

# Latin America in the 21st Century

## *Critical reflections from East Asia*

**Won-Ho Kim**

During the sixties and seventies, Latin America was considered in Asia a region from which there were things to be learned. Recently, however, East Asia has overtaken the Latin Americans in almost all spheres. The reasons are to be found in the development model adopted by Asia, which changed a growth tied to the internal market for one linked to exports in time, and which at the same time invested in human resources and in an integration which was more functional than rhetorical. The recent increases in the price of raw materials and the high growth rates registered in Latin America have given the region another opportunity, perhaps the last for a long time.

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**Key Words:** Globalization, Development Model, Integration, East Asia, Latin America.

**Note:** This work was supported by Hankuk University of Foreign Studies Research Fund of 2007.

In the 1960s and the 1970s, Latin America still was a region from whom the Asian policymakers wanted to learn. Its natural endowments, Western cultural background, and even its political and economic relations with the United States were what the new republics in Asia envied. To the eyes of the Asians, who had just come out of the colonial rule and still suffer from internal conflict over new identities, the Western Hemisphere was the continent of possibilities and promise. They themselves had to

desperately seek for politically and economically sustainable relations with the politically influential and economically larger countries in the world.

In the 21<sup>st</sup> century, however, Asians are witnessing the world focus coming to their region. The world has recognized their achievements. The formerly Atlantic era was switched to the Pacific era, and now to Asia's era. The facilitator was the end of the Cold War in the political field and globalization process in the economic field. During this process of transformation, capital flows found their way into Asian markets, not only in terms of productive investments but of portfolio managements. This has brought several repercussions in the world economy in a serial manner. The descending prices basically due to the lower production in Asia affected the business lives of producers in other parts of the developing world, and fatally contributed to the increased global imbalances.<sup>1</sup> Then, the surged demand for primary commodities for processing and consumption in Asia positively and negatively affected resource-rich and resource-poor countries throughout the world respectively. Recently the world economy looks running the risk of stagflation with the prospects of inflation triggered by the internal macroeconomic adjustments of China, combined by the on-going hike of commodity prices and dollar decline.<sup>2</sup> No worrying. If China loses its status as the world factory, however, there ultimately will be several other Chinas coming up from Asia: India, Vietnam, Indonesia, etc.

Where is Latin America in this globalized century? Where should the region be headed for? These questions are related to the other set of frequently asked questions among academics as well as among ordinary people: Where was Latin America during the latter half of the 20<sup>th</sup> century? Why has the region been surpassed by Asia in terms of economic and social development despite their abundant resources, international peace, and even geographic proximity to the largest market of the world to the north?

In attempting to propose a Latin America's strategy in this century, this paper will examine first the different paths Latin America and East Asia have taken in the last century, and the strategy the latter promotes in the context of globalization for this century. Then, it will critically review Latin America's development system in a comparative perspective, and suggest a strategy for the region to take. Yet it should be mentioned here that to generalize the region may be unfair and incorrect in several

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<sup>1</sup> See an extensive debate over global imbalances in Joost Teunissen and Age Akkerman, eds., *Global Imbalances and the US Debt Problem: Should Developing Countries Support the US Dollar?*, The Hague: FONDAD.

<sup>2</sup> *International Herald Tribune*, «Costs rising, China to export inflation,» Feb. 1, 2008.

cases, but that the author will attempt to focus on the general trends. Otherwise, his view may be a biased East Asian perspective.

### ■ The different path taken by Asia

East Asia has been the largest beneficiary of world trade growth and globalization in the 20<sup>th</sup> century while the region did not take the same path as Latin America did.

First, their development was of collaborative nature. Japan recovered its economic fundamentals soon after the end of World War II, largely thanks to US strategic assistance during the Korean War (1950-53). In 1960s, South Korea, Taiwan, Singapore, and Hong Kong began import-substitution industrialization (ISI) strategy, in which Latin America could claim originality, but as of 1970 mixed it with an export-driven industrialization strategy. They turned relatively free from the embedded interests. The industrialized Japan and the Asian Four Tigers' success later were linked through capital flow to the new dynamics of the late-coming rest of Asia: Southeast Asia and China. East Asia as the summing concept of Northeast Asia and Southeast Asia has emerged as a concept of regional integration at the turn of the century. In other words, integration followed the regional development and division of labor, not the other way around.

Secondly, the East Asian model was stimulated by the awareness of crisis situation to be ultimately combined with sound nationalism and assertive political leadership. The historical rivalry, the Cold War and the regional tension around almost all Asian countries stimulated them to compete to outgrow one another. The state was manned by professional staff in most cases. Nationally sourced and competition based recruitment of public officials made the performance of the state efficient, and relatively autonomous.<sup>3</sup> Although the Asian model promoted a state-led development, it, unlike Latin American model, also supported the expansion of the private sector as the other pillar of growth.

Thirdly, the Asian private sector held the risk-taking attitude, and strongly committed to national industrial development. Although the private sector was protected and assisted by the state, it was not a guaranteed arrangement. The private sector had to compete with their domestic rivals if not international at the early stage, and any attempts to monopolize the market was checked and controlled by the state. When the state promoted export-driven industrialization and provided technical assistance whi-

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<sup>3</sup> What Peter Evans called «embedded autonomy» to refer to successful state involvement in industrial transformation worked in state-business relationship. See Evans, *Embedded Autonomy: States and Industrial Transformation*. Princeton, NJ: Princeton University Press, 1995.

le liberalizing the market, the private sector, led by several trading companies, responded with their aggressive export strategies and risk-taking investments overseas, only to survive liberalized context.

Fourthly, East Asians have relied on their own human resources, not natural ones, unlikely Latin Americans, as the key production factor. This human resources development policy was fueled largely by the Confucian tradition to respect higher education and higher social mobility. While there was the possibility for upward class movement, parents dedicated all their life to educating their children better. This in turn went in parallel with the nations' R&D investments, and brought about higher technology, which in turn upgraded the national competitiveness. This effort was not limited to the governments' initiatives, but the private sector expansively implemented the programs of training and retraining their own personnel, and aggressively invested on R&D and innovations to remain competitive.

In this process of economic and social development, however, there were discrepancies of political development. Crony capitalism and favoritism along with the creation of entrepreneurial class accompanied the stories of entrepreneurial successes and failures. The Asian financial crisis of 1997-98 represented this dark side of the Asian model. Yet the crisis did not collapse the Asian real economies and economic fundamentals. The outward development model is still respected,<sup>4</sup> the professionalism of public service and sound nationalism intact, the private sector's initiatives still aggressive, and the human resources and national competitiveness sustained. Furthermore, the Asian economies learnt from the crisis the value of democracy and the civil society, the sound corporate governance, and the deregulation to facilitate the working of market system.

### ■ The Asian strategy for the 21<sup>st</sup> Century

The globalized world that major political and economic changes during the last decade of the 20<sup>th</sup> century brought about inherently contains many destabilizing risks. In the economic front, the development model harmonization and market asymmetry make larger the global imbalances between exporting and importing economies. The global competition without fair local rules and without identical factor endowments makes larger the divide between the developed and underdeveloped world, between the rich and the poor, and between the skilled and the unskilled. The entailed Bava-

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<sup>4</sup> *Financial Times*, in its article «Wrong lessons from Asia's crisis: The events of a decade ago left a troubling legacy,» 2 July 2007, wrongly interpreted the Asian nations' policy consistency in their export-driven development strategy following the financial crisis.

rian race to secure international commodities destabilizes international economic system and entrepreneurial investment patterns. In the political front, the short-lived multipolar or unipolar system may be replaced with the «nonpolar» world.<sup>5</sup> Further, technological development and the ensued paradigm and culture shift often lead futurists to anticipate the erosion of nation-states and the global empowerment of private enterprises, individuals, NGOs, etc.

According to the Asian belief, dangers and opportunities represent the other sides of the same coin. Globalization should not be the exception. The Asian strategy in the 21<sup>st</sup> century, if any, should be to maximize the promises and minimize the risks that globalization may make to the region. The key will be to learn lessons from its own experiences in the latter half of the last century: to keep virtues and not to repeat oversights.

If anything new, that will be the regional integration. The Asian economies have silently developed their own scheme of regional interdependence or integration. The regional division of labor started in the formality that China provides land and labor. Japan, Korea, and Taiwan among other regional partners provide capital and sophisticated parts. And the rest of the region provide general parts to make final production process in China. The first decade of this century witnesses more land and labor providers coming particularly from Southeast Asia including Vietnam and Indonesia and South Asia including India. China's technological catch-up is also getting faster and its role moves toward that of capital provider for its neighbors. In the meantime, intergovernmental initiatives for regional integration came along to compass non-economic fields. Although political and economic regional integration in Asia falls far short of the institutional levels reached by the European and Latin American countries, its functional integration has matured. Time matters to formalize the *de facto* arrangements. Regional integration will become, in due course, the new model to deal with the globalization challenge in all fronts in this century.

Integration with the extraregional economies goes in parallel with the intraregional schemes without no priority between both of them. Individual Asian countries free trade overtures with US, EU, and several Latin American countries trigger immediate responses by their neighbors to follow the suit. Interregional integration schemes such as the Asia Pacific Economic Cooperation (APEC) and the Asia-Europe Meeting (ASEM) have a long way to go, but the commitments of the members to broad range integration stay strong.

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<sup>5</sup> H.D.S. Greenway, «An Asian century?» *International Herald Tribune*, Jan. 30, 2008.

However, Asians largely do not agree with the idea of forming their own bloc. Many argued for the three economic blocs in the world coming up: the European, the American, and the Asian.<sup>6</sup> There appears a movement toward an East Asian regionalism in the form of the recently launched East Asian Summit (EAS) to include all ASEAN members and China, Japan and Korea. This may look conforming to the once-aborted scheme of the East Asian Economic Caucus originally proposed in 1990 by the former Malaysian Prime Minister Dr. Mahathir bin Mohamad. However, neither consensus nor commitment has ever made by any significant number of countries to form the Asia only bloc.

### ■ Where is Latin America and where headed for?

In contrast to the Asian performance in the latter half of the 20<sup>th</sup> century, Latin America has shrunk in the sizes of their economy, trade, foreign direct investments, political prestige, etc. during the same period of time. Latin America's debt crisis of the 1980s and the ensued development model conversion brought the region a disintegrated polity and divided society although the new elite's attempts to transform the state and the economic system were and still are bold enough. Few countries have been assertive while many others were too cautious to commit itself to a transformation. The region as a whole has not exploited sufficiently their potential of development, nor seriously explored its shared advantages through integration. The region could have grown at a double or triple rate by achieving economy of scale through liberalization and integration. There were many excuses, social, political, historical, financial, international, etc., but to the eyes of ordinary Asians, it was the total failure and negligence. The reasons can be explained in a comparative perspective:

Firstly, the region's leaders were not able to integrate the society for the sake of a new vision of the nation. In crisis, they were not able to mobilize the national sentiments toward the national endeavors and goals. There was not any united nationalism with a sound force, but fragmented factionism. No serious efforts were made to abolish the dualism of the society. Instead, many Latin American policy practitioners and political philosophers focused on the fallacy of capitalism, and wished to build a welfare state following the European model even before their countries reached the equivalent level of development to make it meaningful and possible. They neglected the sta-

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<sup>6</sup> Among others, see Fred Bergsten, «Towards a tripartite world,» *The Economist*, July 13, 2000. He warned of the advent of an East Asian regionalism as the most striking changes in the world trading system in this century.

te's important role in establishing *soft* and *hard* infrastructure to facilitate the national economic and social development.

Secondly, little efforts have been made to educate the people, and allow higher social mobility. Enhanced basic education is the best soft infrastructure for the sustainable national development, and for the integration of a nation. Rather, the statistics show that many Latin American countries invest on higher education more than basic education. This means government education policy does not consider the higher social mobility and the national integration as its national objectives. This worsens the dualism of the society, and distrust among the different social classes. Whether that is because of the factor endowments<sup>7</sup> or the societal legacies, it limits the national potential of development.

Thirdly, the private sector of the region has been largely passive in coping with the globalization challenge. They would not take risks. Although there are several important *multilatinas*, many more companies in Latin America tend to stay under protection and keep their current markets only. Investments to compete with or beat rivals, and struggles to explore new markets sound strange to many of them. Their mindset may be that the buyers should come to buy and the investors should come to invest, not that the sellers go out to sell and new investors are to be invited. The underdeveloped nature of capitalist entrepreneurship in Latin America may be ascribed to the legacies of the former imperial Spain and Portugal who themselves did not abandon their mercantilist feudal system until 20<sup>th</sup> century.<sup>8</sup>

Lastly but not the least, regards with the regional integration, rhetoric came first, functional integration later. Historical and cultural affinity was too much emphasized even without the established pattern of a regional division of labor. Regional integration was approached as a political objective, not as an economic reality. Although integration endeavors have a long history in Latin America, its integration scope tended to be limited exclusively to its own regional boundary. The recently established *Banco del Sur* may be a good example. Though controversial inside, its original scheme was isolationist and ideology-oriented.<sup>9</sup> In the wake of the Asian financial crisis, an Asian

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<sup>7</sup> Thorvaldur Gylfason argues that the authorities of resource-rich countries tend to be overconfident and overlook the need for good education. They concentrate on exporting resources that only require low-skilled labor, and with the abundance of low-skilled labor and natural resources, they will concentrate further on resource-based industries. Thus the vicious cycle continues. Gylfason, «Natural resources, education and economic development,» *European Economic Review*, 45, pp. 847-859.

<sup>8</sup> José Luis Cordeiro, *El desafío latinoamericano*, 2<sup>a</sup> ed., Caracas: Mc Graw Hill, 2007, p. 251.

<sup>9</sup> *Financial Times*, «South America launches Banco del Sur,» Dec. 11, 2007. *International Herald Tribune*, «Chavez urges withdrawal of international reserves from US,» Jan. 27, 2008.

Monetary Fund was proposed, but not as the exclusive institution, but as the complementary to the International Monetary Fund. Regional integration should be the facilitator of, not the trade off to, globalization.

### ■ The last chance for Latin America now

In recent years, thanks to the surge of international commodities' demand and prices, most Latin American economies or commodity exporters enjoy the unprecedented boom. The positive signs include the increased current account surpluses, expanded international reserves, constant economic growth, stable inflation rate, and decreased debt service ratios, etc. However, this boom will not last for ever. They should have insights of future crisis beyond the boom. Any time soon the rebalancing force should come from the financial and trade fronts as history teaches.

This may be the last chance for Latin American nations to prepare themselves for the next decades and centuries. Globalization demands a «creative political concern.»<sup>10</sup> No nation can deny the market system as the prevailing ideology that survived the ups and downs of the last century. No nation can neglect the global currents of change, forging new culture and value system. National political strategy should be concerned with the dynamics of globalization because the opportunity cost will be enormous.

The current boom provides more room than ever for Latin American governments to implement any costly programs for sustainable development. Certain leaders might be inclined toward redistributive policies, but serious leaders should wish to invest for the future. They should be able to mobilize the nation for the common vision of national development. First of all, they should invest on basic education and R&D. And they should implement parallel policies particularly to upgrade competitiveness by both public and private initiatives. This should include soft and hard infrastructural investments to facilitate industrial and regional development. Soft infrastructure here ranges from education, to the political, economic and social contexts of equal opportunities, and to competition-based market system.

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<sup>10</sup> Geoff Eley, *Forging Democracy: The History of the Left in Europe 1850-2000*. New York: Oxford University Press, 2002.



In this information society, no public policy is exclusive to the government. The development of the civil society is indispensable as the last resort. It should influence political leadership to play its role for social integration, and oversee government activities to ensure the integrity of public institutions.<sup>11</sup>

Regional integration may neither be the sufficient condition, nor the necessary condition for Latin American countries to prosper in the 21<sup>st</sup> century. Yet it must be a space to exploit further for every participant's benefits as Latin America repeatedly realized and had made important steps forward. For a regional integration to work, however, the functional integration should come first before rhetoric. The functional integration can be enhanced only by the improved intraregional hard infrastructure and business interaction schemes, which lag far behind desired.


On the other hand, the slogan «Intraregional integration first, extraregional integration later» may not be correct for the real interest of each nation in the region. The region has experienced enough the intraregional integration initiatives too slow to endure. Some still may argue for more international leverage or stronger negotiating power to secure from the intraregional integration. While inwardly adhering, however, the region may lose the right time for, and the opportunities coming up from, the extraregional integration. The FTAA process should be accelerated. Asian and Oceanian economies have now better access to the US market. As half of the Latin American economies already have bilateral FTAs with US, there can not be many reasons left to delay the FTAA process. While Latin America's exports to US amounts to 50 percent of its total, and those to the region only to 16 percent, delaying integration with US cannot be justified. Then, FTAs with Europe, Asia, and even Africa should be promoted to materialize the promises of globalization.

Why hesitate when the rest of the world fear it? If US still is viewed as imperialists in the region, one should be reminded of the erosion of US power at best,<sup>12</sup> or figure out the nature of economic interdependence in the globalized world that one nation's welfare depends on others'. Latin America needs US not as the leader but as their still huge market for their own interests *vice versa*. If the agricultural subsidies of the developed countries are the real obstacles and cannot be compromised for an agreement, the arrangements with the rest of the world should be undertaken to complement and

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<sup>11</sup> Anthony Elson, «The Economic Growth of East Asia and Latin America in Comparative Perspective: Lessons for development policy,» *World Economics*, 7: 2 (April-June 2006), pp. 97-114.

<sup>12</sup> The decline of US power is broadly discussed in the 2008 Davos Forum. Also see Paul Kennedy, «American Power: Who's hiding under our umbrella?» *International Herald Tribune*, Jan. 31, 2008.

ultimately stimulate the formers as already done by several insightful individual Latin American countries. 

Este artículo es la versión original en inglés de «América Latina en el siglo XXI. Reflexiones críticas desde Asia del Este», incluido en NUEVA SOCIEDAD N° 214, marzo-abril de 2008, ISSN 0251-3552, <[www.nuso.org](http://www.nuso.org)>.