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LATIN AMERICA

An Agenda for Freedom

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LATIN AMERICA: An Agenda for Freedom

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ISBN: 978-84-89633-46-9
Depósito Legal: M-13662-2007
Impreso en España / Printed in Spain

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PREFACE

The West has been the cradle of the values that have enabled mankind to take its major steps forward. These are universal values, based on the concept of the person as a free and responsible being with an inalienable dignity and fundamental rights that precede any political system. Democracies, the Rule of Law, human rights and individual freedom are the principles that underpin western civilization, our civilization.

Sadly, there are people who reject these values and would be happy to put an end to them. The threats that were once personified by National Socialism or communist totalitarianism are today to be found in radical Islam, revolutionary populism and xenophobic nationalism. It is the old struggle between civilization and barbarism, between open society and totalitarianism, between personal freedom and dignity and tyranny. Ideas matter in this battle.

FAES, the Foundation for Analysis and Social Studies, wants to help the concepts of freedom, human dignity and democracy become a reality for all. We believe that the West is not a geographical concept but a system of universal values. We want the West to win out.

FAES presented proposals for the defence of Western values in the fields of security and the economy in two earlier publications: *NATO, an Alliance for Freedom* and *Towards an Atlantic Prosperity Zone*. These proposals were designed to guarantee freedom and increase prosperity.

Latin America: an Agenda for Freedom, is part of this series of strategic proposals. This new report explains our interest in and concern for the future of western values in a specific part of the world: Latin America.

Latin America is a significant part of the West, of that part of the world that is deeply rooted in the classical Greco-Roman tradition, has developed through Christianity, has lived through and benefited from the Enlightenment and that, now, prospers thanks to free market economics. To make such a statement at a time when this truth is being denied by the enemies of open societies is no idle indulgence, for these people seek to banish the entire region from the world of progress and set it up in direct confrontation with the free world. This is a reality that is frivolously refuted by certain circles in the United States and Europe. The present study starts from a single, clear premise: the Western background to Latin America's current situation.

Neither Spain nor the rest of Europe can be understood without taking the Americas into account. The current situation of Latin America has developed over history, with the two continents developing a linked identity through shared values. These centuries the two continents have lived through together have created a sense of belonging to a single community.

We Spaniards cannot be indifferent to the future of Latin America, nor can we remain silent over the dilemma it is facing. Spain has to do more than just be an impartial observer. Its links with Latin America run deep and are historical, cultural and emotional. There is also an intricate web of social, economic and human interests that have become an increasing force in both directions in recent years. The future of Spain and of the rest of Europe and the Americas too is linked to that of Latin America. This is the reason that FAES, a political foundation whose mission is to offer up ideas for the future of Spain, has also developed a proposal for the future of Latin America.

History reveals that Latin America is capable of attaining the levels of welfare and freedom that prevail in the world's most developed countries. There is absolutely no reason why the countries of Latin America should not rank alongside the most advanced nations of the

world provided they come to understand that they can do so and then implement the appropriate policies.

There have been times when, because of internal conflict, utopian authoritarian régimes or, frequently, due to ideological prejudice, Latin America has stepped outside the family of western nations to which it belongs.

If Latin America is to play an effective part in the Western world its people, critically, must be committed to that goal. It is also important, though, that the region's main partners and allies play their part in helping Latin America become a full member of the club of advanced democracies.

Two roads are open to Latin America and the two go in opposite directions. Along one lie openness to the world, democracy, respect for individual rights and freedoms and solid Rule of Law. This is the road travelled by successful countries and is the way to attract investment, create incentives for entrepreneurs, generate jobs and reduce poverty. In short, the road to success, democracy and freedom.

The other road leads away from the notion of an open, free and prosperous society and we have seen enough of history (the Cuban tyranny is not the only case) to know where it leads. Those who promote this road today are informed by outdated ideas – revolutionary populism, neo-protectionism, racism between indigenous populations and nationalist militarism – all of which are familiar to Latin America. They represent "21st century socialism", the successor of the socialism that generated misery and oppression in the 20th century. It concerns us to see that these ideas are surfacing once more, even with the endorsement of electoral processes.

We should however remember that no nation is condemned to historical failure. Latin America is not destined to be marginalised or to become an irrelevance. It has every right to be part of the free world and share in its progress and security. This is what the proposal we are presenting here today seeks to achieve.

Over a number of months and under the leadership of Miguel Ángel Cortés, FAES organized working visits to various countries in the Americas, along with a series of seminars led by experts. We

also held discussions with the leading political and intellectual figures in the region. Many people and institutions that believe, as we do, that freedom drives progress have made valuable comments and contributions that have enriched this work. Ultimately, however, the responsibility for this political, economic and social analysis of Latin America and for the proposals it contains lies with FAES.

We believe that ideas are important. We are convinced that ideas have consequences. *Latin America: an Agenda for Freedom* offers some ideas for tackling the main problems that threaten the region and are hindering its growth. Despite the large clouds that loom on its horizon and providing it harnesses the power of the concepts of freedom and democracy, Latin America has the capacity to take its place amongst the leading nations of the world. Anchoring Latin America firmly in the West is crucial to the survival of Western civilization.

José María Aznar
President of the FAES Foundation

INTRODUCTION

This report aims to set out a series of proposals in which not just the countries of "Latin America" but also the "Atlantic Area" as a whole can be involved, as well as any other nation that would like to join us in this agenda. The first part of the report is an essay - *Latin America and the West* - that explores the profound affinities that link "Ibero-Americans" on both sides of the Atlantic to each other and to the rest of what we call the West. The second part, "Where Do We Stand Now", is an analysis of the current situation in the region, which is characterised by endemic problems and imminent threats but also by opportunity and cause for optimism.

There are two compulsory observations to be made as part of these reflections on Latin America. The first is that all generalisations regarding a region where every country is a world unto itself can lead to incorrect interpretations and conclusions. A piece of work such as this that must necessarily be brief and cannot enter into detailed analyses of individual countries runs the risk of delivering a simplified version of the multiple and diverse geographical, human, cultural and institutional reality that is Latin America.

The second observation relates to the name we have used for the group of nations that are covered in this report. For the purposes of this report, then, Latin America refers to the Spanish- and Portuguese-speaking countries of the continent of America. International organisations and regional studies often include the Caribbean states that are not part of the Ibero-America grouping

under the heading “Latin America”. These countries, Haiti in particular, share many features with Latin America and, because most of the statistics collated for the region include the English-, Dutch- and French-speaking Caribbean, this report does not distinguish between one group and the other.

The term “Latin America” has long been rejected or greeted with scepticism in Spain and in some American circles as alien to Hispano-American intellectual tradition and symbolic of imagined blocks set up against Anglo Saxon hegemony. Whatever its origins, the term “Latin America” is in common use throughout the world including, naturally, the region itself and its people, who decided some time ago to refer to itself as “Latin American”.

Hispano-America, which is a historically and culturally identifiable reality, excludes Portuguese-speaking Brazil, which is why the term is not used in the present report.

Lastly, it should be pointed out that the name “Ibero-America” refers to a community across two continents and that includes Spain, Portugal and Andorra as well as all the countries of Latin America. The name is found frequently in the titles of many public and private entities and organisations created under the aegis of the Ibero American Community of Nations.

I. LATIN AMERICA AND THE WEST

Latin America is a significant part of the West. This statement is key to any reflection on the future of Latin America, but what does it mean? The West is not a geographical concept. The West is a value system that governs a society. It is a culture. It is not the expression of the *spirit of a people* nor is it the exclusive property of anyone. Western values are universal.

The West has an identifiable historical origin. It has been shaped over the centuries by many peoples and societies that have embraced what it means and enriched it with their own idiosyncrasies. The creation of the West has been a cumulative process of slow and steady enrichment, of layering of cultures one on top of another and of expansion. Yet it has specific basic features and elements that endure down the years.

Many of the Western institutions and values that have been refined throughout history remain key to the future of the societies of which they are part, particularly in Latin America.

Greece is one of the keystones of the West. Greek civilization passed on to us a number of principles that first emerged with the appearance of the "polis", which replaced the monarchy that had had its origins in religion and magic. Power ceased to be the preserve of one person and passed into the hands of all. No longer did it reside in a palace, cut off and hidden from the people's view. The *agora*, an open, public space, became the place where issues affec-

ting the community at large were discussed and decisions on them were taken publicly. A distinction was established between the natural order (*physis*) and the social order (*nomos*).

The *agora* was open to anybody to contribute to the process of making the right decision, giving rise to two concepts that endure today. One is the notion of *similarity*, which is contrary to the concept of ascribing specific characteristics to each individual according to which social sub-group he belonged to. The other is the concept of equality before the law (*isonomia*). The inhabitants of the polis, the citizens, were all equal before the law because a generic, abstract concept of man had appeared that included everyone.

The combination of these two ideas also gave rise to the notion of *equality before the law*. Because the rules were no longer set by arbitrary decision of the monarch, but were instead general and abstract and approved by the assembly, individuals could organise their lives within a framework of rules that was secure and familiar to all.

This system was open to people who belonged to other groups. The fact that foreigners lived in the polis helped this key concept to emerge. For the first time in the history of man the legitimacy of the rules was not established just by the community of origin but by a process of reasoning and debate. As a result, the rules became general and applied to everyone.

Looked at from a modern perspective it was an imperfect system, given that it still allowed the existence of such an odious institution as slavery, but it was nonetheless an astounding qualitative leap forward compared with what had gone before.

Rome, the second great keystone of the West, gave us Law, an institution pivotal to the progress of Humanity and to consolidating the concept of freedom. The function of Law appears to be prosaic, consisting as it does of a system for defining *what is mine and what is yours.*

A mechanism for resolving disputes was needed. It took centuries to establish the necessary legal code but the process allowed a whole legal and institutional system to be set up that enabled title to property to be established over time. This in turn made it possi-

ble for people's lives to be truly individual because their property was no longer part of an amorphous, communal whole but was, rather, clearly identified as belonging to the individual concerned. Every individual within the community began to have a life that was clearly different from the rest. It is no coincidence that the word "person" appeared first in Rome as it is a concept that is inconceivable without the notion of property as an extension of the individual.

The coexistence of different systems of rules and customs also gave rise to the notion of a higher law that is perfect and immutable, a *natural law* that substantive law barely comes close to. This notion is at the heart of the modern theory of human rights.

Lastly, the third keystone of Western civilization is the Judaeo-Christian tradition. As regards our purposes here, the fundamental value that underpins this tradition is the idea of *compassion*, a concept that goes beyond the Roman tradition of *justice*. In both the Old and the New Testament there is a rebellion against human suffering and evil, something that is completely at odds with other contemporary civilizations.

Thus the idea of dignity as intrinsic to the human being regardless of the group he belongs to was born. "Thou shalt not kill" holds good not just for Jews but for the whole of humanity. The Creation story in the Bible is infused with this idea of a shared origin that makes all men brothers.

This tradition was taken up again and developed by Christianity and the universality of human dignity became widely accepted. Compassion and human dignity are concepts that are valid for everyone.

The concept of time was also different in Judaeo-Christian tradition. Time ceased to be circular as it had been for the Greeks and Romans, but came to be viewed as linear, giving time a shape that accommodated the concept of progress.

These three great contributions merged for good in the notion of the person as a free, responsible being with inalienable dignity, equal to his peers and with rights that precede any political construct.

The modern political expression of the West is through liberal democracy, the only political regime compatible with this concept of the person whose dignity and rights form both the starting point for, and the absolute limits of, his exercise of power, even as regards the will of the majority.

Liberal democracy is a form of government whereby those who govern are elected and political decisions are subject to rules under a system we know as the Rule of Law.

The rights and freedoms that are at the core of democracy include the right to life and integrity, the right to due process, the right to privacy, to property and to equality before the law along with the right to freedom of speech, association and worship. These rights, and others, should be recognised, guaranteed and protected. They are the basis of any system that calls itself democratic and the only way to guarantee them is to divide power between separate sets of hands.

A democracy also needs tolerance and pluralism. Different political ideas, including the most extreme, may exist alongside each other and compete for political power providing there is a background of democracy and respect for fundamental rights and freedoms.

The West also stands for scientific and critical thinking. The way of science requires an open society. Truth is an ideal that is pursued by the various members of the community, it is not something that is imposed by the powers that be. Truth as an ideal concept is different to certainty, which by definition is transitory. This explains why Western civilization has gained the technological and scientific upper hand over other, closed societies.

In the field of economics, pluralism, freedom and property translate into the market economy system. This is a system based on freedom of initiative and that recognises the capacity for entrepreneurship and trade. The system has also proved itself to be the best way of generating prosperity and a good standard of living.

The West does not belong to a single people. Many have joined it and it has expanded over the course of history. Latin America is

the historical fruit of this expansion, which began at the end of the XVth century when the Europeans landed on the new continent and launched a process of integration and mixing of races that has no parallel in history. Over more than three centuries the continent's native peoples merged with the new arrivals from the old continent. What is most significant of all though is that all these societies became subsumed into the West through the expansion of Christianity. Christianity was the medium through which the entire Western tradition of the time was promoted and it also drove the incorporation of the American societies into the West.

This tradition was revived when, as part of the historical cycle of democratic revolutions, the American republics went through the process of gaining their independence.

It should be remembered however that the West's achievements do not come with a lifetime guarantee. There have in fact been terrible regressions into barbarity and savagery in the countries and societies that made a positive contribution to creating the West. One only needs think back to Europe in the nineteen thirties or to the tragic legacy of the communist, fascist and neo-socialist totalitarian regimes, which were no more than perverse experiments in social engineering based on the denial of the notion of the person that is at the very heart of the West. Latin America has also had its dictatorships, totalitarian or otherwise, and repressive regimes. But these have been episodes limited in time that have always been branded as illegitimate. The aspiration has always been to return to democratic forms of government and this is another of the features that reveals the essentially Western character of Latin America.

For all of these reasons we consider that Latin America *is* part of the West. Its history makes it part of the West but its philosophical, cultural and creative contributions are also part of the equation. It could be said that the process has been imperfect or incomplete, that there could be moments of regression, as indeed there have been. This is no different to the historical development of other parts of the Western world but recognising the truth of the situation should not prevent us from seeing that the most brilliant future for Latin America lies precisely in recovering and maintaining its Western identity. We are not talking about denying the good that has come from the mixing of races but about giving it a fresh impetus.

II. WHERE DO WE STAND NOW?

In the last third of the 20th century Latin America had good cause to allow itself to feel considerable self-confidence. In the eyes of the world it was even showing signs of being the continent of the future.

Economic and health indicators had made significant progress over the course of the century. Albeit belatedly the gaps between literacy, infant mortality and life expectancy rates there and in the developed world had narrowed to the point that, in the nineteen eighties, they had almost disappeared. The combination of this progress and the fact that birth rates remained high explains why in the nineteen sixties Latin America had the highest levels of population growth in the world.

Up until the nineteen fifties the region attracted European and Asian immigrants who contributed to the population explosion and to the mixing of races and cultures that characterises the subcontinent. In the sixties the region seemed to begin to lose its appeal and the Latin Americans themselves started to emigrate, even though some countries were returning a positive balance of trade thanks to inter-American trade. Latin America's population grew nonetheless from 60 million in 1900 to 517 million in 2000 – from four to nine percent of the world's total population.

The institutional changes that underlay the processes of modernisation and growth were similar to those that have taken place in much of the industrialised world. The legal, tax and financial systems saw significant reform in the twenties. As occurred elsewhere in the world,

mechanisms for planning and intervention by the state grew in the fifties and sixties. Contrary to what happened in other parts of the West, the countries of Latin America failed to create minimum standards of welfare and to provide opportunities for large swathes of their populations to improve their standards of living. They also failed to give them the opportunity to be more involved in public affairs, which made it difficult for basic agreements to be reached and for parties in office to rotate as they should.

Political instability and profound social upheavals were invoked as the reasons for revolutionary movements spreading that, in many countries, resulted in violent conflicts. These, in turn, were the excuse for military coups, authoritarian regimes and political repression.

Despite these serious problems and frequent border tensions rooted in nationalism, the region has managed to maintain relatively harmonious international relationships, thanks in good measure to the principles of American international law. This kind of *splendid isolation* based on economic development and a common cultural and institutional background persisted beyond the two world wars, during which the region basically remained on the sidelines.

Uninterrupted decades of economic growth yielded elements of modernity and scientific and artistic achievements that, albeit possibly too much the product of individuals, were nonetheless comparable with those of the more advanced nations. The artistic avant-garde of the world has found original interpretations and an abundance of creativity in Latin America. Latin America has seduced both Europe and the United States with its literary, artistic, musical and architectural creations.

As in the rest of the world the rapid economic development that occurred across the middle decades of the twentieth century came to an abrupt halt in the seventies. Initially, most countries were able to avoid the consequences of the successive international economic crises thanks to the massive influx of capital in search of fresh sources of profit. The withdrawal of this capital and the resulting debt crisis revealed the pitfalls of this model for growth and led to the collapse of the Latin American economies.

The final quarter of the 20th century was one of strong contrasts for Latin America. The appalling rates of growth and human develop-

ment led to the eighties being dubbed the "lost decade". It was during these years that the basic indicators began to diverge from those of the rest of the developed world – a situation that, save for the occasional fluctuation, has persisted right up until today. The area's share of world trade has declined dramatically and the flow of trade between the various countries is currently amongst the lowest in the world.

The nineteen eighties also saw transitions to democracy, however. With the irritating anomaly of Cuba, all the countries of Latin America had democratic systems in place, even though as the decade began these were more the exception than the rule. Although the return to democracy did not resolve the political instability, it paved the way for a change in attitude regarding the economic adjustments that needed to be made.

Economic nationalism (trade protectionism, substituting imports and over-expansion of the public sector) had been the cornerstone of pro-development policies in the middle decades of the century. Its discrediting, along with support from the international loan agencies, opened the door for reforms of a liberal nature to begin to be introduced in the nineties. Sadly, in most of the countries in which they were introduced they were neither deep nor far-reaching enough. Some countries did not even take them on board.

These policies were lacking in substance, timid and in many instances were soon aborted and were unable to protect the main Latin American economies from sudden financial crises, in a world where the barriers to the movement of capital were falling.

The implementation of the highly flawed so-called "Washington consensus" had at least one positive result: it reduced tax deficits and rates of inflation to manageable levels, providing the necessary starting point for sustainable growth.

Following a "lost" decade – the eighties – and a five-year period from 1998 to 2002 that saw crises in many countries, the current regional and global situation offers new opportunities for Latin America to set out once more along the path of modernisation and development. Continuing to implement the appropriate economic policies, the increase in foreign investment and the rise of exports along with the vigorous global growth of recent years have significantly improved the economic prospects for the region as a whole. Per capita income has recov-

ered from the accumulated erosion of the previous decade and, with a few exceptions, the poverty indices have declined slightly.

The results of these policies are taking time, though, to translate into improved welfare for the population. Growth is slower than had been hoped for, the chronic inequality shows no signs of receding, the middle classes are still very stretched, violence and corruption are still rife and for a while now it has been noted that people are feeling "fatigued" to a certain extent by reforms. Opinion polls reflect widespread distrust of democratic institutions and their ability to improve citizens' standard of living. The parties and movements that appeal to emotions above reason are gaining ground amongst the electorate. The old, fallacious diatribe about economic nationalism is being heard as are anti-imperial rhetoric, appeals to the sense of being victims of history and inverted racism that denies the European origins of the American societies.

Latin America is at a crossroads and there is a risk that its leaders will retreat backwards in time in search of formulae that led to failure in the past, or that they will fall under the influence of models that, in other parts of the world and with a certain degree of success, combined authoritarianism with capitalism but are completely alien to Latin America's Liberal tradition. If the Latin Americans give credence to these illusions and abandon their efforts to reform, the region will run the risk of missing another boat to the modern world.

The alternative to this scenario is to persevere with reforms and give support in no uncertain terms to those that have proved to work in other countries, including some within Latin America itself. One of the hardest challenges to the desire for change in Latin America and one that has to be overcome is surely the loss of heart that is the result of the last twenty years of crises and disappointment and of the lack of trust, built up over decades, in the institutions' ability to resolve problems that come to be considered insoluble.

POLITICS

Liberal tradition and Western values

Latin American culture is comprised of many different layers, with each having played its part in Latin America's lively history and all

deserving to be appreciated for their true value. The only thread that runs through the entire continent, however, from north to south is a shared link to the West, which is characterised by an affiliation with Iberian Europe. This substrate consists of a shared history, common values and practises and legal traditions that have all grown from the same legal seed. It also consists of religious and linguistic affinities and a cultural heritage that extends to both the tangible and the intangible.

When something as obvious as this is questioned it is perhaps worth reaffirming. The current make-up of the region and its common features cannot be explained without reference to the European heritage. Equally, the group of nations that we refer to as "the West" would not be complete without its South American, Central American and Caribbean members.

If the West is defined by Greco-Roman tradition, by its Christian heritage, by Renaissance humanism and scientific rationalism, by the defence of freedom and of fundamental rights, by representative democracy and an aspiration to perfect it, by the separation and a balance of powers, by the primacy of law and equality before it, by a market economy and openness to the world, by equality between men and women, then Latin America is part of the West.

Latin America is Western but is so in its own way, just as the nations that make up the region each have their own way of being Latin American.

Now, seen in a global context the various ways of being Western are not so different after all and the edges that separate one from the other appear blurred. There is no doubt that there are profound affinities between Latin Americans, Europeans and North Americans, and this in a world that is moving towards economic integration and increasing levels of exchange of all kinds.

These affinities do not of course include building defences against the rest of the world. The pursuit of openness and the contradictory urge to at once compete and cooperate with one's next door neighbours are both features of Western civilisation. Latin America's tendency to isolate itself from world trends has prompted the perception of a stereotype of a civilisation that is different to

Western civilisation. This perception has, amongst other things, coloured the recent debate on US identity launched by Harvard professor Samuel P. Huntington. It is a cliché that goes way back to the battles against the Spanish empire and that the Ibero-Americans themselves have nurtured through a certain insistence on being different.

For its great neighbour in the North, Latin America has, with its supposed inablility to modernise, represented what it considers to be "something else". These prejudices are simply holding back the desired integration of Latin America into its geopolitical environment and are weakening the Atlantic link.

A tradition betrayed? The threat of collectivism

In the last two decades, whilst there have been marked exceptions such as Fujimori in Peru, democratic regimes have become the norm in Latin America. Problems of political instability and fragile democracies still exist, as does a persistent lack of faith in institutions, as we shall see in the following section. Many countries however are once more consolidating their democracy and have achieved a considerable degree of political maturity. There are nonetheless threatening noises being made that shed doubt on the liberal American tradition and resort to well-worn formulae that have proved to be very damaging to freedom, co-existence and citizen's welfare.

These movements, that cannot really be referred to as political parties, are to a large extent the extension of revolutionary groups. They declare that they have espoused the doctrines of the 20th century's radical left and, in the international arena, they seek to ally themselves with any authoritarian regime they can providing it is anti the West.

Before the recent victories of the centre-right in such important countries as Mexico and Colombia, there was talk of the continent veering to the left. Argentina, Brazil, Venezuela, Bolivia, Nicaragua and, to a great extent, Chile, have elected left-wing governments.

But not all the left-wing parties currently in government in Latin America are the same. There is no single Latin American Left. Chile's

Socialist Party, currently part of the coalition government and a style of Left akin to Europe's social democrats, would be at one end of the spectrum along with a few others. At the other end would be those that do not recognise themselves as part of the Latin American liberal constitutionist tradition, reject their institutions' relationships with Europe and question the very foundations of the democratic system.

Elsewhere in this report we decribe the circumstances in which this Left came to power. It was a combination of reform fatigue, persistent poverty in spite of slow (but visible) progress, social amorality, the disconnect between the people and the public authorities, the lack of trust in institutions, the inability of many traditional parties to renew themselves and channel social aspirations, corruption…None of this justifies the drift towards authoritarianism displayed by some governments, however, or the implementation of policies proven to be ineffective and that aggravate the social problems being experienced by the citizens of Latin America.

This Latin American Left has a political agenda that it calls "21st century socialism". "Indigenism" (the promotion of indigenous populations), neo-statism, nationalism, militarism and populism are the ingredients it uses to advance towards its objectives. This Left gives priority to supposed collective rights over individual rights, ignoring the individual for the benefit of the group, be it an ethnic group, a union or a social class.

One of the Latin American Left's dreams is for a strong ethnic identity. It also looks back in time to a mythical pre-Columbian, collectivist and egalitarian arcadia, especially in those countries whose populations include a large Amerindian community.

Indigenism has begun to be for Latin America what nationalism is for Europe and comparing the two is both enlightening and worrying. Both question the modern nation states that replaced the Old Regime with the nineteenth century's liberal constitutionalism. Indigenism replaces the concept of citizens of a republic with that of members of ethnic communities, in the same way as European nationalism seeks ways of establishing identities that exclude other groups. Both make liberal principles and institutions such as the

division of power, merit and capability, equality before the law and respect for individual rights subordinate to achieving their objectives, which are not far off totalitarianism.

Indigenism and nationalism advocate the confusion of power. Taking positions of power is a common feature of both as is interference in individuals' and families' private lives in such sensitive areas as education and putting religion at the service of their causes.

Both American indigenists and European nationalist exclusionists promote the falsification of history. In the field of economics they use the claiming of purported historical rights as an instrument for steering and protecting the economy.

In seeking to restore supposed or mythical pre-Hispanic institutions indigenism promotes dangerous omissions from democratic normality as it should be conceived, i.e. as including universal suffrage, equality before the law, separation of powers, accountability, transparency and so on…

The idealisation of pre-Columbian civilisations adapted to current policy implies a return to authoritarianism and collectivism.

Just as the defence of the nation leads to praise of patriotism and opposition to nationalism, the defence of the indigenous people – or of any disadvantaged citizen – leads to condemnation of and resistance to indigenism. Segregation amongst ethnic and cultural groups heightens existing problems. Indigenism achieves the opposite of its stated aims: it inflicts huge damage on the process of national integration by basing it on racial or mythical facts that simply do not exist and presenting it as a move away from the developed world.

Protecting minority cultures should be neither a hindrance to nor an excuse for facilitating access for the indigenous minorities to education, health and other rights with full equality of opportunity.

There are irritating echoes of the political indigenism of the Latin American populist Left in some sectors of the West, especially amongst certain factions of the European and North American Left that are bereft of a cause following the failure of "real socialism". It

seems unbelievable that this populist option should receive poorly disguised support from some First World left wingers who are comfortably enjoying prosperity and political freedom in their own countries. In a display of total irresponsibility, these "progressives" support policies for others that they would never dare to put forward for their own societies.

Neo-statism, another of the components of the so-called "21st century socialism", is one of the great ideological threats to the Latin American economy. It represents a return to the past, to formulae that failed in the 20th century whenever they were applied.

Whilst some left wing groups or parties in other parts of the western world have had to accept that a market economy is a necessary condition of growth and development, there are social movements– and, more seriously, some governments – in Latin America that are still stigmatising "neo-liberalism" as the cause of all the region's ills.

Ignoring the formulae that have worked in emerging economies, Latin America's populist Left upholds land collectivization and the nationalization of natural resources, which has resulted in property rights being eroded and investors being alienated.

Populism is perhaps the most significant instrument of "21st century socialism". Enrique Krauze[1] has identified a series of specific features to describe Latin American populism. First is "personalism", whereby the party or movement is organised around a "man of the moment", a charismatic leader who calls immediately for a personality cult to be created centred on him.

The populist leader is also a demagogue. He uses words to massage the people's ears, as it were, and has no qualms about extending his control to the media by censoring and harassing the free press or by means of subsidies or handouts.

Populism uses budgets in an arbitrary fashion. It tends to use public funds for political ends, demanding compliance in return. The demagogue does not seek to abolish the market by force but, rather,

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[1] In a talk given by him at a conference titled "The Force of Ideas" organised by FAES and the Rafael Preciado Hernández Foundation in Mexico City on 5th February 2006.

establishes alliances with "patriotic businesses" that shelter behind comfortable protectionism. At the same time, though, he will foment hatred of social classes by feeding popular prejudices against "the wealthy" and leads social groups to a state of permanent mobilisation against the enemy within and without.

Populist nationalism's reason for being is the existence of an enemy abroad, which diverts attention away from it's own failures. Imperialism, the United States, the international financial institutions and the multinationals are Latin American populism's preferred scapegoats.

The populist leader despises legal order. He sets his aspiration to be the originator of the law in direct opposition to the law as a force that limits power. He tries to eliminate the institutional checks and balances that exist in liberal democracy, considering them to be aristocratic, oligarchic and contrary to the will of the people. He also has no regard for limits of tenure and pursues eternal power.

Even if it does not manage to become an out and out dictatorship or totalitarian regime populism, as Krauze says, constantly feeds the dream of a better future, hides the disasters it creates, puts off objective analysis of its actions, bends criticism, adulterates the truth and numbs, corrupts and degrades the public spirit.

A significant proportion of the Latin American Left, once so dogmatic and heavily influenced by Marxist-Leninist Castroism, has now lost its point of reference, become disorientated and has unashamedly abandoned a movement that had no clear ideological foundations. One has to admire its ability to amalgamate a range of feelings, unhealed wounds, acute social irritants, phobias and sectarianism into its disproportionate pursuit of and holding on to power.

Populism is easier to define by its methods than by its thinking. There are unfortunately current examples of movements with shades of populism that serve as a refuge for the more radical members of the Latin American Left, proponents of coups and all manner of "anti-" movements such as the anti-systems and anti-globalisation movements. Their violent methods, the military symbols and gestures they use and their creation of "para-military circles" dedicated

to intimidation, indoctrination and surveillance that report directly to the leader in person, are reminiscent in their practices and aesthetics of the worst totalitarian experiences of the 20th century.

The ideological bases and political strategy of populism

In the nineteen seventies Latin America witnessed a clash between a violent, revolutionary Soviet Union-inspired Left and dictatorships with overtones of military generals and nationalism. All of this caused a vicious circle of action and reaction, which provided Latin American Marxist-Leninists with the perfect justification for terrorism as a legitimate armed response to the generally brutal repression of military regimes.

In the eighties, the military dictatorships began to weaken. Infighting, opposition from the democratic right-wing groups and international pressure conspired to topple almost all of them. The nineties was a veritable springtime for democracy

in Latin America, a time during which Cuba was the only persistent blot on a general landscape of democratic regimes.

The case of Venezuela perhaps exemplifies this situation best of all. Following several dictatorships Venezuela became a full democracy that could be counted as one of the most advanced in the free world. Its 1961 Constitution was a model of institutional architecture. Two internationally recognised political parties, the social-democrat "Democratic Action" party and the Christian democrat COPEI party, took turns in power and there was a genuinely pluralistic two-chamber Parliament.

The deterioration of the country's institutions and the inefficient management of the high levels of corruption caused the credibility of the politicians in power to crumble, which in turn brought the system itself down. In point of fact, Hugo Chávez and his Vth Republic Movement are the previous regime's latest crisis, not the first government of a new Venezuelan era.

The process has been repeated in several countries. First the traditional politicians and the institutions in which they carry out their duties are called into question. As a result of their loss of prestige

and credibility the political parties and democratic systems as a whole are called into question.

The political Left and part of the academic world have managed to make a very strong case for the argument that the continent's socio-economic ills are due entirely to the concoctions of the International Monetary Fund and the World Bank enshrined in the "Washington Consensus". The formulae imposed by the international economic organisations repaired the destroyed economies of many Latin American countries which in some instances had hit four-figure inflation rates, massive unemployment, supply problems, unsustainable deficits and levels of debt that were creating an intolerable burden for their economies.

The economic boom and the growth achieved by some governments' improved management - those that took on board the international economic organisation's recommendations - were not used to combat poverty. In fact, the lack of viable, balanced and responsible social policies wasted the opportunity that the brief but intense period of prosperity had afforded.

As a result of their failure on the social front the most radical of the Latin American Left along with the populist movements and politicians condemned the orthodox and common sense approach of the so-called "Washington Consensus" along with the governments that had applied it. Popular protest, manipulation of reality, anti-westernism, anti-americanism and market phobia all smothered reason and became the order of the day in the Andean countries and the Cono Sur (the southern region of South America that comprises Uruguay, Chile and Argentina).

The traditional political parties were held responsible for their countries' corruption, lack of government, chaos and poverty. The reality is that poverty has increased significantly under the populist regimes and that, far from disappearing, corruption has worsened to unimagined levels. These countries, that in some cases have substantial incomes because of the high prices of raw materials, still have urgent education, health, social and infrastructure needs that remain unattended. A significant part of their resources is allocated to projects from which the politicians and their front men can most easily divert funds and siphon off commissions.

The traditional aspiration of the revolutionary left, to build an ideological bloc against the western democracies, was thwarted when the Berlin Wall came down. Fidel Castro was its main role model in Latin America but "Chavism" has now taken over from the fading Castroism. As an emerging leader Chávez is trying to forge a true anti-system alliance that aims to establish "21st century socialism" in Latin America.

In a typically local interpretation of proletarian internationalism Chavism is evident as a constant presence across the region, affecting electoral processes and forging "frontist" alliances. It is his country's oil resources that enable Chávez to pursue his international revolutionary populism.

The anti-system alliance

The collapse of the Soviet block left a significant proportion of the world's Left without ideological points of reference. It was during the years surrounding that event that the star of the phenomenon of globalisation began to rise. A large part of the Left considers globalisation to be a perverse tool for domination and exploitation and it provided the traditional anti-system movements with a new enemy upon which to focus their anger and frustrations. Globalisation is portrayed as an instrument, a strategy and a plan that has been coldly and meticulously hatched by universal capitalism. Conspiracy theories are very popular amongst these Leftist groups.

The anti-system alliance came about spontaneously as different groups found that they had the same enemies and phobias. This shared aversion is what binds the Left that failed in May '68 and was buried under the rubble of the Berlin Wall as it fell, together with the intellectuals who cheered communism on and are today complacent about the anti-western drive of Islamic jihadism. It also binds them to anti-globalisation "other worlders" of the most diverse plumage and to the various manifestations of indigenism, populism and religious fanaticism. All those that form part of this diffuse yet operational alliance believe that in it lies an opportunity for them to increase their influence and weaken their common enemy: the West. They have no hesitation about allying themselves with the strangest travelling companions in order to achieve their goal, which explains the growing closeness and co-ordination between all these groups and Islamism.

As far as Islamism is concerned it is no more than a situational, tactical alliance. Islamism's ideologues are as critical of the foundations of the doctrines of the Left as they are of democracy and capitalism, or even more so. The jihad spares no effort to defeat its enemies in a war that is clearly going to go on for a long time and whose aim is total, irreversible victory for Islam right around the globe. The sympathy that certain Westerners feel for the enemies of the open society in which they live is profoundly at odds with this particular reality.

This anti-Western alliance has managed to promote Islamism as a 21st century defender of the poor, the marginalised and the oppressed. It is more than just a theoretical alliance and there has been joined-up action on the international stage as has happened with Venezuela, Iran and Syria.

Institutional weakness in Latin America also makes it vulnerable territory for the introduction of other forms of violence of an international nature that could link in to local criminal networks. The lawlessness of whole regions, where governments are patently unable to maintain order, makes them suitable places to set up logistical bases and training camps and seek financing.

The so-called "Triple Frontier", the land between Argentina, Brazil and Paraguay is territory that is hard for the States to control. Concern has grown in recent years over the activity of pro-terrorism Islamist groups in this area. The Triple Frontier has a substantial Muslim population and has for some years been the nerve centre for financing Islamic terrorist groups and the centre of the illegal arms trade, drug trafficking and smuggling.

These terrorist groups are informed by different ideologies, but might just link up as they all share the logic of terror. This is why cooperation between traditional Latin American and radical Islamic terrorism is a very real threat to Latin America.

In Europe and Latin America the problem of jihadist terrorism tends to be considered as something alien and far away. This is obviously a mistake in the case of Europe given that it has been threatened and attacked directly by Al-Qaeda and other jihadist organisations. But it is also a mistake for Latin America, where Islamism is

a growing presence. The phenomenon is not new: the two brutal attacks on Israeli and Jewish interests in Buenos Aires in the mid 1990s were almost certainly committed by Hizbollah, the terrorist group with an Iranian background.

The expansionist character of jihadism and its declared mission to conquer the world make Latin America an obvious target. For jihadism, Latin America is an important part of the West, although they do no see this as something positive.

Institutional deficit and democratic fragility

Looked at as a whole, Latin America displays weaknesses and fragilities in its institutional make-up. These are remarkable because the institutional structure of the republics that became independent during the 19th century is comparable with – and even in some cases better than – that of the countries that today enjoy stability and inspire confidence both at home and abroad.

It should be stressed in this regard that all generalisations about Latin America are simplifications and can therefore be less than exact.

The causes of the deterioration of the State institutions in Latin America are rooted deep in the region's complex history. We should remember, without going too far back in time that the indifference of the American republics' liberal tradition throughout the 20th century led to a weakening of the basic structures of the State. The machinery of State expanded excessively as did public sector budgets, leading to legislative inflation that overtook sectors it had no business with and neglected other core sectors. As a result it was impossible to provide citizens with guarantees that they would receive the services that are the essential function of the State to provide – justice, security, education and health – efficiently and equitably.

The eighties were still feeling the heat of the interventionism that had prevailed in the preceding decades, driven by "cepalista" (from CEPAL, the Economic Commission for Latin America and the Caribbean) doctrines, and an economic crisis began to loom. The populism in power at the time was highly controlling and was unable

to produce anything other than parasitic bureaucrats who ended up restricting the freedoms of the individual and bleeding the productive machinery of these countries dry.

The results in the long term were a growing distance between the population and its leaders, a trend for creating large bought electorates and huge discrediting of the institutions of State.

The return to free elections and the introduction of some liberal reforms in economic policy were not, however, accompanied by the institutional reforms required by a liberal democracy and the Rule of Law. Privatisation of companies and economic sectors, selective tariff reductions and macroeconomic adjustments, whilst positive measures, do not signify the adoption of liberal policies that have been successful elsewhere in the world.

The traditional parties that held power in government adopted certain measures from the liberal economic agenda, more as a matter of necessity than because of a supposed spread of good ideas. They did however maintain the structure of a mercantile State with bought electorates. Thus a great opportunity was lost to improve and extend welfare, which other countries had managed to achieve by implementing liberal measures more effectively than Latin America ever did.

In the face of the failure of policies that were never, in fact, liberal, political forces of a nationalist and populist bent have re-surfaced, driving a return to economic interventionism and protectionism, sometimes with an authoritarian slant or restrictions of freedoms. There continue to be powerful detractors of market economies not just amongst the classical Left and trade unions but also amongst indigenist movements, sections of the Church influenced by the "theology of liberation" and even some businessmen who hope to prosper under the wing of protectionism.

These groups still carry a lot of weight in public opinion, which still mistrusts the institutions. According to Latinobarometro, when offered a choice between economic development and democracy 48% of Latin Americans choose the former and the rest would accept an authoritarian regime if it would resolve the problems of the economy.

After twenty years of economic policies that have fallen short, the focus of analysis has turned back to structural problems. The most widespread diagnosis is that the reforms have still not had the desired effect because the institutional landscape in which they are being applied is not sufficiently nurtured.

The pursuit of a consensus on an agenda for the development of Latin America reveals a lack of institutional quality and good governance. But what does this proverbial "institutional deficit" in Latin America consist of?

The countries of Latin America have a number of features in common, which explain the region's profound institutional weakness. To our mind, these common features are one of the main challenges to them joining the developed world.

A scan of the political arena reveals the following: weak political parties in a state of crisis, splintering of the opposition parties, political instability as manifested in thwarted presidential mandates that do not run their terms – since 1989 fourteen presidents have failed to complete their terms[2]. Further, the democracies are immature and there is a generalised mistrust on the part of civil society to use political parties as the route to participation. Lastly, monetary gifts and handouts are used as a means of winning votes in the poorer sections of society.

Two further proofs of the institutional deficit are that Parliament plays a scant role and the Executive, the Legislature and the Judiciary lack independence. The ensuing generalised discredit provokes disaffection with politics, which makes things even worse.

In this context political militancy is often not the result of ideological reasoning but, rather, a response to sociological factors that are unconnected to convictions and principles. This produces a vicious

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[2] Argentina: Raúl Alfonsín (1989); Fernando de la Rúa (2001), Adolfo Rodríguez Saá (2001) and Eduardo Duhalde (2003). Bolivia: Gonzalo Sánchez de Lozada (2003). Brazil: Fernando Collor de Mello (1992). Ecuador: Abdala Bucaram (1997), Jamil Mahuad (2000) and Lucio Gutiérrez (2005). Guatemala: Jorge Serrano Elías (1993) Haiti: Jean Bertrand Aristide (2004) Peru: Alberto Fujimori (2001). Paraguay: Raúl Cubas (1999). Venezuela: Carlos Andrés Pérez (1993).

circle: the political channels do not work, causing them to be discredited, and those who take on decision-making roles in "public affairs" do so in the hope of personal gain or out of a sentiment similar to that which they feel for a football team.

The problems are hardly less substantial on the judicial front. Judicial insecurity and the break-up of the Rule of Law can be seen in a number of very dangerous situations. These include: a lack of respect for the constitution, discredit of the judiciary, rambling and confused tax, commercial and labour legislation that is applied either arbitrarily or not at all, and uncertainty surrounding the resolution of disputes due to the length of court cases, the fact that judges are often not independent, and contradictory ruling.

Freedom of speech is also under threat in the region because of practices that ranges from using advertising to direct public opinion to less subtle methods such as censorship and persecution of certain journalists and media that oppose the government of the day.

This brief overview should also mention another fundamental right that is being infringed: the right to property. Arbitrary interference by the authorities and the lack of an effective land registry system have a multitude of negative consequences. These range from laxness, which undermines tax income and social rights, to judicial insecurity, which drives investment and capital away because it induces lack of confidence.

The difficulty in generating State policies and the lack of consensus make the whole process of strengthening the institutions difficult. Contrary to the processes that have been successful in other parts of the world (think of the case closest to home, that of Spain's transition to democracy, where there was a will on all sides to reach agreement and consensus) what has prevailed in Latin America, with very few exceptions, is confrontation, systematic revisionism and radical change. Very ofen the logic of "friend or foe" has taken hold, preventing the basic, stable consensuses that should form the core of any democracy, from being reached.

Institutional deficit creates an environment ripe for the emergence of a "man of the moment". In the absence of a stable legislative support civil society channels its need for security into

hoping for "a saviour". This kind of scenario is fertile ground for populist leaders.

In this situation, naturally, progress grinds to a halt. If the policies of governance are forever pitching about as a result of sudden changes in government or a lack of state polity, failure is irremediable.

What is not controlled by institutions is controlled by pressure groups or special interest groups and is fertile ground for corruption and even criminality. Corruption and criminality thus enter the vicious circle of inequality and poverty, each feeding the other.

The obstacles to regional and international integration

Regional integration in Latin America is an aspiration that has existed since independence. The Iberian monarchies gave America a unity it lacked before along with institutional and cultural links that the various Latin American nations have maintained ever since. The processes by which the various nation States were built and that were accompanied by vigorous assertions of patriotism did not manage to completely bury either the common heritage or the yearning for [Latin] American unity.

The affinities run so deep – what other continent can compare in terms of cultural homogeneity? – that it could be argued that further Latin American integration would to a degree be surplus to requirement, at least in political terms. It has also been said that the development of the different Latin American economies and, above all, their true integration in terms of trade has not yet reached the stage that institutional integration is necessary.

Nor should the magnitude of the physical obstacles to integration be underestimated. From the Rio Grande to Patagonia the landscape of Latin America is criss-crossed by formidable natural barriers. The shortage of infrastructures is currently one of the major obstacles to the development of a single Latin American market.

This is not the place to analyse why the different processes of political and economic integration have, historically, not been effective in the long term or been as far-reaching as the process of European integration. If we consider the internal issues that affect

the region it becomes clear that behind the successive failed attempts at integration and aside from a great many historical and cultural factors, lie a lack of leadership and an excess of nationalist rivalry.

If we compare the case of Latin America with that of Europe, which is a reference model for regional integration processes, we see in both the typical game of the balance of international political power. This is a constant battle to prevent one regional power becoming dominant. Latin America, however, lacks a partnership that can play the role of the Franco-German axis. Without a strong push and a solid desire to share sovereignty, any regional integration project is doomed to failure. To achieve integration the sterile pan-American rhetoric would need to be replaced by the pragmatism that informed the beginnings of European integration.

MERCOSUR, the Andean Community of Nations and the Central American Common Market are all built in principle on solid grounds. They are however currently experiencing fresh difficulties. Initiatives such as the South American Union that is being promoted by Brazil but does not include Mexico and Central America, are hardly viable and consume effort that could be concentrated on achieving objectives that are shared by the whole of Latin America.

The actions of Hugo Chávez, bolstered by oil revenues, are having a negative impact on Latin American integration. Venezuela's withdrawal from the Andean Community of Nations and its joining MERCOSUR alongside Bolivia, with Fidel Castro looking on, are significant blows to both sub-regional projects. The former is no longer viable as it lacks the essential components, whilst the democratic credentials of the latter are now seriously in question.

The launch by Cuba of the outlandish "Bolivarian Area of the Americas" as an alternative to the FTAA is another manoeuvre that is damaging to possible advances towards trade integration.

Add the bi-lateral tensions that exist at the heart of the blocs (Argentina and Chile and gas supplies, Argentina and Uruguay and the paper manufacturers' dispute) to the nationalisation of Bolivian hydrocarbons and their effect on relations with Brazil, and the outlook for regional integration appears more uncertain than ever.

ECONOMY AND SOCIETY

Natural resources

There is a phrase that is routinely trotted out with reference to the countries of Latin America that says: "It is such a shame, there are so many natural resources yet there is still so much poverty…"

It is a common mistake to overplay the role of natural resources in prosperity. Indeed, most of the world's wealthiest countries are relatively poor in natural resources.

The role of these resources should not be underplayed either but it would be a mistake to tackle the problem of poverty in Latin America with an incorrect focus. Factors such as institutional stability, respect for private property, economic freedom, education and the existence of human capital are the true drivers of economic and social development.

Latin America has an extremely valuable supply of human capital, with a potential for being productive that is sadly being underutilised. Many Asian nations have taken off economically, have substantially increased their per-capita GDP and have dramatically reduced their levels and rates of poverty. They have done all this with a human capital that is less qualified than that of most Latin American nations today.

Economic freedom and prosperity

Nowadays, few serious thinkers doubt that economic freedom is a source of prosperity. Studies of the indicators of economic freedom published yearly by institutions such as the Heritage Foundation and the Fraser Institute reveal two scientifically incontestable facts in spite of their different methodologies[3]: 1) the most prosperous countries in the world are those that are head the ranking of the indices of economic freedom and, 2), the countries that have

[3] The indices are synthetic measures of a set of factors relating to economic freedom. These include respect for property, tax pressure, judicial security, the degree of freedom in contracting labour and the quality of the institutions that hand down justice.

enjoyed the most progress in terms of welfare are those that have also made the greatest advances in economic freedom.

Latin America does not score highly in this ranking. Cuba and Venezuela stand out, but precisely because they score very poorly. Chile, which systematically scoops the top scores in the region, is the most prosperous country in Latin America. These indices do not remain static: many countries in Central and Eastern Europe, some Asian nations and countries such as Ireland and Iceland have performed spectacularly in terms of increasing their inhabitants' prosperity. Sadly, this is not the case with Latin America.

Other studies concur in that the reality of Latin America is worrying. The competitiveness indices (such as the one drawn up by the World Economic Forum), the World Bank study of the climate for entrepreneurship ("Doing Business"), the corruption indices (such as those published by Transparency International) and assessments of respect for the Rule of Law and Good Governance (Kaufman), among others, reveal that the majority of Latin American countries consistently come in at the bottom of the rankings. This explains why they are so unattractive to investors, with the cause lying in widespread corruption, insufficient respect for private property and contracts, judicial insecurity, the inflexibility of labour legislation and the bureaucratic obstacles that face entrepreneurs.

A priority still outstanding: to reduce poverty and strengthen the middle classes

According to a 2005 ECLAC report 40.6% of Latin Americans are living in poverty. Of these, 16.8% are in extreme poverty or indigence.

Reducing poverty in Latin America is one of the region's outstanding issues. Whilst Asia reduced the proportion of people living on less than a dollar a day from 53% to 25% between 1981 and 2001, the equivalent figure for Latin America remained unchanged throughout the period. The work of Sala-I-Martin[4] shows that poverty can be fought efficiently and is at once enlightening and disheartening for Latin America.

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[4] Sala-I-Martin, Xavier (2006, "The World Distribution of Income", *Quarterly Journal of Economics*, May).

The absence of economic freedom is an open door for poverty and, conversely, economic freedom is the best medicine for eradicating it.

Experience tells us quite clearly that integrating into the international economy, gaining a greater share of world trade through free-trade policies and creating an attractive climate for investors whereby the rules of the game are clear and remain stable, are together the most effective way of reducing the poverty statistics.

The enemies of freedom use spurious arguments to try to convince people that capitalism, foreign interests and globalisation are the cause of poverty, whereas what is really happening is precisely the reverse.

"Povertyism", one of the manifestations of political correctness, is a cultural problem that makes things worse. In some countries in the region poverty is vindicated as a value in its own right. Certain spheres of power, universities and the media issue a stream of Manichean discourse that penetrates the societies that live under populist regimes, claiming that "The rich man is a bad man", "Jesus was poor too" and so forth… Wealth creation is thus turned into an "anti-value". This kind of message promotes a sense of acceptance of one's lot, fuels sterile resentment and strikes at the heart of the incentives that are needed in order to create wealth. There is no example of poverty having been eradicated by frightening off capital and entrepreneurs.

This is not just an economic phenomenon. In those parts of the world where opportunities are few and poverty abundant, the emigration drain is inevitable. In Bolivia for instance 54% of the people would emigrate if they could do so[5].

On the road to sustained growth

The macroeconomic situation in Latin America is currently positive. After the "lost decade" of the nineties growth rates and indices are

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[5] Poll carried out in March 2006 by research company Apoyo, Opinion y Mercado in Bolivia.

once again positive. Macroeconomic imbalances, which in the past prompted profound financial and real crises (inflation, public sector deficit, foreign debt) are today, fortunately, notable by their absence.

In 2005 the average rate of growth across the region was 4.3%. It is also estimated that the direct foreign investment coming into the region was 61 billion dollars, with two thirds of it going to Mexico and Brazil.

The budgetary imbalances of the past have for the most part been corrected. Public debt relative to gross domestic product has fallen by around 30%. Inflation has reduced considerably in most Latin American countries, where levels of this inflationary tax are now acceptable.

In the region as a whole economic growth is also translating into per capita growth. There is no question that this is a positive phenomenon, even if Latin America's economy is expanding more slowly than the global average and at a markedly slower rate than the economies of most of Asia.

The present boom period should not make us forgetful of the unfortunate experiences of the past. Latin America's cyclical history illustrates the point. It would not be the first time that a profound economic crisis demolished the progress achieved over a more or less extensive period of positive economic performance. This is why it is crucially important not to make basic mistakes in economic policy.

The period of economic growth that Latin America is currently enjoying is the most protracted of recent decades and is enabling the lives of millions of people to improve. This should not, however, blind us to the fact that income per inhabitant in the region as a whole is growing very slowly, that not enough progress is being made in the fight against poverty and that the middle classes are still in a fragile situation.

It is also essential to correctly identify the factors that explain the region's economic boom in order to avoid confusing genuine sources of sustained long-term growth with purely circumstantial factors.

Latin America is benefiting considerably from favourable external circumstances. The prices of raw materials have increased, there has

been strong growth in the global economy and financial costs have fallen significantly.

In effect, the international situation has given a huge boost to exports of raw materials at higher prices thanks to the entry of China and India into the global economy and demanding vast quantities of these inputs. The countries of Latin America should not waste these opportunities.

The world economy is going through a golden age, with GDP growth rates across the globe around 5% for several years on the run. This is good for Latin American exports and boosts its economic activity.

The abundance of liquidity in the world economy is another factor that has helped the Latin American economy in these last few years. The plainly expansive nature of the monetary policy of the three great world economies (the United States, Europe and Japan) has translated into rates of interest and differential rates for the cost of credit being at an historical low. Since 2005 the expansive trend of monetary policies has been corrected and the results are already being seen in a rise in short- and medium-term interest rates around the world.

The different faces of violence

For many authors, Latin America's main problem is violence. It curtails freedom, makes it difficult for democracy to function properly and affects the weakest most of all, limiting economic growth. Violence in Latin America is a many-headed beast. Street crime, a new gang era, terrorism and drug trafficking, which we have already referred to, kidnapping and domestic violence together constitute a formidable threat to an already debilitated social structure.

Impunity is the decisive factor in criminality. The fact that a high percentage of crimes go unpunished encourages crime. The countries of Latin America, which have the highest homicide and kidnapping rates in the world[6], also have lower numbers of prison inmates as percentages of the population than other Western nations[7].

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6 "Democracy in Latin America", United Nations Programme 2004.
7 International Centre for Prison Studies, University of London.

The prison system in Latin America is in crisis. Added to the insufficient resources, buildings and specialist staff, with the consequent overcrowding and scant control of inmates, is the fact that in most countries in the region more than 50% of prisoners are still awaiting final sentencing. Against this background, rehabilitating criminals and returning them to society is well nigh impossible.

The fight against poverty also involves putting an end to the violence in the region. Crime is a lethal enemy to the economy of the countries of Latin America.

Investment in Latin America carries an added cost of protection against crime, which in some places takes on such horrendous forms as "express" kidnapping. Trade and tourism are also affected by the lack of security. The major international tourist routes as well as domestic tourism avoid many Latin American destinations in favour of safer places less prone to conflict.

The high crime rate makes Latin America susceptible to social deterioration and to the incipient "lawless areas" expanding. These are vast areas where the rule of law does not work and, indeed, the security forces do not even maintain a presence. These areas are the perfect breeding ground for organised crime in all its guises.

The latest way in which violence has manifested itself in Latin America is through gangs, or "maras", which are a growing threat with a huge potential for social destabilisation. These are groups of juveniles who in many cases are extremely violent; they also engage in drug trafficking as well as all manner of other criminal activity.

The "maras" originated in California but after their members were repatriated to their countries of birth on their release from US prisons they spread across Latin America, mainly in Central America and the Caribbean. Admiration within the gang is one of the main motivators for members, hence a prison sentence does not always fulfil its function as a deterrent. This gives the gangs a danger factor, which in turn gives them an edge over other criminals. They are becoming increasingly organised and sophisticated and they have forged connections and even become established in the United States and some European countries, notably Spain.

Education: opportunity and an issue still to be resolved

Education is key to fighting poverty and boosting social and economic development. The countries that have invested in their human capital are the ones that achieve the highest standards of living, welfare and growth. Quality education provides a solid foundation for creativity and innovation and encourages economic competitiveness through the accumulation of knowledge.

Latin America displays sharp contrasts in the field of education. The starting block is sufficiently sound for the effort invested in education to bear the fruits hoped for but, comparatively speaking, most Latin American countries' educational results are modest. There is therefore a risk that they will stagnate relative to other emerging economies such as those of some countries in Asia, which are narrowing the gap that separates them from the United States, Europe and Japan.

Bright spots and dark patches in education in Latin America

Seven Latin American countries belong to the top group in terms of human development according to the United Nations Human Development Index (HDI), which is drawn up using a combination of data related to income, health and education. The rest are midway down this scale of human development.

Latin America's performance in the field of education gains it place in the middle section of this component of the HDI: with a few exceptions in Central America and the Andean region, adult literacy rates are not far off those of countries where education is more developed.

There is a greater gap as regards spending on education and the rates of student matriculation at all levels of the education system. The gap is greater still in the main indicators on research and development (the number of patents or researchers per inhabitant and the level of spend on R+D) and the use of new technologies.

Looking at how the HDI has evolved since 1975 reveals, significantly, that some Asian countries such as Korea have overtaken the most advanced Latin American countries. It is also significant that

Middle and Far Eastern countries like Thailand, Turkey, Tunisia and Iran, which were once the most backward, have caught up with Latin America in the middle range of the human development index.

The educational systems of Latin America are old-established. They share a tradition with those of the more developed countries and, in some instances, have achieved comparable standards of excellence. The continent's oldest universities are In Mexico and Peru. Argentina and Uruguay pioneered the institution of compulsory, free education at the end of the 19th century and they achieved schooling for the entire population ahead of most European nations.

The last 50 years have seen important achievements overall in terms of literacy rates, teaching plans and methods, teacher training, educational materials and infrastructures and average number of years schooling. Four Latin American scientists have won Nobel prizes[8]. Some centres of excellence have demonstrated their ability to produce research and science, albeit in relatively small quantities.

The educational landscape does, nonetheless, feature strong contrasts. Most national systems suffer from a lack of resources because of their economies' limited capacity to invest in education. The results in education itself show quite unequivocally that the school systems are inefficient and that learning levels in them are low[9].

However, neither the lack of resources nor the inequality between pupils fully explains the failings of the Latin American teaching systems. Nor do the extent of ethnic uniformity in or the cultural traditions of the different countries explain the differences between their various results.

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8 Bernardo Alberto Houssay, Nobel Prize for Medicine 1947; Luis F. Leloir, Nobel Prize for Chemistry 1970; Caesar Milstein, Nobel Prize for Medicine 1948; Mario J. Molina, Nobel Prize for Chemistry 1995.

9 The performance of the Latin American countries as reviewed in the OECD's 2000 Pisa report on the abilities of 15-year-old school pupils (in Mexico, Argentina, Brazil, Chile and Peru) was far below the average for the OECD member states. A second study in 2003 focused on mathematics and revealed even worse standards of ability. The independent reports by PERA (the Partnership for Educational Revitalisation in the Americas) show that these poor results are common to the region as a whole. It also shows that the gap between the region and other emerging countries is not closing, despite improvements such as increased numbers of pupils, pupils staying at school longer and the increased investment in education in recent years.

The most reasonable hypotheses suggest that the scant resources allocated to education are inefficiently administered, that teachers have poor skills and little dedication to the task, that teaching methods are of poor quality and, above all, that pupils and students themselves are not sufficiently stretched. Now, the level of demand made upon the student relates to the end purpose of effort required, to the reward for work undertaken being appropriate and to expectations of improvement. These aspects are more evolved in some societies than others and, at the end of the day, are associated with prevailing levels of freedom: freedom of choice and freedom to create, structure and run educational facilities.

Over decades of paternalistic government the combination of free education, the lack of incentives and the insufficient public investment in education gradually dragged down the best universities and, from there, the whole teaching system in Latin America. The Latin American university climate simply ceased to be attractive to the best brains. As if the brain drain driven by academic or economic reasons had not been enough, political problems brought about the expulsion of successive waves of talented academics and intellectuals. Today, the number of Latin American universities fighting for a place amongst the top one hundred in the world rankings of academic excellence can be counted on less than the fingers of one hand.

Latin America has substantial reserves of human capital. This kind of capital is used up slowly, over generations. The students of the most outstanding masters are able to pass the finest knowledge on to dozens of new students. But, when human capital is worn out, it also takes a very long time to regenerate and the losses may be irreversible. Further, in a global economy that is increasingly based on producing knowledge and information and in which companies' and national economies' success depends upon innovation as a means of ensuring that they have a competitive edge, education is ever more necessary. Equally important is that it be constantly refreshed and brought up to date.

Unity and diversity of the Latin American language system

The Latin American language system is a true reflection of its European cultural heritage and constitutes another element - of great practical and symbolic value – of its belonging to the West.

From one end to the other the American continent is surprisingly homogeneous linguistically. Four languages of European origin enable 875 million people to communicate. The predominant use of English, Spanish, Portuguese and French as the main language does not of course obscure the variety that abounds in the

Latin American landscape as a result of the preservation of many indigenous languages. Even so, the diversity of languages in Latin America, where almost a thousand indigenous languages are still being used, is far less than in Africa (more than 2000) and Asia (3500) but greater than in Europe (240).

The major European languages of Latin America are the main language of communications but have also served as tools for integration in societies formed by successive waves of immigrants from the Four Corners of the world. The national identities of the twenty-plus countries that comprise the Latin American geopolitical scenario have been built around Spanish and Portuguese.

The role of European languages as integrators in Latin America has also extended to the original, or indigenous, populations. The aboriginal languages have coexisted alongside Spanish and Portuguese for 500 years. Whilst few have gained any demographic weight it is interesting to observe that since we have been aware of their number and distribution, the number of living indigenous languages has not declined significantly. On the other hand, the proportion of speakers of these languages relative to the total population of the continent *has* declined.

The entire Ibero-American community has a duty to preserve this heritage.

The tasks of preserving and retrieving these languages should not, however, be allowed to conflict with the need to integrate the most socially and economically marginalised indigenous communities. This process of integration begins with education. Some proposals that have been put forward reveal aims that have little consonance with the possibility of improving people's lives and run counter to the continent's socio-economic reality, threatening as they do to obstruct progress amongst entire communities. These proposals, which include setting set up "indigenous inter-cultural" colleges and

universities, or teaching in the native language and relegating Spanish to second language status, are put forward without appropriate resources or coherent study plans.

To search for social cohesion through a return to archaic customs and institutions based on alleged collective rights or individual privileges is to move in exactly the opposite direction to that stated. It also represents a threat to liberal constitutional order and the individual rights of the very members of the communities involved.

This overview of the situation in Latin America does not pretend to be an exhaustive analysis of the current situation in the region. Such an analysis would exceed the purposes of this report. We do believe, however, that it highlights some of the main difficulties, threats, challenges and opportunities that Latin America is experiencing. The diagnosis is sufficiently illustrative of the situation to allow us to set out the proposals that are needed for Latin America to be able to set off down the road to freedom, growth and modernity.

III. AN AGENDA FOR FREEDOM AND PROGRESS

The scenario described in section II reveals risks and opportunities, inherited problems and challenges for the future. Our aim now is to formulate coherent proposals based on ideas, principles and values.

POLICIES AND INSTITUTIONS FOR AN EFFECTIVE RULE OF LAW

Latin America needs stable democracies built on stable foundations. In this it is no different to the rest of the world: the progress of free and prosperous nations is centred on basic consensuses that are kept alive over time. These are agreements regarding the rules of the democratic game, the viability of alternating power and the main issues in politics and economics.

The guarantee of freedom and prosperity lies in a system of strong, solid institutions to which the people have easy access. To achieve such institutions, basic consensus and clear, stable rules are needed that are respected by the powers that be and that make authority a product of the very rules that everyone has accepted, not the reverse.

Consensus has to be reached by the majority of the political forces, something that always involves concessions and compromise on all sides. For these agreements to be effective they have to be given great symbolic weight. This is the case with the major covenants in the United Kingdom and the United States that remain in force today

despite their great age. Spain is an example of a young democracy and there, the spirit of the transition is enshrined in the Moncloa Pacts which are, to a large extent, the key to the success of Spain's economy and democracy.

Only countries that have sound institutions achieve economic growth and sustainable development over time. There is no reason why this should not be attained in Latin America too. The nations there need to enshrine in law basic national agreements that carry enough symbolic weight for them to generate stability at home and confidence abroad.

It is imperative for institutions to have sufficiently strong foundations to prevent sudden constitutional change and political-institutional crises. In order for Constitutions to fulfil their role as a stable framework that safeguards co-existence and respect for rights and freedoms, they should be agreed by society at large and remain in force over long periods of time.

This need is even greater in presidentialist systems, which are not prone to parliamentary consensus, and this is why these systems demand that the Constitution be endorsed by consensus of society as a whole.

Reforming a constitution or drafting a new one should only be permitted if a large parliamentary majority that is a faithful reflection of how the country feels decides that this should happen.

To enhance the effectiveness of the Constitution it is essential that there be a Constitutional Tribunal that is independent of those in power and has the jurisdictional competence to interpret the Constitution and guarantee its full implementation.

It is also necessary to have institutions that are not subject to the whims of the personal decisions of whoever might come into Government. To prevent the Government of the day from causing too much upheaval within the institutions it is useful to require that the basic institutions of the Rule of Law can only be modified if there is a qualified majority in favour of so doing.

There is no democracy worth its name where the three powers of the State are not divided effectively.

An independent judiciary is key to the Rule of Law. Without it, the effective guarantee and guardianship of the rights and freedoms of citizens and their equality under the law are illusory. Without this, the confidence that is needed in order to generate growth and prosperity cannot exist. As well as being accessible to all citizens, the administration of justice also has to be swift and efficient.

If Parliament is to take the lead in public life it has to reflect the plurality of the nation and be able to control the Executive. As it exercises its legislative function, Parliament should help create stable majorities able to implement effective public policies. A Parliament that functions democratically is a necessity if the trends towards authoritarian leadership that are prevalent in some Latin American countries are to be held in check.

If Parliament is to be given a greater role, then electoral processes must be free, clean and transparent. This is the only way to ensure that it enjoys the respect and legitimacy that its function demands. It is helpful, in this regard, to have an independent Central Electoral Tribunal in place that has the capacity to act in controversial situations, as has happened in Mexico.

A healthy democratic system demands strong, stable political parties that promote principles and values. They should not be mere springboards for achieving power or vehicles for personalities to promote themselves. Parties should be at the service of society but should not turn their citizens into captive audiences.

In order to make the party system work better, parties should be encouraged to make their financing transparent, introduce democratic internal procedures and party discipline that means the behaviour of their elected members can be predicted. They should also be encouraged to introduce mechanisms that penalise members who defect to other parties.

Political activity is increasingly being played out on a global stage where all is inter-related, which makes a very strong case for national parties to become members of international political organisations. This would facilitate the exchange of experiences and public policies, allow efforts to be co-ordinated to achieve common goals and afford the parties forming these groups ideological points of reference. Moreover,

international organisations that are prestigious and effective can help avoid political personality cults and the resulting slide into demagogy.

International collaboration and co-ordination between the centre and centre-right parties (liberals, Christian democrats and conservatives) would bolster the values they share. These include freedom, belonging to the West, America's Christian roots, effectively fighting poverty through growth, and above all the determination that the model of an open, democratic society should win out against the threat of populism.

The common aim of defeating the "21st century socialism" agenda requires those who feel threatened by the hegemony it implies be open to others, have a sense of responsibility, and put the emphasis on what unites, rather than what separates them. The European Popular Party, which is today the leading force within the United Europe, is a good example of how, when similar interests unite over and above their differences, shared values and ideas can indeed win the day. In the same way, the centre and centre-right parties of Latin America should open up to new forms of co-operation and increased integration in order to create winning democratic alternatives for government across the entire region.

The policies that the countries of Latin America need must be developed, in collaboration with transparent, efficient and professional administrations, by governments capable of taking action. The existence of a lean and competent administration is a prerequisite if the State is to fulfil its basic functions and, at the same time, leave a space for society to fulfil its potential.

The State should pay special attention to recruiting and training civil servants. Professionals chosen on the grounds of merit and skills, who remain in their jobs despite any political comings and goings, are the best guarantee of having an administration that can deliver the public services that society demands. Adequate remuneration and effective control and sanctioning mechanisms will serve to prevent corruption.

There is no reason why strengthening the institutions should be incompatible with an active role for non-governmental organisations (NGOs). It is important however to be aware of the excesses of some NGOs that not only want to represent society but claim to be the only ones to do so, calling into question how representative the democrat-

ically elected government really is. The activity of NGOs cannot be allowed to undermine the legitimacy of the institutions of representative democracy, the only form of democracy that merits the name.

IMPROVED WELFARE THROUGH GROWTH

Sustained economic development requires macroeconomic discipline. Latin America has this at present but it is only one of the prerequisites for prosperity.

Other equally or even more important conditions need to be fulfilled. Legislation guaranteeing property rights and respect for contracts needs to be in place, as does a wide-ranging framework for freedom that does not place impediments in the way of the exercise of freedom. Further, the economy of the country needs to be open to the outside world as this generates competition, innovation and efficiency. Markets where free competition is the norm afford the best protection for the consumer and are the most efficient source of innovation and technological progress.

For Latin America to achieve economic and social prosperity its production base needs to go through a process of hearty development, which can only be led by private industry.

Entrepreneurial activity requires a suitable environment. The World Bank's paper "Doing Business" suggests that the following are essential: a stable, dependable legal framework, which we have already highlighted, and administrative simplicity to reduce the costs to a company of operating within the law. It should also be easier for businesses to start up and close down and taxation and social security contribution systems should be made attractive to investors and entrepreneurs

All of this should be achieved gradually and would lead to reduced costs for running businesses by the rules and thus reduce the incentives to continue operating outside them.

Judicial security and respect for property and contract rights

Judicial security is a sine qua non condition for prosperity. The property rights of all citizens and businesses should be guaranteed as

should the fulfilment of any contract freely signed, with recourse if necessary to independent courts of law.

Attacks on property rights by the State without any distinction between national and international citizens and businesses are a constant of the new forms of populism that constitute "21st century socialism".

State expropriation, in any of its forms, acts as an enormous disincentive to investors. If the right kinds of guarantees are not in place a saver will fight shy of keeping or investing his savings in a country where his assets or those of others have been expropriated in the past.

The most reliable analyses indicate that a good part of the savings generated in the region are invested in the USA and in Europe, areas where interest rates are lower end economic growth is slower. The choice is prompted by judicial security and respect for property rights. In developed countries it is unthinkable that bank deposits might be expropriated or loans defaulted on and it would be equally unacceptable for a State to renege on a contract unilaterally.

In Europe and the United States the tax burden is, by and large, higher than in the developing countries. However, investors there do have full assurances that, once they have paid their taxes, their property will be utterly respected. Savers prefer the certainty that they will be able to keep their property, even if it is less profitable after tax.

Manipulated by unscrupulous populists, attacks on property and the lack of respect for contracts are issues that can be turned to advantage at election time, yet they cause profound damage to the country. The trust that is lost amongst the drivers of the economy takes a long time to restore. The immediate effect is that new investment is frightened off and businesses are often prompted to leave the country.

Respect for property rights and contracts, especially for those entered into with the State, calls for far-reaching reform of the current institutions.

The ideal would be to undertake constitutional reforms that incorporate effective mechanisms for respecting property rights and contracts in the "magna carta" itself. As an alternative it is useful to incorporate reinforced judicial safeguards that prevent change by temporary

parliamentary majority or by executive decision covered by abnormal authorisation of full powers.

In this context it is also desirable to introduce mechanisms that refer legal conflicts that arise over property rights and public contracts to independent courts or arbitrators (even abroad if necessary)[10]. This question is discussed in more detail below, with particular reference to investments.

Another of the indispensable conditions for guaranteeing property rights and judicial security is to have efficient property registration systems. Private property and real property can only be safeguarded in countries where there are transparent, efficient registries. These registries should not be conceived as tax collection offices nor as administrative organs subject to the will of those who hold political power but, rather, as straightforward, agile and wide-ranging mechanisms for allocating, defining and classifying real property. If the registries do their job properly they prevent proliferation of illegal housing (shanty towns, slums etc.). Another thing that has to be done to tackle this problem is to implement reforms that would offer the inhabitants of insecure dwellings the opportunity to register their right to that property.

There are many benefits to setting up efficient property registries and they create a "circle of virtue": mortgage loan systems develop, which forces interest rates down and extends the terms over which they are repayable. In this new situation a greater stock of housing becomes available and more easily accessible to the least privileged sectors of society, thereby creating favourable circumstances for the middle classes to grow, whilst at the same time the construction industry becomes one of the sectors to generate most employment. This "circle of virtue" closes when people see for themselves that, contrary to what they have been told by populist propaganda, there are in fact advantages to a free market based on equality of opportunity.

Macroeconomic stability and Budgetary discipline

There is no doubt that Latin America did achieve one positive accomplishment in the hated nineteen nineties: macroeconomic stability.

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10 Such mechanisms are standard in the issue of public debt on the Euromarkets.

Anyone who lived through the nineteen seventies and nineteen eighties cannot forget the effects of hyperinflation, the lack of supplies in the shops, the banking crises and the sudden currency devaluations that plagued the Latin American nations during those decades. Between nineteen seventeen and two thousand, only Eastern Europe had average year-on-year inflation rates higher than Latin America.

The situation today is very different and the financial markets recognise this, as is demonstrated by the fall in the risk premiums for the region. Macroeconomic stability is not irreversible though, especially if it has been achieved as a particularly favourable part of a cycle. There are two pre-requisites for guaranteeing stability: budgetary discipline and central banks that are independent.

As developed nations such as Germany, France, and Japan have demonstrated, budgetary stability can deteriorate rapidly in the face of a change in the economic climate or if the political commitment to budgetary rigour is neglected.

Experience shows that the institutional framework has a decisive effect both on achieving stable public accounts and, most of all, on keeping them stable over time. Many countries, including some in Latin America, have adopted the laws of budgetary discipline with favourable results.

Most of the Latin American nations have presidentialist constitutions. In such constitutions the task of drawing up the budget is shared between the Executive and the Legislature. Introducing quasi-constitutional budget discipline regulations across more of the region, to provide an institutional framework for guaranteeing that the public accounts are balanced would be a positive move in terms of generating the confidence the region needs.

Similarly, few Latin American countries have yet adopted judicial mechanisms that commit explicitly to retaining independence for their central banks. It is a fact that monetary policies are being notably successful in stabilising rates of exchange and keeping inflation rates low. However, the lack of independent central banks carries the risk that at times of crisis political pressure could force a return to times the region has already left behind. International experience is unequivocal in this regard. The countries of Latin America cannot afford to move

away from best practice and should introduce statutes of independence for their central banks as soon as possible.

Tax reform

In a good many of the economies of Latin America the tax system does not encourage competition. On the one hand, the rates imposed on those who do pay tax are higher than in other emerging economies. On the other hand, it is accepted, with greater or lesser resignation, that there are whole sectors of the economy that operate in a state of irregularity (i.e. do not pay taxes) and therefore do not contribute to financing essential public services.

Some countries of Central and Eastern Europe have introduced a flat rate of income tax. This is a tax that combines a single rate and a minimal personal allowance and is thus a progressive tax, albeit modestly so.

It was originally conceived as an emergency measure designed to collect some sort of revenue in countries that did not even have the very basics of a modern taxation system. It was subsequently discovered to have advantages when applied to developing economies, including the fact that it is easy to administer, does not discriminate between sectors and sources of income and is transparent. It also motivates people to save, start up businesses and take risks.

Some Latin American countries are developing this kind of tax system, which could fuel competition significantly.

With regard to corporation tax, useful lessons can also be learned from the experiences of countries in Central and Eastern Europe and of high-income countries such as the Republic of Ireland. Introducing low-rate taxation has become a mechanism for attracting investment and generating greater revenue.

There is no reason to suppose that applying these experiences to Latin America would not present practical advantages. Most particularly, the flat rate would help combat the main scourge of the region's tax systems: tax evasion. We would not assume here to determine the correct rate of tax for each country as this depends on each country's particular situation.

Likewise, value added tax has been introduced successfully in many Latin American nations. This tax offers clear advantages in terms of simplicity, transparency and its capacity to generate revenue and should be introduced throughout the region. A realistic objective, given the nature of Latin America, would be to introduce a single rate in the first instance that would be held at a modest level (around 15%) to make it easy to collect and avoid non-payment. At the same time, efforts should be made to develop suitable accounting structures.

A much simplified tax system resulting from these reforms would mean that tax inspectors could turn their attention away from checking the returns of those who pay their taxes to bringing within the system those sectors that currently operate outside it and to tackling fraud amongst potentially major contributors.

Reallocating public spending

Total levels of public spending as a percentage of GDP are not especially high in Latin America, with the possible exception of Brazil. Even so, many of these countries have a financial problem due to the size of their public sector. They need to rationalise the size of the State and re-size it so that it is efficient, rigorous and not in the pocket of private interests. The State should deliver on its essential functions – justice and maintaining order, education and basic health – and only take on other expenditure if it can afford it.

The priority in public spending is not therefore to reduce it overall across the region and in all sectors of government. The problem is that resources are inappropriately allocated and this translates into a State whose basic functions are atrophied while in many areas spending is excessive. Some of the areas of spending are also surplus to requirement and susceptible to bribery and corruption.

The functions of State do not include public involvement in mining industries, loans and the financial and industrial sectors, contrary to the claims of populist movements that promote “neo-statism” without taking into account international experiences of the excesses of intervention, or even Latin America’s own history.

Wherever privatisations have been accompanied by an appropriate regulatory framework and free competition has been introduced, they

have been one of the great economic successes of the last decade for both consumers and taxpayers. One of the worst mistakes some governments have made, however, has been to limit the scope of privatisation to transferring assets belonging to companies that operate state monopolies into private hands. Thus state monopolies become private monopolies which are, if possible,even more harmful than the former. Privatisation should always go hand in hand with the processes of liberalisation and efficient regulation that safeguards competition and freedom of choice in the privatised markets. It is for this reason that another objective should be to strengthen both the general and sector-specific regulatory bodies and organisations that control competition so as to improve the way they work and boost their functional, operative and decision-making independence.

To a large extent, Latin America's progress in the field of competition and, therefore, in terms of its growth, is dependent on continuing the process of privatisation. Nationalisation or re-nationalisation of sectors of the economy would, on the contrary, represent a backward step that would impact very negatively on the people's wellbeing.

Opening up to the outside world and economic integration

The opening up and integration of Latin American economies should be pursued through trade agreements and stimulating foreign investment. Opening up trade means dismantling tariff and non-tariff barriers. The developed economies that maintain high levels of protection in numerous sectors share this same challenge. Those in Latin America who criticise the USA and the European Union for their agricultural protectionism have good cause to so do, but to react with even more protectionism is counter-productive and damaging to their own countries.

The World Trade Organisation (WTO) has promoted multi-lateral liberalisation but a good many Latin American countries have maintained a protectionist stance, especially in the Doha Round of talks. This position, which has in part been inherited from the "import substitution" strategies, have already demonstrated their negative impact on the region.

Latin America has a lot to gain from free trade with the rest of the world and much to lose from protectionism that is a response to the

private interests of specific minorities and is harmful to most citizens. The protectionist discourse is as old as it is discredited but has today been taken up again by the new nationalist, anti-globalisation populists and is still being propounded by the moneyed minorities of old and new oligopolists.

The experience of most of the Asian and Central and Eastern European counties shows that opening up economically and commercially to the rest of the world has been a powerful driver of growth and development. Their industries are now far more competitive than before, are more innovative, their output and exports have increased and they generate far more income and employment. It is worth remembering, in this regard, that costs for customs processing need to be simplified. It is essential that legislation be simplified and unnecessary barriers, requirements and procedures be eliminated.

Latin America can and should reconsider the negotiating strategy it applied at the Doha Round of the World Trade Organisation (WTO) talks and commit itself to far-reaching liberalisation for its economies multilateral trade.

It is not just the multi-lateral aspects of opening up trade that should be considered, however, despite their undoubted advantages. The growing difficulty of reaching ambitious agreements within the framework of the WTO calls for a pragmatic approach.

The bi-lateral and regional route for which a logical argument has been made in the sense of what has come to be called “open regionalism”, can be a positive move in the direction of free trade. Eliminating trading barriers on the bi-lateral and regional fronts would pave the way for subsequent trade concessions in the multi-lateral arena.

The experience of countries such as Chile and Mexico illustrates the point well. Signing agreements with the United States and the European Union for the creation of free trade areas has yielded positive results in both instances. The agreements have opened access to both these huge markets with asymmetrical timetables for dismantling tariffs.

Those Latin American countries that have not yet done so should begin negotiations and conclude free trade agreements with their main trading partners without further ado. They should do the same with the

main markets of the world, starting with the European Union and the United States. The political changes that have taken place in the United States point up the error of not taking advantage of times that were more conducive to free trade, which still has powerful detractors in the United States and Europe.

A case for a Latin American Organisation for Economic Co-operation

The reforms that Latin America needs include setting up a strong institutional framework able to create confidence in the drivers of the economy. The weakening of the well-known international institutions and the region's enormous requirement for financing, especially as regards its infrastructures, make it advisable that a new institution be created, modelled on the OECD whose forerunner was the OEEC (itself created as part of the post-war collaboration between the US and Europe). This new institution should be capable of channelling aid and steering policy.

The new Latin American Organisation for Economic Co-operation would contain no supra-national elements that were difficult to take on board, nor would it fall into the trap of having a bureaucracy that could be bought or was parasitic. It would instead be a tool that could be used to bolster institutional and judicial security throughout the region.

Part of its remit would cover co-operation between institutions but it would also have executive functions. The former would include drawing up and joint supervision of voluntary Codes in key regulatory areas. The latter would include establishing a Latin America Mechanism for the Resolution of Trade Disputes and an Arbitration and Mediation Mechanism for investors.

Another institution of an eminently pragmatic nature, designed to palliate the physical obstacles to integration by setting up infrastructures, would be a Latin American Infrastructure Fund. This would work jointly with the established loan institutions such as the International Development Bank, the Andean Development Corporation and the World Bank. The new LAOEC could manage this fund, which would be contributed to by the Latin American nations themselves and by developed third countries. It would thus form the nucleus of a common transport and energy market.

This chapter on opening trade to the outside world would not be complete without a few words on the economic role of migration. The money that Latin American emigrants send back to their countries of origin is now so great that it exceeds the total amount of development aid received and, in some countries, exceeds income from the economy's strongest export sectors. There is more to the economic impact of emigration though than remittances from abroad. As other migratory movements have shown in the past, it is foreseeable that reinvestment in the country of origin will become increasingly important. It is equally foreseeable that the part the emigrants play in driving the economy will also become important as they gain skills and training in their host countries. To support this process and the business links between the emigrants and their countries of origin, it would be a good idea for governments to take the initiative of promoting the creation of an International Chamber of Commerce for Latin American Business.

EDUCATION AND CULTURE: THE FOUNDATIONS OF A KNOWLEDGE-BASED ECONOMY

We have already briefly discussed the strong and weak points of education in Latin America. The chronic under-investment in education and in science and technology in particular, is partly responsible for the region's economic stagnation over the last quarter century. It is also a factor in Latin America's poor performance in competitive terms and puts at risk the continent's ability to fulfil the conditions for joining the global knowledge-based economy.

Comparative studies of results in education show, however, that the quality of education is not dependent exclusively upon investment levels. There are also issues of an institutional nature that affect success in education. The educational systems of many Latin American countries show a lack of incentives for effort, for achieving high standards and for giving performance-related rewards.

Clear, efficient and equitable rules need to be put in place to improve education systems. Education laws should be widely endorsed and should offer stability and security to successive generations of teachers and students. Curriculums should focus on the basic competencies and provide young people with effective preparation for entering the job market.

A number of ambitious objectives need to be achieved, even though resources will always be scarce. These include eradicating illiteracy once and for all, guaranteeing non-discrimination on the grounds of gender in access to education, tackling the issue of pupils leaving school at an early age and raising the average standard of education, ensuring that gifted children are not excluded from higher education and guaranteeing autonomy and introducing efficiency criteria to the management of educational institutions. Other aims are to develop educational and research institutions that can supply the workforce the market needs and that can compete with the best in the world, to attract private investment to the education system and to research centres, to create the right conditions for attracting and retaining the finest human capital, and to set up efficient mechanisms for transferring university research results to the business sector.

Another notable deficiency in Latin American education is foreign language learning. Economic progress is dependent upon opening up to the outside world through trade and investment, and on exchanging ideas and creations. For this to happen there needs to be greater understanding of the outside world, incuding knowledge of languages.

The responsibility for improving education clearly lies with the educational institutions themselves and with the various national authorities. But one of the goals of any initiative such as this is to devolve to families the right to educate their children and the responsibility for doing so. The best reform would be the one that provides the instruments that make it possible to exercise this right.

The countries of Latin America have the advantage of sharing an academic and intellectual heritage that is by and large common to all of them. The inter-American organisations and, most notably the Ibero-American Community, need to work to build a common space for knowledge as outlined already at the Ibero-American Summit in Montevideo. Setting up a programme similar to the European ERASMUS student and teacher exchange programme within the Ibero-American Community would help enhance mutual understanding and stimulate competition between educational institutions that frequently lie dormant under the protection of national education systems. University alliances and networks should make it easier for the Latin American universities to join the global university community, access knowledge produced abroad and disseminate Latin America's scientific output across the world.

Economy, institutions and creativity

Human capital (health + education) is a society's most important resource. Latin America has better short term prospects for demographic growth than the rest of the Western world. In 2010 there will be 20 million students in Latin America. When the generations that are beginning their school careers today hit the job market, their contemporaries in Europe, the United States and Japan will be in a minority. Technological innovation and progress are tightly linked to youth and ideas. Educating young Latin Americans is an opportunity that should be exploited to the full.

Another resource linked to youth is creativity and Latin America abounds in this particular raw material. There is an inexhaustible payroll of literary, plastic and musical creatives and their gobal impact is to a degree geater than that of the continent's economic and political weight. Latin America enjoys a strong, attractive cultural image all over the world, which derives as much from its heritage as from the many and vigorous manifestations of popular art and the excellence and modernity of its leading edge artists.

Now, creativity is an asset that needs to be fed and nutured, it does not appear spontaneously and maintain itself of its own accord. The conditions for it to bear fruit need to be created through quality education in general and through excellent artistic training in particular. The latter should be able to pass artistic tradition on to upcoming generations and equip them with the skills to devise new forms of art. This is a mission for governments, the ibero-American co-operation agencies and for civil society; for all, in fact, who play a role in education. It is also important, though to establish a legal and tax framework that stimulates creativity and the production of culture, and this is a job for the political institutions charged with promulgating and ensuring compliance with the law. It is estimated, in this regard, that piracy rates in Latin America (not just in cultural areas but in other royalty-generating industries such as software programmes) are double the global average.

Another way of promoting creativity is to ensure, by means of clear and effective intellectual property laws, that creators will be rewarded for their work. The fact that there is a well-established transatlantic market for culture based on shared cultural tastes and traditions is

good reason for bringing copyright laws into line. It also provides a reason for stimulating commercial exchange and developing the culture industry in all the countries of Ibero-America, to which end a common system for protecting brands and patents needs to be developed and effectively applied.

The cross-border publishing industry, the recorded music market and musicians' tours, the theatre and visits by academics and intellectuals all form the basis for developing culture industries. Removing obstacles to the trade in culture along with those that exist in other areas of the economy can but bring benefits to these industries by making them more competitive.

The countries of Ibero-America took a small, timid step in this direction when they adopted the Ibero-American Cultural Charter at the Montevideo Summit in November 2006, given that one of its stated aims is to "facilitate the exchange of cultural assets and services within the Ibero-American cultural space" and that the Charter also states that two of its areas of application are copyright and artistic education.

The Cultural Charter makes special reference to the convention, known in its shortened form as the Convention on Cultural Diversity, adopted at UNESCO by the majority of its member states including all the countries of Europe and Latin America. There is a majority consensus on the need to defend diversity in terms of preserving and promoting the universal cultural heritage. It is also important to promote diversity in creativity as an expression of the diversity of humanity itself and of the points of difference between individuals and communities.

To recognise the value of different cultural expressions independently of our own personal views is a fundamental exercise in tolerance. It should, further, make it easier for minorities to live alongside – and integrate with – the majority groups in the various societies as it would grant them a social prestige that they have often been denied by the exclusionist majority or by identitary governments.

Nonetheless, cultural diversity is often used for purposes quite unrelated to freedom and tolerance. Exclusions from the enjoyment of human rights are justified under on the grounds that this or the other indigenous or traditional national culture has no experience of them

and that exclusion is therefore defending diversity. Diversity is invoked to cover up the dictates of governments determined to decide on people's lives by limiting access to ideas and creation coming in from outside or to bolster identitary policies. The word diversity is also used to legitimize TV programming quotas, customs protectionism for culture industries and subsidies for creatives who support the government and for inefficient industries.

It is argued that protection is the only way of countering the global cultural uniformity that the great cultural multinationals and the "invisible hand" of the global market are fostering, and of preserving small and minority cultures. But the very concept of culture is neither uniform nor static. There are no perfectly pure cultures, except dead cultures, and it is not true to say that isolationism preserves the value of any given culture or civilisation. On the contrary, what keeps a culture alive and thriving are openness, exchange and adaptation to new times and technical advances. Well intentioned though it may be, the defence of diversity can become just one more obstacle to minorities accessing education, information and other cultures.

The Ibero-American Cultural Charter is a step towards recognising that a cultural community exists and lays down the foundations for future advances in the field of cultural co-operation, which could already be considered to be fruitful thanks to programmes such as Ibermedia,Illimita, Abinia, Acerc etc. it will however prove to be an empty promise of a document if no progress is made on the issues that, beyond the rhetoric and pleasantries, have a specific and very real effect on the creation of a genuine Ibero-American cultural community. These include eliminating the obstacles to trade in cultural products, promoting all forms of cultural and educational exchange, strengthening academic and scientific co-operation in the field of creativity and innovation and fostering conditions in which creativity can develop freely and new creators can emerge – especially through high quality artistic training. Other issues include efficient protection of intellectual property and the development of institutional frameworks that foster the emergence of new business models that reflect the new information and communications technologies. If the idea is to foster Latin American creativity so that it can make a positive contribution to economic development, then we know well which are the formulae for achieving this: pursuing quality in education,

eliminating obstacles to trade and legal security for intellectual property rights.

Ibero-American co-operation should above all avoid harbouring or justifying policies that attempt to control people's cultural lives or steer what should be free choices. This is often done under the pretext of defending diversity or protecting people from the supposed pernicious effects of "globalisation" – in other words from increasingly cheap and easy access to information and to products from all over the world. Cultural diversity in Latin America is an undeniable fact and is a treasure. Its value is comparable to that of freedom because, at the end of the day, it is based on individual free choice: the choice of which book to read, which film to see or what music to listen to. The best way of defending diversity therefore is to defend freedom itself.

The economic dimension of a linguistic community

Spanish and Portuguese are part of the make-up of the Ibero-American Community of Nations. These two great languages lend internal cohesion to the Ibero-American nations, link countries either side of the Atlantic and connect them with the rest of the world. The two linguistic communities have each worked to maintain and strengthen their respective linguistic links. The Hispanic community has done so through the Association of Academies of Language and International Congresses amongst other initiatives. The Portuguese community has worked through the International Institute for the Portuguese Language. The Ibero-American co-operation agencies have also recognised the importance of closeness through language and have welcomed the initiatives designed to enhance it, as they have done those designed to foster learning of both languages.

As well as its cultural and political significance, belonging to a linguistic community also has an economic dimension. In the case of Spanish, this dimension is based on a thriving demographic profile that places the language amongst the four most widely spoken in the world (on a par with English and Hindi and second only to Chinese). As an international language, Spanish displays a number of distinctive features: it is a language that has been expanding in demographic terms for centuries (it did so particularly in America during the 20th century), its geo-political reach is wide (it is the official language of

twenty different countries) and it is geographically compact (most of the Spanish-speaking countries share borders on the continent of the Americas, creating one of the most extensive linguistic areas in the world). It is also relatively homogeneous (with only a small risk of becoming fragmented) and its variants are very closely related (there is little diversity between them). What is more, it is also the main language of communication across a very varied group of linguistic communities.

Today, the image of Spanish in the international arena is that it stands for unity, demographic and economic expansion and a strong culture. English and Spanish are currently the two most widely spoken European languages in the world. The cultural vitality of both Spain and Hispanic America has given Spanish a global appeal that has translated into growing numbers of people wanting to learn it as a foreign language. The economic growth of the Spanish speaking countries and the growing influence of the Hispanic community in the United States have also contributed to the boom in Spanish language and culture studies for specific professional purposes.

Experts have often pointed out the advantages that belonging to a large linguistic community offers to companies, teachers and students: it makes it easy for workers to move around, reduces certain transaction costs for multinational companies and smoothes the path for investment and commercial contacts. Language also determines the scope of some markets, such as those for cultural and communications products and for educational services. As these become large, they create economies of scale and substantial companies able, in turn, to compete on an equal footing in other larger markets.

The Spanish language already has this broad linguistic community and offers some of these advantages, ensuring that it will be one of the great languages of the world for a long time to come. For Latin America, and in particular for the Spanish-speaking countries, Spanish is a great resource for internal relations and as regards their presence on the international stage. Having an international language can help countries in their international development by facilitating access to the outside world. At the same time, the progress the Spanish-speaking countries make will give further impetus to the rise of Spanish if Spanish speakers' disposable income increases and the international appeal of their markets does too. The institutions also have an impor-

tant part to play in this "virtuous circle" of language and the economy: looking after the language right through the educational system, from early years education to the most advanced phases of research, developing standards and maintaining the vehicle of communication.

INTEGRATION: A MULTI-FACETED OBJECTIVE

Integration is a multi-faceted objective that has several geographical areas of potential application: the hemisphere, Latin America, the sub-region and Ibero-America. Each would be positive provided it fostered free trade and trans-national co-operation but would have a negative impact if it were perceived as an exclusive club, as placing limitations on markets, as an instrument for achieving unilateral hegemony or as a tool for de-stabilising the region.

In this report we advocate greater integration of Latin America (sub-regional trade agreements) with the rest of America and beyond (primarily the West), as well as strengthening the Ibero-American community. Disillusionment and impatience have often set in because the process of Latin America integration is so slow. The main players change sides and the pawns swap over too, but the cut of the jib remains the same. Given the changing geographical alliances, unity within the hemisphere is attractive because it offers opportunities for progress.

Equally, there are different facets to integration: economics, politics and security.

As regards economics, we have already referred to a possible Latin American version of the OECD: the Latin American Organisation for Economic Development. It is important to replace organisations that have lost credibility such as the FTAA with new inter-American forums that follow the example of the OECD in post-war Europe. There are two objectives here: to channel external financial aid correctly, establishing mechanisms for evaluation and control so as to make the money work efficiently, and to set up a centre for economic intelligence that would promote best practices in Latin American public policy.

Latin America should become part of the transatlantic co-operation between Europe and North America, within the framework of the

FAES proposals for an Atlantic Prosperity Area. The proposal is complementary to the signing of traditional bi-lateral agreements on free trade in goods and services and the aim of joining the Atlantic Prosperity Area would be to remove the non-tariff barriers to trade and investment that remain in place in many sectors, especially the service sector.

Latin America should co-operate in matters of security and the fight against international terrorism alongside Europe and North America by creating a strategic alliance between NATO and Colombia, and any other Latin American country wishing to join in. Colombia has suffered sorely from terrorism within its borders and Colombian democracy has shown signs of a will to fight against it. The West should demonstrate that any country that fights terrorism will not be alone.

It should foster the link between Latin America, North America and Europe at civil society level through the creation of a triangular forum, an "Atlantic Forum" that groups together research institutes, political foundations, professional associations and religious associations. We also propose that a Chair of Atlantic Studies be founded to promote studies of relations between the Americas and Europe and how these relations might be made both deeper and stronger. The Chair could be based in a single centre or move between several.

We propose that a triangular business Forum be created to take advantage of the opportunities offered by the rapid development of the Pacific Rim and enable Ibero-American relations to benefit from them. Transatlantic links should not be exclusive and Latin American countries that have a Pacific coastline can play the role of regional mediator in organisations such as APEC, as Spain and Portugal do in the European Union. This triangular co-operation should focus on business relationships.

THE UNITED STATES: A MAJOR PLAYER, A DRIVING FORCE

In the context of the Southern Hemisphere as a whole, the keys to Latin American integration and its roots in the Western world lie in its complex relations with the United States.

The United States has a long tradition of defending democracy and freedom. Latin America has felt its influence ever since the emancipation of the young republics. It is a fact, however, that on not a few occasions in the 20th century the US regarded the Latin American dictatorships and corrupt regimes that impoverished the subcontinent with complacency when it was not acting in complicity with them.

The US's commitment today to freedom and fundamental rights make it an active guarantor of these values worldwide.

The history of Europe in the last century shows this to be true. The actions of the United States were fundamental to putting an end to the two worst totalitarian systems mankind has ever seen: national socialism in Western Europe in the 1940s and communism in Eastern Europe in the 1990s.

The process of European integration cannot be understood without reference to the role of the U.S. as an external agent. In these first years of the 21st century the U.S. has re-affirmed its commitment to democracy as a universal value and has made extending democracy further central to its foreign policy by launching a battle to achieve democracy in the Middle East.

The U.S. commitment to fostering democracy, which is so active in other parts of the world, should not neglect a part of the West where the democratic system is now all but universal yet needs bolstering against the looming threat of populism. Poverty and marginalisation create a dangerous breeding ground for corrupt governments and totalitarian trends.

The U.S. should take on the role of promoter of "the Americas", a concept that unites Latin America with the world's leading power and Canada.

The free trade agreements between the countries of the region and Europe have proven to be very positive in economic terms. It is also necessary however to push for greater intercontinental integration that extends beyond trade agreements.

It would be a significant advance for Latin American countries to receive an aid package similar to the Marshall Plan for Europe. The

United States would lead the project and be its main backer, but the whole of the developed world would also be involved. It would be fundamental for Spain to give its firm support to the plan in Europe.

This aid would however come with conditions and demands. It should be conditional upon the countries achieving minimum standards of democracy, respect for individual freedoms, upholding the Rule of Law, strengthening institutions and creating legal security. There is no doubt that institutionalism is at the root of the successful nations' achievements, for without it sustainable development is impossible. The United States has a pivotal role to play in bringing institutionalism to the region.

The United States needs to encourage reflection on development policies for Latin America. These should seek to transform the "passive beneficiary" of co-operation into a truly active citizen who plays a positive role in civil society. This will create a favourable climate for strengthening the institutions, whilst reviewing aid policies will make them more efficient and enable their stated objectives to be achieved. Countries that open their doors and their marketplaces to the world will thus be assured of having the necessary infrastructures and human resources available to do so.

Investors in the region are creating a division between countries that commit to judicial security and countries that do not. Development aid should follow the example of this selective discrimination by private enterprise and apply the same criteria.

Equally, perceptions that prevail in the region should also be taken into account. There is a predominant feeling that the relationship the U.S. is pursuing with Latin America is merely commercial and that the U.S. has focused its attentions on the Middle East and neglected its neighbours in the south of the continent. There is also a sense that the FTAA is rejected completely by most Latin American countries. These impressions are deeply embedded in Latin American society and hold considerable sway over public opinion. Nevertheless, they do not always relate to reality.

The countries of Latin America that currently have free trade agreements in place with the U.S. are Mexico (NAFTA), Chile (Bilateral FTA), the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua

(CAFTA). Countries currently negotiating free trade agreements include Colombia, and Peru (which have in fact already signed trade development agreements), Costa Rica, Bolivia, Ecuador and Panama. Uruguay, on the other hand, has just approved a bilateral investment accord.

Anti-Americanism is often used to explain all of Latin America's ills. As Venezuelan thinker Carlos Rangel wrote, the unpopularity of the U.S sometimes makes it a scapegoat for Latin America's relative failure compared with the North of the continent. "An unthinkable degree of self-analysis would be needed," says Rangel, "if Latin America were to take a hard look at the causes for this contrast. This is why, even though they know it is not the case, Latin America's political leaders and intellectuals are all forced to claim that all our ills can be explained by North American imperialism."[11]

Anti-American feeling is enormously influential in Latin American society. According to the 2005 Latinobarómetro, 61% of Latin Americans have "little or no confidence" in the United States. The rejection of Washington has damaged accords such as the AFTA that have been perceived as "American imperialist" propositions. It might perhaps be time to abandon these hackneyed phrases and instead, to facilitate the process of integration, implement the successful models being used by those countries in the region that are forging close links with the U.S.

The Mexican example illustrates this idea. According to the World Bank report,[12] NAFTA has brought Mexico close to the levels of development of its trading partners. Total Mexican exports would have been around 25% lower and direct foreign investment (DFI) 40% lower without NAFTA. Similarly, technology transfer from the United States to Mexico has speeded up so much that the time required for adopting new technology is now half of what it was before the free trade agreement. The latter has also helped reduce poverty and create more and better jobs. Per capita income in Mexico would have been between 4% and 5% lower if the agreement had not been implemented.

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11 Carlos Rangel, *From Good Savage to Good Revolutionary*, Monte Ávila, Caracas, 1976.

12 "Lessons of the North America Free Trade Agreement for the countries of Latin America and the Caribbean" (2003)

Similar figures apply to Chile since it signed the Free Trade Agreement (FTA) with the U.S.. In 2005 exports from Chile to the U.S. rose 38% over the previous year and were 80% up on 2003. Imports rose by 39.4% in 2005 against the previous year and were 88% up on 2003.[13]

Today, there are 40 million people with strong links to Latin American living in the United States. This migratory phenomenon, which is on an upward trend, is an added link between the U.S. and Latin America. The importance of this relationship represents a great opportunity for the two sides to strengthen their economic and social links. The return of almost 50 billion dollars to the migrants' countries of origin each year is another asset to be taken advantage of and should be channelled into trading activity and businesses that would be beneficial to the region.

There are two positive aspects to Latin American living side by side with Americans in the United States. On the one hand it could help reverse the anti-American feelings in Latin America. On the other, the integration of Latin Americans could enrich the U.S.'s social morphology. Further, the example of Latin Americans who have been successful in the United States is at once a stimulus and a warning for Latin America. It implies that, given the right conditions of legal security and institutionality, Latin Americans can compete and win. If the countries of the region were to enjoy the respect for freedom and the Rule of Law that prevails in their North American neighbour, its people would be able to improve their standard of living just as their compatriots do in the U.S.

THE EUROPEAN UNION: EXPORTING SECURITY AND DEMOCRACY

The European Union is the other pillar that supports the edifice of the West. How can Latin America go about pursuing a more solid relationship with Europe that will advance the objectives of integration and of consolidating democracy in the region? Conversely, how can the European Union, as a political and trading bloc, export security and democracy effectively to Latin America?

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13 Chile-North America Chamber of Commerce.

Despite the region's European roots, little progress was made in terms of the relationship between Europe and Latin America until Spain and Portugal's accession to the European Union. The effectiveness of the European Union-Latin America/Caribbean Summits remains to be seen, but we should recognise the value they add to the dense network of bilateral relations between the European and Latin American nations

The European Union does not have the weight of the United States but it has "soft power" – a capacity to influence through example and co-operation. Because it is the most successful model of regional integration, it is worth noting the formulas that have been applied in the process of building Europe, although they would have to be adapted to fit the idiosyncrasies of the American continent.

The European Union is able to exercise its influence to draw Latin America towards Western management models and reduce political adventurism.

On the economic front the European Union could, in conjunction with the United States, review development aid policies – both their own and those of the multilateral agencies – to improve their effectiveness.

If poverty is to be fought it has to be fought where it is found and the most respected studies show that more than half the people living in poverty live in countries with intermediate levels of income. Development aid policy cannot be guided by the abstractions of accountancy or restrict itself to "the least developed countries". It must pursue its stated objectives – to reduce poverty and provide access to health and education – without prejudice or rigidity in its policies.

Co-operation with intermediate income countries, which are the majority in Latin America, should make very high demands as regards standards of democracy and combating corruption. It should also, above all, aim to bring about progress in strengthening institutions.

Co-operation in education, particularly in higher education, is one area in which the EU could be more effective in terms of helping Latin America develop people sufficiently well trained for them to be able to contribute to their respective countries' development.

The European Union, along with the United States and other developed nations, should create a very ambitious university and post-graduate scholarship programme for Latin American, as well as a work experience scheme that would place students in management and administrative positions.

Europe is committed to promoting regional integration. As such, it should support the creation of new international agencies in co-ordination with the United States. At the same time and without reducing its support for regional processes or for multilateral dialogue, it should take good note of the success of the bilateral agreements between individual countries in the region (Mexico and Chile for example) and extend them to include the countries that, by virtue of their economic situation and their cultural ties with Europe, would be most likely to enter into a greater transatlantic co-operation. Europe has a moral obligation to improve trading condition with Latin America, and it is in its own direct interests to do so.

SPAIN: BUILDING THE IBERO-AMERICAN COMMUNITY

Spain is unique in Europe in that it enjoys the twin condition of being European and American. This particular feature has meant that since its accession to the European Union it has been the main interlocutor and promoter of relations between Europe and its Ibero-American allies. There could be no better defenders of a European agenda for Latin America than Spain and Portugal, whilst at the same time this role gives both countries a special weight within Europe.

Strengthening its Atlantic presence has been one of the main achievements of Spanish foreign policy. Up until recently, it has facilitated a privileged three-way dialogue with the United States that could have continued to be very fruitful. If this potential is to be recovered and developed to its full extent, there has first to be a broad agreement between the main Spanish political forces.

Re-establishing the basic consensuses

The main condition for Spain to play a positive role in Latin America is undoubtedly the re-establishment of some basic consensuses on

foreign policy. Such consensuses should revolve around democratic principles (the rule of law, fundamental liberties, international legality) and the interests of Spain and its citizens. Spain should demand total compliance with these principles as well as respect for international agreements that affect its interests.

Spain has worked hard to re-establish democratic regimes in Latin America and has been successful. It cannot now allow itself to be discredited by becoming close to authoritarian and repressive regimes. The contagious negative influence of populist language will not do any good to Spanish interests, to our prestige amongst our European partners or to our standing amongst those Latin Americans who are trying hard to leave tyranny and populism behind.

State policy requires that swings from one extreme to the other be avoided. We cannot go from denouncing the grave situation in Venezuela as serious to claiming it as acceptable after an election installs a new leader. It is not reasonable to substitute a policy backing security in Colombia with another that supports populist, destabilising regimes and includes the sale of arms. The change in policy regarding the dictatorship in Cuba, with its impact on the common position of Europe, for example with reference to the situation of dissidents, has only helped discredit the Spanish leadership.

Consensus should be based on something as simple as advocating the same for the countries of Latin America as we want for Spain: full democracy, a prosperous economy and an active place in the world.

The future of Ibero-American Summits

The Ibero-American community is made up of 22 sovereign nations on two continents. Although it was first created formally in Guadalajara (Mexico) in 1991, it is a community of 600 million people in Latin America and the Iberian Peninsula that did already exist. It is based on shared values, two widely spoken international languages, historical, cultural and emotional links and common, growing interests.

Its joint history combines the original American cultures and those from Europe, together with contributions from other places, in a unique mix of great richness and variety.

These facts formed the springboard for the heads of State and government of the 21 "sovereign Spanish- and Portuguese-speaking nations of America and Europe" to launch an Ibero-American Conference and meet at what is known as the Ibero-American Summit, which has since been held in a different Ibero-American country every year.

The Ibero-American Conference has become established as a political catalyser for Ibero-America. Under the aegis of the Summits a very special, closely woven fabric of meetings, contacts, programmes and projects has been developed in the scope of government action and Ibero-American civil society.

This flowering of Ibero-America, driven by the Summits, led the Ibero-American Conference to create instruments to facilitate both its own operation and co-operation between its members.

The XIIth Summit in Bávaro (Dominican Repulbic, 2002) an the XIIIth Summit in Santa Cruz de la Sierra (Bolivia, 2003) decided, at the suggestion of Spain, to take a qualitative leap forward in the process of institutionalising the Summits by creating an Ibero-American General Secretariat (IAGS), an international body headquartered in Madrid, as an institutional, technical and administrative support for the Ibero-American Conference.

The formal creation of the IAGS was a turning point for the Summits. The energy of the Ibero-American Secretary General meant that a formidable work programme was put together in just a few months.

In everything it has tackled the IAGS has done remarkable work. The process launched in Guadalajara in 1991 now has the institutional support body it needed.

The Ibero-American community has set out on the road to greater integration between its member countries. It will in this way help build a more prosperous and stable international society. Some conditions do however have to be fulfilled for it to continue down this road.

Firstly, support for the IAGS and the Ibero-American Secretary General must be forthcoming from the various governments as a

necessary condition for strengthening the Ibero-American Conference and the Summits. Without government confidence and adequate means for it to fulfil its duties and mandates, it will be difficult for the IAGS to prove its worth in practice.

Of all the Ibero-American governments, Spain´s should remain the staunchest supporter of the IAGS. Since its inception Spain has supported the creation of an Ibero-American "space" and has promoted or supported all initiatives designed to develop one.

Secondly, more still needs to be done to improve the political and practical sense of the meetings between Heads of State and Government at the Summits, gain greater participation from all Latin American countries and move towards a decision-making system that goes beyond merely drafting neutral declarations but requires genuine political negotiation. The Summits should suggest broad guidelines or objectives for the sectoral ministerial meetings and reports on progress made should be fed back every year along with specific, practical proposals.

Thirdly, bringing Ibero-American civil society into the process should also be a priority for the IAGS and the Summits. The IAGS should draw up a definitive list of all the foundations and professional, private, public or semi-public associations that operate within the sphere of Ibero-America and, in so far as is possible, try to co-ordinate their activity, linking it to the Summit process and to the objectives of the Ibero-American Conference.

Lastly, as the Summits move forward they should propose new initiatives in the political, economic, social and cultural fields that are compatible in all instances with Latin American heritage as defined in the sets of papers documenting the sixteen Summits held to date.

The Ibero-American Community of Nations is a community of language and culture, but also of Law. There is a growing gravitation towards the Anglo-American legal model because of the United States' strong influence in the region. This influence should not be incompatible with the search for mechanisms to reinforce the Ibero-American Community of Law, a situation inherited from a common past that is still fully extant.

In the sphere of the Law, the Ibero-American Community should advocate the formation of a growing nucleus of harmonised legislation and foster networks of specialist lawyers (civil, criminal etc.) to codify the law jointly. It should also promote training and exchange programmes for judges and lawyers. As an example, just think of the practical advantages of harmonised legislation in trade matters as a way of increasing the legal security of trans-national investments.

Work in this area should look to existing institutions such as the Ibero-American Union of Lawyers' Associations, whose work could be of great help in laying the foundations for an Ibero-American set of rules based on decisions made at the Summits and with input from the legal community.

On the political front the new initiatives should take account, and not just rhetorically, of the will, much repeated at the Summits, to strengthen democracy in Latin America, respect the Law and protect human rights and civil liberties.

In the field of governability the Ibero-American Community offers a framework with comparative advantages as regards strengthening political parties, training staff and exchanging ideas and experiences of government and public policy. This could be done through a high-level school of government or a chair of political science supported by the universities. The commitment of the oldest political party foundations would be central to this task to reinforce the work by organisations such as the Carolina Foundation in the field of educational exchanges.

The Ibero-American Community should think carefully, yet decisively, about forging special links with the United States, making the most of the opportunity offered by the existence of thriving Latin American communities in North American. It would also be useful to create institutional relationships between the Ibero-American Conference – through the IAGS – and the English-speaking countries of the Caribbean (CARICOM).

The Ibero-American Summit should instruct the Ibero-American ambassadors accredited in third countries to meet periodically to exchange information on matters of common interest, give each

other mutual support and promote joint initiatives. This measure would give the Ibero-American Community regular visibility and would foster political co-operation between its members.

Emigration is also an issue that affects Ibero-America. Initiatives should be promoted in the area of social security covenants, labour contracts and intra-community labour mobility.

THE CUBAN PERSPECTIVE

To devote special attention to Cuba in a paper on Latin America is in itself an anomaly, as is the enormous academic and intellectual output that the island and its future generates.

The main reason for the disproportionate attention being paid to Cuba is the persistence of a totalitarian regime with Fidel Castro at its helm. For several years after the fall of the Berlin Wall the dictatorship appeared to be doomed to having to choose between going with the flow of democracy once and for all, or becoming an irrelevance. However, the recent appearance of allies equipped with oil resources has thrust the Cuban problem into the limelight once again.

One day though the leader who has been omni-present for nigh on 50 years will no longer be there and from that day on things will, one way or another, be different. This event has been prepared for both inside and outside Cuba for some time now but Castro's physical endurance and ideological obstinacy have made most of the scenarios that have been sketched out over the years obsolete. These scenarios would in any event have to be adapted to the new international situation.

The question thus arises as to what to do in between times and what to do afterwards. To answer these questions one has to try to understand what is going on in Cuba and recognise the limitations which any external action could have over such a deeply entrenched regime as this one.

The hermetic nature of the regime is combined with the opposition's inability to put up any kind of challenge to the Government because it is in prison, divided, infiltrated and vilified. Castro knows

perfectly well that it is better to take drastic measures as he did in 2003 than to allow the seed of discontent to grow. The future of Cuba will depend in large measure on how its society reacts to the change, and we can but speculate on this. Social discontent, exasperation at the lack of a future, the relationship much of the population has with the outside world, a standard of education that is higher than the average for the region and so on would suggest a profound change that would bring with it a new era of openness and democracy. On the other hand, fear of the unknown, habit, the lack of incentives and models for change, the army, the communist party etc. are all factors that will be leveraged to make sure that everything stays the same.

In the field of economics, after many years of economic penury, Castroism has found a balance between the minimum degree of openness that is essential for foreign investment to happen and control of a State economy that performs to political rather than economic criteria. The new world energy market, the possibility of finding oil in the Gulf of Mexico and a society accustomed to living on the bare essentials make it possible to venture that the island will maintain its economic viability over the next few years.

On the international front, following the difficulties Castro experienced up until the year 2000, which were graphically illustrated by his isolation at the Ibero-American Summit in Panama, Cuba has been rebuilding an international support network that is enabling it to look to the future with more serenity than ever before. The revolutionary alliance (Venezuela, Bolivia and Ecuador) together with the benevolence of other populist governments, the aid from far-off China and India and the passivity of the European Union are conspiring to enable the regime to concentrate all its activity abroad once more on its quarrel with the United States, the constant focus of Cuban foreign policy.

There are some aspects of Cuba's situation that bear consideration and could help mould the country's future. The most important is that this future must, in any event, be built by the Cubans, and by all Cubans: those on the island and those in exile, the government and the dissidents. Bearing this premise in mind, how can the international community help foster the development of democracy on the island? The following are some suggestions:

Promote dialogue between Cubans, which means they should all acknowledge each other as players in the process and, very specifically, that the government will stop equating Cuba with Revolution. All dissidents, however confrontational or infiltrated they are, must have a voice in this dialogue as should other, informal groups working inside and outside Cuba.

Re-construct the EU-U.S. relationship and work together to promote dialogue amongst Cubans. The position of the U.S. is pivotal, not just because of its geographical proximity and its political interest, but also because of the large Cuban population living there. The Cuban government should become aware of how close our positions actually are and then take different opinions into account.

Promote exchange between Cuba and the outside world, maintaining open trade and giving people the freedom to move around. This will enable them to receive goods and ideas and develop aspirations free from government influence. The United States and its allies should discuss the future of the trade embargo in a period of change and how to use the lifting of the embargo as a way of making change happen faster.

Ensure that the principles of representative democracy and human rights are firmly in place. This might not be an effective way of changing the regime but it can offer a glimmer of hope for the future. Anyone who thinks that backing down on these principles will gain concessions from Castro's regime is mistaken. Quite the reverse would happen.

Seek to open a dialogue with certain sectors of the regime. Although Castro avoids it at all costs, the United States does have regular contact with the Cuban authorities regarding drugs, emigration and borders. This is one way of entering into discussions with representatives of the army or the Communist Party regarding their role in the future of Cuba.

Prevent the emergence of national populism as this is one of the cornerstones of the regime's power. Anti-North American feeling is latent in many Latin American countries and can be driven by a perception that the United States interferes excessively. It is possible that the Cuban people are only socialist because they have had

socialism thrust upon them, but their history means that they do have very strong nationalist leanings. A policy agreed between the United States and Europe that was designed to give the Cubans a voice could dilute this risk.

Create a José Martí fund for supporting democracy. This fund would be subscribed to by countries and multinational organisations that wished to see a transition to democracy in Cuba and would provide the new democracy with financial support once it came into being.

The international community in general and Spain in particular should recognise that the future of Cuba will affect the Cubans most of all, and that in the best case scenario the country would go from being a geographical and historical anomaly to being a "normal" country with the chance of achieving high rates of growth and progress, providing it is able to make the most of its human capital and its geographical position.

Secondly, the future of Cuba will have a direct effect on the United States because any state drifting aimlessly off its coast is a real danger. Although this is not well understood in Spain, Cuba could become a national security problem (drugs, immigration, humanitarian disaster etc.) for the United States.

Spain should not be deceived by the exchange of trade, the number of marriages, the visits by regional governments or the Spanish surnames, for these are illusions. The Cubans have changed, they make up a complex country where the influence of the United States on society is extensive. Spain is a model of success in Europe and can make a positive contribution to the future of Cuba, but this help will come to no good if we renounce our principles and our collaboration with the United States.

The transition to democracy in Cuba, whilst not certain, is certainly possible. The Cubans' main concern is to improve their standard of living, but they are also calling for greater freedom and involvement in politics and this will have to be addressed. In this sense, a demand for total amnesty for the hundreds of political prisoners and support for the dissidents who have put up resistance on the island are inescapable conditions for progressing towards a transition to democracy.

CONCLUSIONS

We have reached the end of a report that has attempted to combine an interpretative essay with an analysis of trends and, above all, to do this in the form of a proposal designed to provide some useful ideas for the various agencies involved in the progress of Latin America.

Latin America is suffering serious problems of a social and economic nature and is facing formidable challenges in a world marked by competition between countries and regions. The response to social and economic problems and challenges has to be initiatives that target the economy and society. The key, though, is politics, which should find and administer the appropriate solutions.

Latin America is at a political crossroads: it must choose between freedom and demagogic authoritarianism. Following decades of mistaken policies and disillusionment with democracy, some of the most important countries in the region find themselves in the position of having the risk of spreading populism hanging over them. Populism does not distinguish between Left and Right; its rhetoric may change but it always avoids tackling real problems or taking responsibility, placing the latter firmly at the door of an enemy without. It tends to take refuge in nationalism, disguised today with empty indigenism, and to advocate economic policies based on protectionism and political bribery.

One should be aware that there are no shortcuts, magic or instant formulas for resolving the situation, only the culture of work and effort. To say otherwise would be to lie to the people of Latin America.

Adopting an Agenda for Freedom is the safest way of starting along the road of progress and modernisation. Freedom has to pervade all aspects of public life: politics, institutions and society.

The proposals put forward in this report are in line with the conclusions of other FAES reports (*NATO: An Alliance for Freedom, A Case for an Open Atlantic Prosperity Area)* because they are guided by the same principles, which are valid in any region of the world: freedom, the primacy of the law, clear rules of the game and the market economy.

Opening up to the outside world is in accord with these principles. It is as vital to open up to ideas, people and goods from the outside world as to promote the movement of goods from one's own country to other markets. For a country to be exclusive or turn in on itself is to commit to staying behind. There is no need to invent anything particularly original: taking stock of the models that are successful, and following in the footsteps of the nations that have prospered should suffice.

Opening up means greater regional integration. It is also advisable for Latin America to work more closely with partners and allies in Europe and North America and achieve a greater presence on the global stage.

In this report we suggest a trilateral future as imperative. The success of other regions of the world is a great motivator for Latin America as it is for the rest of the West: new markets and a fresh stimulus for economic growth. But it also represents a great challenge. The eggs should not all be placed in the basket of economic potential, no matter how promising it is, as economic success could be used to legitimise authoritarian policies that infringe upon freedom and can even de-stabilise the international community. In the same way that representative democracy cannot exist without a free, secure market, economic prosperity does not justify using any means to achieve it.

We should affirm the values that are identified with the concept of the West, not by quoting a convenient selection but by referring to them all. This principle should inform relations between the Americas and Europe. The West demands the full incorporation of Latin America. The United States and Europe should understand that

as long as the transatlantic dialogue does not include Latin America it will never be more than a North Atlantic dialogue.

The role of Latin America's partners, each working within its own particular sphere, is to promote its full incorporation into the West. The main contribution that Spain can make, in this context, to international security and prosperity is to further consolidate the Ibero-American Community of Nations and, thereby, freedom and democracy throughout America.

ACKNOWLEDGEMENTS, CONTRIBUTIONS RECEIVED AND PEOPLE AND INSTITUTIONS CONSULTED

This document is the result of numerous seminars, meetings and interviews. We asked for contributions and distributed questionnaires, which have been of great value in drawing up the report.

FAES alone, however, is responsible for the final text as published.

The Foundation would like to thank the following people and institutions for their opinions, reflections and contributions:

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Gustavo de Arístegui y San Román
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Álvaro Vargas Llosa
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We would also like to thank all those members of the network of former FAES interns who have helped in the various phases of drawing up this document:

Roberto Abdul
(Venezuela)

Carlo Alfieri Hurtado Cevallos
(Peru)

Pablo Ricardo Álvarez
(Argentina)

Amelia Belisario
(Venezuela)

Javier Brown
(Mexico)

Juan Fernando Carpio
(Ecuador)

Benedicta Giaquinto
(Argentina)

Ricardo González
(Spain)

Pía Greene
(Chile)

Andrea De la Roca
(Guatemala)

Francisco Enríquez
(Nicaragua)

María Jimena Escandón
(Colombia)

José Manuel Hernández
(Venezuela)

Gustavo Lazzari
(Argentina)

Jeannette Moisés
(Mexico)

Julián Martín Obiglio
(Argentina)

Napoleón Meléndez Cáliz
(El Salvador)

Rubén Méndez
(Peru)

Mauricio Osorio
(Colombia)

Gustavo Adolfo Paredes
(Guatemala)

Pedro Piana
(Argentina)

Edgardo Ronda
(Argentina)

Lorena Recabarren
(Chile)

Washington Ribeiro
(Uruguay)

Max Trejo
(Mexico)

The entire staff at the FAES Foundation has worked intensively on this report, particularly the sections for International Affairs and Economics.

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FAES presented proposals to defend Western values in the fields of security and the economy in two earlier publications: *NATO, an Alliance for Freedom* and Towards an *Atlantic Prosperity Zone*. These proposals were designed to guarantee freedom and increase prosperity. *Latin America: an Agenda for Freedom*, is the third in this series of strategic documents.

Latin America is an integral part of the West. Today it is facing the dilemma of having to choose which of two roads to travel. Along one lie openness to the world, democracy, respect for individual rights and freedoms and solid Rule of Law. This is the road travelled by successful countries, and is the way to attract investment, create incentives for entrepreneurs, generate jobs and reduce poverty. The other road leads in the opposite direction and we have seen enough of history (the Cuban tyranny is not the only case) to know where it leads to. Those who promote this road today are informed by outdated ideas – revolutionary populism, neo-statism, indigenism and nationalist militarism – all of which are familiar to Latin America. They represent "21st century socialism", the successor of the socialism that generated misery and oppression in the 20th century.

Latin America: an Agenda for Freedom offers some ideas for tackling the main problems that threaten the region and are hindering its growth. If it harnesses the power of the concepts of freedom and democracy Latin America will be able to take its place amongst the leading nations of the world.

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