsans –both Spanish– before its re-nationalization in 2008. Likewise, Continental acquired a majority stake in Copa de Panama, an enterprises that did not generate the expected benefits either and thus entailed the gradual withdrawal by Continental since 2005 until it completely stepped down.

Contrarily to the results of actions undertaken by foreign enterprises, the integration of local and regional corporations into the airline industry has considerably advanced in recent years. The most illustrative example is LATAM, which was created through the merger between Chilean LAN and Brazilian TAM, currently the

¹⁵ For more information, see; Ramón Casilda Béjar (2002): *La década dorada. Economía e inversiones españolas en América Latina 1990-2000* (The golden decade. Spanish investment and economy in Latin America 1990-2000). (2008): *La gran apuesta. Globalización y multinacionales españolas en América Latina. Análisis de sus protagonistas* (The great bet. Globalization and Spanish multinational enterprises in Latin America. Analyzing the players), and; (2011): *Multinacionales españolas en un mundo global y multipolar* (Spanish multinational enterprises in a global and multipolar world).

“The integration of local and regional corporations into the airline industry has considerably advanced in recent years”

largest airline company in Latin America and the Caribbean. Besides operating in these two countries, it is also particularly important in other Latin American nations thanks to LAN Peru, leader airline in the Andean country and LAN Colombia and LAN Argentina, the second most important airlines in their respective countries.

The second largest airline group in the region is Avianca, the previous Colombian national airline, which merged in 2009 with TACA Airlines¹⁶, a Central American corporation headquartered in El Salvador that previously acquired Lacs, the airline of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Peru. With its extensive operations, Avianca offers a more complete services network than its main competitors. Currently, Grupo Avianca is owned by Synergy Group Corporation, founded by Germán Efromovich, a Bolivian entrepreneur, of Brazilian and Colombian nationality. In 2012, Synergy also tried to purchase TAP Portugal, but the offer was rejected by the Portuguese Government.

The airline Copa has chosen a different strategy and used its base in Panama as a hub for long-haul destinations for Latin America and the rest of the world. The only exception was the purchase of Aero República in 2005, currently known

as Copa Airlines Colombia since 2010, the third largest Colombian airline.

The Caribbean airlines, as well as enterprises of other sectors, establish subsidiaries networks in several countries to reduce the operating costs in very small markets. The national airline of Trinidad and Tobago, Caribbean Airlines, started operating in 2007 to replace West Indies Airways (BWIA), a British company that went bankrupt. In 2010, Caribbean Airlines acquired the remaining operations of Air Jamaica, and thus also became the Jamaican national airline. In late 2012, Caribbean Airlines also became the national airline of Guyana. Another important Caribbean airline is Leeward Islands Air Transport (LIAT), a Panamanian enterprise, co-owned by eleven Caribbean governments and with important hubs in Antigua and Barbuda, Barbados, Saint Vincent and the Grenadines and Trinidad and Tobago, apart from private shareholders.

The difference between these large airline groups in Latin America is, undoubtedly, its networking nature. In each country of the region, the operation of a group is executed through individual airlines, subsidiaries of a parent company, in order to comply with local regulatory requirements as regards limiting foreign participation in the airline

¹⁶ It was a strategic merger and both Avianca and Taca kept their corporate image. This merger sought to strengthen the services of both corporations within the region and exploit synergies.

“The difference between these large airline groups in Latin America is its networking nature”

industry. Most of the Latin American countries merely allow foreign investors to partially own a national airline (often not over 50%) and limit flight airlines on certain routes, particularly as regards internal flights.

This entails an organizational burden for the airlines that must create this type of pan-regional networks. In the case of Avianca and LATAM, this resulted in working with partially owned subsidiaries.

This is the case of LAN, which only owns 49% of LAN Peru and LAN Argentina and 45% of LAN Colombia. However, these companies are an integral part of LATAM, which owns aircrafts instead of local airlines. When TAM was purchased in 2012 by LAN a specific agreement had to be signed to comply with the legal requirements of Brazil. Ultimately, TAM is 100% owned by LATAM Chile, but 80% of the decision-making rights rests with Brazilian investors, in order to comply with Brazilian Law, which requires that 80% of the domestic airlines must be property of nationals. Following a similar strategy, Avianca has not completely integrated Lacs into its operations to keep its Costa Rican nature.

The reason behind the success of these large networks in Latin America and the Caribbean seems to be related to the lower relative size of national markets and the strong demand for various flight choices across the continent. Furthermore,

regional entrepreneurs have been creative enough to operate within the legal framework of each country and exploit the expansion possibilities of the networks.

Finally, it should be noted that not all main airlines in the region take part in this regional internationalization process; airlines operating in the main internal regional markets tend to exclude themselves from this process. Thus, one of the largest Latin American airlines is Aeroméxico. The Mexican airline has implemented a completely different strategy than LATAM or Avianca and has focused on its large national network and the connections with the U.S. These two features (internal market and opportunities in the U.S.) are probably the reason why the airline did not need to establish these networks.

Another important Latin American and Caribbean airline is Brazilian Gol, the only low-cost airline, mainly focused on the huge internal market. However, it is a growing business, which has a great room for expansion in its domestic market.

Source: Author, based on ECLAC (2014): O. De Groot and Miguel Pérez Ludeña: *Foreign direct investment in the Caribbean: trends, determinants and policies*. Caribbean Studies and Perspectives, N° 35 (LC/L.3777). ECLAC and the Caribbean Sub Regional Office. Port-of-Spain. Trinidad and Tobago.

“It is essential to exploit these dynamic forces to incorporate them as much as possible to promote a regional integration”

It is also mandatory to highlight the positive impact that multi-Latin corporations have on such an important process as the “regional integration”¹⁷. This occurs due to the large and increasing level of transactions, projects and investments that are carried out throughout the region, showing the contribution they make towards the enhancement, cohesion and integration of the Latin American markets. Therefore, producers and consumers develop an unprecedented relationship at a faster speed than that of treaties and agreements in recent years¹⁸. Consequently, it is essential to exploit these dynamic forces to incorporate them as much as possible to promote a regional integration that, by the way, is still well below the expected level.

In this regard, the Institute for the Integration of Latin America and the Caribbean (INTAL)¹⁹, shows that between 2003 and 2013, the trade between South American countries reached levels over those of global exports and sales of the region to the rest of the world. The most significant

intra-South American growth exchanges were those of intra-industry trade, both in relation to manufacturing and resource-based products²⁰.

In general, Latin American economies complement each other. Those specialized in the production of raw materials are complemented by those specialized in manufacturing. INTAL considers that the region shows a mixed picture as regards trade and identifies significant industry flows in 11 out of the 66 bilateral relations between 2003 and 2013. Only three economies (Argentina, Brazil and Uruguay) have a high level of intra-industry flow, although Colombia and Ecuador are close to it. Argentina and Brazil are the two countries with most significant intra-industry exchange; whereas in the other cases the two-ways exchange is almost nonexistent. It is here where multinationals can act to revert and enhance the intra-industry flow.

These data undoubtedly contribute to the debate regarding Latin American integration and

¹⁷ In the 23rd Ibero-American Summit, in Panama City, October 16-18, 2013, during the opening ceremony, the President of Panama; Ricardo Martinelli said solemnly and deeply that “integration is our future”, and added that “if we reflect on the future of the Summit, we will see that countries could find the Latin American community to be a useful tool to develop and strengthen their countries in the 21st Century”.

¹⁸ These integration agreements cover every aspect and are: ACS; ALADE; ALBA; CA-4; CAN; CARICOM; CELAC; MERCOSUR; NAFTA; OAS; OECS; ACTO; PARLACEN; SELA; SICA; UNASUR and AP.

¹⁹ INTAL is an institute part of the Inter-American Development Bank based in Buenos Aires (Argentina).

²⁰ For more information, see technical note; Romina Gayá and Kathia Michalczewsky (May, 2014): *El comercio intrarregional sudamericano: patrón exportador y flujos intra industriales* (Intra-South American trade: export patterns and intraindustry flows). Institute for the Integration of Latin America and the Caribbean. Buenos Aires.

“Developments are still being made as regards the business regulatory framework in many economies in Latin America”

relevant conclusions can be drawn from them, both for policymakers and the private sector, since the exchange flows represent one of the key attributes of economic integration. Diversifying the regional export supply and penetrating new markets as Mexican multi-Latin corporations are doing in Spain (Box 2), as well as developing intra-industry exchange flows, creating new potential for trade gains as a result of economies of scale, incorporating technology and the creation of business networks entail positive effects for the rest of the economy and foster regional expansion and business.

DOING BUSINESS IN LATIN AMERICA

According to the: *Doing Business 2015. Going Beyond Efficiency* report by World Bank Group, developments are still being made as regards the business regulatory framework in many economies in Latin America. Local Latin American entrepreneurs perceived certain improvements to do business in the last year, as the strong reformist pace to improve business regulations remained unaltered. According to the report, half of the regional economies implemented, at least, a regulatory framework reform between 2013 and 2014.

The report states that certain Latin American and Caribbean economies took steps to remove the barriers for entrepreneurship and strengthened the legal institutions. For example both

Costa Rica and Guatemala implemented an electronic system to file and pay business taxes, saving over 60 hours per year in time spent in meeting tax obligations. Uruguay passed a law that seeks to speed the resolution of business disputes and also implemented a system of risk-based inspection that reduces the time spent for custom clearance.

It should be noted that Colombia is the easiest economy to do business. Additionally, it has led the ranking of implemented regulatory reforms in the region since 2005, with a total of 29. For example, in 2013/2014 access to credit was made easier through a new law that enhanced the law of security in movable assets. Peru, Mexico, Chile and Puerto Rico are the other four countries in the top 5. These economies are among the top global scenarios to do business in many of the studied areas. For example, ten years ago, it would have taken over 33 days for a Peruvian entrepreneur to register the transfer of a property. Currently, this would only take 6.5 days, less time than in the U.S. (15 days) or Austria (20.5 days). “For almost a decade, some Latin American economies have improved their business environment, in many cases reaching levels that can be compared to the best global practices”, according to Augusto López-Claros (director of the global indicators group, development economy, World Bank Group), who considers that: “broadening and speeding

“Some Latin American economies have improved their business environment”

up this process would contribute to closing the gap with the economies with the best global performances and would also boost competitiveness”.

In this issue, for the first time, *Doing Business* collected information for a second city of the 11 economies with a population of over 100 million people. In Brazil, the business regulations of Sao Paulo and Rio de Janeiro are analyzed, in Mexico, it is Mexico City and Mexico D.F. The report shows that the differences between the cities are more common in indicators that measure stages, time and cost to complete regulatory operations in which local agencies play a more important role.

The report also shows that Singapore tops the global ranking to do business, followed by the ten main economies with positive environments to do business: New Zealand, Hong Kong, China, Denmark, Republic of Korea, Norway, U.S., UK, Finland and Australia.

Source: World Bank Group (October, 2014): *Doing Business 2015 Report: Going Beyond Efficiency*. Washington.

5. INTERNATIONAL EXPANSION

The international expansion of Multilatinas has made certain proposals related to traditional

theories obsolete. For some authors, now it is not enough to think that access to cheap labor, control of natural resources and productive skills are sufficient to explain these growth trends. The new trends differ from these approaches by pointing out, for example, that innovation and quality are distinctive features of the main enterprises that expand internationally, as Multilatinas do.

This expansion has some singularities, for example, some argue that there are certain advantages when operating under close “cultural environments”, such as Angola, where Brazilian Multilatinas have rapidly and successfully implemented large construction, engineering and infrastructure projects.

The proximity of the cultural environment, as could be a common language, allows to develop skills more easily in order to generate attitudes and behaviors that benefit them in relation to the form and manner of establishing relationships with their environment, this also being the case of the Spanish companies that were widely favored in their rapid and successful investment expansion across Latin America thanks to the common language²¹, a certainly valuable bond. In the process of international growth, the comparison between the institutional environment of origin and that of the

²¹ For more information, see; Ramón Casilda Béjar (2011): *El español en el mundo. Una década de inversiones españolas en Iberoamérica (1990-2000)* (Spain in the world. A decade of Spanish investment in Ibero-America [1990-2000]). Anuario del Instituto Cervantes. Madrid.

“There are certain advantages when operating under close ‘cultural environments’”

destination country can provide “signals” of the degree of ease or difficulty that the enterprise will encounter during its internationalization process, as well as regards the consequent development of their activities.

According to the above, the corporation will try to establish itself in the countries whose conditions are similar or lower than those of its country of origin, thus allowing the company to take advantage of these conditions to increase its competitive advantage. This hypothesis may largely reflect the behavior, for example, of Colombian Multilatinas²² and how they adapt to similar or better settings, the reason behind the incredibly growth in their sales, well above those obtained by Mexican and Brazilian organizations, which is attracting attention of several experts²³.

As regards foreign direct investment by Multilatinas, these have a high volatility from year to year, partly because the figure that these flows generate is still limited and focuses on specific projects. Some examples can be found among Brazilian

Multilatinas companies²⁴ such as Jbs-Friboi, Embraer, Natura, Petrobrás and Vale, the two latter with the largest global reach and presence in all continents. Also, Mexican América Móvil, Cemex, Femsa and Bimbo stand out thanks to their international ranking and others, such as the Chilean enterprises, should be noted because of their dynamism; becoming leaders in certain fields like the wine sector through Concha y Toro, which exports wine to over 100 countries; Peruvian companies are gradually improving their ranking, with Aje Group at the top of the beverage sector, present in over 10 countries and Astrid & Gastón, a symbol of the catering sector which operates in eight countries in Latin America and Spain.

As an international recipient of FDI, Brazil is the leading country in the region and fourth worldwide. In 2013, it received over USD 63 billion. Regarding other BRIC countries, Russia is third with USD 94 billion, while India, fifth, received 28 billion. The U.S. leads the ranking with USD 159 billion followed by China with USD 127 billion (UNCTAD, 2014).

²² Andonova, V. and Losada, M. (2010): *Las nuevas multilatinas y sus retos. El caso Colombia* (The new multi-Latin enterprises and their challenges. The Colombian case). Business Magazine ITAM, issue 34. Mexico

²³ Casilda Béjar, R. (2014): *Multilatinas y translatinas. Las nuevas realidades empresariales de América Latina* (Multi-Latin and trans-Latin corporations. The new business realities in Latin America); in: LANMARQ. LID Editorial. Madrid.

²⁴ For more information, see; Ramón Casilda Béjar and Jaime Llopis Juevas (August, 2014): Brasil. *Las multilatinas. El reto de la internacionalización y la seguridad jurídica de las inversiones extranjeras*, en: *Brasil, un socio estratégico para España* (Brazil. Multilatinas. The challenge of internalization of legal certainty for foreign investments, in: Brazil, a strategic partner for Spain). Boletín Económico de Información Comercial Española, issue 2054, June 2014. Ministry of Economy and Competitiveness. Government of Spain. Madrid.

**“Argentinian
Multilatinas were
the pioneers of
internationalization”**

It should also be taken into account that Argentinian Multilatinas were the pioneers of internationalization. The shoe factory Alpargatas (currently Brazilian) launched a subsidiary in Uruguay in 1890 and later in Brazil. This path was followed by the agricultural organization Bunge & Born which, in 1905, built a mill in Brazil, and then expanded to Uruguay and Peru. This would ultimately lead to industrial activities. However, Brazilian corporations currently lead the ranking and have quite important international Multilatinas. Although among the various international mergers and acquisitions, according to the ranking of Brazilian multi-Latin corporations abroad, only 15 out of 40 increased their internationalization rating compared to 2008 (Fundação Dom Cabral 2013).

Regarding the 65 internationally most important Multilatinas according to América Economía in 2014, Brazil is the leading country with a total of 25 corporations, followed by Mexico with 14, Chile 12 and Argentina and Colombia with 4. In relation to the enterprises operating in the most countries, Brightstar²⁵ (Bolivia-U.S.) tops the list, as it operates in 50 countries, followed by Weg (Brazil) in 49, Lupatech (Brazil) in 39, Vale (Brazil) in 39 and Cemex (Mexico) in 36. As regards the

number of employees: Femsa (Mexico) leads the ranking with a total of 177,470 workers, followed by Andrade Gutierrez (Brazil) with 175,503 and Ibs-Fribobi (Brazil) with 128,036, Brazil Foods (Brazil) is fourth with 127,982 and Bimbo (Mexico) closes the top 5 with 126,747 people.

Considering their size, the importance, significance and scope that Multilatinas can have for Latin American modernization and industrialization is clear, as they cover a wide productive spectrum and, at the same time, constitute the tool that governments should use to promote growth and, consequently, achieve a greater presence and a more successful participation and international projection. Mexico and its Multilatinas in Spain are a good example.

MEXICAN MULTILATINAS IN SPAIN. THE MOST NOTEWORTHY TRANSACTIONS 2012- 2014

The increasing investing presence of Mexico in Spain during the last years is evidenced by the significant purchases made by Mexican investors taking advantage of the various opportunities offered by several sectors due to the economic crisis. Mexico is the sixth most important investor in Spain with a FDI volume close to EUR 19.5 billion

²⁵ Although headquartered in Miami, its founder is the Bolivian businessman Marcelo Claure, its current CEO. In January 2014, SoftBank invested USD 1.26 billion thus controlling the enterprise. Brightstar is the world's largest wireless distributor and a leading innovator of diversified services within this industry.

“Mexico is the sixth most important investor in Spain”

(12-31-2013)²⁶, followed at a considerable distance by Brazil: 5,683 million²⁷.

Thanks to financial holdings in banking, real estate, ground transportation, the food industry and shipping Mexico has become the largest Latin American investor in Spanish economy. The position of Spain as a gateway to Europe and the price adjustment due to the crisis offers acquisitions possibilities at highly attractive levels, which entails an unprecedented activity. These are some of the most noteworthy Mexican capital transactions.

The pioneer was Petróleos Mexicanos (Pemex), as it acquired 5% of Repsol between 1990 and 1992, gradually increasing the figure until it reached 9.34%, thus becoming the second largest shareholder. Finally, on June 4, 2014 Pemex decided to sell 7.86%, which marks the beginning of new plans driven by the energy reform enacted by the government of President Peña Nieto on December 10, 2013.

In 2012, businessman Carlos Slim made a major investment through the purchase of 439 branches of La Caixa for EUR 490 million. This was how his real estate business began in Mexico, with Inmobiliaria Carso

as one of the main pillars of his business conglomerate. At the same time, Slim has almost 1% of the capital of CaixaBank, thus becoming the largest individual shareholder. The singularity of these transactions is the close relationship that defines them with a share exchange between the Spanish banking group and the financial holding: Inbursa, since La Caixa acquired 20% of Inbursa, Slim's financial holding, in 2008.

The U.S. fund Fintech, headed by Mexican financier David Martinez, acquired 4.94% of Bank Sabadell. This great commitment is also promoted by Colombian investor Jaime Gilinsik, the largest shareholder with 7.5% of the entity and an investment of EUR 700 million. Gilinsik is the owner of the fourth local Colombian bank: GNB Sudameris, which controls 4% of the Colombian market and has been strengthened thanks to being part of the operation of HSBC in four Latin American countries. Another acquisition, for the moment, is the equity holding of Liberbank by Mexican corporations Davinci Capital with 2% and Inmosan with 7.02%, which became the third largest shareholder.

Part of a group of Mexican investors led by the Del Valle

²⁶ Source. Investment Register Stock. General Authority for Investment and Trade. Secretariat of Commerce. Ministry of Economy and Competitiveness.

²⁷ Source. Investment Register Stock. General Authority for Investment and Trade. Secretariat of Commerce. Ministry of Economy and Competitiveness.

“The singularity of these transactions is the close relationship that defines them”

family acquired 6% of Banco Popular for EUR 450 million. In exchange, the Spanish bank purchased 24.9% of the shares of the Mexican bank BX+ for EUR 97 million. The transaction further strengthens the solvency of Banco Popular and allows it to start its international expansion in Mexico and, consequently, in Latin America with its experience and leadership as regards SMEs and individuals. Meanwhile, BX+ (Ve por más, “Go Get More”) expects to triple its size within the next five years. It currently has 23,000 customers and its balance sheet has assets that amount to EUR 1,850 million. The NPL ratio is below 1.6% and its solvency level reached 12.5% at the time of the transaction.

Fibra Uno acquired 253 branches of Banco Sabadell Atlántico from the British fund Moor Park Capital Partners for EUR 300 million. This was the most important real estate transaction of 2013 in the sector. The bank will keep the branches during 35 years, with a mandatory minimum of 25 years.

The ADO group purchased Avanza, the largest Spanish business in the field of urban transport and second in long-haul transport. The new owner has 2,000 buses and a turnover close to EUR 450 million. Although the prize of the transaction is not public, it is estimated to have been close to EUR 800 million.

Mexican frozen foods company Sigma and Chinese Shuanghui, a practical example of global alliances, share ownership of Spanish meat industry leader, Campofrío, valued at EUR 695 million. The agreement confirms the renewed interest in Spain as a gateway to other European markets. For Sigma, part of the Mexican group Alfa, the agreement offers the possibility of exporting leading brands such as Fud and Nochebuena from the U.S. and Latin America to Europe, where both companies seek to strengthen the leading position of Campofrío.

The TEC of Monterrey is present in Spain, through the creation of e-learning content and training courses for BBVA, which in turn owns the largest bank in Mexico: Bancomer, the most important asset for the turnover sheet of the Spanish corporation. Other information systems enterprises such as Neoris, BSD Enterprise or Softek, which has a research center in A Coruña, show the dynamism and technological competitiveness of Mexican businesses.

Bimbo has built new factories, with the plant of Azuqueca de Henares (Guadalajara) as the most important one, with an investment of EUR 50 million, a production line of just bread; the largest, fastest and most efficient of Europe, designed by the company. The enterprise expects to increase its size over the next years, although

“The agreement confirms the renewed interest in Spain as a gateway to other European markets”

the specific number of new facilities, location or investment has not been defined yet. The organization also wants the headquarters of Barcelona to not only control the Iberian market, but also Europe and North Africa.

Pemex, through its subsidiary PMI, has become the majority shareholder of Hijos de J. Barreras, the largest private shipyard in Spain, with over 100 years of experience. The scope of the energy reform does not only translate into the arrival of new businesses in Mexico, but also the international expansion of Pemex. The strategy of PMI is to acquire the skills and advanced technology of Barreras to export it to Mexico and develop larger and more advanced ships.

Entrepreneur Roberto Alcántara invested EUR 100 million in the Prisa group, thus becoming the majority individual shareholder with 9.3% of the shares. Therefore, the group reinforces its commitment towards Latin America, the leading media in education, information and entertainment in Spanish and Portuguese. It is present in 22 countries with an audience of over 60 million people (40% in Spain and 60% internationally) through its global brands such as El País, Santillana, 40 Principales, Cadena SER or radio Caracol among many others. Slim's participation is more of a token presence, since the Mexican businessman had over 3% of the shares that

gradually diminished through the business' capital increases. Gruma, one of the leading global manufacturers of corn tortillas acquired the Mexifoods Spain factory seeking to invest, modernize and increase the capacity of the Spanish plant. It will start producing tortillas, wraps and other products for southern Europe, entailing an investment of EUR 35 million.

Mexican businessman Valentín Díez Morodo is also part of this dynamic and was awarded the prize Enrique V. Iglesias for the development of the Ibero-American business space in its first edition in 2014. Díez Morodo, one of the creators and Vice President of the Grupo Modelo, after its sale to Belgian-Brazilian Company AB INBEV, the largest brewer in the world, remains as a shareholder. The appointment of Carlos Fernández González as independent director of the Santander Bank during this new stage with Ana Patricia Botín as President should also be highlighted. This Mexican businessman is President of the Grupo Televisa and Emerson Electric Co. He also founded the Academia Mexicana de la Comunicación, the Fundación Carolina, and the Fundación Beca and is Chairman of the Consejo Consultivo del Agua.

By the end of 2014, Carlos Slim had become the largest shareholder of the company Fomento de Construcciones y Contratas (FCC), leading enterprise in construction

“Carlos Slim had become the largest shareholder of the company Fomento de Construcciones y Contratas (FCC)”

and services in Spain, with an extensive and intense international activity, after 50 years under control of the Koplowitz family. The investment amounts to EUR 650 million: 25.634% of the shares.

With these successive investments, Carlos Slim shows his confidence in Spanish economy and its future, where he seems to be creating a replica of his Mexican conglomerate. Although it is still far from his Mexican conglomerate as regards economic size, it can be compared in terms of covered sectors: construction, services and infrastructure concessions, operating through Inmobiliaria Carso and the Ideal group, both exclusively present in Mexico, as they are complemented by FCC through its vast experience and international relevance. So far, he still has to invest in energy, mining and telecommunications to fully replicate his Mexican conglomerate in Spain. Difficult objectives, each for different reasons. In any case, what does seem clear is that his investments are gradually increasing and are close to EUR 1.5 billion, which shows his confidence in Spain and its attractive prices.

A perception of this Mexican investing presence is that it will grow in its different categories

hand in hand with the recovery of Spanish economy. These transactions, in its diverse manifestations, strengthen Spain's position as a hub, a bridge for Multilatinas to penetrate and grow in Europe and, likewise, Spain can be used as a platform for European companies to arrive and invest in Latin America.

6. BEYOND REGIONAL BORDERS

There are several reports, studies and surveys that confirm the sound state of Multilatinas and their dynamism to expand beyond regional borders. One of these reports is: “América Latina sin fronteras” (Latin America without borders)²⁸, which analyzes the 500 leading corporations of the Latin Trade Ranking 2013. The singularity of the study is its conclusion: “Multilatinas can expand beyond regional borders to become international leaders, since they do not only successfully compete at a local level, but are also gaining relevance beyond regional borders”.

While major multinationals in Latin America used to be Canadian, European (particularly Spanish) or U.S. corporations, during the first years of the 21st century, the region has witnessed

²⁸ *Deloitte Américas* (September 2014) and the successive reports of *El País Negocios* on Multilatinas. For more information, see; Alejandro Rebossio (4-1-2015): *Techint una multilatina argentina de acero* (Techint, an Argentinian steel multi-Latin enterprise). Jackeline Fowks: (1-2-2015): *Belcorp cosmética peruana para las Américas* (Belcorp, Peruvian Cosmetics for the Americas). Elizabeth Reyes (8-2-2015): *Bavaria en cada bar de Colombia* (Bavaria in all Colombian bars), and Pedro Cifuentes (15-2-2015): *El “oro negro” hace sufrir las Américas* (Black gold keeps America suffering). *El País-Negocios*.

“Multilatinas
can expand
beyond regional
borders to become
international
leaders”

a massive influx of foreign direct investment from Asian multinationals, specifically from South Korea and China. This picture has greatly changed as years passed, and the report confirms this pattern, showing how Multilatinas have gained ground, to the point of becoming local leaders. The six major economies in the region: Brazil, Mexico, Argentina, Colombia, Chile and Peru account for 86% of the GDP of Latin America.

“One of the most important conclusions was that over 70% of the revenue generated by these 500 corporations was produced by Latin American enterprises and not foreign multinationals that operate locally, which refutes the popular belief that multinationals control the Latin American market”. The report raises a number of reflections regarding international expansion of Multilatinas and analyzes the challenges they face, while highlighting “five factors or key competencies”.

Each and every one of the factors are of great interest because of their importance to design strategies for international expansion, which requires a process of organizational and productive

transformation to successfully compete. Three of these factors are competencies that enterprises can influence through their own actions, while the two remaining ones are structural by nature, meaning they are greatly determined by the local environment on which business have no control direct. This lack of control does not necessarily mean that businesses will not be able to succeed internationally.

Multilatinas have conquered new regional markets in a fierce competition with foreign multinationals, as occurred in Chile, Peru, Argentina, Brazil or Colombia. Thanks to these learning experiences and successive approaches, they initiated their internationalization beyond regional borders, as Spanish multinationals did when they expanded towards Latin America where, by the way, they achieved the necessary experience to start a new era with great international activity of global scope²⁹. The five key factors that confer advantages in the context of global competition are:

- **Senior managers:** the business environment of a country plays a key role in the availability and retention of senior

²⁹ For more information, see; Ramón Casilda Béjar (2002): *La década dorada. Economía e inversiones españolas en América Latina 1990-2000* (The golden decade. Spanish investment and economy in Latin America 1990-2000). (2008): *La gran apuesta. Globalización y multinacionales españolas en América Latina. Análisis de sus protagonistas* (The great bet. Globalization and Spanish multinational enterprises in Latin America. Analyzing the players), and; (2011): *Multinacionales españolas en un mundo global y multipolar* (Spanish multinational enterprises in a global and multipolar world).

“Multilatinas have
conquered new
regional markets”

managers, key in the process as they directly affect the capacity of a business to efficiently guide the international expansion of an enterprise in a sound manner and its consequent operations abroad. According to the distribution of the top 100 CEOs in the world, Brazil and Mexico are the countries of Latin America with the highest number of senior managers.

- **Capital markets and financing:** to finance their international expansion, Multilatinas need to diversify their access to both capital and a relatively cheap financing. On average, global Multilatinas are listed on two stock exchanges in comparison with regional enterprises, on an average of 1.3 and 1.25, respectively.
- **Market leadership:** global Multilatinas are powerful companies with strong growth prospects that, thanks to their sound performance, lead the market in their home countries before expanding abroad. The dominant position of leadership is reflected on the huge growth of sales, an advantage over regional Multilatinas and local enterprises.
- **Acquisitions and strategic alliances:** the expansion of global Multilatinas corporations is often

based on inorganic growth through acquisitions and joint ventures. On average, these companies run nearly four times more joint ventures and over six times the number of mergers and acquisitions.

- **Governance practices:** implementing leading international corporate governance practices helps global Multilatinas operate more effectively at an international level. Furthermore, it helps them gain access to capital of state pension funds and sovereign wealth funds, which usually have a strict regulation regarding the type of companies which can request them.

These five factors are considered to be key elements to gain experience and successfully expand at an international level. As noted, three of these factors can be influenced by companies through their own actions:

- Achieving a leadership position in the market of their home country.
- Implementing strategies that focus on acquisitions and “joint ventures” as the primary means for international growth.
- Carrying out leading corporate governance practices of international scope.

“Global Multilatinas are powerful companies”

Internationalized Multilatinas tend to be very strong in these three areas and any local or regional enterprises that seek to achieve international success will probably have to take all three points into account. The other two factors are structural, largely determined by the local environment. They are:

- Availability and capacity to retain the most qualified managers to lead the international expansion.
- Access to capital and financing markets.

Since companies have no absolute direct control over these factors, they must have appropriate alternative strategies. Successfully meeting the five previously discussed factors entails a clear competitive advantage. However, this does not completely guarantee success, as there is no single formula for international expansion. Various companies will face different opportunities and challenges and walk divergent paths. However, regional Multilatinas should remember that the implementation of these five factors will yield them greater chances of success in their international expansion. These same factors could also serve as guidelines for foreign multinationals that seek to operate or establish themselves in Latin America.

For all these reasons, in order to achieve the results expected

of powerful Multilatinas, it is mandatory for them to internationalize their operation to benefit from the major trends in Latin America which, as previously stated, is a rising star within the global economy. Although not currently being at its peak, it should be noted that according to the World Bank poverty was reduced by 40% in the year 2000 and 30% by 2010. This means that 50 million Latin Americans lifted themselves out of poverty during that decade. Furthermore, it is estimated that at least 40% of the regional households have improved their “social class”.

These critical structural changes as regards the composition of social classes have reshaped the Latin American map and business value. Thus, between the 30 Multilatinas whose revenue is increasing, over 20 specialize in sectors that respond to the growing demand of the middle class, such as food, cement, retail, electronics, education, construction and others that have an export and import component, but also respond to a great extent to the demand of the thriving middle class, such as electronics and communications, automotive and air transportation.

According to the World Bank report: *Latin American entrepreneurs: many firms but little innovation*, it is a matter of creating an innovative business class, where first class companies, those which export

“40% of the regional households have improved their ‘social class’”

goods, services and even foreign direct investment, as occurs with Multilatinas, start competing with multinational enterprises of developed countries.

7. THE WORLD'S LARGEST MULTINATIONAL AND MULTI-LATIN CORPORATIONS

The *Forbes Global 2000* ranking. “The world’s largest companies of May 2014”³⁰ (Table 3 and Graph 1), only includes enterprises listed on stock exchanges, taking into account just four indicators: “profits, sales, assets and market value”. The list features companies from 63 countries, the largest figure since it went public in 2002, when only 46 nations took part.

In total, ranking firms have generated revenues amounting to USD 38 billion³¹ and 3 billion in profits. The assets of these global giants reach USD 161 billion and employ 90 million people worldwide. The pattern remains unaltered: Chinese companies continue growing, taking the top three

positions and five among the top ten (four banks and an oil company).

These firms are increasingly important but they still have to go a long way to gain the influence, image and global projection of their U.S., European and Japanese counterparts. So far, thanks to their condition of state companies, they generally operate and work within the old mentality of central planning and the rigidity, limitations and burdens that this approach entails. The best option would be, once predominant positions had been achieved, to review this approach and strive for greater agility and flexibility as South Korean multinationals have done, which strengthen through the most advanced technology sectors, with benchmark multinationals such as LG and Samsung, leader in mobile phones (27% of the global market share), surpassing Nokia, which seemed impossible some years ago (purchased by Microsoft in September 2013)³².

³⁰ For more information, see: www.forbes.com

³¹ In 1998, revenues amounted to USD 11.5 trillion and in 2008 it was more than twice that figure: USD 25.2 trillion.

³² Microsoft purchased the patents and businesses of Nokia and paid EUR 3,790 million for the mobile manufacturing unit and 1,650 million for the patent portfolio. There was a time where everything mobile-related revolved around Nokia. Its past speaks for itself; fourteen years as the world leader. But then touch phones arrived. It was then, when almost by magic, the concept of mobile phones, simple and convenient, completely changed. Off with the old, in with the new. In April 2012, Samsung, the Korean giant, became the main supplier of mobile devices. This transaction entailed losses for Europe, since Nokia was not a mere corporation, but symbolized the fact that European manufacturers and technology companies could be competitive in today’s market. The end of Nokia as a manufacturing company means that no options are left to compete against the U.S. and, particularly, the Asian technology world.

“They generally operate and work within the old mentality of central planning”

For the first time, no European bank or firm ranks among the top ten of the list. For the second consecutive year the list is headed by the Industrial and Commercial Bank of China (ICBC), while China Construction Bank ranks second. Agricultural Bank of China raised five positions to reach the third place, followed by JP Morgan Chas and Berkshire Hathaway, Exxon Mobil, General Electric and Wells Fargo (all three from the U.S.) which hold the sixth, seventh and eight places. Bank of China and Petro China appear at the bottom of the top ten. Apple, fifteenth, ranks first in terms of market capitalization or market value, while the superstores giant Walmart, twentieth, ranks first in sales volume.

Among Multilatinas, Brazil is the country with the largest representation with Petrobras leading the list, ranked 30th. It is followed by Itaú (46th), Bradesco (63rd) and Banco do Brasil (104th). The second country is Mexico, with América Móvil as the most important company (115th), Femsa (373rd), Grupo Financiero Norte (469th), Grupo México (529th) and Modelo (564th). There are also eight Chilean enterprises, with Falabella at the head of the list (581st), six Colombians with Ecopetrol as the most important one (128th), two companies from Venezuela, Mercantil Servicios (774th) and Banco Occidental (1,423rd), Credicorp from Peru (901st) and Popular from Puerto Rico (1,301st). The growth of

the ranking shows that, year after year, the global corporate landscape is, above everything, a dynamic and constantly changing environment. This is evidenced by the progress achieved by China, although the U.S. maintains the overall lead with 5 of the 10 largest companies.

In the case of Spain, there are 27 large multinationals in the list, again led by the Santander bank, which ranked 43rd; Telefonica (68th), BBVA (118th), Iberdrola (133rd), Gas Natural (230th) and Inditex (313rd). Caixa Bank (325th), Mapfre (376th), ACS (382), Repsol (471st), Bankia (582nd), Abertis (616th), OHL (1.610th), Liberbank (1.646th) and Bolsas y Mercados de España (1.679th) are also listed.

By country, the U.S. leads with 564 firms, followed by Japan with 225 and China with 207. This is the first appearance in the ranking for Mauritius, Slovakia and Togo. By regions, the power balance between the East and the West has considerably changed. The present issue shows this shift by dividing the corporations in seven regions: Asia with 674 corporations is ahead, followed by America with 629 and Europe with 506. This sharply contrasts with the results obtained 11 years ago, when it had over half the companies of Asia.

Emerging markets, particularly the Middle East and Latin America, also had a significant participation during the last decade with growths of 265% and 76% respectively.

“The global corporate landscape is, above everything, a dynamic and constantly changing environment”

Africa, although with fewer representation, is also growing, and had seven companies listed. Four of the newcomers are headquartered in Nigeria, which represents a total of five companies for the African nation.

Another singularity is the incorporation of 179 new companies, many due to the equity market, the rise in corporate transactions and the increase in takeover bids. Thus, significant developments can be seen, such as the one achieved by Facebook, climbing 561 places to reach the position 510. On the other hand, Hewlett Packard, which fell sharply in 2013, rose from position 438 to 80.

The ranking shows how certain industries dominate the business landscape. It is no wonder that banks and diversified financial corporations continue topping the list with 467 members. The three following industries are oil and gas (125), insurance (114) and services (110). As regards growth, the semiconductor industry leads in sales (11%); while diversified financial corporations have sharply risen in the field of profits (90%) and the construction sector leads the in terms of growth in assets (18%).

It can also be noted that Chinese corporations dominate the world arena thanks to the size of their market.

However, they still need to face their weakness: further enhance their international relevance. The perception of these companies greatly growing through mergers and acquisitions is not a reflection of reality. These transactions amounted to USD 52 billion, a figure 20% lower than that of 2013 (the lowest result since 2009); a rather moderate figure in comparison to the global amount which exceeded USD 3.2 trillion³³ (the largest result since 2007). Of that amount, the U.S. represents a third, 1.053 trillion.

However, Chinese FDI has greatly grown, fivefold during 2005-2010, becoming the fifth largest global investor (UNCTAD, 2011). Furthermore, in 2010 they had 16,000 subsidiaries in 178 countries. Therefore, Chinese companies have taken a very active role in the international markets. Many of these operations have been carried out by Chinese companies listed in the Forbes Global 2000 ranking.

THE 10 WORLD'S LARGEST COMPANIES OF 2014 (FORBES GLOBAL 2000, MAY 2014)

- **Industrial & Commercial Bank of China (ICBC):** China - Bank. Once again, it appears as the world's largest bank and the world's largest company. The Industrial & Commercial Bank of China is one of the 4 major Chinese banks, all state-owned.

³³ According to the specialized firm Dealogic, 2014.

“Chinese corporations dominate the world arena”

- **China Construction Bank:** China - Bank. China Construction Bank, also one of the 4 state-owned Chinese banks, is second again. The bank has been internationalized and investments are starting to yield profits.
- **Agricultural Bank of China:** China - Bank. The Agricultural Bank of China, also among the 4 state-owned banks of China, has experienced an interesting growth which allows it to reach the third place, rising 5 positions compared to its result in 2013.
- **JP Morgan Chase:** U.S. - Bank. Main West and U.S. bank, global leader in investment banking, financial services and private investments worldwide.
- **Berkshire Hathaway:** U.S. – Diversified financial institution. One of the leading producers in the world, with over 80 years of experience, it has a large-scale, diversified manufacturing.
- **Exxon Mobil:** U.S. – Oil and gas. The largest energy company in the world and one of the most global corporations, Exxon Mobil specializes in exploiting, processing and marketing petroleum products and natural gas.
- **General Electric:** U.S. - Conglomerate. The company with the largest international presence (over 100 countries), diversifies its products and services, ranging from infrastructure, financial services, media or industry.
- **Wells Fargo:** U.S. – Financial services. Fourth largest U.S. bank, specializing in diversified financial services worldwide (deposits, mortgage servicing and debit cards).
- **Bank of China:** China - Bank. The oldest bank in China, state-owned since 1912, is nowadays the main Chinese bank and part of the 4 state-owned Chinese banking corporations.
- **Petro China:** China – Oil and gas. State-owned company which belongs to China National Petroleum Corporation (CNPC). It is the largest Chinese oil and gas producer and trader.

8. PROSPECTS OF MULTILATINAS, MORE PROMINENCE AND GREATER RESPONSIBILITY

The prospects of Multilatinas gain significant weight. Consequently, it should be taken into account whether these constantly growing companies will take the leading role to modernize their respective countries and,

by extension, the region and thus become the promoters of productivity³⁴ (a key issue as regards the competitiveness of the region), innovation and the internationalization of a new global economic environment for the 21st century.

It should be noted that, just like multinationals of developed countries have become important players in the process of globalization of production and, thus, industrialization and modernization of their countries, Multilatinas must do the same, by greatly developing, offering increasingly attractive goods and services as regards cost and quality according to the needs of demand through the same slogan used by multinationals: act locally, think globally.

Multilatinas must broaden their perspectives if they really wish to internationalize beyond their traditional market, the U.S. They have to take advantage of the opportunities other markets offer in a decisive manner, as could be the case, for example, of the clear opportunity that the economic situation of Spain has entailed, with highly attractive prices in several sectors. This is exactly

what Spanish companies did when a favorable economic cycle started thanks to its integration into the European Economic Community (1986), the creation of the Single European Market (1993) and the common currency (1999), taking advantage of the situation to expand with force and determination towards Latin America, which offered highly beneficial opportunities.

To establish themselves in Spain, Multilatinas have, just like Spanish companies in Latin America, historical and cultural links, a common language and very important economic and trade relations, largely promoted by Spanish firms of all sizes and conditions that operate across the region.

“There are many opportunities in Spain. For us what is important is achieving as many synergies as possible with our activities in Latin America and vice versa. We are convinced that this is the decade of Latin America. The continent is living a great time of growth and wealth. It is very exciting. And, why not incorporating Spain into this Latin American force? For us, it makes a lot of sense”, said Adriana

³⁴ The new conceptual framework published in the annual report of the IDB (2014): *Rethinking Productive Development*, allows countries to implement essential productive development policies in order to progress, avoiding past mistakes. The report reviews productive development through the research of market failures that hinder transformation, as well as government failures that can turn policy remedies into something worse than the market's defects. Using a simple conceptual framework, the authors systematically analyzed the policies of the countries in key areas such as innovation, financing, human capital and internationalization. They recognize that even the best policies will fail without the technical, organizational and political skills to implement them. The book concludes with ideas on how to design institutions with appropriate incentives, increase public sector capability over time and promote a constructive public-private partnership.

Cisneros, Vice President of Organización Cisneros, although, for the moment, these undeniable good intentions have not materialized³⁵.

This “two-way path”, which I have always strived for, that is, a flow in both directions, makes a lot of sense. Many Spanish businesses, with its diversity and size, have already done so and continue doing so. Now it is the time for Multilatinas to undergo an expansion that is slowly taking place with the arrival of important Latin American investors and groups.

It seems as if this trip to Spain and, by extension, to Europe,

mainly involves large Mexican³⁶ Multilatinas, followed by Brazilian³⁷ and Colombian enterprises, which almost fully complete the top 50 of the ranking (Table 2). A very important point is that these companies often trade on the Spanish stock market through the Latin American Securities Market in Euros (Latibex)³⁸, representing

³⁵ Adriana Cisneros. Vice President of Organización Cisneros. *La tecnología es el mejor aliado de la democracia* (Technology is democracy's best ally). El País-Negocios. Madrid, Sunday, September 11, 2011.

³⁶ For more information, see; Ramón Casilda Béjar (2014): *Las multilatinas. Una mención especial a las mexicanas* (Multi-Latin corporations. Special mention for Mexican organizations.) Boletín de Información Comercial Española (BICE). Ministry of Economy and Competitiveness.

³⁷ For more information, see; Ramón Casilda Béjar and Jaime Llopis Jueas (2014): *Brasil. Las multilatinas. El reto de la internacionalización y la seguridad jurídica de las inversiones extranjeras* (Brazil. Multi-Latin corporations. The challenge of internalization of legal certainty for foreign investments). Boletín Económico de Información Comercial Española (BICE). Ministry of Economy and Competitiveness. Government of Spain.

³⁸ Latibex is a stock market for Latin American securities based in Madrid, operating since December 1999. It is governed by Spanish Securities Market Law and is part of the holding Bolsas y Mercados Españoles (BME). It uses the same securities trading platform as the Spanish stock market and the securities therein are quoted in euros. It was created to, firstly, allow European investors to buy and sell Latin American securities through a single market, whose security and transparency standards were similar and in a single currency and, on the other, to grant access to the main Ibero-American corporations to the European capital market. The updated list of companies part of the Latibex, as well as a history of additions and withdrawals is available at www.latibex.com.

The 10 World's Largest Companies 2014

RANKING	COMPANY	COUNTRY	SALES	PROFITS	ASSET	MARKET VALUE
1	ICBC	China	\$148.7	\$42.7	\$3,124.9	\$215.6
2	China Construction Bank	China	\$121.3	\$34.2	\$2,449.3	\$174.4
3	Agricultural Bank of China	China	\$136.4	\$27	\$2,403.4	\$141.1
4	JPMorgan Chase	United States	\$105.7	\$17.3	\$2,435.3	\$229.7
5	Berkshire Hathaway	United States	\$178.8	\$19.5	\$493.4	\$309.1
6	Exxon Mobil	United States	\$394	\$32.6	\$346.8	\$422.3
7	General Electric	United States	\$143.3	\$14.8	\$656.6	\$259.6
8	Wells Fargo	United States	\$88.7 B	\$21.9	\$1,543	\$261.4
9	Bank of China	China	\$105.1	\$25.5	\$2,291.8	\$124.2
10	PetroChina	China	\$328.5	\$21.1	\$386.9	\$202

Source: Forbes Global 2000 (May, 2014).

“There are many opportunities in Spain”

the advance of a broader movement that will be followed by Multilatinas of several sectors, such as consumption, food, catering or fashion.

Given these great prospects, it is important to point out the crucial economic and business significance that Multilatinas have both within and outside Latin America, the reason for which its presence among specialized business literature is gradually increasing. This is also occurring at the Latin American forums, evidenced in the 21st and 23rd Ibero-American Summits, when then Ibero-American Secretary-General, Enrique V. Iglesias, during the opening speech, referred to Multilatinas and its strength to compete internationally and the need to reflect on how the countries of the Ibero-American community could mutually reinforce themselves, enhancing their relations to face the tough international competition in a global context.

Another important aspect in the long term is to promote Spain as a hub, i.e., as a distributor or entrance bridge to Europe and North Africa. This is a permanent objective, since there are several important points, besides a common language, such as a broad presence and collaboration with Spanish corporations of all sizes, important banks, a noteworthy network of

universities, business schools, law firms and consultancies for which Spain becomes the perfect partner and a strategic gateway to Europe. In addition, there are several Ibero-American organizations such as the headquarters of the Secretaría General Iberoamericana (Ibero-American General Secretariat, SEGIB), the Union of Ciudades Capitales Iberoamericanas (Union of Ibero-American Capital Cities, UCCI), the Latin American Stock Market in Euros (Latibex), the Organización de Estados Iberoamericanos (Organization of Ibero-American States, OEI) and the representation offices of the two major multilateral development banks in Latin America such as the Inter-American Development Bank (IDB) and the Corporación Andina de Fomento (Andean Development Corporation, CAF)³⁹.

From a close perspective, Latin America must gain relevance within the global arena through important Multilatinas, developed and competitive. Were the region not to do so, it would be unlikely for it to achieve the position it deserves in the international scene and to play the crucial role it should in the 21st century world. As regards the role to be played by Multilatinas in the international projection of their countries, the closest example is that of Spanish multinationals. The process of becoming a major actor on the

³⁹ For more information, see; Ramón Casilda Béjar (10-4-2011): *La importancia del efecto sede en la globalización* (The importance of the headquarter effect in globalization). El País. Madrid.

“Another important aspect in the long term is to promote Spain as a hub”

international arena for Spain is closely related to the creation of its multinationals, whose internalization was certainly late but intense through the rapid expansion of large banks and companies across Latin America, reaching a FDI of EUR 135 billion (Bank of Spain, 2013).

But from a different perspective, the thriving regional and international dynamic carried out by Multilatinas could be slowed down. Not only because of the changes in the global economic conditions, but due to the concerns regarding middle income countries. It may be possible for Latin America (and China), to be caught in the middle income trap. This trap occurs when a middle-income country is unable to take the next step to become a high-income nation (Foxley, 2012).

Latin America is the perfect example as it has the largest number of countries with middle-income worldwide, according to the ranking made by the World Bank. The growth rates of the income per capita of Latin American economies were inferior to those of developed countries during the 20th century, which prevented the region from further reducing the gap. During the last 50 years, the region has not been able to reach the welfare levels of more developed countries. Although

the per capita income in constant dollars has increased by 4.5 compared to the U.S. population, the welfare gap is now 8% larger than that of their parents or grandparents (IDB, 2014): “Rethinking Productive Development. Sound policies and institutions for economic transformation”.

The relative stagnation has led to the known as “middle-income trap”, the situation that defines the context of many economies in the region, whose wage costs are too high to compete in international markets, compared to other countries that exploit cheaper labor and, at the same time, do not compete with more developed countries as they find it difficult to access the highest part of the industrial chain with products and services that call for intensive knowledge and technology⁴⁰.

Yet, it is essential to take into account that businesses and other economic players are part of a natural, social and political environment that determines and conditions their activities and possibilities. This was already mentioned by Fernando Fajnzylber when he referred to the determinants of international competition: “... within the international market not only companies compete.

⁴⁰ For more information, see; Pablo Sanguinetti and Leonardo Villar (2012). *Patrones de desarrollo en América Latina. ¿Convergencia o caída en la trampa del ingreso medio?* (Latin American development patterns. convergence or the middle income trap?) CAF. Working Papers. Issue 2012/02. July, 2012. Caracas.

“The thriving regional and international dynamic carried out by Multilatinas could be slowed down”

Productive, institutional and social organization systems also compete, and although the companies are an important part of this process, they are integrated into a network of linkages with the educational system, technological infrastructure, management skills, labor relations and public and private institutional system. These factors have been highlighted when the economic performances of countries such as the U.S. and the UK have been compared with those of Japan or Germany. The latter are an example of “organized capitalism” where the competitive relations between companies and economic

groups are complemented by systems of long-term agreements with specific banks and a relationship with the State, which provides incentives and develops comprehensive policies in cooperation with the major companies and industrial groups”⁴¹.

If Latin America were caught in this trap it will be, to a great extent, Multilatinas⁴², which will have defuse it and become the thrusting force to take a leap forward and achieve a higher productivity, industrialization and a sustained long-term development which will entail an improvement in the income and welfare levels.

⁴¹ For more information, see; Fernando Fajnzylber: *Competitividad internacional: Evolución y lecciones* (International competitiveness: Evolution and lessons”). ECLAC Magazine, issue 36. Santiago de Chile, December, 1998.

⁴² For more information, see; Ramón Casilda (2014): *América Latina. Región emergente del siglo XXI* (Latin America. Emerging region of the 21st century), and; Ramón Casilda (2014): *Multilatinas y translatinas. Las nuevas realidades empresariales de América Latina* (Multilatinas and trans-Latin corporations. The new business realities in Latin America); in: LANMARQ. LID Editorial. Madrid

Author



Ramón Casilda is one of the leading Spanish business investment and internationalization analysts, both in relation to Latin America and worldwide. He has recently started analyzing the field of Multilatinas. He is Professor at the Institute of Latin American Studies at the Alcalá University and the Estudios Bursátiles Institute. He has been Director of the International Business Management Professorship of Grupo Santander in the Antonio Nebrija University. At a professional level, he worked as CEO of the Investment Promotion Center for Ibero-America of the Spanish Confederation of Business Organizations (CEOE) and directed the Union of Ibero-American Capital Cities (UCCI). He was the Director of Institutional Relations and Analysis for Soluziona and Director of Corporate Development and Institutional Relations for Probanca. He was the Banking Manager of BNP Paribas and Rumasa, Adviser and Member of various advisory boards in companies such as Repsol, Prointec, Hispasat and BT Global Services. He was President of the Committee on Relations with Ibero-America at the Spanish Confederation of Directors and Executives (CEDE) and Member of the Board of the Spanish Association of Financial Executives (AEEF). He is author of an extensive economic work, of which his recently published book should be highlighted: *Crisis y Reinención del Capitalismo. Capitalismo Global Interactivo* (Crisis and Reinvention of Capitalism, Interactive Global Capitalism), Editorial Tecnos, 2015; where he analyzes the phenomenon of globalization and internationalization of multinational and Multilatinas.

ramoncasilda@yahoo.es



The role of multilateral organizations in the economic and social development of Latin America

Madrid, September 2015

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LLORENTE & CUENCA

1. INTRODUCTION

1. INTRODUCTION
2. THE CONCEPT OF COOPERATION: ORIGIN AND EVOLUTION
3. THE ERRADICATION OF POVERTY AS A PRIORITY OF COOPERATION AND ITS IMPLICATIONS IN LATIN AMERICA
4. CONCLUSIONS

The aim of this report is to highlight the contributions made by international organizations through international economic cooperation in relation to development. In order to assess the contribution of these organizations, the report has analyzed the collaborations under a broad-based approach that takes several factors into account. On one hand, the concept of development adopted by the donors and, on the other, the context of the recipient countries, particularly in Latin America. Analyzing these factors will help us carry out an analysis on the contributions made by the international cooperation in the region, its flaws and limitations and how they have been or could be overcome. Given the importance of the international cooperation as a means of development, this analysis is crucial. Based on this importance, the fact that Latin America has been marginalized as regards the cooperation flows in recent decades is a serious concern. That being said, there are strong indications showing that a new stage is beginning, a time in which the region will have the support of these organizations. In this sense, the reshaping of the concept of development and, consequently, that of the cooperation agendas, have been the causes of this change.

The evolution of the concept of development, which also involved these organizations, will make it possible to understand their performance, the reasoning behind their efforts and, certainly, the efficiency of their actions. The initial failure entailed by the attempts to implement the European development model in other regions forced these organizations to reevaluate which factors ensured development. The existence of resources or its allocation does not automatically translate into development. Economic growth does not guarantee it either, as it does not necessarily entail the eradication of inequality or, in a broad sense, the quality of life of the population, both fundamental aspects of development. This is a reality that Latin America is well-aware of.

The lessons learned and the debate which has reshaped the concept of development, taking place since mid-20th Century, have increased its complexity, as well as the number and variety of quantitative and qualitative criteria related to it. The debates on this affair are not over, nor is the concept of development, which seeks evolving, as is currently taking place.

Latin America itself has called for a new development concept based on a broader and more complex approach. The main problem is the fact that restrictive definitions ignore serious structural problems affecting the Latin American region. Thus,

**“Since 2013,
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if these circumstances are not included in the definition in question, cooperation organizations no longer pay attention to them.

2015 has been particularly critical for the region in the field of cooperation. The deadline set by the UN in relation to the Millennium Goals to fight poverty has elapsed. This period has translated into the opportunity of re-thinking the concept of development which is now based on the “multidimensional progress”, after seeing the limitations and exclusions that the adoption of a restrictive concept of development had entailed. This multidimensional approach provides the opportunity of identifying further structural gaps affecting middle-income countries, a group to which most Latin American nations belong, and not just low-income related ones.

As regards this evolution, it is interesting to see the changes and adaptability of these organizations faced with various economic situations. Since 2013, a period of economic slowdown has been directly and fully affecting Latin America. Unless the Latin America economies implement certain measures and strategies to change the development model of the region, the predictions

about a change of cycle seem to pose serious threats. As a result of this changing situation, the study aims to analyze the reactions of the international cooperation organizations as well as their proposals in order to understand their contributions to the development of the region.

2. THE CONCEPT OF COOPERATION: ORIGIN AND EVOLUTION

International Development Cooperation is understood as all the actions carried out by public and private players between countries with different levels of income in order to promote the economic and social development of the southern countries, in order to align it with the development levels recorded in the northern region, as well as making it sustainable¹. This traditional definition of international cooperation has important ethical and solidarity connotations that legitimize this form of cooperation, although they have not always been the only motivations to carry it out. Political and geostrategic factors have also been reasons to develop international cooperation, both during the Cold War and after the fall of the Berlin Wall.

This geostrategic criterion shows that, after the fall of the Berlin Wall, once democracy had

¹ M. Gómez and J. A. Sanahuja, *El Sistema Internacional de Cooperación al Desarrollo* (“The International System for Development Cooperation”). Interation, Cideal, Madrid, 1999.

“The main multilateral organizations operating in Latin America are characterized by their lack of relevance compared to bilateral aid”

spread over the region and its political and economic stability was guaranteed, international development cooperation decreased and shifted towards other locations where donor countries considered that their interests and security could be jeopardized due to the economic, social or political context of other areas.

THE MAIN DEVELOPMENT COOPERATION ORGANIZATIONS IN LATIN AMERICA

This report will include the Official Development Assistance (ODA), which, according to the Development Assistance Committee (DAC)² of the Organization for Economic Cooperation and Development (OECD), is comprised of the flows provided by official agencies, including local and state governments or their executive agencies. This aid is intended for developing countries and multilateral institutions and has to meet the following conditions on each transaction: a) its main objective is to promote the economic development and welfare of the developing countries and b) it is concessional in character and conveys a grant element of at least 25 %.

In addition, this type of cooperation can be carried out bilaterally or multilaterally. The former refers to the one carried out between governments; grants or loans for the recipient state or for NGOs. The latter is implemented by international organizations through their own cooperation programs and projects. This analysis will focus on the second form of cooperation.

The main multilateral organizations operating in Latin America are characterized by their lack of relevance compared to bilateral aid, as it does not even account for 20 % of the total.

The main donors are the European Commission with about USD 500 million, followed at some distance by the aid provided by the World Bank (WB), which amounts to 271 million and the Inter-American Development Bank (IDB), with USD 258 million. Both the Caribbean Development Bank and the agencies of the UN system are not among the 10 largest donors. However, if we take into account the amounts allocated by the Official Development Funding (ODF), the loans provided by the WB

² The Development Assistance Committee is a multilateral organization, part of the Organization for Economic Cooperation and Development (OECD), which seeks to monitor and evaluate the development policies of the member states. The DAC members are, at the date of issue of this report: Austria, Belgium, Denmark, Spain (since 1991), France, Finland, Great Britain, Greece, Holland, Ireland, Italy, Luxembourg, Norway, Portugal, Sweden, Switzerland, Canada, the U.S., Japan, Australia, New Zealand and the Commission of the European Communities.

“The Marshall Plan, in addition to being a tool for the U.S. to maintain its influence, also became the main cooperation program”

and the regional banks, they accounted for 17 % and 72 % respectively of the multilateral resources donated to the Latin American and Caribbean countries between 1991 and 2002. In the Andean sub-region, the Andean Development Corporation (CAF) is ahead of the WB and the IDB. In relation to the latter, which exclusively seeks to provide financial aid to the region, between 1994 and 2001 loans aimed at reducing poverty and promoting equity accounted for 44% of its total loans³.

BRIEF HISTORICAL OVERVIEW

A historical overview can be quite useful to understand the reasons behind the cooperation, as well as its increasing complexity. The beginning of international cooperation took place during the Cold War. The implementation of a bipolar order, governed by the U.S. and the Soviet Union, is an essential element to understand the inception of cooperation, as it was seen as a means to strengthen their respective areas of influence.

In this context, the requests for financial and technical aid made by the new countries that emerged with the decolonization ultimately led to

the inception and development of international cooperation. In short, these demands, combined with the quarrel between both world powers to not only strengthen, but to expand their areas of influence, marked the foreign aid programs, which, since the beginning, were in fact the direct result of the geopolitical interests of the international order of that time. Thus, the ideological confrontation between the East and the West defined the actual destination of aid flows; they were allocated according to geostrategic criteria, ultimately seeking the establishment of “safe areas”⁴.

In this sense, the Marshall Plan, in addition to being a tool for the U.S. to maintain its influence, also became the main cooperation program, implemented in the known as Third World, after the decolonization process. This project was an American initiative to aid Europe, which was experiencing a severe economic crisis due to the devastating consequences of WWII. However, as has been repeatedly noted, this cooperation model was designed to address the economic, political, social and cultural circumstances of the postwar

³ UN Department of Economic and Social Affairs: *World Economic and Social Survey 2005*, <http://www.un.org/esa/policy/wess>. Regarding the main organizations providing aid to the region, http://ec.europa.eu/index_es.htm; WB, <http://www.bancomundial.org/>, IDB, <http://www.iadb.org/es/banco-interamericano-de-desarrollo,2837.html>, CAF, <http://www.caf.com/>, Caribbean Development Bank, <http://www.caribank.org/>.

⁴ K. Griffin, K, *Foreign Aid and the Cold War*, Development and Change, Vol. 22, 1991, p. 645 – 85.

“This period was key for the consolidation of cooperation, as crucial institutions and organizations for its future were created then”

Europe; a very different region compared to the newly created countries after the decolonization process. Europe, although in ruins, was an industrialized continent which its own technology and skilled workforce and the Marshall Plan was in line with these conditions, but could not be implemented in other contexts. Be it as it may, it became the first development model and countries used this recipe in a repeated and persistent manner in radically different countries.

EVOLUTION OF THE CONCEPT OF DEVELOPMENT

The complex reality has proven impossible to use universal recipes in every possible context. This circumstance largely explains the evolution process that the very concept of development has experienced. The successive failures in the attempts to incorporate the Third World countries into the developed world have entailed the rethinking of this concept in order to achieve greater efficiency in international cooperation.

DEVELOPMENTALISM PERIOD

The developmental approach of the fifties assumed that the economic development was achieved through a single recipe, valid for all situations, and it was none other than that of developed countries. The main theorist of Developmentalism, Walter Whitman Rostow, established a periodization for development

that actually copied the patterns and processes experienced by Western industrialized countries.

During that time, international development cooperation sought to establish industrial societies whose basic priority should be the economic growth. This is the second assumption of the Developmentalist theories, the association between economic growth and development. Thus, the aim of this cooperation was to boost the economic growth, since, supposedly, this would ensure the development of the country.

This period was key for the consolidation of cooperation, as crucial institutions and organizations for its future were created then . The Bandung Conference of 1955 led to the Movement of Non-Aligned Countries, which in turn raised awareness on the need to reform the international economic system and whose results would be seen at the 1964 UN Conference for Trade and Development (UNCTAD) and the creation of the Group of 77. The creation of the UN Food and Agriculture Organization (FAO), the World Health Organization (WHO), the UN Education, Scientific and Cultural Organization (UNESCO) and the UN Program for Development (UNPD) was also instrumental for the field of multilateral cooperation. The establishment of the UN Economic Commission for Latin America and the

“The establishment of the UN Economic Commission for Latin America and the Caribbean (ECLAC) in 1948 was a particularly important milestone”

Caribbean (ECLAC) in 1948 was a particularly important milestone as regards the economic and social development studies of the aforementioned region⁵. In all these initiatives, the influence of Developmentalism is clear, hence development cooperation merely involved economic aspects and its objective was growth.

In the sixties, under the same circumstances and based on the same conception, the Alliance for Progress (ALPRO) was created, a reformist project led by Kennedy which directly led to the Inter-American Development Bank (IDB) in 1959. This funding program was seen as a Marshall Plan for Latin America, although there were differences as regards the allocated resources, unevenly distributed across the region.

THE FOCUS ON THE WELL-BEING OF INDIVIDUALS AS THE NEW OBJECTIVE OF DEVELOPMENT

In the seventies, after two decades of growth, it had been proven that development must not be exclusively achieved through growth, which meant that the development cooperation had not served as a driver of development, since the gap between developed and poor

countries had even increased. Therefore, without ignoring the economic development, the new models now started to pay attention to the redistributive issue, under the “basic needs approach”. Thanks to this all organizations understood that any development proposals that did not take poverty, inequality and unemployment into account would not be able to ensure development.

Based on this new approach, Chenery, under the auspices of the World Bank, published the work *Redistribution with Growth*⁶ in 1974. This publication considered the redistribution of wealth in order to aid the most disadvantaged workers and attention to the poor through the development of social services as essential elements for the new approach. In fact, the World Bank started addressing new concerns in addition to infrastructure, energy or transport, as it now included education, health or the fight against poverty as the keys to achieve development. Despite the limitations that these new proposals had, their contribution towards cooperation and the changes they entailed cannot be denied.

Nevertheless, the projects were still carried out in a top-down fashion without considering the

⁵ <http://www.cepal.org/es>. ECLAC, R. Bielchowski, *Cincuenta años del pensamiento de la CEPAL* (“Fifty years of ECLAC thinking”). Selected texts, Vol.1, Santiago de Chile, ECLAC, 1998.

⁶ H. B. Chenery, et al, *Redistribution with Growth*, Oxford University Press, London, New York, 1974.

“In the nineties there is a paradigm shift in relation to human development, which in turn implies a significant change in the very concept of development”

views, nor listening to the needs expressed by the recipient countries.

THE EIGHTIES: THE LOST DECADE

The foreign debt crisis, which strongly affected Latin America, entailed the adoption of policies based on structural adjustments and economic reforms based on the *Washington Consensus*, whose main points were the reduction of public deficit, economic liberalization, opening up to international markets and the predominance of the market forces as the main regulatory element. This translated into a reduction of the State actions and its size and services, through privatizations, to a minimum. International organizations such as the International Monetary Fund or the World Bank promoted this type of policies, to the point of making the provision of ODA conditional on the countries implementing adjustment plans based on the aforementioned policies.

HUMAN DEVELOPMENT AND THE MILLENNIUM GOALS

In the nineties there is a paradigm shift in relation to human development, which in turn implies a significant change in the very concept of development and the way in which development cooperation needs to be carried out. The objective was not economic

growth, but human beings. Thus, the best way to promote development implies broadening and improving the opportunities for people. They are no longer the means to achieve other goals such as the economic growth, but become the development's object in itself.

This first step in the process of changing the concept of development promotes an evolution that is best illustrated by the Millennium Declaration. The proposals of this Declaration set our eight goals in the field of cooperation, known as the Millennium Development Goals (MDGs), agreed at the UN in 2000. The eight objectives⁷ focused their efforts, mainly, in the eradication of poverty, necessarily leading to the adoption of a multidimensional concept of development, implemented not only by the UN, but also the remaining development cooperation organizations. All these organizations also promoted different forms of cooperation. Thus, organizations ended the quest to find a universal recipe for development.

According to the above, the transformation of cooperation is crucial in order to assess its efficiency; a problem that has also been subject of a long and thorough discussion. The concern over this issue was reflected in the Declaration of Paris of March 2005⁸. This document

⁷ <http://www.un.org/es/millenniumgoals/>

⁸ <http://www1.worldbank.org/harmonization/Paris/ParisDeclarationSpanish.pdf>.

“Since 2000, the ODA allocation has clearly favored low-income and least developed countries”

was signed by 90 northern and southern countries, in addition to the representatives of 27 aid organizations of all the donor countries. However, beyond the discussion and the problems hindering the effectiveness and impact of international cooperation, there is a general consensus in relation to the fact that, in this globalization era, the cooperation is the main instrument of international solidarity to contribute to promote development⁹.

3. THE ERRADICATION OF POVERTY AS A PRIORITY OF COOPERATION AND ITS IMPLICATIONS IN LATIN AMERICA

Having regard to the evolution of the concept of development which in turn has transformed international cooperation, the question is: What consequences has it had for the region? If we look at the Developmentalist recipe, as previously seen, the economic growth has not translated into a reduction of poverty and inequality and, in Latin America, the implementation of these development strategies did not entail remarkable results either, as inequality remained a problem, the largest challenge that the region still needs to face.

In this sense, the evolution of the concept of development

towards a people-based approach under a multidimensional perspective would certainly be positive for the region, as it would expose its structural problems. However, if we analyze the data on the contributions made by the international cooperation in recent years, the decline is clear.

As regards the regional Gross National Income (GNI), the ODA provided to Latin America and the Caribbean shifted from accounting for over 1 % during the sixties to 0.4% in the nineties and 0.22 % today (see Figure 3). This pattern of allocation of official development assistance, based on the income level and which favored the poorest country has been partly strengthened by the impetus provided by the system of international cooperation to achieve the Millennium Development Goals (MDGs), as the per capita income and the MDGs indicators are often closely related. Thus, since 2000, the ODA allocation has clearly favored low-income and least developed countries . This bias, as shown before, has been detrimental to the countries classified as middle-income, as they receive an increasingly smaller share of the aid.

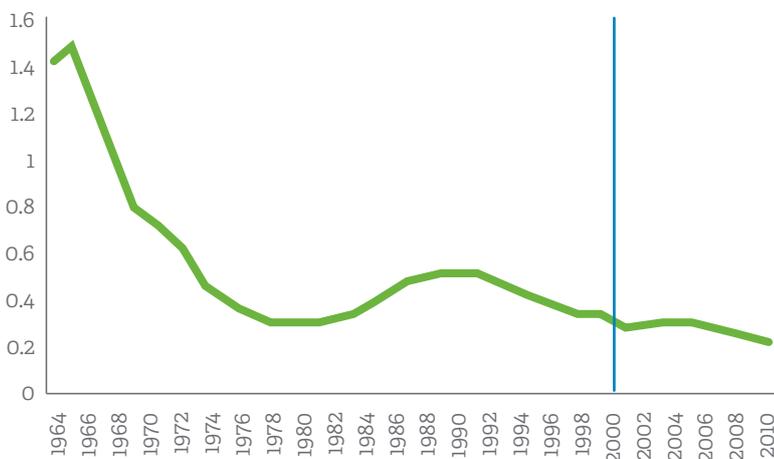
The decline as an ODA aid recipient is clear: during the sixties, the region received

⁹ Debate on the limitations of international cooperation, Alejandra Boni Aristizabal, *El sistema de la cooperación internacional al desarrollo. Evolución histórica y retos actuales*, (“The international development cooperation system. Historic development and current challenges”), Cuadernos De Cooperación Para El Desarrollo, Issue 1, Centro De Cooperación al Desarrollo, Editorial Universitat Politècnica de València, 2010, p. 7-49.

on average about 14 % of the total ODA given to developing countries, while the figure now accounts for close to 8 %. Out

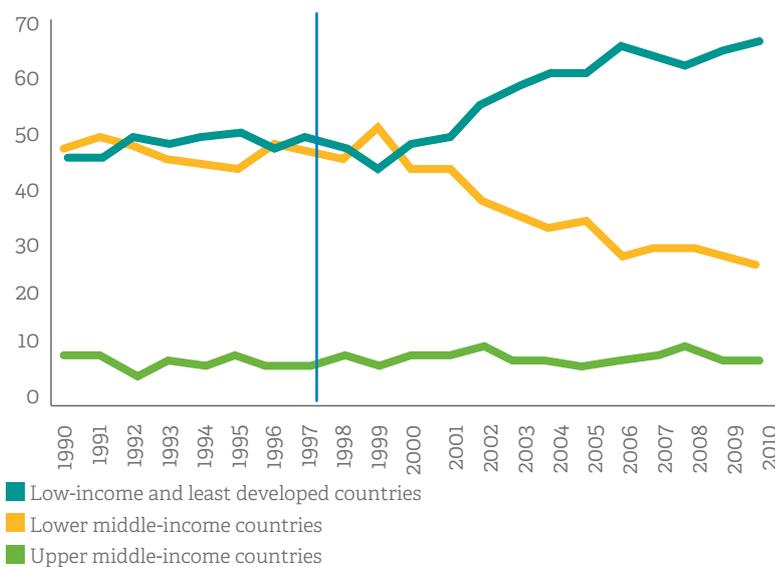
of the USD 131 billion disbursed to developing countries in 2010, the region merely received 10.8 billion.

Net disbursements of Official Development Assistance (ODA) in Latin America and Caribbean in relation to their GNI (percentage), 1964-2010 (5-year Moving average in percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the information provided by the Organization for Economic Cooperation and Development (OECD).

Shares of the countries in the total Official Development Assistance flows (AOD), according to income category, 1990-2010 (Percentage)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the information provided by the Organization for Economic Cooperation and Development (OECD).

Comparing Latin America with other regions clearly shows how the income level was adopted as a criterion for granting international assistance, which resulted in the loss of ODA the aforementioned region as it was considered a middle-income region. In 1990, middle-income countries received a larger share of ODA on average than lower-income countries (55 % vs 45 % of the total ODA flows). In 2010, the share of middle-income countries was greatly reduced, as they received half of the ODA given to low-income and least developed countries.

If we analyze the evolution of the official development assistance flows between 1990 and 2010, we can see that it has increased among the low-income countries. In 1990, almost half of the ODA flows were granted to low-income and least developed nations. This trend intensified in the 2010s, as the ODA flows towards these countries increased, accounting for over 65% of the total assistance.

This decline can be explained through the adoption of the income level as a criterion to allocate ODA. By adopting this criterion, most of the aid is granted to low-income countries. This criterion of discrimination to award resources has ultimately consolidated due to the ODA's quest to achieve

Latin America and the Caribbean: ranking of countries according to the World Bank and the Development Assistance Committee (DAC) of the OECD

		WORLD BANK	DAC	SUB-REGION
1	BAHAMAS	HIGH-INCOME	DEVELOPED COUNTRY	CARIBBEAN
2	BARBADOS	HIGH-INCOME	DEVELOPED COUNTRY	CARIBBEAN
3	TRINIDAD AND TOBAGO	HIGH-INCOME	DEVELOPED COUNTRY	CARIBBEAN
4	ANTIGUA AND BARBUDA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	CARIBBEAN
5	ARGENTINA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
6	BRAZIL	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
7	CHILE	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
8	COLOMBIA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
9	COSTA RICA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
10	CUBA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
11	DOMINICA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	CARIBBEAN
12	ECUADOR	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
13	GRANADA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	CARIBBEAN
14	JAMAICA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	CARIBBEAN
15	MEXICO	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
16	PANAMA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
17	PERU	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
18	DOMINICAN REPUBLIC	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
19	SAINT VINCENT AND THE GRENADINES	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	CARIBBEAN
20	SAINT KITTS AND NEVIS	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	CARIBBEAN
21	ST. LUCIA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	CARIBBEAN
22	SURINAME	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	CARIBBEAN
23	URUGUAY	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
24	VENEZUELA	UPPER MEDIUM-INCOME	DEVELOPING COUNTRY, UPPER MEDIUM-INCOME	LATIN AMERICA
25	BELIZE	LOWER MEDIUM-INCOME	DEVELOPING COUNTRY, LOWER MEDIUM-INCOME	CARIBBEAN
26	BOLIVIA	LOWER MEDIUM-INCOME	DEVELOPING COUNTRY, LOWER MEDIUM-INCOME	LATIN AMERICA
27	EL SALVADOR	LOWER MEDIUM-INCOME	DEVELOPING COUNTRY, LOWER MEDIUM-INCOME	LATIN AMERICA
28	GUATEMALA	LOWER MEDIUM-INCOME	DEVELOPING COUNTRY, LOWER MEDIUM-INCOME	LATIN AMERICA
29	GUYANA	LOWER MEDIUM-INCOME	DEVELOPING COUNTRY, LOWER MEDIUM-INCOME	CARIBBEAN
30	HONDURAS	LOWER MEDIUM-INCOME	DEVELOPING COUNTRY, LOWER MEDIUM-INCOME	LATIN AMERICA
31	NICARAGUA	LOWER MEDIUM-INCOME	DEVELOPING COUNTRY, LOWER MEDIUM-INCOME	LATIN AMERICA
32	PARAGUAY	LOWER MEDIUM-INCOME	DEVELOPING COUNTRY, LOWER MEDIUM-INCOME	LATIN AMERICA
33	HAITI	LOW-INCOME	LEAST DEVELOPED COUNTRY	LATIN AMERICA

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the information provided by S. Tezanos Vázquez, *Una aplicación al análisis de la distribución de la ayuda oficial al desarrollo** ("An application to the analysis of the distribution of official development assistance"), *Financiamiento del desarrollo* ("Development funding"), Santiago de Chile, 2012, press release; and the Development Assistance Committee (DAC), "DAC List of ODA Recipients", 2011 [online]: <http://www.oecd.org/dac/stats/daclist>

the Millennium Goals (MDGs). This explains the drop in the contributions of the official development assistance to promote cooperation in the region, as the latter is a middle-income zone. In accordance with this consideration, and taking the gross national income of the Latin American countries as a reference, the ODA that they received shifted from 1 % during the sixties to 0.4 % in the nineties and 0.22 % nowadays. The eradication of poverty as the main objective of the MDGs, in 2000, took place at the same time as the sharper decline in the assistance provided by the ODA throughout the region.

Thus, it could be argued that in general terms, the adoption of the structural gap of the per capita income has been detrimental to Latin America, since it is a middle-income region. If we carry out a more thorough analysis of the aid granted to each Latin American country, we will be able to detect great differences, as the income level is again used as a criterion to decide which country receives a larger share of the official assistance, an aspect that translates into huge inequalities in the distribution of the aid given to the region. For example, in terms of GNI, the ODA contributions have been quite significant in this period for Haiti and Nicaragua (over 15 % of the GNI), followed by Dominica and Bolivia (over 5 % in both cases). In contrast, the contributions were very modest for the

“In recent years, we have even begun to doubt about the hegemonic continuity of the Western world, which the U.S. has been leading”

remaining countries –in 16 of the 30 nations it did not even reach 1 % of the GDP–. These different ODA contributions are even clearer in terms of population: seven countries – most small populations– receive contributions amounting to over USD 150 per person (Dominica, Granada, Guyana, Nicaragua, Saint Kitts and Nevis, St. Vincent and the Grenadines and Suriname). However, the contributions received by the two most populated countries in the region –Brazil and Mexico– does not even reach one dollar and a half per capita¹⁰.

Regarding the areas of cooperation where the resources have been allocated, the concerns to achieve the Millennium Development Goals seem clear, since many resources were diverted towards areas of cooperation of social infrastructure when, previously, the largest investments involved the economic infrastructure and general development.

THE “DISADVANTAGE” OF BEING A MIDDLE-INCOME REGION IN RELATION TO THE MDGS

The modern world is incredibly complex; it started changing rapidly after the end of the Cold War and the current situation is marked by uncertainty and

change processes that have transformed the traditional references. The very concept of powers has changed as well to the extent that, in recent years, we have even begun to doubt about the hegemonic continuity of the Western world, which the U.S. has been leading. The strong growth of the known as emerging powers and their intentions to exert international influence largely justify these doubts. Even though it should be noted that these new players do not meet the traditional requirements to be considered as powers, they have experienced an impressive growth and acquired a notable international weight in the 21st Century, although they suffer from serious problems of regular poverty and inequality.

Latin America is no stranger to the changes in the new trends of power distribution among the international community and the power shift towards Asia-Pacific. In fact, the region has also been labeled as emerging, as its economic and political weight has increased thanks to countries like Brazil, seeking to become a regional leader and enhance its global influence. The Latin American aspiration is to become an autonomous regional player which aims to have a greater presence in emerging global governance structures.

¹⁰ S. Tezanos Vázquez, *Conglomerados de desarrollo en América Latina y el Caribe: Una aplicación al análisis de la distribución de la ayuda oficial al desarrollo* (“Development conglomerates in Latin America and the Caribbean: An application to the analysis of the distribution of official development assistance”), *Financiamiento del desarrollo* (“Development funding”), Santiago de Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2012.

**“10 % of the population
accounting for 48 % of
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The growth experienced from 2003 to 2013 has had a positive impact by reducing some of the historical development structural problems in Latin America, but pose new challenges, such as those of the middle-income countries (MICs)¹¹. The main problem is the fact that growth has improved the circumstances of the region and has partially solved historical structural problems, but has also led to the marginalization of the region in relation to the international cooperation flows. However, despite the improvement, the region still suffers from a series of structural hurdles holding back its development.

Development cannot be limited to a single factor, especially for an area that is made up by rather heterogeneous contexts and in certain cases, even absolutely different. This enormous diversity includes very different social, economic and political contexts. However, classifying them according to their income level simplifies and unifies this diversity without taking into account that many middle-income countries have similar problems to those affecting low-income nations. Comparing the Latin American situation with that of other countries illustrates the unsolved

shortcomings and hurdles that the Latin American countries need to face, despite the growth in the income per capita. More specifically, inequality has been a historical problem, still unsolved, despite the growth experienced in recent years and the positive impact it has had on the region. As the European Commission itself pointed out, indicators have shown that the region has the worst inequality results in the world, with 10 % of the population accounting for 48 % of the total income, while the lower 10 % merely accounts for 1.5 %. As a comparison, in industrialized countries the 10 % richest people account for 29 % of the total income while the 10 % poorest persons account for 2.5 %. The problem of inequality and poverty is deteriorated by the worsening difficulties that several groups of the population need to face since they cannot access basic public services (health, education, etc.), the labor market, the financial system or political and legal institutions.

Therefore, the Economic Commission for Latin America and the Caribbean (ECLAC) has proposed a new approach which takes into account the vulnerabilities and needs that middle-income countries have, which had been marginalized from international official

¹¹ J. A. Sanahuja, *América Latina, más allá de 2015: escenarios del desarrollo global y las políticas de cooperación internacional* (“Latin America beyond 2015: global development scenarios and international cooperation policies”), quoted from S. Arriola, R. Garranzo and L. Ruiz Jiménez (coordinators), *La renovación de la Cooperación Iberoamericana. Transformaciones para una agenda post-2015* (“The renewal of the Ibero-American Cooperation. Transformations for a Post-2015 agenda”), SEGIB-AECID, Madrid, 2013.

“It is mandatory to rethink the concept of security, with a focus on determining the vulnerabilities entailed by the various structural gaps”

cooperation flows so far due to their status as middle-income nations. To this end, it is essential to analyze the challenges that each of the countries needs to meet. In this sense, a new cooperation agenda should be set. An agenda which promotes inclusive development¹².

THE CHALLENGES OF THE REGION IN A NEW CYCLE OF SLOWDOWN AND ITS OPPORTUNITIES CONSIDERING THE POST-2015 DEVELOPMENT AGENDA

The year 2015 was set as the deadline to fulfill the MDGs. Hence, the UN has launched an extensive dialogue and round of consultations so that, by September of this year, when all Member States meet at the World Summit on Sustainable Development, it will be possible to draft a new development agenda. It seems like the agenda will adopt an inclusive approach which would certainly be a great opportunity for Latin America, as it would be included in the ODA flows.

This possibility comes at a particularly appropriate time as it will take place at the same time as the start of a new economic cycle in the region marked by an economic slowdown, after a decade of strong growth. This new circumstances might jeopardize the achievements

and worsen the situation of the new middle classes, as well as negatively affecting the most disadvantaged classes, despite being middle-income countries.

In the current context, the ODA can certainly be a major contribution to avoid taking a step backwards and overcoming the structural hurdles that the new agenda would take into account.

THE ADOPTION OF THE NEW POST-2015 AGENDA, BASED ON AN INCLUSIVE APPROACH

For Latin America to attract the attention of international cooperation, it is mandatory to rethink the concept of security, with a focus on determining the vulnerabilities entailed by the various structural gaps. In this way, it will be possible to detect the structural hurdles slowing down development, even though they are middle-income countries. On the contrary, as previously mentioned, addressing a single gap, such as income, is not enough to fully define the multifaceted nature of development, nor the real structural challenges that Latin America and the Caribbean need to face.

Following the proposal made by the ECLAC, *“achieving development requires overcoming endemic production lags through innovation and investment in physical and, especially,*

¹² *Middle-income countries*, ECLAC, <http://www10.iadb.org/intal/intalcdi/PE/2012/10649es.pdf>.

human capital in order to boost systemic productivity and competitiveness, as well as strengthening institutions and consolidating democracies. This means addressing a number of obstacles –or, more precisely, structural development gaps– that still persist and that not only impede vigorous and sustainable economic growth

in the countries of the region but also limit the potential for moving towards more inclusive economies and societies. These gaps include those of (i) per capita income, (ii) inequality, (iii) poverty, (iv) investment and savings, (v) productivity and innovation, (vi) infrastructure, (vii) education, (viii) health, (ix) taxation, (x) gender, and (xi) the environment¹³.

¹³ ECLAC, *La hora de la igualdad: Brechas por cerrar, caminos por abrir* (“The time for equality: Closing gaps, opening pathways”) (LC/G.2432 (SES.33/3)), Santiago de Chile, 2010.

Latin America and the Caribbean (21 countries): Ranking of the middle-income countries according to the various gaps

	Gap in per capita income	Inequality gap	Poverty gap	Investment and savings gap		Productivity and innovation gap		Infrastructure gap	Education gap	Health gap	Fiscal gap	Gender gap	Environmental gap
				Investment	Savings	Productivity	Innovation						
Largest gap ↑	NIC	COL	HND	BOL	GUY	NIC	DOM	GUY	GTM	GTM	GTM	GTM	HND
	GUY	HND	NIC	GUY	BLZ	BOL	SLV	NIC	NIC	HND	CRI	GUY	NIC
	HND	BOL	COL	NIC	SLV	PRY	HND	JAM	VEN	BOL	DOM	HND	SLV
	BOL	BLZ	BOL	PRY	NIC	GUY	PRY	BOL	HND	NIC	SLV	NIC	GTM
	PRY	BRA	BLZ	GTM	PAN	HND	GTM	DOM	DOM	PRY	PER	BLZ	ECU
	GTM	GTM	GTM	HND	GTM	PER	NIC	COL	BRA	PER	MEX	PAN	PRY
	SLV	PAN	GUY	SLV	DOM	ECU	ECU	HND	SLV	PAN	PRY	SLV	ARG
	BLZ	CHL	SLV	ECU	JAM	SLV	BOL	URY	COL	GUY	ÂN	COL	PAN
	PER	NIC	PER	PER	URY	GTM	PER	GTM	PRY	MEX	HND	DOM	BLZ
	ECU	PRY	DOM	DOM	BRA	BRA	BLZ	BLZ	ECU	JAM	BLZ	BOL	VEN
	DOM	MEX	ECU	BLZ	CRI	COL	GUY	CRI	MEX	ARG	CHL	PRY	BRA
	JAM	CRI	PRY	JAM	COL	PAN	COL	PRY	CRI	BLZ	COL	ECU	BOL
	COL	ECU	VEN	COL	PER	URY	JAM	ECU	URY	VEN	ECU	JAM	MEX
	BRA	DOM	BRA	BRA	BOL	DOM	PAN	VEN	GUY	SLV	JAM	BRA	COL
	CRI	PER	PAN	URY	PRY	VEN	VEN	SLV	BOL	COL	GUY	MEX	PER
	PAN	SLC	MEX	PAN	HND	JAM	CRI	BRA	ARG	BRA	ARG	VEN	JAM
	URY	ARG	JAM	CRI	CHL	ARG	MEX	PER	BLZ	DOM	BOL	PER	DOM
	VEN	JAM	CRI	MEX	ARG	CRI	BRA	MEX	PAN	ECU	NIC	CHL	GUY
	ARG	GUY	ARG	VEN	MEX	BLZ	URY	PAN	JAM	CRI	URY	ARG	CRI
	CHL	VEN	URY	CHL	ECU	CHL	ARG	ARG	PER	URY	VEN	CRI	CHL
Smallest gap ↓	MEX	URY	CHL	ARG	VEN	MEZ	CHL	CHL	CHL	CHIL	BRA	URY	URY

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the information provided by the World Bank, *World Development Indicators* (online database): <http://devdata.worldbank.org/dataonline/>

Note: ARG: Argentina, BOL: Bolivia (Plurinational State of), BRA: Brazil, CRI: Costa Rica, CH: Chile, DOM: Dominican Republic, ECU: Ecuador, GTM: Guatemala, GUY: Guyana, HND: Honduras, JAM: Jamaica, MEX: Mexico, NIC: Nicaragua, PAN: Panama, PER: Peru, PRY: Paraguay, SLV: El Salvador, URY: Uruguay, VEN: Venezuela (Bolivarian Republic of). The indicators of Table 4 were proxy variables of each of the gaps. As regards the fiscal gap, the ranking is merely based on the public income indicator.

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Adding these gaps into the approach enables it to address the main development hurdles of Latin America.

Once the needs of the countries had been clarified, the ECLAC carried out an analysis to measure the magnitude of these problems and organized it on a country basis. This showed that the income level is not directly related to the development level, since an increase in the income level and, therefore, a reduction in the income gap does not necessarily translate into improvements in the remaining gaps. Not only that, it is also possible to see that the importance of each gap varies from country to country. Thus, an individual analysis is required for each country; while certain gaps are the main hurdle in certain countries, they are secondary in other nations. All the aforementioned data lead to the conclusion that it is not possible to establish universal development “recipes”, since their implementation through the cooperation mechanisms would end up failing. On the opposite, it is essential to analyze the greatest weaknesses and challenges for each case.

It is therefore crucial to establish a dialogue with the recipient countries and enable them to play an active role in the process of setting the development goals. They are

responsible for identifying their key challenges. Without their participation, it will not be possible to establish a development agenda, one that does not seek to equalize the structural problems, but recognizes the singularities of each case.

DRAFTING A NEW AGENDA WHICH BENEFITS LATIN AMERICA AND THE CARIBBEAN

This new approach has been adopted by the Latin American region and was formalized during the Regional Consultation for Latin America and the Caribbean on Financing for Development held in August 2000 at the ECLAC headquarters in Santiago de Chile. At this meeting, the government representatives and experts demanded that the international cooperation system had to adopt a multidimensional agenda, faced with the development challenges, not only based on the needs of the low-income countries, but which also considers the various needs and weaknesses of the middle-income nations.

In accordance with the proposals made by the ECLAC at the same meeting, its Secretary, Alicia Barcena, reiterated that “The concept of development must not only focus on low-income countries. This is a wide concept which concerns the majority of the emerging economies and those known as medium-income

“The lessons learned on the limitations that the MDGs agenda had also seem clearer”

countries. The current levels of ODA are not sufficient”¹⁴, and added that, “the allocation criteria, both for ODA and public and private funding flows, which rank according to average income, are not appropriate as they do not grasp the natural complexity of development”¹⁵.

“The economic growth is not enough to continue reducing the poverty and inequality in Latin America and the Caribbean”. This was the message conveyed by the UN Development Program (UNDP), at the first Meeting of the Advisory Council of the 2016 Regional Human Development Report on Multidimensional Development, which brought together over 20 public authorities: ministers, senators, academics and the leaders of the main multilateral organizations in the region. *“Clearly, “more of the same” in terms of growth and public policies will no longer yield “more of the same” in poverty and inequality reduction”,* said the UN Deputy Secretary-General and UNDP Director for Latin America and the Caribbean, Jessica Faieta, at the forum. More specifically, she stated that *“Higher economic growth does*

*not necessarily generate greater social progress: different policies must be in place, particularly at a time when fiscal resources, crucial to expand social safety nets, have shrunk”*¹⁶.

In this sense, the lessons learned on the limitations that the MDGs agenda had also seem clearer. Thus, the UNDP emphasizes on the fact that the welfare of the people goes “beyond income”, calling upon the regional leaders to focus on the “multidimensional development”. This implies investing in skills for job placement, financial systems that do not lead to over-indebtedness among the poor population and reducing the gender gaps. In this sense, Gonzalo Robles, Secretary-General of International Development Cooperation of the Government of Spain, considers that *“The Millennium Development Goals have taught us that, beyond growth, development actions must address multidimensional welfare aspects... Despite the social achievements of the last decade, the social protection systems are not universal networks granting access to decent work, health, education*

¹⁴ This approach is also covered in *Financiamiento para el desarrollo en América Latina y el Caribe. Un análisis estratégico desde la perspectiva de los países de renta media* (“Funding for the development of Latin America and the Caribbean. A strategic analysis from the point of view of middle-income countries”), 2015, http://www.financiaciondesarrollo.org/S1500127_es.pdf

¹⁵ <http://www.cepal.org/es/comunicados/paises-de-america-latina-y-el-caribe-llaman-repensar-el-sistema-de-cooperacion>.

¹⁶ http://www.sv.undp.org/content/el_salvador/es/home/presscenter/pressreleases/2015/02/20/con-crecimiento-econ-mico-no-basta-dice-el-pnud-con-un-llamado-hacia-el-progreso-multidimensional.html, February, 2015.

**“The circumstances
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and protection throughout the whole life cycle”.

Based on this new development agenda, the UNDP is preparing its *2016 Human Development Report for Latin America and the Caribbean on Multidimensional Progress* which shall also include policy recommendations reflecting the new global development agenda, in accordance with the Sustainable Development Goals to be launched in September 2015 at the UN General Assembly in New York. The new agenda will certainly include the middle-income countries, in accordance with the new approach. Therefore, an increase in the aid flows and a larger support for ODA development is expected in Latin America.

THE TIMELY RE-ROUTING OF THE INTERNATIONAL COOPERATION FLOWS IN A PERIOD OF ECONOMIC SLOWDOWN IN LATIN AMERICA

Despite developing South-South cooperation mechanisms, the region has never intended to forego the international ODA. The South-South¹⁷ cooperation between Latin American countries was a necessary complement to international cooperation, but not a substitute for ODA¹⁸. This cooperation,

entailed by the new economic climate in the region, could arrive at a particularly appropriate time.

The reports drafted by the ECLAC and the World Bank suggest that Latin America could join the global recessionary trend, since it is slowly being affected by the European crisis and the decline in the Chinese demand for raw materials. Currently, the main concern is the deterioration of the main past achievements due to the weaknesses of the development model promoted by the recent positive economic cycle. In fact, this model has been mainly based on the export of raw materials and commodities, such as oil and copper. This model puts the region in an extremely vulnerable state when the market context changes, as is currently happening, since the demand for products is reduced and/or oil prices drop.

The circumstances of the international market had an immediate impact on the Latin American economies. The region completed in 2014 its fourth consecutive slowdown term and the forecasts for this year, both from the IMF and the ECLAC, expect a regional GDP growth of hardly 1 %. This situation contrasts with the recent data

¹⁷ Definition of South-South cooperation, <http://sursur.sela.org/qu%C3%A9-es-la-css/conceptos-de-la-cooperaci%C3%B3n-sur-sur/>. See also, *Mapping Multilateral Support to South-South Cooperation in Latin America and the Caribbean: Towards collaborative approaches*, UNDP, 2012, <http://www10.iadb.org/intal/intalcdi/PE/2012/10661es.pdf>.

¹⁸ <http://www.cepal.org/es/comunicados/paises-de-america-latina-y-el-caribe-llaman-repensar-el-sistema-de-cooperacion>, April 2012.

“Out of the 600 million
citizens, 170 are poor”

highlighting the recent economic boom; since the beginning of the 21st century until 2012, the regional GDP grew by 80 % –supported by increasing demand for raw materials–. The middle-class grew by almost 50%, partially solving the inequality problem –Latin America remains the most unequal region in the world– and poverty dropped by 30 %. Even so, out of the 600 million citizens, 170 are poor.

The biggest concern is the sustainability of these achievements, given the existing structural gaps that Latin America needs to face. This has become a priority objective as regards the ODA, as stated by the main multilateral organizations engaged in the development of cooperation in the region based on their willingness to implement an “inclusive economic growth” approach.

THE ODA COMMITMENT TO LATIN AMERICA IN A PERIOD OF ECONOMIC DIFFICULTIES

The commitment of international cooperation to Latin America seems clear. This was ratified in the “Joint Declaration of the International Financial Institutions at the Seventh Summit of the Americas”, held in Panama City in April 2015¹⁹.

In this document, “*the main international financial*

institutions in the region, The World Bank Group (WBG), the Inter-American Development Bank (IDB), and CAF, Development Bank of Latin America, have made a commitment to support the efforts of the governments in the region to preserve and expand the economic and social successes of the past decade... Aware of the fact that the external factors that contributed to these achievements have changed (...) the IDB, CAF, and the WBG place our financial resources, knowledge, and power to convene, at the disposal of the countries of the region. Only in financial terms, the three institutions expect to provide in our respective 2015 fiscal years more than USD 35 billion to Latin America and the Caribbean: USD 12.5 billion from the IDB, USD 12 billion from CAF, and USD 11 billion from the WBG”.

These worries, expressed very clearly by the organizations, show concerns for a social regression due to the new economic context. Therefore, the proposal to contribute to the Latin American development at this critical moment is based on the concept of multidimensional and inclusive development. The organizations are well-aware of two key aspects for their contribution to be successful. First, they need to “close the wide competitiveness gaps”

¹⁹ <http://www.iadb.org/es/noticias/anuncios/2015-04-10/declaracion-de-ifis-para-la-vii-cumbre-de-las-americas,11130.html>.



“The region is facing a great challenge, it must avoid wasting the past achievements at a difficult time”

through this multidimensional approach, since they understand that, in order to ensure a “fairer society”, they need to invest in human capital, infrastructure, innovation and policies to improve the gender equality, provide low-income citizens with access to food, housing, drinking water, sanitation, as well as the health and education services and quality employment. In short, social policies need to develop the potential of individuals.

Second, they understand that solutions must be “customized”. In this sense, the declaration also takes the UN proposal into account in relation to the need to promote the active participation of the recipient countries, given the singularities that characterize each nation. Thus, the declaration insists on the fact that the solutions to be implemented “will be in the hand of each country, as they will have to design the best path to follow”.

Latin America is expected to return to the international cooperation flows: a crucial and necessary support, despite the fact that it is a middle-income region, particularly at a time of difficulties. International cooperation will certainly contribute to the development of the region.

4. CONCLUSIONS

The evolution of the concept of development has been adopted by the international cooperation. In this sense, after leaving the Developmental theories behind, the human being became the cornerstone of the new approach in which the MDGs were promoted. However, the experience of recent years has shown that this step, although important, was not enough. The adoption of per capita income as an indicator to measure poverty has “hidden” structural gaps affecting Latin America.

Only through the implementation of a multidimensional and flexible concept of development, which takes into account the main structural gaps, will it be possible for the international cooperation to make meaningful contributions.

This new development concept is particularly important for Latin America for several reasons. First, because it enables the region to become once again recipient of international development cooperation and, secondly, since this new concept promotes a more efficient and successful cooperation. The region is facing a great challenge, it must avoid wasting the past achievements at a difficult time. In this context, the possibility of being aided by international cooperation will undoubtedly be a key support to achieve this objective.

CORPORATE MANAGEMENT

José Antonio Llorente
Founding Partner and Chairman
jalloriente@llorenteycuenca.com

Enrique González
Partner and CFO
egonzalez@llorenteycuenca.com

Jorge Cachinero
Corporate Director of Innovation
jcachinero@llorenteycuenca.com

MANAGEMENT - SPAIN AND PORTUGAL

Arturo Pinedo
Partner and Managing Director
apinedo@llorenteycuenca.com

Adolfo Corujo
Partner and Managing Director
acorujo@llorenteycuenca.com

MANAGEMENT - LATIN AMERICA

Alejandro Romero
Partner and CEO Latin America
aromero@llorenteycuenca.com

Luisa García
Partner and CEO Andes' Region
lgarcia@llorenteycuenca.com

José Luis Di Girolamo
Partner and CFO Latin America
jldgirolamo@llorenteycuenca.com

HR MANAGEMENT

Daniel Moreno
HR Manager for Spain and Portugal
dmoreno@llorenteycuenca.com

Marjorie Barrientos
HR Manager for Andes' Region
mbarrientos@llorenteycuenca.com

Karina Valencia
HR Manager for North America, Central America and Caribbean
kvalencia@llorenteycuenca.com

Cink.

Sergio Cortés
Partner, Founder and Chairman
scortes@cink.es

Calle Girona, 52 Bajos
08009 Barcelona
Tel. +34 93 348 84 28

SPAIN AND PORTUGAL

Barcelona

María Cura
Partner and Managing Director
mcura@llorenteycuenca.com

Muntaner, 240-242, 1º-1ª
08021 Barcelona
Tel. +34 93 217 22 17

Madrid

Joan Navarro
Partner and Vice-president of Public Affairs
jnavarro@llorenteycuenca.com

Amalio Moratalla
Partner and Senior Director
amoratalla@llorenteycuenca.com

Lagasca, 88 - planta 3
28001 Madrid
Tel. +34 91 563 77 22

Lisbon

Madalena Martins
Partner
mmartins@llorenteycuenca.com

Tiago Vidal
Managing Director
tvidal@llorenteycuenca.com

Carlos Ruiz
Director
cruiz@llorenteycuenca.com

Avenida da Liberdade nº225, 5º Esq.
1250-142 Lisbon
Tel. + 351 21 923 97 00

UNITED STATES

Miami

Alejandro Romero
Partner and CEO Latin America
aromero@llorenteycuenca.com

600 Brickell Avenue, 20th floor
Suite 2020
Miami, Florida 33131

MEXICO, CENTRAL AMERICA AND CARIBBEAN

Mexico City

Juan Rivera
Partner and Managing Director
jrivera@llorenteycuenca.com

Av. Paseo de la Reforma 412, Piso 14,
Col. Juárez, Del. Cuauhtémoc
CP 06600, México D.F.
Tel. +52 55 5257 1084

Panama City

Javier Rosado
Partner and Managing Director
jrosado@llorenteycuenca.com

Av. Samuel Lewis.
Edificio Omega - piso 6
Tel. +507 206 5200

Santo Domingo

Iban Campo
Managing Director
icampo@llorenteycuenca.com

Av. Abraham Lincoln 1069
Torre Ejecutiva Sonora, planta 7
Tel. +1 809 6161975

ANDES' REGION

Bogota

María Esteve
Managing Director
mesteve@llorenteycuenca.com

Carrera 14, # 94-44. Torre B – of. 501
Tel. +57 1 7438000

Lima

Luisa García
Partner and CEO Andes' Region
lgarcia@llorenteycuenca.com

Av. Andrés Reyes 420, piso 7
San Isidro.
Tel. +51 1 2229491

Quito

María Isabel Cevallos
Director
micevallos@llorenteycuenca.com

Avda. 12 de Octubre N24-528 y
Cordero – Edificio World Trade
Center – Torre B - piso 11
Tel. +593 2 2565820

Santiago de Chile

Claudio Ramírez
Partner and General Manager
cramirez@llorenteycuenca.com

Magdalena 140, Oficina 1801.
Las Condes.
Tel. +56 22 207 32 00

SOUTH AMERICA

Buenos Aires

Pablo Abiad
Partner and Managing Director
pabiad@llorenteycuenca.com

Enrique Morad
CEO for Southern Cone
emorad@llorenteycuenca.com

Daniel Valli
Senior Director of New Business
Development for the Southern Cone
dvalli@llorenteycuenca.com

Av. Corrientes 222, piso 8. C1043AAP
Tel. +54 11 5556 0700

Rio de Janeiro

Yeray Carretero
Director
ycarretero@llorenteycuenca.com

Rua da Assembleia, 10 - Sala 1801
RJ - 20011-000
Tel. +55 21 3797 6400

Sao Paulo

Juan Carlos Gozzer
Managing Director
jcgozzer@llorenteycuenca.com

Rua Oscar Freire, 379, Cj 111,
Cerqueira César SP - 01426-001
Tel. +55 11 3060 3390



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