FROM FREE TRADE TO GLOBALIZATION.

UNCOVERING THE MIST OF 21ST CENTURY.[1]

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By

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FROM FREE TRADE TO GLOBALIZATION

UNCOVERING THE MIST OF 21ST CENTURY.

PREFACE.

Much has been written about globalization as an economic and political concept. The academic debate looks forward for explanations about the historical roots and development of this emerging phenomenon where the Nation-State''s evolved into a system where nations are ruled by the dynamics of global interdependence. Globalization in the new era is characterized as a process where geographical, political and cultural borders tend to dissolve. The Westphalia notion of sovereignty capitulates against the principle of political subordination as integration of local power ensuring national legitimacy.

An important analytical debate around this topic, where the meaning of nations borders changes, brings into the fore another definition of democracy. With the *National Interest,* Francis Fukuyama''s famous 1989 article, *"The End of History?,"* saw an avalanche of academic contributions rising new fundamental questions about the formation of a world made of an integrated market and of political institutions that subordinate national governments to market wills. The expansion and openness of markets is the result of a reduction of barriers, such as tariffs, and the shortened of physical distances among diverse producing places in the world, thus helping to increase broad commercial transactions. Thanks to the Internet and technological improvements, freight costs were reduced and traveler''s time was shortened, bringing cultures closer. Therefore, historical development is interpreted as the source of economic convergence, a concept that is tested with many nations' empirical macroeconomic evidences.[2]

For Colombians and for many other emerging economists in the world, this historical event raises interest both to learned communities and non-scholar observers, as they foresee that social scenarios experience nonreversible changes because initial conditions associated with historical phases may introduce promising self-sustaining development scenarios.. The new historical conditions that developed for trade and exchange allow markets to diversify and become more open. Here is where different interests converge and where people of different political tendencies come to terms in the open political discussion to

[2] See Francis Fukuyama. 1989. "The End of History?," *The National Interest*. No 16. Summer, pp. 3-18.

govern world institutions. In this open environment, globalizing forces help to transform cultures, politics, and social structures, and improve national and local development.

Specialized literatures rose exponentially after "The End of History?" As a result of this, intellectual movement spread new analytical tools to observe differences and similarities between 19th and 21st century development of the Nation-State around free trade practices. Political concepts that settled since the nineteen century political discourse now are being reproduced in the present century where in many continents the notion of the Nation-State is derived, but also evolving from, the Westphalia principles of sovereignty: legal equality between states, self-determination, and respect to the principle of non-intervention of states domestic affairs. During the 1980's and early 1990's, the debate on globalization became stringent about Westphalia sovereignty. It is difficult to appreciate a definitive conclusion about the results of this discussion; particularly after humanitarian violations of people's rights interfere in nations' internal affairs it suggests the appearance of a humanitarian crisis. This historical circumstance invites us to advance on a revision of the main occurring events at the beginning of the new millennium.

The world we knew in the 19th century's was characterized by the active presence of some hegemonic countries that determined trade currents, investment structures, and regulated exchange activities. However, countries like Colombia are facing globalizing conditions that effects on its development structures. In the postindustrial era, countries, regions and specific productive sectors like banking, financial services, technology research, and climate change are needed to be solved in this 21st century. New global governance disposals or institutional rules tend to promote a new style of world development that might be too costly or hard to follow for developing countries. To face new developments, the global governance concept associates the creation of institutional and organizational means to allow for larger flows of capital and investment. Emerging problems, derived from technological advances, determine the future of the globalization process as suggested by Ian Goldin in his work *Divided Nations*,[3] where he considers that the challenges faced in the emerging

[3] Other authors in this emerging field of global governance are:

century are associated with "climate change, cybersecurity, pandemics, migration and finance" to complement other structural determinants of this borderless world (2014, p.3).

These topics, brought to you by reputed researchers, increase the number of views and comprehends a wide and deep literature that fill universities'' racket libraries. So a *tour d'horizon* as we propose in this essay-book, intends to survey the basic definitions of the globalization concepts that compose the conventional bibliographical literature written on these matters and produced mainly during the 1990's. This literature is characterized by explanatory proposals and shows past and emerging trends on what characterize 19th and 21st century´s events as well as the current effects seen particularly in the field of social and economic development.

For Colombia it would be interesting to first look at earlier developments of some globalization experiences that occurred in industrialized countries and in some of their prominent colonial territories, as the world market expanded and some cultural and exchange practice occurred. Institutions similar to those we saw in the 19th century will allow emerging countries to follow some path dependent consequences of similar consideration in the present century to those of industrialized countries one century early. Analysts and practitioners on these topics suggest that emerging countries are now facing favorable conditions

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comparable in nature to those presented in the first globalization process of the 19th century..

Historical change is a matter of deep study among analysts, and with the help of comparative studies it is possible to foresee at least partially how 19th century globalization experiences in Europe developed and how these may be replicated in developing countries that are open to the development possibilities brought by trade increase, investment in productive activities and scientific research. These technological advances can be seen in transportation, electronics, and biotechnology. The global governance type of world system order that characterizes emerging countries tends to open greatly opportunities for "higher growth rates and rapid development and increasing central role played by modern actors in the global capitalist system."[4]

Nineteen century Colonial territories opened to trade and investment, forming a world division of labor that framed a specialized market. Two centuries later the denominated emerging countries, like Colombia, tended to evolve from exporters of raw materials into transformers and exporters of manufactures. Modernizing markets as distant as China and India, and various Southern Asia´s countries, or even Latin American countries, benefited of incentives created by globalizing markets were opening the economy to trade and having easier access to financial means. These acted as strong triggers of the dynamics of globalization.

A firm associating around free trade activities produce recognizable synergies and are melting this nation's geopolitically built blocks which lead to create an enlarged market. Innovative business and investment opportunities now open to the global market are in particular benefiting about the expansion and integration of developing countries to this mold. The modernized and interactive city-regions, where economies of agglomeration characterizes the newer economies, lead to newer degrees of specialized regions, acting as the engine of modern services activities whose development allow for increasing scale returns. Other problems of incalculable proportions are recurrent financial crisis that knock down structured financial architecture, affecting world accumulation dynamics.

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[4] See: Andrew Hurrell and Sandeep Sengupta. 2012. "Emerging powers, North-South relations and global climate politics." *International Affairs.* Vol 88. No 3, pp.463-484. Especially, p.465.

Integrated nations to trade agreements lead poor and richer to participate of the world globalizing system. Here is where future developments and opportunities will lead the world to a path of sustained growth and modernization as suggested by Steger when he claims that the globalizing world is bounded by the following unresolved questions:[5]

1. How does globalization occur?
2. What are the drivers of these phenomena?
3. Is globalization a uniform or uneven process?
4. Is it a continuation of modernity?
5. Are the occurrences of various globalization processes a radical break from the past?
6. Or do they differ from previous inspired social developments?
7. Does globalization create a new form of inequality and hierarchy in the world system?(2009, p.9).

In simpler terms, we consider that for a country like Colombia the economic and political milieu is open to trade in the form of new technologically produced advanced goods, or open to offer world markets diverse services, or bring access to numerous financial free risk assets.

Emerging institutional improvements, like new forms of technology break troughs to transfer technology, help the country to become more competitive, especially after recognizing the wider economic and political integration experiments negotiating in the political framework of the FTA''s rules like the Colombian signed Agreement with the United States. Here low tariffs and new trade rules improves competiveness in countries that strive in world markets. Other economic historical aspects like the effect of financial risks are elements that mitigate debt burdens when cost of money is reduced to surpass situations originated by economic events like the 2008' Global Financial Crisis, subject matter that we academically develop in a corresponding chapter. This emerging scenario delved questioning the credibility of the globalizing experiment as it affected reliability in the financial institutions to sustain growth and put the world on the brink of default and unemployment hindering steady economic growth.

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[5] See Steger, Manfred B. 2009. *Globalization. A Very Short Introduction.* Oxford. Oxford University Press.

The expanding world economy also depends on local regions developments as a source of growth and social improvement. The agglomeration of local industries within strategic country regions, determine the possibility of adding value through supply chains facilities, where economic alternatives are considered as a reliable source of sustainable growth. Albert Hirschman''s "backward and forward" linkages concepts, or exit and voice economic and geopolitical ideas, were developed here to improve and justify industrialization policies. While today´s policies associated with technologically innovative proposals, theories shared and suggested by Romer' and Krugman, show' the virtuous effect attributed to innovation practices and scale economies that support agglomeration economies. Here is where investment in supplying chain firms, or making technological research, or formulate with the help of universities the activity of innovation as a route to derive economy's increasing returns, leads emerging city-regions'' development to play a determinant role to support globalization proposals.

The historical perspective approach to understand the transformation capacity of society is considered in this exploratory attempt as a useful and appropriate methodological approach to help us understand how countries exposure to the stimulus of globalization and markets integration determine sustained growth. Comparative historical development is a useful tool to explain and understand how different globalization stages around the world, especially in the 19th and 21st century', show where these developments occurred.

This inquiry also attempts to foresee emerging challenges and transformation opportunities to lead the world market into a non-reversible system characterized by permanent changes, which will guide the world into a system where Nation-States surrender to world institution proposals. In this emerging trade environment, FTA''s development and other trade and investment agreements with friendly countries will determine change in the flow of trade in goods and services and other transactions as seen when China and other Asian countries increased their presence overseas. The expansion of nations-cities and regions, and the production of specialized goods in those geographical areas, will determine new conditions to promote technical change and help the opening of new opportunities so emerging nations may compete worldwide in the globalized 21st century market.

Recurrent financial crisis jeopardize world exchange and investment markets, a peril that becomes visible after the global financial crisis that put the world in alert. The aftermath of 2008 global financial and the severe drop of oil and iron core prices in 2015, suggests again that the recurrent world economic crisis raises the question that the solution to global problems is very much dependent on the Resources, Markets and Profits tripod''s accessibility.

INTRODUCTION.

One topic of interest for the social sciences and similar fields, such as business administration, economics and political science is globalization. Many researchers suggest that this is a new topic. Our research; however, looked into the assumptions of political and economic history concerning the particularities of this event and attempted to establish the existence of common events taking place in the 19th century that gave rise to the formation of a world trade system. This exercise aimed at seeking explanations that would help us better understand the emerging phenomenon of globalization. It was found that Great Britain, as a nation extended across the globe, experienced an enormous and unprecedented maritime and territorial expansion. We consider that this was a significant and most certainly very complex globalizing experiment. It was curious to observe that during this stage of seemingly limitless expansion, the foundations of the universal concept of the Nation-State were transformed. Many territories, colonies or dominions evolved, allowing them to become incorporated into the great historical process in which the modern state arose and trade increased. Many states adapted to fit systematically into a global set of nations, which by joining together around a common purpose, made up the world trade system.

It would be very ambitious indeed to try to describe this event with great precision, so we deliberately chose two notions or concepts in an attempt to find explanations for the meaning and causes of globalization in order to limit the scope of this research. First, we explored some of the historical determinants that helped toward the formation of the Nation-State, thinking that the definition of geographical boundaries, as a concept, helped set a limit on this episode, which we may say began with the wars of independence in the Americas and later the process of decolonization in other continents. Second, constitutions and the new legal order that distinguished the division of the three classical powers, inspired in the advancement of the liberal revolution, limited to the governing class the direction of the new-born states of the imperial period of world expansion that we may say lasted approximately two centuries.

By looking at things from this descriptive perspective confirmed that this research project was still too ambitious. For this reason, we focused the research on an even more restricted scenario, which seemed to provide some of the initial

conditions that would allow the geographic or territorial expansion of many nations to advance based on more or less liberal principles. These, in turn, allowed them to direct the path of investment and trade. We observed here that due to the awakening of new historical forces, new actors were incorporated into the episode of political freedom for various reasons. In general, it was interesting that many of the territories integrated into the British Empire, and many other independent nations joined into the trade business, which coincided with the interests of that nation, as well as of other powers. Rich nations, such as France and Germany in Europe, and the United States in America, made up a large zone of political, cultural and economic influence. The United States tried to form its own territorial zone by joining the Mediterranean zone with the two oceans. Rich nations and others that were less fortunate in Latin America gradually became dovetailed into the global system or circuit by political and economic will before we could see a total world global system.

I.

Thanks to this starting point, we were able to find during this research that many analysts from various walks of life and knowledge had different perspectives, opinions and methods of analysis for their own type of interpretation of globalization. Our attention was called to the fact that authors, such as Bentham saw the need to seek supposedly friendly agreements among the so-called civilized nations, in order to find a path toward peaceful co-existence. The balance of power helped to preserve peace. It was Saint-Simon who inspired the peace plans that were proclaimed in Europe by an entire generation (Hinsley, p.103). Classical economists, such as Smith, Ricardo and Mill had a unique perception of history when they suggested that certain events could be attributed to the evolution of economic matters and that these events obeyed immutable laws. Through a chain of causes, they sought to explain the universal rules that explain, for example, economic growth or the exchange of goods between countries, which according to them happened within a climate of political harmony. They saw increased productivity as one of the causes of growth, a political economy concept that has since inspired the actors of the social sciences. Therefore, international specialization of production increased the level of economic efficiency in those countries. Perhaps these events helped strengthen the flowering states by allowing their government to participate increasingly in

the new benefits of globalization, abandoning for a time those illegitimate earnings begotten through war actions or zero-sum game. Government administrations specialized in improving living standards, such as in the case of practical education, and this branch of power gradually supported public investment initiatives, such as transportation, which allowed states to efficiently become part of world trade. Today, exogenous conditions do not deserve all the attention of globalization analysts.

Many accounts were interesting due to the light they shed on economic growth, which arose as the result of trade, investment, and reduction of transportation costs. Nevertheless, this conventional view left some of the social questions out of the analysis. This is the case of the persistence of poverty, a social flaw that is very deeply rooted in some sectors of the economy and the society. It was a *casus belli* and a cause of political instability that gave rise to the legitimization of the governments of political bosses. The formation of a new global order was based on an attractive initial condition such as allowing the advancement of united wealthy countries toward the objective of incorporating new territories into their grand business. The effect was to allow the coexistence of great gains for some, while at the same time it made even more acute the extreme social cost attributed to boundless ambition.

The so called world-system in which a number of forces participated in a state of tension or compression, and which at a certain point in time began to imprint strong movements—or better yet, transformations—whose direction we know foresee is where these changes took shape. So we now find that there were moments in which the clock marked situations of a type of equilibrium in the world system, but which in synthesis it was difficult to see why or how a strongly integrated global system, respectful of common goals, would be formed.

Given the fact that this is a very complex reality, we concentrated our efforts particularly on the exploration of some determinants that would justify the exercise of power on a world scale, or the development of economic processes associated with the exchange, which is like a perpetual movement, common to the parties involved and which is said to generate welfare and, in some cases, development. We selected therefore some of the components of these two fields of power that seemed to have some degree of correlation among them and for this

reason could offer some explanations for the dynamics of long-lasting historical change.

Some of the important currents of analysis that sought out different explanations for the emergence of globalization attracted our interest as we observed that it was a matter of seeing the world not as a set of more or less isolated events, but rather of daring to see it as a system made up of heterogeneous blocs where some components seemed to be connected or at least inter-related and in perpetual movement. In reality this was a very complex way of conceiving the new political and economic world, the projection of which seemed to us had reached a global dimension. However, and in spite of the conceptual attractiveness of the paradigm of the systems, it seems that there are no exact rules for behavior in the global world that will allow us to make some type of judgmental prediction.

The work of Braudel and Wallerstein seemed very interesting since it added to our understanding of the fact that there are changes in trends in history that can only be observed or perceived from a holistic setup or from a long term perspective, and that only in hindsight can their evolution be understood. Research work in the social sciences attempts to provide explanations of long term changes, and many of the analysts try to identify the changes in the initial conditions of the process in order to venture to make rigorous predictions. This methodology stimulates us to analyze some conditions that are usually present in power relations and which affect the changes in political processes, as well as international relations. Our concern in this phase of the research was to identify institutional arrangements that were favorable to the consolidation of the Nation-State, expansion of trade and investment, functions that were in some cases considered to be sources of long term growth. Due to the complexity of the world under study, we reduced the analysis further more to two economic types of considerations that determined exogenous growth of the many markets. One of these first considerations was related to the diffusion of technological knowledge in various stages of the production that facilitated the accumulation of capital and therefore sustained the rhythm of growth. It was of interest within this early framework of globalization to gain more detailed knowledge of the role of foreign investment in the advancement of this expansionary cycle. It was also important to know under what initial conditions and how investment became associated

with peripheral markets development. Secondly, it was necessary to explore how the presence of foreign investment generated permanent changes in the evolution of the world system within the process of globalization. Within this academic current of thought, some institutional schools were studied, such as the proposals put forth by North, wherein the contribution of technological change and of foreign investment are interpreted as evolutionary institutions in this early transformation.

II.

The second part of the research was very evocative as some historical findings and accumulated knowledge of the political factors, such as that relating to investment, facilitated the understanding of globalization discourse used at the beginnings of the 21st century. We found many common points of view similar with those typical of the 19th century, which lent special interest to the analysis given that it enabled the configuration of evolutionary scenarios.

It was curious to see that the statements put forth by analysts, such as Waters, Fukuyama or Rodrik, who suggested that, due to a set of specific reasons, globalization tends to form "a single world market." This statement merits further explanation. It has been seen that this is an irreversible process determined by some unquestionable initial conditions in the existing model, such as the growing degree of capital accumulation reached in the world, which seeks large fields of productive investment. The large powers, including the new actor for the 21st century, which is the United States, and to a lesser degree the European Union and Japan, generate immense quantities of economic surplus. This surplus must be distributed throughout the world, so that the institutional and economic conditions that will allow growth to be spread around the world in the form of investment will arise.

In order to reduce the problem to a manageable scale, we decided to explore the link between a few variables that would allow us to at least try to imagine how the globalization process in the 21st century could evolve. First, we tried to identify some of the institutional changes associated with globalization that presumably generate permanent changes. Second, we tentatively explored how this globalization process in this century could contribute to a debilitation of the Nation-State power structure. One change that could affect the Nation-State structure derives from the rules of globalization itself, given that its theorems and

new tendencies condition the behavior of the system now governed by multilateral organizations or even civil society.[6] Thirdly, we needed to explore how globalization introduced changes in the growth conditions in localities within each nation.[7]

One great global change leading to the end of the Nation-State could derive from the political action exerted by international organizations, such as the World Trade Organization and the emerging political-economic blocs. Among the latter, our interest was drawn to the case of the Free Trade Area of the Americas—FTAA, and later on when we referred to the signed FTA with the United States.

On a preliminary basis, we explored the assumptions associated with decisions, such as the Summit of the Americas which is a political mandate promoting the exercise and permanence of democracy in the hemisphere. This new institutional framework proclaims democratic links with the benefits of free trade in the region, basing this action on the respect of a new political atmosphere, framed within the exercise of democracy and the market decision making process. Based on these initial conditions of a political nature, we pondered the change that could arise by defining the state to be subordinated to rules that are universal and obligatory. This new order of ideas refers to the adoption of clear rules on democracy. In the business sphere, the new order refers to advancing toward the adoption of criteria that will allow for secure access to markets, respect for investment and support for international capital movements. The foregoing means opening up immense opportunities for interaction among markets and even conditioning localities role in the wider and complex world market.

The rigor of these simple initial conditions made us think about a second issue that has to do with the possible effects that could bring a fragmentation of power.

Waters, Malcolm. 1995. *Globalization.* Routledge. London. Foreman-Peck, James. 1995. *Historia Económica Mundial*. Prentice Hall.Madrid. España. Segunda Edición. Fontana, Josep.1999. *Historia: Análisis del Pasado y Proyecto Social*. Editorial Crítica. Barcelona. Germain, Randall. 1997. *The International Organization.* Cambridge University Press. Cambridge. Held, David. 1995.*Democracy and the Global Order*. Stanford University Press. Stanford. California. Holton, Robert J. 1998. Globalization and the Nation-State. MacMillan Press. London.

Eric Hobsbawn, 2000. *Entrevista Sobre el Siglo XXI*. Critica Barcelona, p. 39 brings an interesting view where a crisis in the notion of the nation-state rises where a nation may be made of several nation-states determined by ethnical minorities living within a country even not making part of the whole nation. The Kosovo case may be one of those where globalization has not come to the end of the nation-state.

It is believed that there are new conditions that determine the economic order among nations, and that they can be identified with the appearance of a set of causes called mainstream factors, such as those endogenous to the growth process. It is believed that the power and nature of these tends to permanently modify the behavior of the world system. The British analyst, Susan Strange, or the political scientist, Robert Gilpin have found that power relations have their root in the changes in economic relations of the post-Cold War era of globalization that tend to determine a new correlation of forces where the different world actors may test their strength or even weakness as happened with the 2008 world financial crisis.[8]

In this global atmosphere, surely somewhat different from the one observed in the 19th century, we can see enormous flows of trade and investment that have marked an international division of labor, whereby specialization and delimitation of functions determine the degree of insertion by markets into the great global system. Technological change is considered the third variable that comes from the advancement of knowledge and of innovation considered as a determinant of sustained growth. Lastly, and as a fourth point, we believed it fruitful to limit our analytical survey to certain empirical analyses with imperfect and incomplete information; principally, to establish under which initial conditions it is convenient to advance with the insertion of countries such as Colombia into a new world economic and commercial order.

Some evidence suggests that there are certain limitations in the process of trading with the great powers given the structure of specialization. Likewise, it is intriguing to investigate the causes for which the poorest and most backward areas of the country have not grown at the rate they supposedly should have according to empirical evidence. This has happened both in several regions of the world as within Colombia for the reasons proposed by the new schools of economic geography and agglomeration economies stated by Marshall and reformulated by Krugman, where the degree that the economic functions of the regions or localities change could help technological innovation and the impetus for the development of city-regions to contribute to the recovery of sustained growth rates.

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[8]See the works ofStrange and Gilpin referred in the bibliography.

III.

Historians, international relations analysts and sociologists have attempted to theorize around the idea of globalization, and what its future will be. Some theoreticians attempt integrating the view of the world around a single mechanism, where parts are interrelated, making out of it a single whole, as possible. Bennedetto Croce, in his work *In Praise of Individual against Universal History and Fake Universals in General,"* proclaimed that all universal history, in so far as it is really history, or in those parts which exhibit historical verve, is always a particular history. He suggests that particular history, when and where it is really history, is always universal. So what globalization attempts is making of this world system a particular history.[9] This author points out the dangers of embracing all the facts that have been related as occurring on all the continents of the earth, as if they were a "mere chronicler's compilation.." His philosophical reflections on the meaning of history allow, therefore, four possible answers that may be divided into four types: first, the general history that is the one that compiles information from various affairs; second, the pragmatic one that accompanies the narrative with moral and political reflections; and third, the critical one which examines the truth and credibility of tradition. And finally, there are the special histories of art, religion or science. Following, as a result, any or some of these approaches, one may reach for example, as suggested by Hegel's final ends, the gradual comprehension of liberty, or the end of history as proclaimed by Fukuyama.

Jan Batista Vico,[10] the Italian thinker and a pioneer philosopher of history, framed many of the told histories into a theory of historic cycles or ages, teaching us that these histories converge into some ideal moments where epochs of perpetual progress occur and may empirically be observed. Vico's ideas explained by Isaiah Berlin in his "*Four Essays on Liberty*,," suggest that after he embraces the application of the scientific method, one may easily conclude

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[9] Croce, Bennedetto. 1966. *Philosophy, Poetry, History*. London. Oxford University Press. p. 509 and p. 516.

[215]See the work of Jan Batista Vico. 1964. *Principios de un ciencia Nueva sobre la Naturaleza Común de las Naciones*. Aguilar. Madrid. Refer to the Chronological Table that describes the three stages of the world. The age of gods, heroes and man. Berlin, Isaiah.1969.*Four Essays on Liberty*. Clarendom Press. Oxford. Pp.42-43.

explanations to natural events, as well as finding relations of human beings, suggesting alternative concepts of nation society and even cultures. This deterministic approach to human history, as if it were a natural science by extension of this approach to human beings, is a view that has provoked a strong reaction against itself. Berlin complements this simplified approach (1969, p.43) implying that from the succession of natural sciences events we can hardly jump into predictions. This is because of the dubious pretension of projecting historical knowledge to fill gaps in the past to predict the future. The author Josep Fontanta (1999, pp.228-230) in an extensive and well-documented work puts forward different historical approaches, such as these shown above, where he describes the effort made by many analysts to look for a final explicatory notion of history and its projections. He reminds us about the geographical scenario where some stages of world practices are developed, arguing that some theoreticians reach some explanatory framework, where in the case of center-periphery countries, the most we can see are some economic relationships related to the decline of the terms of trade as suggested some years ago by Raoul Prebisch.[11]

A strong effort put forward by analysts attempts to explore the complex idea of what connections to world-systems do exist, even within existing empires and world economies. The more elaborate ideas put forward by Wallerstein are developed on some premises of the class struggle structure and in the buffer space where stabilizing competing forces interact. To add some dynamism to his system framework, he elaborates on the Kondratieff waves to explain trade price and volume movements within the world market. In the "*The Modern World System*" (1974, p. 15) Wallerstein developed the idea of constituting a kind of social system that the world has not known before, defining a world-system basically as the world where the linkages between the parts are economic. The authors Chase-Dunn and Grimes (1995, p. 389) consider that the world system is an interactive complex where international relations and world markets relate to each other; where the structures such as individuals, firms, towns, regions—both national or international—interact in different patterns and ways.[12]

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[11] Seee the work of Josep Fontana. 1999. *Historia: Análisis del Pasado y Proyecto Social*. Editorial Crítica. Barcelona.

[12] The academic discussion in this emerging field is promissing. See for example, White, Brian. 1997. *Issues in World Politics.* London.Macmillan Journals Articles Chase-Dunn,

IV.

At the end of the World War II the world economy was fragmented and divided into a number of countries and groups that included the sterling area, the franc zone, and economies tied to the dollar. These represented the embryo of a system. High tariff quotas and trade barriers to commerce were enforced after the Depression. Capital and currency movements were stringent and exchange rates did not respond to market forces. Multiple exchange rates distorted the price of international tradable goods. After the Bretton Woods Agreement, this fragmentation of the globe into different economies has tended to be reversed and several economies gradually became financially integrated.

After several negotiation rounds, tariffs were lowered and the notion of international trade revived. The rate of growth of international trade in many countries became the dynamic force of the economy, experiencing rates of growth substantially higher than world production. Developing countries received an increasing volume of capital flows with Latin America and Asia being important recipients. Private direct investment as well became an important source of capital and technological change in several developing economies. The multinational corporation spread its market rules around the world and investment banks increased the number of projects financed and promoted all over the world. The process of intense globalization advanced after the eighties, leading to the rapid growth of offshore financial markets stemming from an increasing amount of unregulated money sources. The expansion of capital market activities increased the business of merging and acquiring firms leading to substantial restructuring processes, at least until the 2008 subprime financial crisis.[13]

Christopher and Peter Grimes. 1995. "World-Systems Analysisis"*Annual Review of Sociology*. Vol 21., pp. 387-417. Emmerij, Louis. 1992. "Globalization, Regionalization and World Trade."*The Columbia Journal of World Business*. Summer. Pp. 7-13.

[13]Hittelman, James. H. 1994. "The Globalisation Challenge: Surviving at the Margins." *Third World Quarterly*. Vol 15, No 3, pp. 427-443. Krugman, Paul and Anthony J. Venables. "Globalization and the Inequality of Nations." *Quarterly Journal of Economics*. November 1995. Vol.CX. Issue 4. Pp. 857-880. *The Economist*. "A Survey of the World Economy." September 20, 1997. Wallerstein, Immanuel. 1999. Globalization or the Age of Transition?A Long Term View of the Trajectory of the World-System." Fernand Braudel Center. Wallerstein, Immanuel. 1997. "The Time of Space and the Space of Time: The Future of Social Science." *Political Geography*, XVII, 1. Wallerstein, Immanuel. 1997. "Space Time as the Basis of

Reinicke pointed out that a great change in the global market has been the ongoing development of a globally integrated market for capital. Several explanations attempt to link the real export sector of goods and the emerging integrated market for capitals, all forming part of a not new but extended world global market. The linkages between these two markets have been increasing and becoming very complex. As the 21st century advances, the world financial market will intermingle with national economies and entrepreneurial capital making the activity of the financial and exchange markets very dependent (1998, p.13). As the new actor of the multinational enterprises expands, its international presence in the global market will increase. Substantial numbers of mergers and acquisitions will transform into a new economic world order where surviving local firms will become subsidiaries.

The microeconomic view of globalization relates to the development of the firm—or multinational firms'—cluster becoming a source of world economic expansion. The firm's development relates to external conditions regarding market expansion, and as growth is associated with incorporation and creation of knowledge, clusters may help to diffuse innovation and growth—and thus integrated—economically linked localities make for the future of city-region development. The macroeconomic view of globalization, which relates with interdependence, has brought sovereign nations closer, requiring closer cooperation in economic management. Globalization will perhaps under especial conditions close the gap between Wallerstein's world-system view and the organized structure that represents the integration of economic blocs, and—as we claimed—of localities.

V.

The twenty first century's global economy will be largely dominated by the diffusion of technology. Technology evolution has driven the deregulation and liberalization of economic activity, particularly in the case of financial services and in other areas such as telecommunications. Innovation in the financial sector creates opportunities for business, like e-commerce and e-business. Sums of money moving in a matter of seconds around the world will change the structure

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Knowledge." *World Congress of Convergence*. Cartagena, Colombia, May 31. Wallerstein, Immanuel. 1997. The Rise of East Asia, or The World-System in the Twenty-First Century. *Symposium on Perspective of the World-system in the Beginining of the Twenty First Century.*

of making business and the fashion of making business. Widespread use of technical knowledge and managerial know-how probably will act in the 21st century as an accelerator of a new Industrial Revolution with further consequences for world trade and development than the 19th century's mechanization did for a few industrialized countries.

The world has embarked on what we call the era of global civilization. This new global development was based on the formation of the European Economic Community, the rise of Japan as an industrial power, and the confrontation between the rich and the poor. Waters (1995) clarified that in addition to the foregoing there were other aspects that accelerated globalization. The first was the development of transportation and communication networks. The second was the accelerated growth of trade, and the third the immense flow of capital in the form of direct investment. The literature on these new topics of research is abundant and of great interest for the development of later analyses.[14]

It suggests that trade is one of the bases for globalization, given that producer and consumer can be geographically joined, although separated by great physical

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[14] Held, David. 1995.*Democracy and the Global Order*. Stanford University Press. Stanford. California. Holton, Robert J. 1998. *Globalization and the Nation-State*. MacMillan Press. London. Hughe,Barry B. 1997. *Continuity and Change in World Politics*. Third Edition. Prentice Hall. New Jersey. Held, David. 1995. *Democracy and the Global Order*. Stanford University Press. Stanford. California. Krugman, Paul.1999. *The Return of Depression Economics*.Grupo Editorial Norma.Santa Fe de Bogotá. Le Roy-Bennet, A. 1995. *International Organizations.* Prentice Hall. New Jersey.Lester, Richard K. 1998. *The Productive Edge*. W.W.Norton & Company. New York. Mac Grew, Anthony and Paul G. Lewis. 1992. *Global Politics*. Polity Press. Oxford. Michie, Jonathan y John Grieve. 1995. *Managing the Global Economy*. Oxford University Press. USA. Musbach, Richard. 1997. *The Global Puzzle*.Second Edition. Hougton Mifflin Co. Boston. North, Douglas C. 1998. *Institutions, Institutional Change and Economic Performance*. Cambridge. Cambridge University Press. Parker. Geoffrey. 1998. *Geopolitcs. Past, Present and Future*. Pinter. London.Reinicke, Wolfgang H. 1998. *Global Public Policy*. The Brooking Institution. Washington. Rodrik, Dani.1997. *Has Globalization Gone too Far?* Institute for International Economics. Washington. Shannon, Thomas R.1996. *An Introduction to the World-System Perspective*. Westview Press. USA. Urquidi, Victor L.1997. *México y la Globalización*. Fondo de Cultura Económica. México. Emmerij, Louis. 1992. "Globalization, Regionalization and World Trade."*The Columbia Journal of World Business*. Summer. Pp. 7-13. Ferrer, Aldo. 1999. "La Globalización, la Crisis Financiera y América Latina." *Comercio Exterior*.México. Junio. Pp. 527-536. Hale, David. 1997. "Is Asia's High Growth Era Over?" *The National Interest*. Spring. Pp 44-57. Hittelman, James. H. 1994. "The Globalisation Challenge: Surviving at the Margins." *Third World Quarterly*. Vol 15, No 3, pp. 427-443. Krugman, Paul and Anthony J. Venables. "Globalization and the Inequality of Nations." *Quarterly Journal of Economics*. November 1995. Vol.CX. Issue 4. Pp. 857-880.

distances. Other integrating views suggest that globalization represents the integration of an international dimension in the organizational structure and strategic performance of companies. For this reason, some new lines of research asks about the degree of flexibility to be adopted by national firms to confront globalization, understood as the routines of facing rapid change brought by globalization.

Class struggle takes on a new tone under globalization, causing a confrontation between regions like in the cases of Mexico and Chiapas, and Colombia "distention zones." In Seattle and Prague, ecologists have asked to be included in the global negotiation process. In Santiago, at the Summit of the Americas, women and children demanded equal treatment, as did immigrants. Classes no longer have a territory with marked boundaries within which to confront one another, and it is the society at large that becomes the agent of vindication. This does not mean that economic stratification will disappear from the world, but that the decentralized market will be more difficult to control and production will no longer depend so much on factories, plants and their machines, but on human expertise and market arrangements. The success of local corporations and of the individuals managing them will depend then more on their talent and market access deals rather than on the fact that they belong to a particular class.

Attempting to foresee developments on this very complex and interdependent integration of economies within the hemisphere or even the capitalist world, with past historical developments that determined a path development process, we reach the conclusion that we are entering into a process of globalization that has historical roots and is somewhat deterministic, as suggested by authors like Foreman-Peck (1995: 63) and others like Kenwood & Lougheedd (1998), Rugman (2000), Scholte (2000), Schwartz (2000) and Shannon (1996).

They proclaim—using different methodological currents—that we live in a world where historical determinants contribute to the rapid expansion of international trade and economic development; something that we can hardly elude. The past occurrences—connected with trade expansion—had their origins in the advancement of the transportation revolution that linked the world into a single market, and in the creation of a modern banking system that links most economies to a single currency (since the gold standard was abandoned), and to

the spread of technology in world production. These and some other social and economic advances led the world to the construction of a global market governed by market rules. Events and man-made policies attempt to tame market forces and smooth the integration process of nations into this complex process that is revealed in this institutional picture.

PART I.

INITIAL CONDITIONS THAT EXPLAIN THE PATH OF THE MODERN WORLD MARKET SYSTEM.

This research chapter attempts an exploratory inquiry to identify some of the initial conditions associated with the long-term "path development process" that took place during the expanding world trade system in the 19th century. This historical event allows us to foresee and understand trends that characterize 20th and 21st century expansion of the global market. This historical experience lead to the formation of a world commodities and manufactures market and it shows how this new-world liberal order allowed more regional countries to participate in this inclusive process that characterize the early 21th century advancement of world events.

Under these emerging circumstances, new initial conditions for a growth path will determine how the transforming market relations in many countries will determine the accumulation and the world's economic growth as the new 20th and 21st century globalization process advances. For the particular case of Colombia, this inquires attempts to explore why this particular economy is facing new challenges and opportunities to grow according to liberal rules of exchange. A historical survey is considered an important approach to framing nineteen-century environment for a transforming liberal Nation-State and expanding world economy where initial conditions for development are a matter of serious concern for analysts to understand future globalization changes. This picture will be related with the emerging scenarios where politics and economics seems to open the development opportunities as bloc trading rules are day to day business practices for most countries.

A special issue that merits deeper inquiry is the identification of early political conditions that influenced the appearance of the Nation-State on several continents, especially during the 19th century when trade and investment touched many countries political practices. This inquire research will also attempt to foresee challenges and transforming conditions that will divert current Nation-States activities from those observed during the 19th century golden age of globalization. We try to foresee 21st century new world institutional changes

affecting path progress whose divergent trends will affect world political and institutional system.

The United States as a Superpower and leading World International Organizations, like the IMF and WTO as World leading Institutions, perhaps will exercise institutional influence to change in some extent the rules that lead to the development and growth paths according to general economic liberal practices in the evolving century. Although, some emerging powers like China, India, Brazil and South Africa, or BASIC group, believe that transforming their own priorities as independent states will affect the world's political agenda.[15]

1.1. Formation of the Modern World-System.

History reminds us that during the 19th century the World-System economy experienced a long trend process of change where political and economic structures developed promoting as a result of this technological change the path of long term economic growth.[16] In the two sections that follow we study some arguments that explain the expansion of the political and economic system, and in the second, the old and new condition for expansion of this structure. Nation-States and nations developed according to the liberal ideology we know today, but at a world scale they gradually structured a new Nation-State system ruled by interdependence and cooperation. The early *political* advancement of evolving territories linked to a world market economy brought promising conditions for enlarging world competitive market transactions and increasing larger volumes of trade and value. Specialization of production helped to link a disperse variety of geographical territories previously separated by distance, due to a lack of complementary trading practices and reliable exchange principles—this lead into a larger world of money exchange systems.[17] During the 19th century, maritime

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[15] See the work of F.H. Hinsley. 1967. *Power and the Pursuit of Peace."* Cambridge University Press. Cambridge.

Walters, Malcolm. 1995. *Globalization*. Routledge. London.

Wallerstein, Immanuel. 1974. *The Modern World-System*. Academic Press. New York.

Wallerstein, Immanuel. 1980. *El Moderno Sistema Mundial.II*. Alianza Editorial. México.

[16] See the work of Christopher Chase-Dunn and Peter Grimes. 1995. "World-System Analysys."*Annual Review of Social Studies*. Vol 21. Pp. 387-417.

[17] See the work of Geoffrey Parker.1998. *Geopolitcs. Past, Present and Future*. London. Pinter.In Chapter 9, p.147 brings conclusions about holistic approach to international relations

and railway developments helped to connect markets into a global system. Under this new political and economic environment, trade currents increased which lead to new patterns of world consumption and industrial use made to raw materials. In different time spaces, new investment opportunities and higher rate of growth improved people's welfare according to historical stages of development.

Developing imperial political institutions—mainly in the United Kingdom—helped to articulate and develop new states around the Crown's interests. Some other countries strengthened its political institutions and its geographical boundaries, structuring a modern Nation-State. Financial exchange facilities, larger trade currents, complementary investment and larger migration flows improved international conditions for an integrated world economy (Parker, 1998, p.148). Foreign trade institutions linked commercial activities all over the world favoring political institutions to develop and make countries exchange relations a current world routine. Regulations in world trading practices helped to organize other complementary economic activities, enlarging market mechanism operations, and integrating these countries economic activities. The expanding transportation network and financial investment institutions that spread all over the world encouraged and facilitated trading practices. Political institutions became better organized particularly in more advanced and industrialized countries; however, little by little peripheral countries organized according to efficiency principles and made of their economic structures agents more prone to trade and innovative activities.

The theory of *International Relations* has experienced important evolution and changes after the study that much has to be worked to see how the harmony of interests integrates to produce valid explanations of country relations. The Realist School of international relations, according to the work of Carr, insists that for the case of wealth derived from commerce and industry were a means to acquire military power particularly in the 19th century.[18] Elaborating this approach, and examining events closer, it is possible to arrive to conclusions like "in the field of political action one can relate existing forces and tendencies", to make a correct

advocating for linking together economic, political and geographical factors, reminding us that maritime powers made global connections.

[18] See the work of E.H. Carr.1995. *The Twenty Years Crisis. 1919-1939*. London. Papermac. P. 9.

predictive arrangement of events. This development may interpret the impetus towards convergence where the advancement of a higher degree of specialization of a country's production, or educational acumen, helps to integrate markets accumulate power to lead self-interests within a wider political or economic space that explains why the market expanded to reach a world size.

Political and economic consent as a state of common purposes helps to conciliate new expanding world forces. Following the realist political tradition, or perhaps other related avenues with world political economy considerations, helps to clarify some of the explicatory circumstances that raised trading organization structures that surrendered the world of business globally during that century. This merging development has been the consequence of integrating trade to historical economic and political laissez-faire ideas, oriented towards the establishment of political freedom and liberty.

The commercially structured world that expanded during the time-coordinate of the nineteen-century-variable strictly abided contemporary institutional commitments. Part of this coincidence was the institutional consequence of better distribution of gains of trade and investment opportunities that together helped to enlarge domestic market size within stabilizing emerging political climate.[19] Trading nations gradually were in the capacity to diversify production more efficiently, being afterwards enforced to remain tied to a single or very few staple export commodities. Fortunately, they achieved sustained expansion of some subsidiary or complementary industries when world price-cycle was favorable to growth.

1.1.1. Formation of the World-Political and Economic System.

World Politics as a system that governed the world includes every aspect of power as a defined exercise of authority, while international political economy relates aspects of production and distribution of goods and services on a growing interdependent world scale. State action has been oriented toward constructing power systems to defend and protect people's rights and, at the world political level, to contain actions of competing state against a country's self-interest. States'

[19] North, Douglas C. 1961. *The Economic Growth of The United States, 1790 to 1860*, Englewoods Cliff, N.J.Prentice Hall. Also in Theberge, James. 1968. *Economics of Trade and Development*. New York. John Wiley and Sons, pp. 68-71.

external relations tend to be anarchical, while structural components of power incline toward the determination of new forms of state interaction. World institutional architecture shaped to development of political interest to preserve nations communication channels and structure organizing patterns of investment, exchange of goods and services at world scale, finally this model determined a progressive expansion of world markets.

During the 19th century, the Latin American notion of the Nation-State acquired a new structural framework converging in new institutions that emerged as a consequence of wars of independence or declining colonial status for some others, sometimes facilitating new political relations like launching new Constitutions or creating political parties and, in the economic filed, promoting increasing exchange of products on a national and world scale. Specialization generated value to extractive activities helping to sustain increasing institutional participation of trade in total world production (Foreman-Peck. 1995, Ch. 3).

Industrialized countries and the emerging World Economy was in the 19th century the result of accelerated development process that followed after industrialized nations spread their power and economic influence around the world. This process was accompanied by a particularly intense world market expansion and exchange of productive factors. This emerging phenomenon occurred just following the period of the Industrial Revolution in England and its aftermath, as well as in nations like France and Germany, that considered overseas empire as a political and economic gain for exchange and row materials provision.

During this expanding age some economists suggested evident discontinuities and also structural transformations attributed to jumps in productivity and incorporation of peripheral markets with increasing purchasing power, encouraging a widespread phenomenon of expanding and sustained trade volume at cheaper world prices. Commodities, raw materials and consumer goods made up the bulk of this expanding pattern of world consumption. The process of technical innovation spread across the new geographical board composed of the industrializing European countries and North American continent, shaping this innovative nations a dynamic process of exchange of goods and services within their own frontiers, particularly because the richer

countries absorbed technological innovation at a fast pace, putting this improvement into large scale production for their own benefit.

The improvements and gains in efficiency attributed to specialization led primary goods and manufacturing output production to add substantial value to final goods, making exchange activity a profitable venture. Asymmetries perhaps were associated with market distortions and were of likely occurrence in the late 20th century and early twenty-first century. The discontinuities in growth introduced by the structural change stimulated sustained long-term economic growth in some virtuous circles,[20] accelerating through growth the urbanization process and in some cases improving social conditions for change, benefiting workers' welfare after the diffusion of higher market wages took place. Some barriers to growth have to be removed first before growth could be sustained,[21] many identified as the initial factor condition that allowed for powerful exogenous forces to sustain and expand production for world market consumption. The removal of this barriers helped strengthening economic links with countries where productive activity became more specialized acting as a component to satisfy changing world demand patterns.

Adam Smith proclaimed the set of institutional requirements for an upward spiral of *economic* growth, and for the continuous accumulation of capital increase and improvement in productivity.[22] Fashionable 19th century economic theories

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[20] See the works of R.M. Hartwell. 1971.*The Industrial Revolution and Economic Growth* Methuen & Co. London.

Jones. E.L. 1997. *Crecimiento Recurrente.El Cambio Económico en la Historia Mundial*. Alianza Editoria. Madrid.

Mokyr, Joel. Ed. 1999.*The British Industrial Revolution. An Economic Perspective*. Westview. Colorado. USA.

Mokyr, Joel. Ed. 1985. *The Economics of the Industrial Revolution*. Rowman & Littlefield Publishers, Inc. USA.

Mokyr, Joel. Ed. 1990. *The Lever of Riches*. Oxford University Press. New York. USA.

[21] See for deeper details the work of Gunnar Myrdal. 1968. *The Asian Drama.* London. Penguin. Apendix 3. Some of the barriers that are associated with circular causation are: accomplishing conditions for stages of growth, populationexpansion, output and incomes improvement, better conditions of production, rising levels of living, newer institutions, transparent and consistent policies, removal of forces of stagnation, adoption of economic plan and political program, coordination of policies.

[22] See the work of D.P. O' Brien. 1975. *The Classical Economist*. Oxford. Clarendon Press. Especially chapter 8. The Classical Theory of Growth and Development, pp. 206-207.

partially explained productive factor connections to sustain larger world market scale contribution to output, efficiency to propel costs reduction, and gains in efficiency for market growth. Marking such a structural change for market development required taming opposing political commitments to the pursuit of self-sustaining development.

This emerging transformation gradually required developing world-trading institutions like property ownership, worldwide transportation, and banking practices—also concurrent improvements helped increase what we now define a global commercial exchange and its investment system. The world trading process that developed in this intense and interactive period of growth helped advance or modernize the world economic and political system. Along with this modernization process led by a group of much more organized countries engaged in modern productive activities, developed a complex institutional set of requirements allowing for the advancements and improvement of modern investment and production of world mass consumption goods. World demand for trade goods increased as world purchasing power helped diversify consumption needs. However, this social improvement would not have been possible if previous political and trading arrangements had not taken place to satisfy conditions to accomplish for long and stable exchange processes.

This expanding world system mechanism has been widely analyzed by different theoretical development currents, and has been identified with the development of assumptions that relate theoretical elements to confirm resulting structural changes attributed sometimes to the action of exogenous factors and recently to endogenous growth. This dynamic process has been the result of factor movements and variable combinations that according to different empirical developments make these models better to foresee future changes.

Ragnar Nurkse suggested theoretical balanced growth approaches and at the other end of the analytical spectrum Hirschman followers' suggested the unbalanced growth paradigm to better explain sustained growth, now complemented by more sophisticated and rigorous mathematical models where technological change and its effect on growth is attributed to endogenous

factors.[23] Solow-type models started the neo-classical tradition approach suggesting that aggregated factor proportions combined with exogenous variables do well to explain sustained growth.

Contemporary fashionable convergence assumptions of growth are supported by other line of inquiry where authors like Romer, Barro and Sala-i-Martín show, with the help of elaborate theoretical assumptions, that endogenous factors like innovation within the firm explain further growth developments conditions for the economy as a whole, views that are particularly useful for emerging countries making efforts to link their economies to global markets through the introduction of innovative products, perhaps in a different fashion compared with 19th century experience where technology and some factors were exogenously given.[24]

1.1.2. Old and New Conditions for Modern World Trade Expansion.

The expanding trading *process* that developed during the 19th century was the natural consequence of the increasing variety of inputs needed for world scale industrial transformation of inputs into final goods. That is why, a theoretical economic view, associated colonization and foreign investment as elements of the British imperial policy, helping to expand its domestic industrial production that developed during productive revolution. During the second half of that century the decline of the interest rate encouraged export of capitals into more profitable ventures abroad as suggested in the Latin American case by Professor Christopher Platt (1971). Colonization described the process whereby British capital and labor moved out of the country and established a form of transplanted

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[23] See the work of Paul Krugman. 1997. *Desarrollo, Geografía y Teoría Económica.* Barcelona. Antoni Bosch. p. 21 and 71.

[24] See the works of R.M. Solow. 1973. *Growth Theory. An Exposition.* Oxford. Clarendom Press.

Romer, Paul M. 1990. "Endogenous Technological Change.." *Journal of Political Economy*. No 98. October. S.71-S.102.

Xavier Sala-i-Martin. 1996. "The Clasical Approach to Convergence Analysis.." *The Economic Journal.* No 106.

Barro, Robert y Xavier Sala- i-Martín. 1992. "Convergence.." *Journal of Political Economy*. Vol 100, No 2.

Barro, Robert y Xavier Sala-i- Martín. 1995. *Economic Growth*. New York. Mc Graw-Hill International Editions.

British society in the new acquired colonial territory. Descriptions have been made to distinguish expansion based on political and state force.

Dominance from that diffused model, based on cooperation between the parties and concerned organizations, where economists like Torrens and Mill favored this colonization trend, considered that a reformed industrial capitalism system could operate in such a profitable way that allowed mutual—although unequal—benefit for parties involved. Colonization based on classical principles of free trade and free movement of resources ensured or perhaps ensures continued improvements in living standards both at home and in colonies. Marx's pessimism stemmed from colonization as a process where reforms being made would only delay the ultimate collapse of the world capitalist-system, allowing the capitalist class average time to continue expansion through financial capital export, a phase so common during the previous 19th experience and actual globalization endeavor.

The work of Hodgart, *The Economics of European Imperialism*, shows that the period comprising the 1820s to the 1870s represents a carry-over from the old colonial system based on restrictive trade policies and political control. This was a period of anti-colonization associated with political and economic liberalism when formal control of colonies moved towards self-government for existing territories and a general policy of free trade.[25] The period from 1870 to 1900 as suggested by some Marxian historians implies that Britain reverted to formal annexations of territories and restrictive trade and investment policies with her colonies, as the idea of self-government did not reduce Britain's economic activities in the former colonies and sustained economic rewards after free trade deals were achieved. American experience indicated that strong tie of sentiment and mutual economic dependence could prolong British influence and gains in his territory and the political argument was complemented with free trade where involving specialization in production made Britain dependent on other countries for some commodities primarily food and some raw materials, or like cotton and tobacco in the United States. The safety of this trade and investment opportunity

[25] Hodgart, Alan. 1997. *The Economics of European Imperialism*. London. Edward Arnold. P.5. See also Michael Barrat-Brown, 1975. *La Teoría Económica del Imperialismo*. Madrid. Alianza Editorial, and Lawrence James.1995. *"The Rise and Fall of British Empire."* New York. St. Martins Griffin.

could be achieved without formal control when common ties existed between Britain and the formal and informal territory where trade barriers were curtailed by Imperial preferences. Free trade and empire were thus regarded as politically consistent and essential for the Crown Interest (Hodgart. 1977, pp. 16-20).

To Karl Marx, the growth of capitalism required accumulation of capital along with increased monopolization and a secular fall in the profit rate. A foreign market helped to realize profits for capital and consumer goods produced in excess of domestic demand, while the export of capital could reduce the domestic surplus of this saving and investment means. Marx believed that the export of capital allowed the profit rate to rise because a lower organic composition of capital existing in the backward areas could be raised because of the low level of subsistence wages earned by the working class. The lack of controls over working hours and the possible employment of women and children depressed salaries. In terms of organic composition of capital, the advanced countries controlled a higher ratio of capital to labor, so the export of capital to a less advanced area would lower its capital-ratio, raising the marginal productivity of capital, and thereby increasing its profit rate.

Ricardo pointed out that foreign trade provided cheaper wage goods leading to lower wage rates and higher profit rates, reversing the natural tendency of falling profit rates, by allowing the importation of food at prices substantially lower than home produced. The neo-Marxian view suggests that profits are squeezed and funneled to the center countries by pushing down country wages in the peripheral countries. A falling profit rate could be avoided by allowing the area of fertile land to expand increasing capital inputs.

Conventional modern economics suggests a different view to protect markets and remove commercial obstacles to trade: first, by defining long-term goals and deepening the degree of specialization required by economic agents to integrate into a whole business world; and second, by abiding trading rules and institutions functioning according to free market forces.

North suggests that institutional organizations is the element that help in a new fashion the road to promote a new social contract, that progressively consented too by individual countries, leads the world market to increasing the hoard: “first of world capital and second interests less the markets by protected military action,” Thus, larger scale production units may be oriented toward

satisfying expanding worldwide markets, appealing to organizations and institutional controls rather than brute force. This institutional system framework made up of intermingled world components that gather coinciding interests to satisfying "firms orientations according to degrees of specialization needed to compete among trading nations engaged in the formation of a larger world market" (North, 1968, pp. 72-73).

A *world economic-system* as a unit in itself hardly existed before the Industrial Revolution, except, perhaps, when some few nations in Europe and North America achieved a significant market development of regional projection during the 16th and 17th century. Wallerstein (1974) introduced a materialistic point of economic view and suggested by this means that temporarily these nations made a single and cohesive commercial unit of a large geographical scope ruled by speculative and exploitive motives. Trade practices allowed some Northern Europe Nation-States to become interdependent forming a "world-system.." This new system was made of independent political and economic units that gradually increased in number. Despite being politically independent economically assembled into a community of interests making of it an economic world-system mechanism.

The diffusion of the economic activity strengthened commercial links being reinforced itself among emerging trading partners. Where main imperialistic nations aligned their political and economic interests, with to those associated with colonial dominions, informal and other overseas territories. Thus, they exercised power or military force in these places and around the world. Also interdependence grew among political territories or mandates gradually developing a "world-market system, subject to price mechanism rules. In some cases, trade and investment interests coincided with other non-colonial country approach to business, widening even more their political and trading influence and the extent of the world market.

The *United States,* as a particular country-case, pursued a westward North American continental expansion instead of the overseas empire common in European States. Free trade between states accomplished what Douglas C. North (1964) refrained as a larger and more efficient market-oriented mechanism. Politically and geographically, this process linked the country after a national railway transport and water channels system was developed. Technological

improvement economically favored investment and consumption on a world scale. Declining transportation costs helped increase trade volumes exchange. A strong correlation between state railway interconnection and water channels reduced transportation cost circumstance that is considered as one determinant cause that explains growth as suggested by authors like Krugman and Fogell.

Price decline for goods and services dependent on transportation constraints also explain increases in industrial transactions. Inputs and tradable goods easily available on a national basis helped the Union of States to converge into a large and more efficient market. Wide mobilization of financial resources also furthered the steady advance of a continental and worldwide economic process characterized by increasing number of infant investment ventures that favored the appearance of conditions to prolong the path dependence process that culminated in sustaining long-term growth oriented by manufacturing, mining and banking—a notion advanced by authors like David and Leibowitz.[26]

1.2. XX TH Century Trade Blocs and the Global Market.

After the World War II ended, emerging institutions like the General Agreement on Tariffs and Trade—GATT, the International Monetary Fund—IMF, and the World Bank—WB, attempted to organize trade, prevent or overcome a balance of payments crisis and promote development projects. These emerging organizations sponsored as an institution world investment for development in different infrastructure projects in countries devastated by the war or those affected by slow rate of growth, or worse, by generalized poverty. Some exceptional economic new rules—or clauses of the GATT and now the World Trade Organizations—WTO, as a trading institution—contemplated the possibility of achieving preferential trade agreements within selected

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[26] David, Paul.1997. "Path Dependence and the Quest for Historical Economics: One More Chorus of the Ballad of QWERTY.." University of Oxford. *Discussion Papers in Economic and Social History*.

Liebowitz, S. J.Stephen E. Margolis. *Network Externalities (Effects)*.

Liebowitz S. J.and Stephen E. Margolis. "Network Externality: An Uncommon Tragedy.." *Journal of Economic Perspectives*, Volume 8, Number 2, Spring 1994.

Liebowitz, S. J. and Stephen E. Margolis. "The Fable Of The Keys.." *Journal of Law & Economics* .Vol. XXXIII . April 1990.

geographical and political regions to increase growth,extend welfare gains and contribute to the creation of a global market.

Despite liberalization and deregulation programs followed by many countries, trade tended to increase substantially, especially after eight multilateral negotiation rounds were completed to frame the world market through progressive reduction of tariff barriers. Most-favored-nation status and the norm of reciprocity allowed trade to increase and extend border economic activity. However, some of the most developed countries encouraged the creation of a new set of rules to "organize" market access procedures and progressively eliminate restrictive policies, launched to protect developed markets from third world country competition, in particular non-tariff barriers or import restraints which, in fact, violated GATT''s principles.

Some countries initiated a campaign in favor of organizing common trading areas or blocs with the purpose of deviating trade, and temporarily defend local production from excessive world competition as a measure to defend themselves from excessive competition in world markets, especially from industrialized countries. Contracting parties agreed on institutionalization of GATT-WTO regulations to temporarily allow regional trading bloc members to encourage trade among them, protecting markets via a common external tariff, while the establishment of a worldwide liberalization program that was oriented to promote a steadily convergent market as a long run objective.

Cross-border exchange favored industrial integration while the liberalizing of the economies increased cooperation among multinational firms. Thanks to a negotiated process of removing trade barriers and lowering tariffs, transactions and investment flowed among trading partners. Trade currents progressively increased, reaching extraordinarily high historical world levels, especially among industrialized economies. Progressive liberalization of real economic activity invigorated the adoption of global strategies, particularly by multinational companies, reaching a point where raw material access, as well as inputs came to firms from the cheapest world sources. Final products also flowed to different world trading countries and consumption patterns were allocated according to periphery demand structure. Increasing world financial savings shifted consequently with world market returns and declining systemic risk emerged as rational allocation spread by the advanced optimizing criteria. Currency and

credit controls were lifted and exchange rate policy was deregulated leading the world into an uncontrollable and unpredictable globalization process.[27] In this section we deepen on some world global market expansion framework relating some institutional arrangements to integration, coming to terms with some issues related with political economy practices.

1.2.1. Institutional Arrangements leading to Market Integration.

The historical view where international economic relations occur offers some insight to understanding political developments. It is suggested that imperial maritime organization became favorable to local state action to support the creation of institutions favoring to improvements and strengthening of the world trading environment. A system providing a constant flow of economic surplus helped to finance imperial needs, while part of this revenue was diverted to cover defense needs and contribute to the creation and finance of trading facilities and organized institutions all over the empire. Progressively, economic surplus was devoted to these imperial or center countries' needs encouraging individual-trading countries' activities other than traditional production. The latter had been oriented mainly toward improving economic conditions for sustaining market transactions and supporting the state action towards making internal institutional organization more efficient and stronger to sustain growth.[28] Perceptibly this process of institutional change brought political cohesion within countries leading to the formulation of broader Constitutions adapted to integrating trading bloc partners, letting Nation-States organize around social and economic commitments especially after 1945 when colonial order ended.

Gradually in this open market system, exchange activity organized according to bank credit instruments and sound accounting rules, helped to integrate domestic markets and linked the economy to the expanding world trade system. As this process of institutional transformation advanced, states organized for the

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[27] See the works of Ponton, Bretherton, Charlotte and Geoffrey Ponton. 1996. *Global Politics*. Oxford. U.K. Blakwell's.

Reinicke, Wolfgang H. 1998. *Global Public Policy*. The Brooking Institution. Washington.

Walters, Malcolm.1995. *Globalization*. London. Routledge.

[28] See the work of Evans, Peter. 1995. *Embedded Autonomy: States an Industrial Transformation*. Princeton. N.Y. Princeton University Press.

creation of more reliable and democratic political institutions, supporting and legitimizing constitutions, and favoring political stability. Citizen participation in domestic representative politics and the incorporation to national production of regional activity encouraged modernization and organization of social institutions which favored basic aspects of human life. As a consequence of the above mentioned elements, banking system concerned itself primarily with modern Nation-State business and with political institutions such as war, defense, and peace finance. It also included commercial activities like trade, investment, and spread of market-system-cultural-values.

The evolving 19th century Nation-State was also committed to the adoption of deeper legal foundations favorable to organizing market institutions along world commercial principles, allowing competition and rational decision to take place within the expanding national market. Protected local markets circumscribed to activities oriented to satisfy local needs, gradually adapted to spreading economic integration and optimizing principles aimed at enlarging one century latter the open trading and economic system.[29]

Increasing world trade and investment was concentrated among industrialized countries. However, some saved capital as redistributed among factors sector and regions translated in the increase of investment on a world basis, becoming a political commitment of this productive activity, either in to born and enlarged informal empire, or in the spreading action of capitalist engaged in trading activities. Firms and capitalists searched for overseas productive-risk taking ventures like mining and the exploitation of agricultural commodity production like meat and sugar cane. They found that stability of an enlarging and intermingled world economic system was the consequence of feed-back input demands on these new investment flows. Achieving this stability-aim to world markets helped its progressive expansion where factors put into production like specialized labor and new technological improvements—like railways and electricity—incorporated more dynamism to the global market.

[29] For a detailed description of the effects on optimization economic principles and market behavior see the work of Buckley, Peter J. 1998. *International Business. Economics and Anthropology, Theory and Method*. London. Macmillan Press Ltd. Contemporary debate on growth accumulates evidence that cultural factors are also key determinants of economic performance, regarding it as a positive actor for promoting growth. P.5 and 8.

Furthermore, the appearances of strategic and specialized markets located around diverse and disperse parts of the globe led to the development of expensive defense networks required to protect markets against forfeiting. On the world scale, for the British Empire the Royal Navy and the extended maritime ships and vessels network helped stabilize market access for dominium's and other tariff preferential markets. Structural changes produced in country endowments after factor combination and level of income led to broad industrial product demand, where requirements for complex technology use and standardized inputs gradually changed market specialization structure. Changes in world demand composition and in consumer tastes required a new and stable structure of production and an organized mechanism to funnel distribution and exchange of goods to satisfy consumer requirements.

Following these market rules principles allowed economic emerging individual countries' to materialize and substantiate preferential world rules to stabilize market access like the imperial trade tariff relief to colonies and friendly countries. The emergent nineteen-century political and economic order was organized following constitutions that fall into complex degrees of institutional coordination favorable to trade and direct foreign investment including long term loans.[30] The notion of the Nation-State thus developing was associated with ruler sovereignty and economic co-operation among subjects; however, this link was not always evident at that time or even nowadays. This initial transformation that followed, only gradually proceeded to advance into a progressive state commitment to modernizing. In this respect, institutions in the core countries were prone to framing organized trading practices that allowed for modernization of trade practices like those that followed the Chambers of Commerce or other private organizations.

Rising state interdependence for trading purposes was a slow process that certainly helped link increasing trading nations around—complex common objectives developed into power conflicts resolved through formal trading

[30] See a detailed development of the issue of constitutions in the works of Dixit, Avinasht. 1997. *The Making of Economic Policy: A Transaction-Cost Politics Perspective.* Cambridge, Massachusetts. The MIT Press.And North, Douglass C. 1998. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. Cambridge. North, Douglass C. "Institutions and Economic Theory." *American Economist*. Spring 1992, pp.3-6.

arrangements, particularly in the periphery countries, where political and commercial interest matched to help transforming the Nation-State and to expand the competitive world trading system. This system that gradually evolved led to transformations of complex mechanics where members assembled to further facilitate exchange of additional goods and services, while an increase in credit and service requirements necessitated a fulfilling orderly and trustworthy monetary and insurance's transactions.

Exchange became a risky activity where a new and profitable business venture favored party members. Economic activity spread on a world scale implying regular and increasing volumes of capital and combination of factors of production. Therefore, a complex trading organization was progressively organized to match trade requirements. Industrial nations and newly opening markets progressively oriented new activities toward the creation of a world political and economic trustworthy enlarging world market for final products.

A market-dominated role depends on a world-based structure where trade currents move, and also depends on whoever wields power and possesses authority.[31] Trading companies, the banking system, and the transportation network, occasionally relied on the authority of the Imperial Crown to organize and defend trade and investment. Wielded power through military action and quite often by Royal Navy presence expanded territories as well as exploitable markets. Under this political and economic framework, trade could smoothly and continuously operate in defense of a new worldwide developing market.

Imperial strategies to encourage more trade and investment evolved according to countries' geographical conditions and wealth perspectives seen from the core. The strategies followed by governments coincided with the perspective of abundance in factor endowments and the greed of merchants' and their ability to integrate investments to business and finally into enlarging trade currents, thus helping to increase a world distribution of tapped wealth. This process also

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[31]See the original political view developed by Susan Strange. 1989. *States and Markets. An Introduction to Political Economy.* London. Pinter Publishers Limited.

Also see Jeffrey Sachs. 1998. "International Economics: Unlocking the Mysteries of Globalization.." *Foreign Policy*. Number 100, pp. 97-111. The author reckons that international economics is concerned with the trade and financial relations of national economies, and the effects of international trade and finance on the distribution of production, income, and wealth around the world and within nations.

oriented development of the individual country interests, where available political climate for investment and various degrees of economic modernization as new dynamic factors helped to improve efficient exploitation of acquired resources.

This multiplicity of agents that moved markets forward was determined by some kind of initial given conditions in each particular market following a path of observed long run growth. Gradually the interactive and dynamic economic process that commanded Nation-State destiny helped to strengthen market formation and to link this emerging new network of integrated territories to trade and investment. New productive activities and investment in industries such as coffee, sugar, and cattle, progressed around other business like modern transport system that helped to enlarge the market network and reduce transport costs. The growth of this new tradable activity implied a considerable mobilization of savings as well as exchange of investment goods exchanged according market mechanism rules. Some enclave territories or extractive exploitation led to specializing on the export of world demanded commodities, surrendering this activity to the rule of free trade. This, however, was not always seen. As stated by Levin (1964), the Peruvian Guano enclave extractive activities that did not help to enlarge this country market size and raise wellbeing among market consumers.[32]

Development and modernization were not current terms used during earlier expansive phases of world trade capitalism. An appraisal made by Carr, using contemporary vocabulary, suggests that "progress was interpreted as the continuous process in history that would lead the world to a stage leading to a serene and self-confident outlook of the world, where the economic doctrine of laissez faire shaped the world expansion..."[33] Therefore, isolated regions under certain conditions would only gradually transform and become part of a larger and complex assemblage of trading partners where trade agreements helped nations entering into the creation of a new building block open economic systems.

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[32] See the work of Johnathan Levin. 1964. *Las Economias Extractivas*. Uteha. Madrid. In English "The Export Economies." Cambridge. Harvard University Press. 1960. Also in Theberge, James. *Economics of Trade and Development*. New York. John Wiley and Sons, Inc. 1968, p. 20.

[33] See the work of Carr, E.H. *What is Histoty?* London. Penguin, p. 20.

1.2.2. International Political Economy transforms the Expanding World Market.

The broad concept of initial conditions to the appearances of successive stages of development has been associated with investment cooperation among nations. This cooperation has also been recommended to facilitate gradual institutional developments that transform political and economic relations. The result of organizing institutions favorable to trade and investment has close relationship with the development of the Nation-State as well as its constituent geographical components and sectors that once specialize productive activities eases linking the economies to the world economic and political system.

In the past 19th century, the irruption of modern extractive activity blusters, thanks to generalized and favorable trading conditions and to the availability of technology, took rule of the foreign markets. Higher relative prices and increasing trade volumes in world marketplaces implied easier insertion of economies into world business process. Faster growth rates within peripheral country economies brought stronger commercial interdependence among competing and emerging to free exchange nations.[34] Where development of political and economic institutions of emerging Nation-States was possible thanks to trade and investment, coming from metropolitan countries, as well as a direct consequence of institutional improvements made after adapted constitutional economic rules.

During the late 19th century, economic specialization among new trading countries helped to expand the world political and economic system where the liberal tradition widely diffused among colonial territories and other emerging nations. One direct consequence of the intensive degree of specialization of production led to focused investments programs, where increasing amounts of foreign investment and technology transference trends—like the extending railway developments—encouraged sustaining the development process.

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[34] See the essay review of: Paul Cashin. (June 1995). "Economic Growth and Convergence Across the Seven Colonies of Australasia: 1861-1991." *The Economic Record*. Vol. 71. Pp. 132-144.Debin Ma. (June 1996) "The Modern Silk Road: The Global Raw-Silk Market, 1850-1930." *Journal of Economic History*. Vol. 56, No 2. Pp. 330-355. Jeffrey G. Williamson. (June 1996). "Globalization, Convergence, and History." *The Journal of Economic History*. Vol. 56. No 2. Pp. 277-306. Some scholars argue that late nineteen century emerging poor countries did have an impressive convergence in living standards growing faster than the rich industrial countries.

Welfare gains or productivity improvements associated with specialization were conspicuous long-term political economy objectives promoted by ruling nations and prospective investors.

When profit-motive flourished became an initial condition model to induced risk takers to participate in the enlarging world trading-system, the advent of extracting and other productive activities was particularly profitable in the enlarging world economy. Sometimes foreign investors or trading companies achieved successful economic results for world market enlargement purposes or a country's welfare. These speculative trading and entrepreneurial agents enormously benefited from trade, not with remorse and gradually adhered to the emerging constitutions promulgated to order markets following the classical economy assumptions of maximizing profits and taking some risks.

A deep political transformation process was encouraged and promoted by imperial nations. Great world productive transformation processes occurred thanks to the massive world accumulation of capital, specialization and to movements of capital and of factors of production into different markets. The sustained stages of accumulation of capital within nations funneled selective investments into railways, navigation fleets, and the incorporation into world markets of goods obtained from productive activities—like mining—and the incorporation of productive land frontiers into world trade production.

Finally, the process of capital accumulation accelerated in the enlarging world market thanks to demands derived from Industrial Revolution needs for inputs and raw materials. The surmounting economic success of this historical adventure was the result of a combined process of economic growth and different stages of trade creation. Trade became the common denominator for the development of many overseas territories.

1.2.3. Removal of Historical Constraints to Trade.

The progressive incursion by dominant and competing powers into the world market shaped a new structure leading to the development of the international business setting. The liberal tradition prevailing in many countries facilitated a wide incursion by the maritime powers to defend the enlarging international

trading system as suggested by Kurth.[35] The removal of trading and investment constraints that hindered the action of the newly evolving Nation-State became a political power-aim in itself—particularly appreciated by Imperial nations for their purposes with respect to insurance trade and investment in the long run. It did not matter much whether consumption patterns led to improving the welfare of the general population or of the privileged few. What really counted, from the political point of view, was the enlargement of trade currents and increasing world market size. This was to ensure a large power share and the dominion and control of an ever-lasting dynamic economic process that sometimes promoted friendly political developments and on occasion's spells of imperial war. Growth was a consequence of trade, a fact proved when economic theory developed better analytical tools. Welfare gains of trade were already known in England during the 19th century. However, not much knowledge existed on the nature of encouraging actions that would lead to the removal of barriers hindering rapid growth in colonial or mandate territories. A consequence of this imperfect political setting, in what we now denominate developing Nation-States, was that governments sporadically accomplished some structured long-run programs of public works to help improve links with foreign trade currents.

Private investment policies devoted to railway building port construction, or an organization of financial institutions, or extending services like public education, or even public utilities occasionally responded to actions followed by badly financed governments. In general, sometimes public utilities ventures overseas responded to private initiative or interests. Mobilization of world economic resources to the periphery was perhaps not interpreted as a political commitment to general peoples welfare improvement, being rather the consequence of the dynamic and current world business process.

1.3. Identification of New Conditions to Increase World Growth.

Modern international political economy and the science of economics helped to understand why under new set of developing initial conditions for growth the economy oriented to a world where growth was possible, sustainable, and the

[35] See the work of James Kurth. 1998, "Inside the Cave. The Banality of I.R. Studies." *The National Interest*. Fall.p. 34.

economies hopefully competitive on a world basis. This science deepened the inquiry to identify some of the external determinants that helped to expand the foreign sector and obtain from that activity better access to modern technology. The gradual improvement of transportation conditions truly helped to shorten market distances and reduce transaction costs throughout the 19th19th century world trade expansion and the specialization in production. Certainly this historic process is widely regarded as one of the causes of growth improvement; however, a desired process which did not spread evenly to and into the third world with the intensity required to extend the process of technological improvements and gradual welfare gains that characterized the process in the recently industrialized countries. The initial conditions to fulfill these needs in the periphery countries apparently were inadequate to transfer into lasting changes for technological advancement and increasing welfare regarding establishing manufacturing firms or other modern transformative activities. Yet, today we know more about the conditions that generate leverage on political action and that emerging countries must follow a raise in technological investment intensity, proclaimed by the import substitution thesis first and then by innovation firms'' practices. This minimum level; however, is required to create permanent advantages

1.3.1. Economic Theory and the Criteria of Convergence.

The emerging complexity associated with world trade and investment development requires the identification of knowledge factors different from those we applied to an understanding of the traditional growth process such as mechanical transforming tools, and for new conditions for sustained growth due to technological improvements. Under the new scenario, factors for growth are defined as endogenous like in high technology and widespread use of ideas. The New Economic Growth Theory is an interesting phenomenon posed by Krugman(1992, 1995), Romer (1990), Barro (1991) and Sala-i-Martin (1990). Some models attempt important approaches to focus on capital accumulation in the sense that there is a constant return to a sufficient broad concept of capital as the means to generate growth. Another approach suggests that technological progress resulting from the search of innovation undertaken by profit maximizing individuals does raise productivity and generate endogenous growth. The monetary version of this model combines elements of two types of

endogenous growth models—capital and innovation—with the neutral technological change to generate growth. Authors like Aghion explore the need to combine capital accumulation and innovation to generate economic growth, rather than relying on innovation or technological change alone-[36]

Another fashionable approach to growth is the *convergence* theory, which is quite suggesting—particularly for emerging poor countries in the earlier stages of growth and subject to the stimulus of an open economy. This theory assumes that if emerging economies adopts the economic liberalization process as a long-term strategy, they will soon achieve a very rapid rise in the growth rhythm.[37]That is, they raise the speed of *convergence* during the process of liberalization and adopt policies to promote education and incorporate new techniques of production. They will also have to strengthen investment in infrastructure, promote strategies where free interest rates prevail, stimulate free exchange rates markets, and increase the tax base. Under these conditions poor countries will probably grow faster than developed ones. Empirical evidence indicates that liberalized countries grew between 1970 and 1989 at a rate of 4.9% annually, as opposed to 0.69% for those with closed economies. This new stage of rapid convergence can be explained in terms of the production process creating spillover and spreading technical knowledge to improve firms' or countries' competitiveness. Knowledge acquired and developed in one section of the economy will also raise the efficiency in others, relaxing the obstacles associated with decrease in marginal productivity of capital.

Some other authors complement the above argument as they suggest that with an adequate level of human capital capable of taking advantage of the effect that modern technologies introduce on productivity, will benefit the poorer economy from the phenomenon of convergent growth (Sachs, pp. 35-39).[38] In the long run, countries that persist in the Liberalization process tend to strengthen their

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[36] Charles van Marrewijk. 1999. "Capital Accumulation, Learning, and Endogenous Growth." Oxford Economic Papers. Vol 51. Pp. 453-475. P.453.

[37] See also the result of a ten-year research collaboration on a basic model of growth: Philippe Aghion and Peter Howitt. 1998. *Endogenous Growth Theory*. The MIT Press. Cambridge.

[38] See the Brookings Paper on Economic Activity, 1: 1995 the papers of Jeffrey D. Sachs and Andrew Warner. "The Economic Reform and The Process of Global Integration.." Pp. 1-65. And Paul Krugman. "Growing World Trade:Causes and Consequences.."

tendency toward economic convergence and accelerated growth. Some empirical developments show that opening the economy leads to convergence.[39] Convergence considers that during stages of globalization, capital, labor, and transport-cost decline. An open economy forces migration of factors of production, leading to economic growth that is even faster than in rich countries. A technical detail of this theory specifies kinds of convergence. The so-defined sigma-convergence test relates standard deviation of per-capita income dispersion of economic regions with time. As the economy opens, beta-convergence shows the speed of convergence of poor countries—or country economic regions—contrasted with rich ones. Poorer must grow faster than richer in terms of per-capita real income, a path that seems quite suggestive for 21st century developing countries like Colombia.

1.3.2. Mitigation of Systemic Risk to Capital Investment.

The emerging world political and economic scenario for global trade and investment merits deeper considerations on the setting of the initial conditions enabling the creation of newer opportunities for 21st century Colombia. A new world competitiveness environment and the removal of factors that hindered access to technological improvements require access to huge sources of capital. Better communications access tends to attract technologies and venture capital to formulate new initiatives for regional development, as well as to improve investment opportunities to encourage competition in the global market among trading blocs.

The globalization of financial markets is thus the consequence of the capital accumulation dynamics process in industrialized nations. For many years, Great Britain was a great creditor nation, placed in an advantageous position to invest

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[39]See Williamson, Jeffrey G. "Globalization, Convergence, and History.."*The Journal of Economic History*. Vol 56. June 1996. No 2. Pp. 277-306.

Navarrete, Juán. *Convergencia: Un Estudio Para los Estados de la República Mexicana*. Centro de Investigación y Docencia Económica. No 42. México D.F. 1995.

Sala-i-Martin, Xavier. "The Clasical Approach to Convergence Analisis.." *The Economic Journal*. No 106.

Barro, Robert y Xavier Sala- i-Martín. 1996. "Convergence." *Journal of Political Economy*. Vol 100, No 2. Barro, Robert y Xavier Sala-i- Martín. 1992. *Economic Growth*. Mc Graw-Hill International Editions. 1995. HAY QUE REVISAR LAS FECHAS.

its liquid surpluses principally abroad. World Wars and the 1930s crisis modified this globalizing tendency of financial markets when the gold standard was the instrument in force to allow currencies to be exchanged. Particularly after 1930, inconvertibility, high debt from payment of the crisis, and growing inflation in many countries, forced the appearance of protectionist barriers and the emergence of substitution industrialization. Financial economic surpluses progressively generated by multinationals, and channeling of financial savings resources toward other capital markets, helped the number of firms and industrial products and services to diversify—affecting the balance between their traditional power factors. New emerging institutions linked to financial activity then appeared such as investment banks, exchange markets, commodity markets, and the derivative products to finance this worldwide process.

In order to keep internationalizing the economy, certain institutional changes had to be made to preserve foreign investment currents, and Colombia's financial reform came as a response to world trade trends. This reorganization was the result of an emerging need attributable to the change in the world model, reflected in constitutional reforms for financial sector functioning, that is, assimilating the changes in the structure and functions of the Central Bank.[40]

[40] Junguito Bonnet, Roberto. "La Independencia de la Banca Central en America Latina." *Seminario Latinoamericano Sobre Crecimiento Económico*. Banco Mundial, Bogotá 1994.It suggests that recent literature establishes that a central bank will reach greater formal independence when the group of directors and the General Manager have a long term mandate.In general the interest rates tend to be freer and the exchange rate functions on sliding scales.

PART II.

FROM THE GLOBAL LIBERAL ORDER TO A GLOBAL MARKET SYSTEM.

The advancement of post-modernity leads the triumph of chaos or disorder against conceptions of large-scale, long-term social change and of organizational dynamics. Modernity endorses traditional cultures by virtue of predominance of reflexivity or self-monitoring contrasting with a post-modern notion of the excess of flux, contingency and complexity. Modernity brings in the industrial societies that clamor for globalization as the use of industrial technology by human beings. Modernity is coterminous with the industrial society within the bounds of the Nation-State. Nevertheless, modernity may even spread in scope to be global, rather than exclusively national.

Technological development and enlargement of investment currents during the second half of the 19th century and early 20th century started an era of emerging global economy. In this introductory note we foresee according past century experience that remaining in a global market requires the fulfillment of certain conditions that here we enumerate.First of all conditions were given in previous experience so a new global market or wave of progress that e hope will spread during the 21st century—where the Nation-State rules in many places of the world-system will have to undergo important institutional transformations and compete with world governing institutions to sustain and distribute enlarged world trade benefits and also receive these benefits from direct foreign investment as it happened in the 19th century.

Encouraging further enlargement of the world market production frontier in the foreseeable future will need the creation of new political and economic tools to allocate more efficiently the increasing level of world savings. Accountability to control enlarging and diffusing constitutions will be the consequence of supra-national institution's creation that will co-govern Nation-States and influence trade and investment transactions. World product expansion will have to be accompanied by institutional improvements in order to orient productive uses of generated savings and technological advances that came from widespread world savings and investment opportunities.

Emerging world political issues perhaps will differ from past century like the investment trends that followed after the prolonged decline of interest rates that occurred in the world economy. The 21st century will experience new trends in various forms of investment. One of them will be the global allocation of financial capital. This will happen despite emerging global financial crises as the 2008-2014 one in the world market, and the transformation of technology as a public tradable good into a private asset. Firms ownership will continue rational programs to encourage and to deepen Research and Development—R&D activities. These new economic trends will favor first specializing market niches. However, they gradually may be funneled into the emerging global economy, where activities like risk-investment will follow unimaginable paths, where the appearance of a new one-world one market-system—although ruled by supranational institutions—may acquire unimaginable forms. Large trading blocs' rules will act as a substitute for Nation-State constitutions. And investment decisions will undergo according to risk minimizing criteria of different allocation patterns.

Preservation of market rules needs the strengthening of democracy so the military umbrella will cover peace preserving operations; reinforcing democracy in various ways will, for example, preserving civil rights. The liberal world economic environment will resemble the expanding 19th19th century colonizing empires, in the sense that some of the power institutions like the executive and judicial system will have to operate worldwide. The trade of the legislative civil power perhaps will shift from the U.K. Crown legal administration system into the organized world multilateral agencies and a global justice system.

The new and emerging geopolitical setting will be formed by increasing democratically elected parties, whose polity will be checked by a leading new actor as it is the non-governmental organizations—perhaps the check and balances manifestations will depend on freer voting opportunities, humanitarian and civil rights commitments, and international approved legitimacy. Douglas North suggested for this emerging societal environment an institutional design that will hopefully shape government constitutions. Civil society will be much more concerned in the spread of liberties while the productive sector will have to abide world trade rules, like market access, trade mark observance, respect and elimination of protective trade, and investment practices. Transaction-Cost

Analysis in politics, advanced by authors like Coase, Williamson, and North, led to the recognition that various transaction expenses are the primary reason why impersonal competitive markets do not function effectively, requiring the emergence of mechanisms and institutions to enable mitigation of transaction charges. The General Agreement on Tariffs and Trade—GATT, now the WTO, was and is an example of a process that was rendered ineffective because of the uncertainty generated by a weak dispute resolution mechanism, despite of the matter that signed international agreements were fully ratified by many contracting parties.[41]

Learning from the past, as if history mattered, helps to explore and foresee some eventual avenues for trade and commerce to expand, and trends and consequences for the intense process of forthcoming world exchange under globalization, and under trading bloc diffusion rules is expected that trade will sustain growth. Contrasting 19th century world trade expansion experience with emerging world globalizing markets merits a deeper study of evolving scenarios, where institutions like colonization, free mobilization of capitals protected by imperial navy and crown rules, and enlargement of trading blocs areas, will have to evolve around a single world government institution in defense of particular interests like money, trade or human rights. Trade and investment contracts based on new WTO panel reports—dutifully accepted by contracting parties—will enlarge trade currents, free access to technological improvements, and attend conflict resolution disputes; thereby, determining a new scenario for Nation-State relations with supra-national institutions. Another important principle like exercising long term consequences will be the trade-liberalizing tariff reduction. Once agreed upon, reductions cannot be reversed unless a motivated safeguard is properly justified with sudden surges in imports.

This particular and exceptional case must be properly demonstrated before a WTO panel showing that this event is inflicting and causing serious harm on

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[41]Dixit, Avinash K. 1997. *The Making of Economic Policy: A Transaction-Cost Politics Perspective*. The MIT Press. Cambridge. p 45and 55. Chapter 3 illustrates some cases on conflicts emerging on countries seeking to agree to more liberal trade regime as powerful interest group wants protection from foreign competition. Fast Track's FTAA negotiation became an example of bargaining negotiation between Congress commitment to taxes and the Executive right's on Import Tariffs.

domestic import competing industries (Dixit. 1997, p.130). Deeper analysis of trade current concerns comes as a natural response arising from possible paths for trade and investment as a condition for sustained growth in countries ruled by similar constitutions, as suggested by North. Contrasting initial 19th19th century institutional conditions with those in emerging scenarios for the 21st century, may be considered an important intellectual exercise oriented toward understanding and foreseeing trends in an emerging institutional framework amicable to new growth paths or even civil liberties.[42]

One view, based on past experience and another facing a set of possible consequences of globalization where new institutions evolve, come as a natural consideration of fundamental questions like what kind of obstacles are needed to be solved or surpassed to assure that "institutions will really determine the performance of economic behavior." Or, "how is it possible to orient the creation for growth purposes under the shade of efficient institutions?." These simple questions moves the observer to speculate from last century institutions experiences, such as the one associated with rising development of a private capital market as an instrumental factor leading to subsequent rapid development. Historical experience suggests that, thanks to this improvement, Britain's political hegemony and ultimate dominance of the world was assured during the 18th and 19th century (North.1998, p.137 and 139).

Therefore, a difficult assessment for 21st century Colombia is devising the right kind of questions and analytical tools to clearly foresee new institutional changes needed to ensure or at least initiate dependent paths favorable to state and market transformation. These changes would lead, as a consequence, to an increase in tradable world production, bringing a fresh influx of world technological improvements. Consequence of these changes are the incremental and the diversification of export growth trends which will come and will attract a continuous flux of direct foreign investment to overcome the country's extreme backwardness in order to help them to compete in a new and changing scenario.

As it occurred during the 19th century growing path, appropriate sectors took advantage of given substantive initial conditions for growth, while convenient

[42] See the 1998 conference of Douglas C North. 1998. "Where have we been and where are we Going?" INCOMPLETE

institutional arrangements helped further to nourish more world market expansion and to create new market demand patterns. Observing some historical, political, and economic events of this century, and comparing it with 21st century emerging paths, we may learn to observe from different factors possible and transforming world trade market structures. From this standpoint, the old and the new conditions like to support diffusing trends of technological breakthroughs will be need so the world trade may increase and promote an even distribution of trade gains.

Emerging conditions in global markets or even among trading blocs will determine the rise of new productive structures whose architecture seems more resilient to participation within the dynamics of an evolving "one-world, one-market system.." Scenarios emerging during the 19th century allowed commercial trends to increase either under colonial rule imposed on crown territories or in extended producing areas, like Argentina and Uruguay, very closely linked to the center, both culturally and economically.

Conditions set for 21st century Colombia will come, so to say, from a freer world institutional rule. However, under these circumstances, local country determinants for convergent growth will be severely curtailed by different economic-geography circumstances, determining different path possibilities for sustained country growth. Lock-in conditions for growth departures, determined by new world constitutions and economic geography restrictions, will govern the initial conditions for harmonizing growth patterns. This initial condition will impel trends of consumption, investment and production opportunities, and stimulate learning processes for transforming firm's competitive trade patterns. Either imposed trading rules and favorable terms negotiated within trading bloc conditions and globalizing market theorems, will shape world institutions according to powerful economic and political interests of diffusions.

So what we learned from past experience is that the emerging diffusion of technological improvement willoptimisticallyexercise enormous influence on negotiations, demanding special requirements to propel or even deter emerging country growth paths, independently of different levels of their capital intensity or level of accumulation for a possibility frontier. Institutional changes will surge and sometimes evolve in ways favorable to growth; however, an adequate world political environment sensitive to developing countries' interests will be required

as an essential condition to encourage new ruling principles for democracy and respect for world trading rules.

2.1. History's view on Economic Globalization.

Wisfhul thinking foreseen in previous paragraph contrast with what Historians, International Relations analysts, and Sociologists, have attempted to theorize around the idea of integrating their view of the world around a single mechanism where parts are interrelated integrating a world system or a global market so to say making of it a single whole. This is an important approach to understand globalization from the historical perspective as this economic event and social and political occurrence has now spread its consequences among world Nation-states and we can only figure in our minds about its duration and final significances for political change in the near future.

Here is where Bendecto Croce, in his work *In Praise of Individual and Against Universal History and Fake Universals in General,"* proclaimed that all universal history, in so far as it is really history, or in those parts which exhibit historical verve, is always a *particular* history. While a particular history, when and where it is really history is always universal. One enshrines the universe in the particular the other refers the particular to the universe as suggested by globalization analysts this event has roots in self making difficult to control its occurrences and eve its effects. This author points out that embracing all the facts that have been related as occurring in all the continents may be "mere chronicler's compilation,," but his philosophical reflections on the meaning of history are deeper and suggest that the general history, which is the one that compiles information interpreted from various affairs are fore sure useful to take decisions and understand how the modern world system was creatd. When this same author puts forward Kant's idea about Universal Humanity which is conceived as one aspiring for the great confederation of the nations, where the State and its conveyed political decisions represent a warrant to the rights of all men's principles that in globalization might be an extended concept to mankind is widening the view we now have (1966, p. 509, p. 516).

Croce (1967, p. 521) orders some other lines of reasoning and comments on the historic interpretation put forward by Giambattista Vico.[43] This Italian thinker a pioneer philosopher of history that frames many of the told histories into a theory of historic cycles or compiled ages teaches us that these histories converge into some ideal moments where epochs of perpetual progress or even universal change occur and may empirically be observed. Vicos' ideas explained by Isaiah Berlin in his *"Four Essays on Liberty,,"* suggest that after he embraces the application of the scientific method may easily conclude explanations to natural events, as well as relations of human beings, alternative concepts of nation, society, and even cultures, as if a scientific behavior would lead to state predictions. This particular view help us to tale a compared history of two century´s two different accounted events

This deterministic approach to human history is; however, censured for behaving like a natural science since history should not be reducible to a kind of physics that search for unity and symmetry useful to make predictions or even good explnations. Fortunately, at least, this historic current is useful to search for large patterns or regularities in the procession of historical events where eventual historical scenarios can be drawn. The vigorous foresight view adopted by Berlin (1969, p.43) starts from the succession of natural sciences events advising that only in this field of predictions one may correlate to a certain point events with a dose of precision. His criticism falls into the dubious pretension of projecting historical knowledge to fill gaps in the past or predict the future, after applying scientific method to the knowledge of gathered facts as a limited tool to write past and future related events. This author observes finally that the notion that history obeys laws, whether natural or supernatural, has metaphysical origins, so the event of historical explanation that goes beyond the mere description of a succession of events that make it intelligible, at least the most we can do with it is to look forward for a basic pattern or plan to fulfill one particular purpose (1969, p.52 and p.55). This stream of thoughts helps us in this research work just to search for the purpose of comparing it with an unrepeatable set of historical

[43] See the work of Jan Batista Vico. 1964. *Principios de un ciencia Nueva sobre la Naturaleza Común de las Naciones*. Aguilar. Madrid. Refer to the Chronological Table that describes the three stages of the world. The age of gods, heroes and man. Berlin, Isaiah.1969.Four Essays on Liberty. Clarendom Press. Oxford. Pp.42-43.

events—the nature of a similar if not identical world of events, where initial conditions for both 19th and emerging 21st centuries scenarios keep some resemblances, useful at least to figure emerging scenarios where current events might occur.

2.1.1. Spread of the Idea of the World System.

Josep Fontanta,[44] in an extensive and well-documented work, puts forward different historical approaches and describes the effort made many authors look for a final explicatory notion of history. He reminds us about the geographical scenario where some stages of world capitalism developed and will develop advising the reader that history as a tool to make predictions has the limitations observed by Berlin but are useful to build scenarios. Following this line of arguments, Fontana proclaims that some theoreticians developed a new explanatory framework where "center-periphery" countries show economic relationships. In this particular connection, the center countries—as suggested by authors like Gunder Frank and other latino-americanists like Raul Prebisch, Furtado, Dos Santos, Sunkel, and other ECLA economist—see how they exploit peripheral nations; there is evidence that allows to foresee emerging future exploitation according to the dependency theory rules. Fontana explores the idea that the economy developed into a system where boundaries surpassed the Nation-State.

The Marxists ideas that Wallerstein develops—included in its theoretical framework— says that a class struggle structure and an intermediate social plan, whose buffer function relates with stabilizing competing forces, attempts a materialistic explanation of history. To add some dynamism to his system framework, he adds the Kondratieff waves to explain trade's price and volume movements within the world market as gross products expand cyclically through time due to causes inherent to capitalist-system market failures (1999, pp. 228-230). The origin of Wallerstein's ideas, that are developed in his work *The Modern World System* (1974, p. 15), fill the notion that Europe constitutes a kind of social and dynamic system that the world has not known before. For some reason its

[44] Seee the work of Josep Fontana. 1999. *Historia: Análisis del Pasado y Proyecto Social*. Editorial Crítica. Barcelona.

consequences deserves deeper inquire as it became a political and economic entity where rational rules spread beyond empires, states or cities.

Those political entities adopted common rules, but they also could not govern the whole world-system with them, mainly because it became larger than any juridical defined unit. Although for academic purposes it is defined as a world-system because the basic linkage between the parts of the system is in fact economic, other cultural and political links prevail, resembling what we know by institutional economics. The authors Chase-Dunn and Grimes (1995, p. 389) consider that the world system is an interactive complex where international relations and world market relates to each other, that structures such as individuals, firms, towns, and regions, interact in different patterns and ways. These systematic connections that try to explain markets shows some interesting avenues, but they overreach our scope of analysis.

2.1.2. States Assume in the 20th Century a new Notion of Globalization.

Referring to the development of the world economy as a fragment of historical developments, where institutions like money or property remain, we observe that at the end of the World War II the world economy was geographically and economically fragmented and divided into a number of countries and groups that included the sterling area, the franc zone, and economies tied in principle to the dollar as a means of exchange and saving. High tariffs quotas and trade barriers to commerce were enforced. Capital and currency movements were stringent and exchange rates did not respond to market forces. Multiple exchange rates distorted the price of international tradable goods.

After the Bretton Woods Agreement, this fragmentation of the globe into different economies, and not in ex-colonial territories or peripheral countries developed with according to particular interpretations about economic laws that tended to evolve where several economies gradually became financially integrated to a world financial system different of the old gold standard rules. After several emerging negotiation rounds, tariffs were lowered and international trade—which revived the world—became more open.

In the new century international trade rate of growth became the dynamic force of the economy in many countries. They experienced rates of growth substantially higher than world production. Developing countries, like the ones

in Latin America and Asia, received an increasing volume of capital flows. Private direct investment became an important source of capital and technological change in several developing economies. The multinational corporation spread around the world and investment banks increased the number of financed and promoted projects all over the world. As the exchange control relaxed and international liquidity increased financial funds flowed rapidly from one country to another, it encouraged the integration of the fragmented and volatile capital markets.

New theoretical devices improved the analysis of capital market behavior so alternatives to hedge interest risk and improve portfolio profitability increased the participation of the capital market in the sphere of risk investment. The process of intense globalization of the 20th century—especially 19th centuryafter the fall of the Berlin Wall—lead to the rapid growth of offshore financial markets which saw increase in the amount of unregulated money sources. The expansion of capital markets activities increased the business of merging and acquiring of firms leading to substantial restructuring processes as suggested by an explosive presence of academic works that search for explanations about the spread of the global market.[45]

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[45]Axford, Barrie. 1996. *The Global System Economics, Politics and Culture*. Polity Press. Oxford.

Amin, Ash & Nigel Trhift. 1995. *Globalization, Institutions and Regional Development in Europe*. Oxford University Press.

Bretherton, Charlotte and Geoffrey Ponton. 1996. *Global Politics*. Blackwell's. Oxford. U.K.

Dussel Peters, Enrique.1997. *Pensar Globalmente y Actuar Regionalmente*. UNAM. México.

Friedman, Thomas L. 1999. *The Lexus and the Olive Tree*. Holton.

Robert J. 1998. *Globalization and the Nation-State*. MacMillan Press. London.

Anthony and Paul G. Lewis. 1992. *Global Politics*. Polity Press. Oxford.

Michie, Jonathan & John Grieve. 1995. *Managing the Global Economy*. Oxford University Press. USA.

Musbach, Richard. 1997. *The Global Puzzle*.Second Edition. Hougton Mifflin Co. Boston.

Parker, Geoffrey. 1998. *Geopolitcs. Past, Present and Future*. Pinter.London.

Reinicke, Wolfgang H. 1998. *Global Public Policy*. The Brooking Institution. Washington.

Rodrik, Dani. 1997. *Has Globalization Gone too Far?* Institute for International Economics. Washington.

Shannon, Thomas R. 1996. *An Introduction to the World-System Perspective*. Westview Press. USA.

Waters, Malcolm. 1995. *Globalization*. Routledge. London.

White, Brian. 1997. *Issues in World Politics*. London.

Substantial number of mergers and acquisitions ended in a transforming economic world order where multinational corporations acquired equity of many foreign firms transforming them into subsidiaries. This current practice led to a new structure of world market transactions and of increasing intra firm managerial relationship. The global market place for firms depended basically on the assets they controlled rather than on the size of the acquired market. One important component of the 21st century globalization process has been the acceleration of technological change and deregulation that followed.

The gained speed of telecommunications has been crucial to improve the management of the global firm and has helped to internationalize production and diversify distribution channels. Global advertising, global brand names, and global approach to sales, are the core of the firm's globalization process. One crucial political issue of the process of globalization has been the erosion of the traditional Nation-State and conventional view about political sovereignty, as the State is increasingly unable to act unilaterally on economic, and many times, on political matters.

This has made difficult to manage the national economy since Keynesian macroeconomics practices are ruled out and microeconomic practices are difficult to sustain. As globalization proceeds, no governmental organization is in control of global economic affairs as we saw in the 1990's Asia's crisis and in the Global Financial Crisis of 2008-2014.

Chase-Dunn, Christopher and Peter Grimes. 1995. "World-Systems Analysisis.." *Annual Review of Sociology*. Vol 21., pp. 387-417. Emmerij, Louis. 1992. "Globalization, Regionalization and World Trade." *The Columbia Journal of World Business*. Summer. pp. 7-13. Hittelman, James. H. 1994. "The Globalisation Challenge: Surviving at the Margins.." *Third World Quarterly*. Vol 15, No 3, pp. 427-443. Krugman, Paul and Anthony J. Venables. "Globalization and the Inequality of Nations.." *Quarterly Journal of Economics*. November 1995. Vol.CX. Issue 4. Pp. 857-880.

AUTOR?? *The Economist*. "A Survey of the World Economy." September 20, 1997.

Wallerstein, Immanuel. 1999. *Globalization or the Age of Transition? A Long Term View of the Trajectory of the World-System.*". Fernand Braudel Center.

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2.2. International Institutions and World Trade.

Competition for markets among countries inspires the strengthening of emerging world organizations, making local institutions more democratic and transparent and oriented to facilitate organization of markets path development for multinational investment—all of this on the grounds of a global governance stage where ideas and institutions take the lead. The exercises of political power comes closer to organizing in a freer manner the allocation of financial savings on a world scale as suggested by Professor D.C.M. Platt (1971). Complying with common good rules, new strengthening trade and financial organization supposedly contribute to facilitate the emerging environment for business. Observations and comparison about the past and the present suggest that during the last century world economic development helped the market to organize around institutional improvements. Banking and Transportation network, as well as Navy trade protection, enlarged the size of the market in order to increase transactions. Cameron (1970 p. 37) suggests that the development followed within different natural and social environment paths,[46] so private initiative and property rights put into productive work all over the world helped to extended its economic action after its institutional environment improved its normative and organization framework. Private property democratized after the French Revolution. Nobility and the church lost land property rights. This situation favored the bourgeoisie and the new country side emerging middle-class that actively developed farm production. As suggested by E.L. Jones (1997) and Joel Mokyr (1990), other institutions that improved efficiency were the applied sciences endorsed in material productions—these helped to increase productivity both in countryside economic activities as in towns emerging infant industries.

2.2.1. New Political Organizations promote Institutional Changes.

As a school of thought, International Relations help to make possible the comparison between the 19th century world colonial expansions with the 21st century global experience.This independent academic discipline attempts to explain ways to understand how power relations evolve after comparing two

[46] Cameron, Rondo. 1971. *Francia y el Desarrollo Económico de Europa*. 1800-1914. Biblioteca Tecnos. Madrid.

centuries of world expansion. Thus, we attempt to set new goals to foresee effects of new events. That is explaining why the phenomenon of the Cold War showed how world power distribution correlated to progressive and visible world economic events that seemed to be an independent process of world politics. The Realist School of power described the arms race as a means to maintain the bipolar world order, but came short of explaining economic interrelations with world events, or if a degree of dependence among countries that isolated politics from economics was a circumstance that—orphan of a theoretical and explicative approaches—required a new branch of international relations theory to provide explanations or predictions.

The issue with economic integration arises after opening the economy to freer trade conditions in the second part of the 20th20th century. Gradually the integration agenda extended into a wider round of talks just after the 1947 Bretton Woods negotiations took place, where several regional trade agreements prospered in most continents, and culminated, so to say, in the Free Trade Agreements—FTA, with its political extension consigned in the ambitious Summit of the Americas. This is an institutional framework with an aspiring political model committed to the spread and preservation of democracy in the American Hemisphere, the widespread of trade and investment currents, and the road to general welfare. Samuel Huntington in a fore sighting article and then in a consecutive book[47] about western ideas and "modernization," suggests that this integration process not only improves people's welfare but also may be considered as a powerful agent to combine Western Civilization ideals with other world-wide emerging cultures and religions as suggested by the events of September 11, 2001. As modernization advances the future industrial base widens and the urbanization process raise living standards. However, communication and understanding among different cultures may have signs of eventual disruption of the global dream unless improvements in education, health services, and equal distribution of wealth improves and trade, investment, and technical changes accelerates. Perhaps as integration and free trade extends in the Hemisphere, democratic consolidation will strength the pace at which

[47] Huntington, Samuel P. "The West:Unique, Not Universal."*Foreign Affairs*. November-December 1996. P 29 y p 43.

modernization spreads, including the State system. However, a closer look should be given to the NAFTA integration process and US Colombian FTA as the Mexican and Colombian rhythm of social transformation reduces poverty and exclusion. This situation of poverty occurs despite integration attempts like the Mercousr and Unasur search for more equalitarian economic policies.The improvement acquired in the modern sector in these countries does not correspond to the stagnation degree and backwardness stage in the peasant traditional sector and also in the slow democratic and participant partisan process that has not improved the backwardness conditions in the country side.

For the above-mentioned reasons, Huntington and other authors suggest how important it is to promote new political alliance with markets open to trade so the consolidation of democracy, and the liberation of the the region from the reign of terror, guerrilla forces and drug trafficking, will traduce into more societal development.

Further advance in the organization of the institutional environment needs to be accomplished before gains of political and economic integration becomes a current source of prosperity. It is true, for example, that as global markets compete for different and cheaper sources of raw materials and for markets demanding standardized products, where bloc policies will facilitate reaching world standards of efficiency as suggested by authors like Bhagwati (1998). However, closer attention should be devoted to arguments followed by other analysts like Stern (1998) who proclaims that trading within blocks is an expeditious way to improve dialogue and commercial agreements among partners.

2.2.2. Diffusion of Trade Agreements and Formation of Economic Blocs.

Trade Agreements are based upon the clause that country members grant different tariff-reduction procedures to each other. Most favored-nation clauses apply to country members of the WTO Agreement.[48] Some other preferential agreements, trading areas or custom union's agreement, are different expressions of the same most favored clause principle, leading to increased trade currents among signatories. Yet there is evidence that suggests that not always trade is

[48] Access awarded by a common agreement, should extend to third party's country or to regional agreements.

created at the pace expected to reach world levels of competitiveness, or to build competitive niches attractive to risk or venture capital. Last century's experience may shed light on early experiences of withdrawing barriers that constitute permanent changes for capital formation and spread of trade were conditions for long-term growth.

Although the Miami and Santiago Summits of April 18th & 19th, 1998 proclaimed the Free Trade Area of the Americas as a Free Trade Zone, a closer look at the developments of the agreement leads us to think that as an institution transcends the trade agenda it resembles more a geo-political hemispheric commitment. Some of the institutions that will integrate the emerging 21st framework relates with the development of democracy, human rights, education, control of money laundering, fight against drug trafficking, arms control, free trade expansion, and women and children rights' preservation. In general the theoretical fundamentals of the so called Free Trade Area of the Americas—FTAA, lies upon three fundamental assumptions: that an action plan will preserve and promote communities and democracy; that economic integration will promote growth and welfare; and the removal of poverty will improve societal aspirations. However, detractors of this spirit showed in Mar del Plata Summit on November 4th & 5th, 2005 that lavish investment was a wiser rationale to create jobs, fight poverty and strengthen democratic governance. Five of thirty-four members proclaimed that the FTAA proposal would damage their nations' economies and dissenters proposed to wait for the results of the next WTO meeting in Hong Kong and Cartagena Summit.

Before trade agreements were formalized, structural changes had to be pursued to stabilize the economy in different stages of the integration process. By that they meant that liberal reform that will lead to macroeconomic stability will not on itself end poverty, so a reform according to the Washington Consensus meant free trade in the Hemisphere, foreign exchange reform, free movement of the rate of interest, free mobilization of capitals and labor, and the privatization of state firms. This did not satisfy all regional members political and ideological point of view. New trade and investment opportunities areas direct consequence of legal reforms accorded in future negotiation in the World Trade Organization—WTO such as regulations to market access, customs procedures, rules of origin, investment policy, trade barriers, fitosanitary norms, antidumping

code, compensatory rights, intellectual property rights and export services as has been observed in other multilateral rounds as those signed in the Pacific region.

According to 21st century diplomatic conferences, world political power along with world trade experiments will be conveyed if they subordinate economic rules. Therefore, the international political economy will link the advance of technology with climate change competitiveness or world food security, while the institutional process of diffusion of knowledge via innovations changes growth prospects. The preservation of the environment and the control of capital flow movements will be strengthened to overpass the effect of the 2008 global financial crisis. Consequently, the liberation of world commodity prices and movements of capitals may help a faster process of capital formation and economic growth as suggested by tested economic theories like *Endogenous Growth Theory*, published by Philippe Aghion and Peter W. Howitt.[49]

2.3. Modernization and Country's Regional Development.

The subject of state building was formulated by Samuel Huntington in the 1960s. This author shares the classical political modernization theory, whose assumptions is that political development in backward societies would be brought about by introducing institutions according to the Western model. Although he was not very optimistic about the reinforcing sequence of modernization and the development process, he suggests that some conciliation will occur if high levels of expectations are mitigated with wider popular participation, democracy, civil rights respect and better civil administration.[50] In countries like Colombia, socioeconomic development has been related with the involvement of regional growth in the unification of a stronger national market with the Nation-State. This liberal integration process has detractors that have generated bitter political disputes about political representation and participation of the country's taxes during the 19th and 20th century; civil wars and guerrilla confrontation were a common political denominator to attain better property distribution and the exercise of political rights; these disputes have even settled

[49] See Aghion, Philippe and Peter Howitt. 1998. *Endogenous Growth Theory*. Cambridge. MIT Press. In the section 5.3. "Knowledge as Source of Endogenous Growth" we include a detailed bibliography on this subject.

[50] See John Martinussen.1997. *Society, State and Market*. Zed Books Ltda. London. Pp.174-175.

negotiated peace processes with liberal and conservative guerrillas—or rebel groups—like the FARC and other narcotics-terrorist denominations.

The adoption of a liberal market model where price mechanism forces freely work increases the possibilities to regionally integrate the economy and link local markets to either trading blocs or the global market. Although regions eagerly hoped that convergent growth and increasing returns would come as an immediate result of opening the economy to external competition and innovation policies. Evidences included in this essay tend to confirm that backward regions instead of accelerating growth rate above advanced regions level simply show that the convergent growth assumptions do not comply with theoretical propositions for some recent periods of national economic history. This apparent contradiction implies that public investment activities do have to orient its effort to improve conditions for investment and that private productive activities have to spread evenly within regions. However, the same Huntington's work (1996, p.29 and p.37) proposal about modernization conditions' like industrialization and efficiency, urbanization, higher levels of literacy, education, welfare and social mobilization before long term economic development is attainable no matter the proposed political means exposed in the public arena.

2.3.1. The Social Modernization Process.

In Colombia, as in many other emerging Nation-States, the creation of a one single market has been a long term goal and a gradual process of change too. Even the transition from a traditional peasant agricultural economy ruled by the "*hacendado*" class, into one capital-intensive sector with better distributed land property or more efficient means of production, has been slow and politically disputed. Modernization led the so-called modern sector to gain participation in total production when compared with economic progress of the traditional sector situation that creates confrontation between small holders and capitalist exploitations in the country side. Specialization of production in modernizing major capitals, led to fast urban development in some of the country's leading regional capitals. This urbanization process also experienced unequal growth patterns directed to "macrocephalic" country-city development. Specialization of production differentiated regional development and also induced varied degrees of urban specialization among productive agents. The increasing demand of

cheap labor sources among the industry, commerce, and service sectors engaged in repetitive types of industrial production activities, even at the expense of low salaries. The degree into which production specialized increased government tax revenues, resources were obtained eitheras a consequence of higher volumes of industrial production or derived from increasing export of tax revenues. Urban reproductive capital surpassed the rural level of savings contributing altogether to an increase in national income.

This modernization process occurred at the expense of sustaining incomes in the rural areas. Expulsion of redundant labor force and taxing agriculture activities was the consequence of a historical determinant that allowed for internal migrations as suggested by development theories, like those elaborated by Arthur Lewis (1954). An immediate consequence of the dualistic type two-sector growth model was the expulsion of redundant labor from the countryside which flooded urban centers.[51] The rural low-productivity associated with great proportion of the population engaged in producing what it consumed, left little to export or sell to increasing urban demands. The growing urban capitalist sector, where production was more technologically driven and where worker productivity was higher than in the traditional sector, led the economy to modernize urban life. For some time, the traditional sector provided labor to industry in towns, while the economic links between the two sectors showed an unequal distribution of the trade gains.

Lewis' arguments about traditional sector financing the modern sector following the rule where industrial-urban sector paid higher wages than average rural family income. Therefore, labor needs to industry flowed from traditional agriculture sector. Industrial capitalists—who are presumed to be profit-maximizers—hired more workers and as required additional labor to be used; industrial wages remained just above the marginal productivity of labor in the industrial activity. The effect of more labor allocated in the industrial area and more technology components incorporated into the productive sector led to a relative decline in traditional sector participation in total production. Reinvestment of profits in the modern sector seemed to encourage diversification

[51] Lewis, Arthur. May 1954. "Economic Development with Unlimited Supplies of Labour." *Manchester School of Economic and Social Studies*. Vol. 22, pp. 1139-91.

of production, pointing this process towards attending arithmetically growing domestic needs and geometrically expanding export requirements of the enlarging world market. The limit of this model simply can be put in terms of a sudden stagnation of urban transformation industry activities in the face of fierce foreign competition.

2.3.2. City-Region Promotes Sustaining Growth Paths.

The self-sustaining growth approach is associated with the steady reinvestment of economic surplus. Technological transformation and encouraging firms to learn about innovation techniques are new considerations to guarantee endogenous sustained growth, or even total factor productivity where "both rapid input growth and rapid growth in efficiency as sources of rising per-capita income" as suggested by Krugman in his work *The Myth of Asia's Miracle."*[52] Recent considerations on decentralization of economic and political decisions are regarded as a contribution to structural approaches to encourage regional development, and as a source to incorporate politics into the process of growth and social transformation. Sharing power with some other social actors imply a rational allocation of resources from the societal point of view—but also alternatives like de-concentration, delegation, devolution and privatization. This type of bottom-up model relationship looks for a deconcentrated system of local government initiative for mandatory coordination and for integration. Allocating economic surplus—not only at the firm level but also at the local plane— allocates more efficiently economic resources. This circumstance obeys to the fact that knowledge of local needs, and responsiveness to changing local conditions, are better known at local end regional level, rather than national (Martinussen, 1997, p. 210 and 214).

The consequence of a self-reproducing and decentralization activity, together with microeconomics' firm decision, head the debate from persistence of dualism where modern sector coexist with backward sector, to modernization, where growing industries scattered around expanding cities if somewhat connected may help to increase the concentric town's growth process. This growth process via local externalities is what Marshall already denominated a type of

[52] See Paul Krugman. 1994. "The Myth of Asia's Miracle." *Foreign Affairs.* Volume 73. No 6. November/December. pp.62-78.p.68

concentration of producers in a particular locality leading to cumulative causation growth as suggested by other Krugman''s work (1995, p. 49 and 61). If the self-accumulating process wishfully continues, there would be a point where no more redundant agriculture surplus labor will exist in the traditional sector; therefore, this new process would lead to the disappearance of dualism. The marginal productivity of rural labor would therefore become similar in both rural and urban productive sectors, leading to gradual disappearance of persistent inequality in regional development.

The historical review of facts allows us to see that 19th century rural-city development largely depended on the expansion of the traditional and new export sector, where accumulated surplus progressively determined regional and city growth path. New growth paths for the 21st century will deeply depend on global market intensification of demand, especially in developing countries. Emerging country and city activities will depend on increasing world demand for family on basket goods, and perhaps this demand will be deeply identified with the production of goods and services which are heavily dependent and related to technological improvements. Along this new modernization path cities will grow but perhaps much less according to the path previously suggested by Lewis' model. Due to the transformation in the population structure of the country as a lesser proportion lives in the rural sector, the rural labor surplus will reduce its participation in the exogenous growth path of urban sector. Consequently, city growth will be determined on endogenous variable dynamics. Regional development will be associated withproductive niche units which will form productive chains.

The above line of argumentation, when applied to describe historical occurrences, and connect it with emerging initial conditions for growth, allows us to reach some understanding about the dual development approach. Historically in semi-developed countries like Colombia, regional development model dynamics was identified with mottoes like "Progress is the Consequence of Colonization.." The surge of export growth activity around the coffee industry helped Colombia face rapid population growth and demand, and funnel internal migration into coffee producing regions, mainly during the past quarter of the 19th century. These property institutions that followed a growing path became more democratic. This coincided with the expansion of railways and road

network lines, linking producing regions to world trade and also helped to integrate these producing areas with complementary provincial economies (McGreevey. 1975).[53]

The development of urban centers was a process historically associated with the late comer industrialization trend. Emerging industrializing activity at the turn of the century was encouraged by regional coffee savings and also by larger consumer demand. Tariff protection was politically oriented mainly to satisfy treasury needs, while geographic distance and transport costs acted as a protective umbrella letting local demand help spread and enlarge national consumer market goods as suggested by Ospina Vásquez in *Industria y Protección en Colombia* (1976). Modern sector manufacturing activity concentrated in some provincial capitals and growing towns helping to spread development and rising rural wages. Rapid economic growth allowed modernization processes to accelerate; however, it spread unequally, leaving behind some regions' development. Since some backward regions could not catch-up, this circumstance delayed the formation of a truly national integrated consumer's market.

The Nation-State gradually developed—strong cohesive centripetal forces enabled it to articulate towns and regions into a national development project. Italso helped to support long term growth in the modern sector, before a unified market structure strengthened sufficiently, so income would distribute equally and investment opportunities would improve evenly. Conventional exogenous development theory models complemented by modern appreciation's like Barro's (1995, p.27) suggests that social investment and educational progress do help diffusing technological breakthroughs. However, the theory still is insufficient to explain the causes of extreme concentration of benefits in modern sector enclaves, hindering spillovers to spread around peripheral regions. Regional economics' theory still show weak advances to explain why some particularly competitive richer regions still grow faster than poorer ones regardless of some fashionable theories attempting to justify rapid convergent

[53] The work of William P Mc Greevey. 1995. *Historia Económica de Colombia, 1845-1930*. Bogotá. Attempts some econometric tests to establish cointegration proofs to establish directionality between transport network improvements and degree of Colombian world market coffee competitiveness.

regional growth after trade and exchange becomes an open activity and transport cost decline.[54]

2.3.3. The Concept of Economic Geography relates to New Economic Growth Paths.

Old and new regional development theories advanced from examples from gravitational physics laws to original Marshall's considerations on economics of agglomeration, where firms might experience increasing returns due to reducing transport costs. The purpose of these models is to look for explanations on leading causes that conduct to city development (Meyer, 1965, pp. 247-48). Some other suggestive inquiries explain the causes hindering regional economic performance—some particularities identifiable within country regions negative externalities.[55] Sustaining future growth has been a recurrently formulated question and several explanation have been attempted relying on empirical findings tending to relate better factor combinations conditions with exchange opportunities between the country and towns. Gouëset's work shows observable historical developments of four major Colombian cities' growth and its relations to regional development.[56] Another theoretical current that attempts a more comprehensive explanation about specialized regional development and a birth of urban conglomerates relates to the appearance of clusters. Clusters developed in cities around the world make of them more competitive poles that attract specialized labor force to be engaged in modern sector activities. Traditional factor endowments do not fully explain the increasing degree of region's participation in new world traded productive activities. Along with city development, some firms or productive sectors do specialize in modern and

[54] Opening the economy to trade and investment, free access to financial capital and foreign investment, privatization, regional development banking and private investment in public utilities ventures are considered by some regional development currents as prerequisites to overcome countries' regional backwardness.

[55] Meyer, J.R. 1965, Regional Economics: A Survey. In Surveys of Economic Theory. Growth and Development. Volume II. Mac Millan. London.

[56] Gouëset, Vincent, 1998. *Bogotá Nacimiento de una Metropoli*. TM Editores. Santafé de Bogotá. P. 13.

competitive activities leading to predictable development patterns.[57] However, this last trend invites researchers to conclude on policy lines towards further peripheral growth while avoiding distressing inner city decay.[58]

The emerging discipline of economic geography in the field of social sciences gives a powerful explanation of city growth causes under conditions of competition. Open economies under the impetuous of globalization impulses induce transformations in city growth. In *Increasing Returns and Economic Geography* and in other complementary works, Paul Krugman (1993, 1995 y 1996) advances ideas suggesting that a total transport cost model, if adequately formulated, shows that if minimizing transport costs occurs it improves profit conditions for firms. As demand for goods and services grow encourages changes in investment structure decisions. Marshall's considerations—that were based on 19th century British experience—suggests that external and agglomeration economies justify a firm's new locations in progressively developing regions, especially where abundant production factors are readily available. Economies of agglomeration lead to spillovers in places where clusters may develop.[59] Globalization requirements are identified with easy access to industrial inputs and specialized markets.

In *Development, Geography and Economic Theory* (1995, p. 88) and *The Self-Organizing Economy* (1996) Krugman inquiries into the common linking elements

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[57] See for this widespreading literarutrethe work ofMichael Porter, author who has developed new criteria to explain inner city development. This is an interesting line of inquire for countries exposed to the globalizing market economy. See: Porter, Michael. "New Strategies for Inner-City Economic Development." *Economic Development Quarterly*. Vol 11. No1. February 1997. pp. 11-27. Porter, Michael. "The Competitive Advantage of the Inner City."*Harvard Business Review*. May-Jun 1995. pp. 55-71. Bennett, Harrison y Amy K. Glasmeier. "Why Business Alone Won't Redevelop the Inner City: A Friendly Critique of Michael Porter's Approach to Urban Revitalization." *Economic Development Quarterly*, Vol 11. No 1. February 1997. pp. 28-38. Porter, Michael. "The Adam Smith Address: Location, Clusters, and the New Microeconomics." *Business Economics*. January 1998. Pp 7-13.

[58]A pionear work developed by Douglas C. North. 1955. "Location Theory and Regional Economic Change." *Journal of Political Economy.* Vol 63. Pp 243-58, brings suggestive explantion to articulate the role of istitutions to overcome thisshortcoming. This institutional mechanism may help orientation of investments to promote city regions redevelopment and sustaining modernization and competitveness of other city segments.

[59] A formal explantion of this theoremmay be found in Paul Krugman. "Increasing Returns and Economic Geography." *Journal of Political Economy.* Vol 99. No 3. University of Chicago. 1991. p 485.

between economic development and geographical economics, making a formal mathematically proven connection between development propositions expounded by Hirschman on unbalanced growth and causes of spatial location relations between cities. The argument develops ingenious assumptions to improve prediction capacity after establishing that industry's increasing scale of returns connects with declining transport costs and with factor mobility for firms. This argument must comply with backward and forward linkage conditions to reduce production and transaction costs. The convergence factor is associated with the inverse relation between declining transport costs as physical distances between firms and towns shrink. A full theoretical explanation developed along the lines exposed where the existence of imperfect competition and scale returns are possible, merits government policy actions oriented toward reaching world regional exchange of goods, producing substantial scale economies and externalities. The role of factor mobility or technological improvements and its contribution to growth comes from the fact that technology may be regarded as a tradable good, an assumption that still requires further confirming evidence on contradictory situations. In the end, if industrial concentration is rationally organized it will induce economic linkages and assist reduction of transaction costs associated with industrial goods production. If fully understood, fulfilling these proofing assumptions will encourage expansion of city-regions. This trend will become an emerging historical determinant, a viable strategy to follow and a path solution to 21st century Colombian city and regional economic development. Recurrent financial crisis jeopardize world exchange and investment markets, a peril that becomes visible after the global financial crisis that put the world in alert. The aftermath of 2008 global financial and the severe drop of oil and iron core prices in 2015, suggests again that the recurrent world economic crisis raise the question that the solution to global problems is very much dependent on the Resources, Markets and Profits tripod's accessibility.

PART III.

FORMATION OF THE EMERGING WORLD POLITICAL SYSTEM.

The merit of this new chapter is that it deepens into the theoretical view about initial conditions that explain the expansion of the Nation-State as a trade and investment actor, indicating how and why some political and economic facts present during the 19th century led to a modern globalization attempt, keeping some resemblance to 21st century expanding process. Immediately after this historical attempt, we compare this old experience with some elements that helped to shape the 21st century process where power and political influence changes its gravity center from western European nations into emerging Asian and other emerging markets. Consequently, in this section we reveal that new conditions associated with factor mobility and its optimal combination, investment in technology content and new services activities like banking and research and development, deepen on the advance of the emerging Nation-State as a complementing force in world markets expansion.

3.1. The Nation-State in the World-System.

We here in this section retrieve some of the initial conditions that first draw our attention about the 19th century British experience that lead to this modern economy world expansion. We suggest that as its own government annexed territorial dominions overseas their trade and financial investment exercised enormous influence in developing those overseas territories and integrating them into a world competitive market system. This economic extension of the market through supply and demand signals lead finally towards the appearance of the basic "world-system" shape we know today.

One more aspect that draws our interest is observing and exploring how in this historical process the 20th century North American expansion around the world, and the way it is facing world affairs in the 21st century, developed and expanded continuously repeating and keeping some of those initial conditions we observed in the 19th century. Some new causes; however, helped to spread democracy around the world and are presently advancing in the emerging model

of accumulation as innovation becomes a perpetual source of growth. The above-referred picture is complemented with an analysis that suggests that powerful multinational forces conditioned the nature of the Nation-State system and gave the appearance that a world government scenario developed market rules, favoring metropolitan countries to exercise political power through financial institutions and benefit from asymmetrical exchange of goods.

3.1.1. The Sovereign Ruler and the 19th century World System.

The historical view allows us to know with some precision some of the emerging conditions that led to the 19th century expanding British Empire to become a global player in the fields of trade and finance, and analyses the nature of rising conditions that characterize the 21st century world system institution that followed a long term expansion process along the globalization historical cycle we observed one century before. However, after two centuries of world economic expansion, the gravity center of the model shifted towards the United States. The emerging 21st century superpower spreads the modernization tendency to many emerging nations through the influence of reputed political and economic institutions that exercised its power quota in trade and finance activities.

Territories where American influence increased was the result of the gradual application of the ideals embedded in the Manifest Destiny and perhaps a copy or a transferred strategy adopted by British and other European countries in its colonial expanding historical trend. The forthcoming political path followed by the United States was associated with a gradual process of territorial acquisitions westwards. However, its real political power became evident after the culmination of the World War I and World War II when its military and financial power was fully displayed all over the world. Some of the earlier conditions that showed how powerful America was becoming an active actor in world affairs originated in its definitive participation in the Spanish-Cuban-American War. After this conflagration Spain lost its recognition as a world power. At the turn of the 19th century, this kingdom lost its remaining overseas territories in America and the Pacific, culminating with the separation of Cuba and the Philippines as colonies. The United States, a latecomer in the imperialistic race, gradually gained economic and political power as the 20th century advanced. In the aftermath of the World War I, American political power rapidly evolved to a point where its

"presence" in world affairs was regarded as a necessity for world peace and economic stability. After World War II many colonial territories became independent and gradually a net of freer nations linked to the world political and economic system. Therefore a new view of the idea of world affairs developed considering that democracy was an aim on itself.

The conventional view about imperialism is where the monarch was the depository of legitimacy and owner of gained territories. During the eighteenth and nineteenth centuries his greed made him expand the realm towards wealthy European countries. The shape of overland annexations followed by Prussia and Russia classified as representative examples of nineteenth-century world politics, where annexation of Poland and Siberia into their cultural hinterland became part of their enlarged crowned territory countries interests subject to dominant countries political influence (Kurt. 1997, p.5). The enlarging of the European empires brought consequences to the expansion of trade and investment currents.

The consequences of the enlargement of the world market capitalist countries coincided with the modern view about world system creation as proposed by Immanuel Wallerstein in his work *The Politics of the World Economy* (1985). This author shows that linking together many of those missing territorial parts progressively led the world system to the appearance of a one profitable and self-governing bloc. Protectorates, mandates, dependencies or client states, were the consequence of enlarged geopolitical space where empires deepened its political and cultural influence among natives. However, crown officials administered their territories linking its economic activity with world trade. In British India maharajas politically ruled the different princely states, while the empire organized the generated wealth according to a new set of trading rules as suggested by Foreman-Peck (1974, pp. 245-270).

Political rule within these acquired territories was exercised following a central government procedure regardless of whether they were colonies, mandates or independent countries. The inspired political spirit that followed within the newly gained space allowed for a supposedly perpetual peace, while in this environment, culture manifestations, the art of politics, and economic practices comprised a new unit that melted into the reigning imperial idea of a trading nation. "That broad unity of pursues prospected around empires allowing different styles of local government to exercise trade and primeval investment

ventures while in cases politics was the inspired version of the common goals ideals that justified a prolonged cohesion to commercial exchange activities."[60]

Imperialism was of course not a new political notion, as the Roman imperial idea was implicit in Roman law, architecture, the Latin language and the Roman family, which embodied its concepts about culture. So deep were its roots that after the empire declined, these features lived on within the institutions of the Roman Catholic Church. The Habsburgs of Austria, the first real empire of the modern era, promulgated the belief that it was bringing about the restoration of the Roman Empire, and that the Old World would melt into the New. At the center of the imperial idea were the Roman Catholic faith and its conception of the human condition. This can be seen in areas as diverse as government, law, economics, city planning, public architecture and the private home. Real local autonomy was contained within centralized authority and the governing body formed by members exemplifying the human ideal of the mature person who had experienced enough of life's challenges and judgment to be able to govern others for the common good. Such a degree of maturity could only be reached after adulthood.

The British Empire as a geopolitica notion had, perhaps, a practical and more sophisticated vision for government ruling combining the spirit that characterized the Habsburgs with world business. Beyond that, the British imperial ideal evolved so as to be less cohesive, less centralized so to speak, while one central idea remained which was parallel to inspiring the cultural ascension of Roman Catholicism (Kurt. 1997, pp. 4-6). The ethics of Protestant Christianity became a common denominator for expansion of the emerging imperial state attempting in some of the preferential dominions to enclave its high church communion. The idea of a less centralized and less cohesive form of government had a long tradition that had evolved since the time of Elizabeth I. However, the British conception of the sovereignty of the monarch was only similar to the French, being the great difference the attributed independence for self-government given to different nationalities of Scottish, Welsh and English. For the French the conception of Nation-State was an unambiguous concept. For the

[60] See James Kurth. 1997. "The Adolescent Empire. American and the Imperial Idea." *The National Interest*. Summer. P. 7.

British the loyalty to the Crown identified with the derived benefits attributed to the enlarging trading empire mechanism that self-financed the wheel of world expansion. From the sixteenth to the nineteenth century, trade developed from merchant-adventurers trading pattern to a set of more interdependent productive economic activities fully integrated into a large world mechanism. The increase trade volume and flows of circulating capital created a world free trading bloc where a structuring price mechanism became the common denominator that linked many countries to one single aim.

Historical evidence shows that some of the initial conditions for the formation of a world market mechanism where a whole market could operate required institutional changes; for example, arrangements, such as the repeal of Corn Laws in 1846 or the return of colonial tariffs or imperial preference as in 1932. These practices allowed the British to think of their international politics as being the main force for spreading and maintaining freedom of trade, for the betterment of all. This betterment of welfare conditions relied also on some other institutional arrangements, like the structuring of British imperial superiority. This superiority strongly relied on naval and arms power. Legitimacy of power, therefore, greatly depended on the soul of the British Monarchy and on the derived cohesive force attributed to loyal service to the King. Imperial legitimacy was based on the prolonged peace they had to offer to subjects and to the economic prosperity derived from sustained growth and the spread of culture to be inherited by subjects.

The Ruler Brings Perpetual Peace.

The German philosopher Immanuel Kant suggested in his work on *Perpetual Peace* that each state should accomplish the principles of freedom for all members of society, where the principle of dependence of all, depended on a single legislation as subjects. He also proclaimed preservation of the principle of equality of all as citizens, as a set of dear political principles to be followed by states to accomplish an original contract.[61] Contrasting these principles, it is evident that a central political ideal of the British conception of empire is closely

[61] See the work of F.H. Hinsley. 1967. *"Power and the Pursuit of Peace."* Cambridge University Press. Cambridge. pp.70-71. His positivist idea of world government must be replaced by the negative substitute of a union of nations. The union of nations to that end responded to the voluntary acceptance by separate states of a rule law.

tied to the rule of law and to following the Monarch as an ultimate power ratio. The centrality of the monarchy to cohesion of the Empire was recognized and reinforced by the political decision of Queen Victoria to become Empress of India. The good and mature administrator overseas observed the disposition to preserve the loyalty principles best observed by the "Oxford type educated servant, personifying the almighty ideal virtues of loyalty, duty, honesty, integrity, common sense and good judgment" (Kurt. 1997, p. 8).

The French conception of empire perhaps evolved a little bit differently, in defect of a reigning monarch. Nevertheless, this country was the second largest empire in the world up to the 1950s, where the center of the French imperial idea was the French Nation-State, a political figure so dear to the 19th century emerging independent republics of Latin America, which organized according to the principles of reason. Nevertheless, this idea perhaps less universal than that of the Habsburgs, was national in conception. For the French political model, the conception of the Nation-State may be regarded as the center of political cohesion, mostly true for some 20th century20th century global trading partners. The French regarded reason as more universal and the "French National Culture" considered the most classical, logical and rational of cultures with a universal appeal to be extended and followed by other nations. The perfect administrator, in this political and administrative conception of peace was the man of action and the mature and rational as well as efficient administrator of others for the public good. The British ideal of the good administrator had to be reached through experience, while the French ideal could be achieved through education, as the 21st century "talented and younger business administrator.."

3.1.2. World War II: the New Order and Democratic Principles in the 21st Century.

As we saw, 19th century empires justified its legitimacy either on the soul of the Monarch or on the interpretation of the degree of freedom that develops around a liberal constitution. The expansion of liberty in the American continent led to the emergence of several democratic regimes that tried to rule the State according to the liberal rule of the division of power. America's power strongly developed in the twentieth century leading to a new conception of world power—implicit in the Clausewitz mandates for peace embodied in the principles of "Total War."

The political results of a universal conflagration emerging after the WW I and II ended suggested that a rearrangement of power would follow leading to a different world order.

This explosive manifestation of ultimate reason of power was first of all the consequence of its refrained insular position. Also, the great leap outward from Western Hemisphere to the world itself, in particular towards Western Europe and North East Asia, resulted in the first great consequence of WW II. This sudden geographical and power expansion was not the result of an action oriented to build an empire as it did occur in previous centuries, mainly in the European nations Its emerging presence in the enlarging world was the consequence of a deliberate political organization that initially progressed and later accommodated to the new competitive environment. Here, some important initial conditions that had already developed in previous centuries now flourished into new political and trading rules, changing relations within emerging democratic and decolonized states. This kind of situation was particularly visible after ex colonial nations acquired their independence and larger territories had to align to ruling 20th century ideologies.

American generals and strategists, as well as succeeding presidents, were the architects of victory and of a New World Order that evidently would be in conflicting positions as not all the world shared the same ideology and economic principles. Maturity of experience, understanding, and good judgment, allowed these American leaders to shape the NWO according to the liberal view they professed and proposed for their surrounding world. Victory, judgment, and mature thinking, put America in the position to shape a world order where democracy and market economic development would eventually lead to shrinking the world market into a single unit.

WW II was an important initial condition for a process of deep and perhaps permanent change in the line of a progress. A long gestation period took to the emerging world power to exercise full control of the world affairs. World power experience has been concentrating into the hands of different geopolitical actors as suggested by Parker (1998) in *Geopolitics Past, Present and Future, while w*ith victory, things changed quite radically where the competing geopolitical centers shifted to Washington and Moscow. This situation led European leaders, and in particular the British Foreign Office, to perceive differently the emerging world

order. Certainly, men like Churchill, Adenauer, De Gaulle and Gaspari understood what American leaders could do to shape and design a NWO.

The best the Europeans could do was to adapt to what Americans regarded as the need to satisfy particular demands developed to satisfy new commercial policies, a view fully conceived to accomplish emerging demands for a new world commercial order (Kurt. 1997, p. 12). The welfare benefits of this emerging order would bring to the American World Economic sequence the dear benefit of governing political affairs around a new sphere of influence where main poles were Western Europe, Japan, South Korea and Taiwan.

Democracy became the only world political command that could guarantee and preserve peace and prosperity. This was regarded as the ideal that so much encouraged progress in the referred areas. Weaker external economic conditions made the Latin American continent an unstable place for the rule of a world democracy—no matter that business activity did prosper for decades. From the economic point of view, the shortage of foreign exchange and reliance on import substitution industrialization marked the greater part of the 20th century in Latin American. The policy was regarded as very anti-liberal but for the Cold-War-period-purposes: very convenient. The interventionist policy in the economy was regarded as incompatible with democracy and to global free trade rules. Nonetheless, sustained growth did occur in some countries.[62] Princeton's Albert Hirschman *Theory of Economic Development* (1957) showed that some public works investment efforts in infrastructure—although good for the encouragement of growth—coexisted with lavish expenditure. This unwise expenditure was required for the populist support to dictatorial regimes in some of the region's Nation-States. Some investment in the industrial setting progressed around the continent. However, preconditions for growth—like infrastructure projects—

[62] For a discussion on the benefits and shortcoming of tariffs as a protectionism device to allocate scarce resources, see M. June Flanders. "Prebisch on Protectionism: An Evaluation" in Theberge, James D. *Economics of Trade and Development.* John Wiley & Sons, Inc. New York. 1996, pp. 298-322. Due to lack of foreign exchange and deterioration of the terms of trade, Latin America relied on a change in import composition and on specializing in industrial production on consumer goods to deepen development. With this policy relied on favoring better allocation of productive investment. Tariffs were thus regarded as a primary device to allocate scarce earnings of foreign exchange, not as commonly appreciated by pro-open economy to altering the level of trade.

were put forward by corrupt military regimes. As a result, oversized industries like cement and iron production were regarded as indispensable investments to produce required inputs for developing infrastructure projects and considered the fundamental base for the industrial diversification process.[63] Reasonable degree of development together with overcoming the Cold War attention to possible war scenarios would inevitably call for reincorporating several nations to the free trade market scenario. This perhaps marked the end of the Cold War effects in continents like Latin America.

New political developments in the defense of peace correlated with prosperity and to the opening of the international economy organized by the United States. This nation considered that the increased trade currents and direct investments would help sustaining growth in most developing countries. Sponsored institutions like the International Monetary Fund, the World Bank and the GATT organized a set of development plans to fulfill those political and economic purposes. As a consequence of this world development policy, aid and investment projects spread all over the world. Preferential tariffs, colonial pacts, product quota agreements and protective industrial tariffs were first used as trade organizing mechanisms around global ends.

Gradually, as the interventionist view in the economy faded way, the American worldview towards free market rule became an impervious ideal. This view allowed for the rapid increase in the rate of growth of the world economy in particularly in Europe and Japan, and later on in the poor developing countries. Larger accumulated investment in technology helped the States for the export orientation of firms, so the enlarging multinationals firms setting approved for successful business operation to extended trading areas and organize markets around constitutional rules. Well-established business activities acted as a

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[63] See also Lauchlin Currie in *Operación Colombia*. 1950. And *Accelerating Development, the Necessity and the Means*. Mac Graw Hill. New York 1966.Hollys Chenery's "Patterns of Industrial Growth" in *American Economic Review*. Vol 50. No4. Sept. 1960. P. 651. Carlos Diaz Alejandro. 1976. "Foreign Trade Regimes & Economic Development."National Bureau of Economic Research. And Richard Nelson, T, Paul Schultz and Robert L. Slighton. 1971. *"Structural Change in a Developing Economy."* Princeton University Press.USA, p. 175. In this type of literature it is argued that after infrastructure investment priority is fulfilled, a pattern of investment follows where rising standard of living needs an increase in import requirements beyond Colombia's ability to pay for them, rising in Vanek's view much foreign aid. This type of discussion rose two-gap model proliferation.

deterrent to the spread of communism, while regarding as a useful political and welfare aim to maintain peace in selected progressive countries even within the tensions generated by the Cold War period.

3.1.3. The Cold War and the Emerging Power of the International System.

The rooted realism theory of International Relations seems to be an interesting paradigm to offer explanations about the relationships existing between power factors and economic interest at a world scale. During the 19th century, world power order was determined by the conditions imposed by Imperial States. Territorial annexation and incorporation of countries into the world power system was followed by the application of the rules of free trade a policy resting on the assumptions of the comparative advantage. The emerging order according to the view of Foremen-Peck (1995, p.1) signaled the degree into which national economies became actively interdependent members, particularly after World War II ended. His research shows how a differentiated economic relation developed after the British 19th century experience, suggesting that while integration processes strengthened, not every country was equally benefited from this common global and political purpose. To stabilize the new 21st century emerging world political environment, larger trade flows had been channeled around the world and became consistent with the political stability needed by the new-world trading nations. These increasing degrees of interdependence gradually augmented the needs of developing an international relation theory that would explain why the national power aims should harmonize within the enlarging frame of world economic interests.

Realism in the 19th century conferred to the Nation-State some margin of competition, so democratic nations would allow for the creation of an institutional setting that would stabilize and reorient the flow of the gains of trade. Many independence wars were observed since the 19th century in Europe, where in Latin America and elsewhere the degree of interdependence among nations gradually increased and strengthened. As de-colonization advanced in the 20th century, emerging political territories adopted either totalitarian regimes or became more democratic, while many world political and economic organizations emerged to rule and defend some democratic principles and market interests. World organizations launched complex trade and investment

rules set for harmonizing nation's relationships and for preserving peace and promoting world economic growth. The concept of Nation-State since then has been changing to face those rules adopted by larger world-system organizations. After the WW I ended, trade improved all over the world as suggested by Calvocoressi who proclaimed that the economic interdependence of different parts of the world was characterized by recurrent signals of instability due precisely to the lack of enforcing world order mechanisms[64].

Political and Economic Importance of the Term Cold War.

The introduction of the notion of the Cold War view seems to be appropriate to understand that world politics and international political economy do have strong relationships and that its full comprehension allows us to see how post-war globalization spreads around the world. Onwards, to see about the existing connections between economic and business global activities permeated the world market. This last element may be advanced as a crucial factor in determining the direction of world affairs—particularly after the end of the Cold War. The work of Francisco Veiga comes to our attention in this respect because it allows the distant observer to have a closer look of what the initial conditions were for the Cold War to develop and what its consequences were for the spread of democracy in some parts of the world[65].

World War II demonstrated that the excessive concentration of power in one nation did not bring exactly peace but ferocious warfare. The germ of the end of the War was born just after the "Barbarossa" operation took place in which Germans launched a surprise attack on Russia, and after Japan in Pearl Harbor surprisingly attacked the United States navy. Serious historical analysts suggest that both Washington and Moscow were surprised by these sudden attacks. At this point the laissez-faire policy adopted by Churchill against German and Soviet war involvement obliged after this event the precipitation of America's involvement in the War. America experienced a profitable stance as a pacifist and an absentee force within international conflicts, position that suddenly changes demonstrating that the involvement in the conflict would allow for a realignment

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[64] See the work of Peter Calvocoressi and Guy Wint. 1981. *Total War. Causes and Courses of World War II*. Penguin Books. London. P. 35.

[65] See the works of Francisco Veiga, Enrique U. Da Cal and Angel Duarte. 1997. *La Paz Simulada. Una Historia de la Guerra Fria*. 1941-1991. Alianza Editorial. Madrid.

of power as suggested by Calvocoressi (1981, pp. 143-148). A different understanding of the Cold War was launched by the author Ambrose (1976, p. 103) who showed that during the War the involvement of America simply occurred because of the fact that the struggle for the Balkans was a strategic matter. This scenario involved European Powers in a conflict for an area rich in human and industrial resources vital for both sides.[66] For Russia the expansion to the west was permissible since they considered that the East European territories were regarded as a buffer territory that would protect Russian territorial integrity against eastern expansion by western industrial powers.

The existing superpowers or Allied nations saw in Munich that Stalin attempted to form an alliance with Britain and France showing that he preferred not to sleep with the Nazis. However, he secretly signed the Nazi-Soviet non-aggression Pact, and provided for an eventual division of Eastern Europe between Germany and Russia, in case of war involvement. Ambrose (1976, p.105) emphasizes about the big perceptive mistake in that the Americans shared the belief that it was possible to have a Eastern European set of governments that shared both capitalistic and remained friendly to Russia, thus maintaining the pre-war social structure. In other words, they wanted the landlords, the Church, and the factory owners to remain in power and open Eastern Europe to American investment and tie it to the Western European market through extensive trade practices.

Holding East Europe to serve as an economic colony of the West, allowed to supply raw materials which later would be converted into finished products and sold for high profits. To accomplish this economic end Roosevelt at the Yalta conference in February 1945 encouraged free elections in Eastern Europe to link these nations to Western interest. The war came to an end and the Red Army had already overrun pre-war Poland. This strengthened Stalin's hand, while the United States was desperately tried to get Russia into the war against Japan. At Yalta, Churchill and Roosevelt attempted to retrieve the situation by insisting on a broadly based Polish Government including prominent figures settled in London. Lenin agreed to free elections as soon as possible restoring old ruling

[66] See Sthephen E. Ambrose. 1976. Rise to Globalism. *American Foreign Policy, 1938-1976*. Penguin. England. P.102.

classes in Poland, thus giving the West the best of all worlds. Stalin; however, did not intend to give up Poland and did not accept the Western interpretation of Yalta. For the Russian people, Poland was a matter of national security as it was the historical corridor through which the enemy had always swept in. After "Barbarossa," the European continental war became global. Once the conflagration ended, The United States and the Soviet Union emerged as real political and military superpowers. Bearing the nuclear responsibilities after 1949, both superpowers not only erected a defensive nuclear shell to prevent any surprise attack, but to also increase world political and economic influence among nations.

The Emergence of the Superpowers

A new generation of nuclear weapons encouraged stronger polarization between the United States and the Soviet Union as the world's two superpowers. Summits celebrated among allies had attempted to overcome war uncertainty since 1941. The Terranova conference celebrated in August 1941, between Roosevelt and Churchill attempted to establish political foundations for a forthcoming Anglo-American alliance, particularly in order to support ships in the North Atlantic against any submarine attack. The Atlantic Charter, which included 84 political aims to accomplish world peace, encouraged the immediate cessation of warfare aggression, peoples' right to choose ruling leaders and freedom to trade. Freedom of expression and religion, as well as a fight against hunger and fear became moral fundamentals of the Charter. In November, the Teheran Summit, with the concurrence of Stalin, developed the fundamentals of a new global order. And as the Axis countries would lose the War, a new shaped world would develop. In 1944, Churchill flew to Moscow attempting to settle the future of Eastern Europe, particularly after the Soviet invasion of Poland and the Balkans as suggested by Veiga (1997, pp. 20-24).

Churchill and Stalin discussed and agreed how to divide the world. This political world division was considered too serious a matter of discussion to dare include American opinion, unfortunately, free elections were considered by Churchill as a means to exercise the right to influence politics in these countries, an opinion not shared by the Americans who preferred a global settlement scheme. The Yalta Summit in 1945 concluded with the military realities that Churchill and Roosevelt were forced to accept that the Red Army had occupied

the Balkans, Poland and part of Hungary. Stalin's ambitions within the Mediterranean and Near East were frustrated thanks to the military presence of Anglo-American troops within the area. After this intense diplomatic compromise, Roosevelt encouraged the creation of the United Nations as a world institution, and allied countries agreed on the demilitarization of Hitler's Germany. The next Summit in Potsdam in April 1945 did not include Roosevelt's presence, as he had passed away and Clement Attlee had defeated Churchill. An armistice never was signed between allies and defeated Germany, thus starting the Cold War (Veiga, 1997, pp. 25-27).

The Cold War and the World Culture

World Wars showed the importance of regulating the power of arms to prevent future confrontations, it also made evident that a special order was needed to overcome conflagrations. A crucial importance was given to a new economic order where trade and investment were regarded as elements useful for the new peace. As the empire of world trade expanded immediately after the war, some emerging conceptual elements tended to shed some light on the circumstance that affected further trade expansion. Some authors like Samuel Huntington attempted a novel explanation to show that for an accurate interpretation of international relations a perspective must be developed on the significance of the cultural aspects.[67] This author tried to explain via comparative politics that a new set of initial conditions must be taken into account to explain post-war world expansion.

First of all, he considered that in examining the rise of the Nation-State in world affairs, it is true that America became the leading country but also the transmitter of its culture, particularly after the Cold War ended and its effects were felt in many regions. However, instead of spreading deterrence, the major commitment of this great nation was the concentration of efforts to support and extend democracy around the world, following a path that would lead to the extension of its principles in many countries. This circumstance implied the

[67] See Samuel Huntington works' regarding the expansion of world democratic system and the degrees of interrelation regarding existing cultures. *"The Third Wave. Democratization in the late Twentieth Century."* Paidós Ibérica. Barcelona. 1994. *"The Clash of Civilizations and the Remaking of World Order."* Paidós Ibérica. Barcelona. 1997. "The West Unique, Not Universal." Foreign Affairs. Vol. 75. Number 6. November/December. 1996.

adoption of a new political enforcement element in the world system to propagate its supportive principles, mainly because American statesmen considered that the adoption of this paradigm by many nations would strength democratic country's interrelationships within the global system.

States in the international arena politically manifested their interest in accomplishing democratic ends, according to distinctive cultural characteristics. For example, great religions would obtain an important space to endeavor, influencing people's course of action and state relations. Yet, unstable political relations and war scenarios marked the realist tradition between states, and also did the economic and cultural transformations that followed, making quite difficult to maintain amicable conversations among nations. The realist tradition marked a natural development of affairs, particularly when European powers attempted to support their relationship based on the principles of the balance of power. That at least was the case when Great Britain and France, competing for overseas supremacy, not only gained market access, but also extended their own cultures through appropriate institutional channels, despite some vestiges of military ambitions.

The widespread realist perspective gives important descriptions and explanations about the causes and consequences of the great wars during the 20th century. The security dilemma that followed after the armed conflagration turned into a ferocious arms race and competitive pursuit for emerging markets. Sometimes this race attempted to please the egoistic pursuit of national interests. Within this unstable environment, it is not surprising to see that nations devoted substantial resources to increasing national power. The realist concepts and precepts like the balance of power originated in the limited accomplishment of a perpetual peace. This was an ideal that depended on the applicability of containment policies that finally led to prolonged and horrendous wars (Kurth, 1998, p. 30). To face a new competitive global world system the adequate knowledge of country's culture supposedly allowed for the better organization of world affairs.

Developing Nations Drawn into the Cold War Environment.

Deepening into this aspect of cultural developments and differences, brings into the fore the fact that the emerging developing nations surge as new components of the world system. Scholars that attempted to understand and

explain how the Nation-State emerged as a real political entity in this new global order searched for explanations to understand how better to link emerging economies into the world activity. The development of this enlarging system, that is also economic, characterized by the improvement in welfare terms of the richer nations—while not so optimist—was this picture for a larger number of poorer nations. Trade benefits gradually started to increase while power relationships with larger nations certainly developed into a complex set of deals. Trade and politic links were not adequately understood before the War. E.H. Carr in *The Twenty Years Crisis* tried to understand for the first time the political and economic causes that strengthen the link between governmental authority and mercantilist theory. He attempted to understand the causes of the expansion of trade and the connection between the improvement of world welfare and the causes of enlarging financial exchange. Carr found some causes where the exchange of tradable world goods increased and saw that new economic actors continually emerged on this power and economic scenario (1995, p. 7).

Within this power exchange mechanism a factor that gained important political preeminence was the technological element. Along these line of analysis some researchers found that the widespread diffusion of technological improvements among nations and firms become a source first of tension and then of exchangeable public goods. Therefore, a country's competitiveness with international actors depended more than ever on having access to high-value added goods. Access to technology, according to this emerging realist tradition, became a fundamental prerequisite to reach the commercial world on a competitive basis. Along these lines of inquiry governments attempted to search for technological sources. The latter is now regarded as an indispensable industrial component for production; having access to technology is a political end in itself.

The structure of economic development that came as a consequence of modernization[68] is now considered to have an important endogenous component to explain sustainable growth. In international political economy the implication of having prompt access to this source of technological improvements has become a political end in itself that also contributes to regulate states relationships.

[68] A term that became fashionable after the Cold War spread globally.

Admittance to private and public technological sources is becoming a political aim in itself, where conditions for a nation's further development are not only hopeful, but also a source of conflict as suggested by international relations theory and new global political view. Comparing 19th-century Industrial Revolutions with the actual process of globalization will help us to decipher possible dependent trends where developing nations may reach progressive development paths and gain participation in world trade volumes.

3.2. Democracy and Globalization.

In the new global environment the appearance of an increasing number of democratic Nation-States has become a matter of common occurrence as suggested by Sachs (1995) and Huntington (1991). In the chapter four of *The Third Wave,* Huntington shows that the democratization trend has intensified after the 1980s, bringing more than twenty-five nations into the democratic world. Some of these nations transformed into a democracy as societal practice encouraged the conventional methods of freer elections, party negotiations, compromises and agreements with the civil society. Political differences among competing parties started to be freely discussed and the civil society committed to frequent elections and non-violent practices. During the first and second wave of emerging democracies, twenty countries adopted the freer election system, while in the third wave more than thirty adopted this type of participative regime.[69] However, it is quite difficult now to know in advance how many of these democratic regimes may return to an authoritarian type of expression or worse: fall into the realm of populism. In current day Latin America's affairs, some countries have succumbed to the uncertainty of populism and displayed belligerent animosity towards neighboring countries while the Arab Islam Spring experience surprises the world as many Arab nations return to democratic rule—although in some of them authoritarianism, religion, and tribal intolerance pends above its heads.

Initial conditions on a democratic path dependence approach suggest that we may achieve successive stages of equality and people's participation leading to include the minorities into active political life or resolve gender conflicting

[69]See Samuel Huntington. 1991. *The Third Wave. Democratization in the late twentieth century*. Oklahoma Press. p. 153.

situations. The transition stage from achieving democracy to make it more "humanitarian" may demonstrate population relief from increasingly authoritarian trends as in Brazil's first Costa e Silva 1967 revolutionary regime and other populist regimes in Latin America.[70] Here, in some historical cases like the one referred to above we find that institutional developments need to be adopted as a prerequisite for democracy's further survival. One interesting point to formulate is considering whether countries advancing from earlier stages of democratic rule are in the position to tame social forces, improve inequality trends and the economy's management, drive an institutional change, increase party's communication and reduce economic and financial risk. As the democratic systems needs to consolidate, time elapsed is required to allow the system to reach stability. Malpractice's like excessive concentration of power, lack of accountability or rising populism, as suggested by Huntington, should be fought to guarantee long term democratic system stability (1994, p.193). Country risk assessments like political, economic and financial instability help preventing eventual turn down or an undemocratic contesting thus damaging people's representation.

Political Theories Respond to Globalization.

The emerging and rapidly widespread process of globalization has been introducing deep transformations in the conception of the state and the game of international politics. The end of the Cold War is changing the structure of the expanding world political system up to a point that international relations theory marks its differences by rapidly incorporating non-states actors and by transnational enterprises forces. The Realist School of international relations approaches global politics searching for the establishment of less conflictive relations between independent Nation-States. The Realist School drew from the political philosophy of Machiavellian and the evolutionary Darwinian conception of international politics. The distribution of power in the international system leads in cases to super-power dominance of world politics, allowing many weaker state-systems to experience unstable positions. State actors in this milieu are often reluctant to cooperate with each other, saving for fear of destruction by a

[70] See the work of Ronald M. Schneider. 1971. *The Political System of Brazil*. Columbia University Press. New York .P. 203.

resourceful competitor bent on regional or global domination. This once fashionable theory of state-centrism has also evolved as a consequence of globalization.

The international political economy approach adds on this international politics trend new views on the contested assumption of the realist thinking; namely that where national security issues dominate the policy agendas of states, military forces are important instruments to defend markets and supply of raw materials. Now, new ingredients like transnational economic operations and global financial movements have affected the state-centered system to a different center of gravity while the economic displaced from the Mid Atlantic to somewhere between India and China.

The institutionalism position has been developing important arguments to explain states relationships. Institutions and policies condition actors in this environment. Actors in this process tend to engage in the constitution of a social system, where the utilitarian-systemic approach accounts for the difficult relationship between agents and structures. The constructivist school accounts for the social construction of international institutions and processes, such as the Cold War, so emerging or existing countries and governing bodies tend to concentrate on international systems rather than on the organized political actors that comprise them and also on the changing nature and economic dynamics of other systems. Andrew Hurrell in his work *On Global Order* suggests that the international system should not be viewed as a decentralized anarchic structure alone, but as the system created by a common structure of norms, rules and expectations. Due to the fact that material structures matter shared knowledge international legal rules and political norms are all in all practices that animate changes. Here norms and rules help to explain how actors are constituted, and the role of ideas, values, and principles feature the emerging international political landscape.[71]

The power of old industrial states as global actors tends to lose its dominant form of political organization, or even the most important role as an actor in a world-economic sense. In the 21st century the emerging environment seems to be

[71] Hurrell,Andrew. 2007. *On Global Order. Power, Values and the Constitution of International Society.* Oxford. Oxford University Press. Pp. 16-19.

approaching the realm of the global economy dominated by world institutions like the WTO and the General Agreement on Tariffs on Trade—GATT''s legal framework, the World Bank—WB or the International Monetary Fund—IMF. All of these are considered engines of the international economic system and in other cases by the political view adopted by new global player states like Brazil, China, India and South Africa denominated as the "BASIC" countries.[72] The existence of this international system of Nation-States and multilateral institutions, including the transnational corporations, increases the scope of economic development and world governance. As power concentrate on different actors the threat of hegemonic power and the fear of unbridled anarchy transform on an important engine of the state system''s relations. The position of nations like the United States tends to the proliferation of interstate cooperative behavior. Baldwin (1993, p.153) treats the concept of the state as one determined by the nature of an international system made up of other state actors. This revisionist argument removes territorial states from the theory of the global system, while the decline of the state revolved around the threats to its sovereignty shifts to new geographical conflicting scenarios outside Europe or other decision agencies.

The International System.

The concept of *hegemony* allows some other interpretations of world affairs, including those views advanced by Gilpin (1987). This author uses the term mentioned to denote the military or economic power dominant over others that adopt the view of the state and of class forces operating both within and between territorial jurisdictions. The concept of the state has been to deal with state behavior as determined by the nature of the international system made up of other state actors. It is not based on a measurement of how internal factors weight but rather on how the balance of political class forces equate within a society, as well as non-state regional and global forces. The territorial state in the old 19th century order gradually functioned as a way to organize political life, enjoying legitimacy as the focus for loyalty, obedience and the aspirations of citizenry. The 21st century's state instead swings to scenarios where the environmental changes are taking over capacity of states to adapt. States seem to assume a world where

[72] Axford, Barrie.1996. *The Global System.Economics, Politics and Culture*.Polity Press. Oxford, pp.35-40.

alliances or subordination to regimes and supranational bodies, regions, localities, and the civil society take place (Axford, 1996. pp. 41-43).

The Dependency Theory and theories of unequal exchange and power between the center and periphery assign the negative effects of capitalism on autonomous forms of economic development. Peripheral Nation-States will be replaced unless some of its traditional institutional governance changes towards more global conceptions. The linking of new states to the larger world culture as a frame of reference has operated as a spur to the adoption of various cultural products of the global system mainly in constitutions, education, population policy and environmental policies. The wider view of the spread of the Nation-State as part of a new cultural framework of the global system is best understood from the modified structure and new institutionalist perspective. Globalization values tend to extend the identity of states as a product of their own local history and taken as a by-product of the global cultural system. In addition to that, states competing in the realist tradition are departing from the global behavior of states and of the state system of capitalism (Axford, 1996, p.127). The gradual transformation of the Nation-State in this context will come as a response to the fact that the system of rule is associated with the territorial organization of political life under a single legitimate authority, which enjoys the monopoly of the means of violence.

Under the terms or rules of globalization, this monopoly will not be generated from inside of the conventional State, but will come from abroad. Said institutions or global forces in conflict generated by external forces may engender drug wars that are now financed and structured from abroad where the direct intervention of the hegemonic nation is not required. Direct foreign investments originating from advanced industrialized nations in peaceful times respond to a world command where rules are derived from international organizations like the IMF. Here is where a sovereign entity is differentiated from civil society for the exercise of power. Henceforth, emerging degrees of "stateless" will be less centralized, coexisting with a larger number of public and private actors ultimately forming a new network. In a wider world, the action followed by state officials will be devoted to the control of petty politics, while wider material effects will be the consequence of the relative power exercised by universal institutions (Axford. 1996, p. 128).

What becomes critical in the view referred to is that states' behavior will largely be determined by global institutions, claiming that there are no rules governing the interactions of states in the international system. In the realist international system, analysis of global power politics identifies anarchy with regional strategies of survival, while the constructivist view of international relations maintains that the identities are not given, but are rather built. Thus, power politics and strategies of self-help will not follow logically or casually to anarchy. The operative structures will integrate subject and system, part and whole (Axford, 1996. p.130). This type of reasoning is for the matter for corresponding chapters where discussion of institutions governing a hemispheric economic integration process and determinants for interdependent city and country regional development will follow. Axford and some other authors like Rugman bring interesting examples showing those non-territorial forms of governance like the European Union, the WTO, or the FTA with the United States as means to exercise power beyond the Nation-State paradigm—they formulate policies for world poverty, sustainable trade growth or hemispheric trade and political adjournment.[73]

3.3. Sovereignty and the Global System.

The Nation-State in the emerging global framework faces interesting challenges as new political and economic relationships are appearing. The power politics of the 19th century framework are changing or transforming as more fragmented, local and participatory settings coexist with global institutions. Collective identity attempts to eliminate the personal anxieties exacerbated by modernity, going as far as to rework identities. It ranges from forms of collective identity like ultra-nationalism or gender identities, to that where a world prospers along market and exchange rules. Individual identity formation involves taking control over self-development through rational processes of self-assessment and monitoring surroundings. Other settings show that reflexivity has a component affecting the construction of identity. This kind of reflexivity seems to take control over the body in the manner of a right to choose movements or pro-abortion lobbies or

[73] See the work of Alan Rugman. 2000. *The End of Globalization*. Random House, London. pp.96-113.

open investment societies, freer to allocate world savings resources in individual countries. A world in which everything is contingent summons the prospects of greater autonomy for agents. It seems like a "reassert of a directional theory of history where its march displays not a smooth path, but a punctuated evolution so the market society evolves and jumps all over the place succeeding spells of liberal society..." (Axford, 1996, pp. 14-16).

The advancement of post-modernity leads the triumph of chaos or disorder against conceptions of large-scale, long-term social change and of organizational dynamics. Modernity endorses traditional cultures by virtue of predominance of reflexivity or self-monitoring contrasting with a post-modern notion of the excess of flux, contingency and complexity. Modernity brings in the industrial societies that clamor for globalization as the use of industrial technology by human beings. Modernity is coterminous with the industrial society within the bounds of the Nation-State. Nevertheless, modernity may even spread in scope to be global, rather than exclusively national.

In comparative terms the 19th century European view of the Nation-State was built around the normative concept of the right to national-self-determination, and became a notion to legitimize the idea of one people, one nation. The 21st century's view corresponds to the notion of one world, one market. The global nature of the emerging world economy derives from the massive transnational flows of capital and labor and flow of some aspects of social life that seem to be dominated by multinational companies or other international political agencies. Culture and the economy receive constant signal shocks from new electronic technology, including satellites and the Internet, transmission of political educational and commercial messages all over the world transcending the established geographical borders of 19th and 20th-century Nation-States. Some circumstances where historical attempts defined sovereignty are opposed to the current view of the global state. Traditional geographical barriers tend to fade away, making partisan life and party leadership less ideologically independent and voters less sensitive to petty political concerns as they become more aware of global tastes and standards of living.

Sometimes accountability helps checking mismanagement practices either for local or world political practices. The global village, in accordance with the dynamics of this world-system, is exposed to receiving a wide variety of ideas,

thus transforming political practices as information flows determine new life practices and policies followed by states and commercial practices adopted by individual firms. Countries' exchange of goods, firms' input requirements and consumers' opportunities are satisfied with products transformed in every corner of the world. Intra-firm and personal purchases increase very rapidly in value and volume coming from every country of the world where the spending and allocation criteria now depend more on price and quality differentials, making the world an integrated market.

Global talk also extends to the world of politics to the point that the Nation-State is compelled to adopt common policy goals suitable to accomplishing democratic pursuits. Local accountability practices and institutional development tend to be complemented by surveillance from world or transnational governmental institutions, as well as non-governmental organizations. This crucial aspect of globalization will be closely analyzed in the chapter where the FTA with the United States is considered and where the Summit of the Americas still develops a common democratic political view about the Hemisphere. Let us remember that United Nations reforms now include on the agenda some universal aspects, such as human rights defense, environmental protection, monetary and trade regulations allegedly to protect life and property, making of the Nation-State a subordinated agent to these organizations mandates. The government of local communities tends to respond in many cases to world-governance signals.[74]

The New Liberal World Economy.

Freer liberal world trade in the 21st century economy implies compliance with complex rules. This set of complex rules tend to be dictated both by hegemonic countries or, to be more precise, by world political and economic institutions. The role of the Nation-State in this process tends to shift from a position where it dictated the norms to a space where it converts into a mere observer or, at most, a regulator of the world emerging constitutions. For example, access to globalization practices for emerging countries implies the accomplishment of a

[74] See Noam Chomsky. 2000. "Móviles y consecuencias". Lecturas Dominicales. *El Tiempo*. 6th August2000. Bogotá. Pp. 6-8. The author shows how the Government in Washington finances world violence that translates in paramilitary terror affecting smaller villages and communities.

set of rules where by financial flows, direct capital investment or preservation of balance of payments stability is accounted to by the international community. Some other examples are the reduction of the rate of interest, the abiding of hedging of systemic fluctuation, the maintenance of freer and stable trade flows, or the elimination of export subsidies and transparency of market access practices. Some of these policy objectives have to be adopted within constitutions allowing for market transforming forces to allocate resources more efficiently as to allow for growth. To become operative, these decisions require reaching consensus among country voters, and also among nations.

Civil society presence and human rights preservation in this emerging world set-up may be more openly expressed by voters and civil society organizations. However, values such as social justice, preservation of freedom and the practice of individual autonomy are no longer the realm of the Nation-State, but encouraged by world organizations instead. Some other legislative acts are shared between world organizations and non-governmental organizations and also accounted by them. World institutions tend to exercise direct influence on local institutions and account and even indict human rights transgressors. This process has been observed in the fight in favor of human rights preservation or against drug trafficking and money laundering offences. The preeminence of multinational company transactions tends to develop and extend their power and influence beyond political borders, as well as exercise their power and influence through lobbying carried out in government circles, sometimes obtaining favorable regulation. Regulations that are thoroughly expressed as global trade rules and commercial practices favorable to freer investment and exchange prosper in this global environment. In these widespread world political circumstances, the Nation-Sate has to adapt to the presence of the global citizen and the global civil society where migrants and global communications transcend geographical frontiers and individual state regulations. Globalization thus represents in this emerging scenario a challenge for political transformations where the single-world is newly characterized by local regional and national elements that tend to be tied together making of it a newly interdependent

whole.[75] The discourse of globalization has been evolving including economic variables and assumptions relating to growth because of trade and investment needs.

Emerging 21st century world actors and political and economic interests, like those identified with multinational corporations, are in favor of world regulations aimed at promoting and protecting direct investment. Discussion about globalization suggests that in some cases major industrialized countries may exercise ruthless dominance, particularly in these critical aspects related to the interests of world commerce and capital owners. This dominance may be interpreted as a commitment towards social inequality and as a universal rule to induce Western consumption patterns characterized by standardized products. Quality standardized goods, world competitive products, marketing and distribution and reduced transaction costs, make for the bulk of the systems' gear that provides for the economic world globalizing foundations of the 21st century. Critics of this broadly liberal political and economic model are associated with "dependence" development paradigms, where it is suggested that unequal international division of labor and redistribution of export revenues transfers trade gains abroad, retarding development. This has been suggested by several left view authors like Gunder-Frank (1969, pp. 313-318) and Brookfield (1975, pp. 133-165).

[75] Seee the work o Robert J. Holton. 1998. *Globalization and the Nation State*.Mac Millan Press. Ltd. London. Pp. 1-4.

PART IV

CAPITALISM SPREADS AROUND THE GLOBE.

As we learned from the introductory chapters, the world had to go into a slow and painful path before a sort of world capitalist and trading environment transformed it into a "single one-world, one-market system." Authors Braudel and Wallerstein attempted to build a historical theoretical framework to offer an explanation of the way a world economic system was formed and how its interactive parts made the whole system work. A *first* example of this process refers to the 16th and 17th century European experience, where the idea that the economy developed into a system where boundaries surpassed the Nation-State and enlarged the scope of the discipline of economic history. The *second* corresponds to the contribution of agriculture and industrial modernization as mechanisms to accelerate capital formation. The *third* set of elements corresponds to a combination of factors and new institutional improvements to accelerate growth. *Finally*, trade improving conditions make a world-system operate efficiently, helped particularly by a friendly social, political, and economic environment to the formation of this system.

4.1. Wallerstein´s view about the Formation of a One-World Market System

The lines in which this part is developed takes into account the important conception that authors like Braudel, Wallerstein or Chase-Dunn developed about the idea of the world economy. This view may be interpreted as an integrated and articulated set of mechanisms that form a system. Wallerstein's *The Modern World-System* (1974, p. 15) developed the idea that Europe constituted a kind of social system that the academic world had not known before, and made up of many organically interconnected parts. For some reason this continent became a political and economic entity where universal rules spread beyond empires, states or cities. Rulers shared power with institutions that responded to world-system interests. This author attributed new circumstances to the fact that institutions responded to world-system interests, while linkages that affected the stability of the whole system responded to political and economic changes as well.

In this sense, the advancement of democracy or at least of the Nation-State—as we saw in the previous chapter—helped the betterment of the world system.

To some extent, empires resembled a system; the difference being that the crown ruled the empire and the world-system could survive without a ruler. Tribute and taxation guaranteed economic flows from the periphery to the imperial center, conserving its force as a persuasive element to preserve stability. Modern science and technology are the institutions that link this world-economy nowadays. The Nation-State responds to these circumstances becoming less centralized, letting world markets lead some aspects of the economy and transform some other aspects of social life.

To better study this system and explain why it evolved, it is interesting to consider that the European economy transformed into a whole organization where new initial conditions determined the behavior of a set of harmonious paths, so that political development and sustained economic growth could occur. One important group of interrelated variables that integrated the world into a system can be defined as follows. In the *first* place, a prevailing nucleus of population in some small centers that gradually linked or subordinated to emerging economic activity or rules originating in the center of the enlarged world-system. This increased the world system made of a larger population nucleus, gradually interconnected the constituent parts with an intermingled group of people engaged in production of surplus of different goods that required the help of a regular transport and communication network to be distributed on time. Removal of political and economic barriers to long distance trade also reduced risk in the business of transportation, bringing to the process a significant fall in transport and transaction costs. In this way, trade allowed for new changes to follow in the market structure and consumption composition, changing from luxuries to bulk goods in the enlarged trading system.

Minchinton suggests that the old European trading system in the centuries referred to benefited from a *second* element associated with the exploitation of a favorable geographical position of goods producing areas. One important characteristic that allowed for the appearance of an enlarged system and closing distances was the extended use of improved vessels, so ship construction became a labor creating industry closely associated with trade activities and one important agent in developing the new world structure. An important

improvement that allowed more regular navigation practices was the cartographic skills and navigational techniques acquired that allowed for easier market access in overseas territories. As the new trading system organized around a regular pattern, the exploitation of "extra-European" trade helped to promote individual merchant's activities.[76]

Time and space were shortened in this new emerging system of exchange.Therefore, new economic conceptions like the improvement of efficiency—a notion commonly associated with cost reduction—helped to finance the enlargement of the world system. The more capital accumulated along this path, made of it a *third* element the base for the development of a powerful banking organizations where the credit system instiurion devoted to financing this and other complementary activities that helped to expanded world markets.

To this new enlarging process, a *fourth* transforming activity brought capital and production surplus. It refers to the rapid transformation of agricultural activity, an economic process that increased local consumption and expansion of trade currents. With the incorporation of frontier agricultural land into production, additional initial conditions for sustained growth and for further capital accumulation developed, becoming important institutional changes that for some centuries to come allowed for sustained growth.

The French Annals School searches for causal explanations to relate cost reductions with frontier agricultural land incorporated, making of these improvements the base for more productive activities (Wallerstein, 1974, p.21). Other intellectual views, such as the "institutionalism" of Douglas C. North (1998), suggest that cost reduction structures during the 16th century, originated in the advanced stage of the institution of technology. Its diffusion helped to increase volumes of tradable goods, so production surplus increased the volume of world trade. Agricultural consumption increased in developing European countries; however, the current of goods exchanged increased not only because more lands were incorporated into production, but also because technological improvements associated the incorporation of fertilizers and better maturing practices that helped to improve productivity and guarantee a regular supply.

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[76] See the work of W.E. Minchinton. 1969. *The Growth of English Overseas Trade*.Methuen& Co Ltd. London. P. 1.

The business of trade as a *fifth* element, increased commercial currents, helping to raise levels of production in different production centers, to re-export goods, and to enlarge the financial and insurance sectors as suggested by Kindleberger (1984). Exchange and commerce made tropical and staple goods the basis of a developing world-system. The Dutch who set the pace by establishing new colonies and settlements profited from increased trade and commerce among themselves, as suggested by Minchinton (1969, pp.2-3). The removal of distance obstacles and increased demand for agricultural goods allowed for further increase in trade, encouraging a gradual specialization of world production for efficient production, according to natural endowments. The expansion of the world economy has been profitable and steady since the 16th century. This author suggests as well that before a world economic system emerged, countries like England built a more diversified and reliable dependent or subordinated trading system, around their periphery as a source of goods that were gradually exchanged with other advanced centers in Europe.

Raw materials, notably wool, tin, and leather with growing amounts of cloth, the major British industry, made up the bulk of this exchange of commodities that were later sold in other transforming centers. English merchants gradually explored more distant trade routes and stimulated the growth of the English shipping industry where additional technological breakthroughs allowed a world market system to be linked together. The protection of navigation and of the trading system came from the 1650 and 1651 acts that confined English trade to English colonies and English ships (Minchinton, 1969, p.6 and p. 11). The political argument that supported this measure was to guarantee a geographical division of market functions and specialization of production as was reflected in the exchange of tropical products like cotton and sugar cane. The establishment of a continuous line of colonies along the American seaboard from Maine to Spanish Florida made a new wave of trade expansion and overseas settlement.

In the introduction to Wallerstein's work *Modern World-System* a *sixth* element is shown, namely that during the 17th century the economic trend was characterized by two new expanding traits endogenous to the model that caused growth to become perpetual, but also cyclical. First, long term growth that coincided with waves where cycles of expansion were intense, and second, contractions of product value, downswings not attributed to increase in efficiency

but inherent to the market failures, whose price variations affected regional development. These unpredictable changed in trends encouraged the diversion of trade flows among commerce partners to minimize risk exposure (1984, p.5). In that century, the crisis affected many human activities including the economy, as well as social, political and religious life. Crises were not only general, despite trade-improving practices, but considered a milestone for the perpetuation of feudalism and the germination of frequent social unrest. This author regarded the fluctuations of the general price level during prolonged periods of time, as origins of cycles, which in cases ended in crucial historical disruptions.

The period 1660-1775 can be divided into three phases where general price level strongly fluctuated: a quarter of a century of rapid growth during the reign of Charles II in England, a period of slow growth until the 1740s and then from 1750 until the American War of Independence a phase of rapid commercial expansion Minchiton (1969, p.8). One important element introduced within the systemic view of the world converted into a whole was the spread of cyclical movements of some variables to all constituent parts. Empirical evidence suggests that the cycle of high inflation and a slow rate of growth that started in Spain and England in the 17th century was intensively transmitted into the Netherlands market. This inflationary pressure originated in the American gold and silver avalanche. A consequence of this transfer of precious metals and subsequent price inflation was the deterioration of purchasing power, and asymmetries transmitted into the world system. The diffusion of this early "Dutch" disease retarded the rate of growth of some national economies and city-states, propelling long-term decay trends. The year 1620 marks the initiation of the Thirty Years War, an event that initiated a prolonged decline of some German towns and the appearance of political risk (Wallerstein, 1995, p. 33). A concluding remark about cyclical movements in this critical period is that as relative world prices changed it certainly transmitted disturbing effects to the world system.

Historical discontinuities in the path of growth, if they really existed, marked a *seventh* point of disruption or even unexpected expansion of the world system. Discontinuities were commonly associated with "emerging" economic structures or institutions that through rapid and strong stimuli transformed the structure of the expanding world market system. An upsurge of the modern capitalist production mechanism that characterized the 16th and 17th centuries was

attributed to a generalized spread of technical knowledge. This structural change possibly encouraged discontinuity in the stages of growth as suggested by Deane and Dole in *British Economic Growth* (p.97). During these turning points, the economy experienced a relative "scarcity of labor, the crucial element that induced the unusually rapid technical change in the now everlasting expanding economy." Or as in E.L. Jones work denominated *Growth Recurring. Economic Change in World History* (p.37) where "discontinuities were associated with the increasing use of new sources of energy, of transport improvements, that helped to increase efficiency and to enlarge capital output."

A correlative source of growth according to the discontinuity view of economic history, led to the encouragement of further expansion of world markets after introducing other forms of business organization and association, regarded by current managers as soft technologies. The immediate result of this liberated intelligence was the rational allocation of resources and the better use of the increased flow of cheaper imported industrial inputs, as suggested by Minchinton (p.7). The process of consolidation of the world system, despite it sometimes experienced unstable internal situations, originated in the waves of increasing accumulation of capital.

Despite this expanding economic wave, where the market responded as a system, there was sometimes a disturbing input that affected system stability associated with the irregularities of the "taxing mechanism used by the monarch to increase flows of funds to the king services" (Wallerstein, 1974, p. 30). Sometimes this slowdown was overcome by increases in productivity rather than by wise government investment. Fortunately for the stability of the enlarging world system, new waves of world trade continued to lend impetus to the enlarged trade mechanism, despite the temporary reduction in trade currents as suggested by the British Tory author, Trevelyan. One critical modern author, Barratt-Brown[77] attributed the steady and larger wave swings to the increase of British exports during the period comprised between 1776 and the first quarter of the 19th century. He suggests that during this wide and emerging era or expanding trade cycle, the volume of exports compared with the total world

[77] For a Marxist conception of world economic history see the work of the British Author Michael Barratt-Brown. 1975. *La Teoría Económica del Imperialismo*. Alianza Universidad. Madrid. P. 104.

volume steadily increased, while the British Colonial Empire continued to encourage larger trade increases, notwithstanding the fact that in the period under consideration the Crown lost the American colonies. All in all, trade remained the true engine of growth, increasing its share from 7% to 14% of total National Product, and structurally transforming its composition and putting together into this new liberal economic venture more trading countries in a virtuous circle. Larger volumes and varieties of exchanged commodities were transformed into a world system with flows of tradable goods made of imported raw materials, and after 1780 the great expansion represented by manufactured goods, like textiles, and later still shifting toward more value added goods, such as metal products.

Wallerstein sums up as an *eighth* point, shown in a subsequent academic work, (1994, p.12) the fact that the world-system fused into a contributory productive system forming what we know as a world or global economy. This concept of the world economy becomes closer to what we understand presently by a liberally ruled globalization model. From this view, he regards the world economy as a single interacting mechanism, where variables like commodity prices or the cost of capital, transmit powerful market signals that bring substantial and unpredictable changes into the whole system. Orthodox analysts coincide to proclaim that there are endogenous forces in this world system, which when activated, produce long-term cyclical movements, and that stability when excessively prolonged devastates trade and exchange structures. Empirical evidence shows that the duration and intensity of fluctuations became stronger in those countries whose productive activity relied on the specialization of production of valuable tradable goods.

The world economic surplus accumulated in the system during the 17th century depended largely on the relative contribution to development of the traditional sector. Notwithstanding the fact that international exchange of goods added to improve the participation of countries in trade matters, new currents, comprised of large movements of gold and money, affected stability of the real sector economy. This *ninth* economic variable helped to shape the world system and determined the economic accumulation process. Income generation and productive distribution within each specialized producing region in the world, caused emerging industrial workshops to become a specialized activity, first in

smaller towns and then in increasing exchange of goods between agriculture and manufacturing sectors. As industrial activity increased, it affected the whole market structure, being subject to a less uncertain development and outcome.

Partial increased production surpluses were exchanged within the world-market-system. Once the economic world-system was transformed, becoming more diversified, an increasing supply of resources from central countries was redistributed via forced taxation and also from trading countries' savings that were taken out into the center. When tax base stability failed to improve equitable distribution, the world-system experienced strong depressions and a slower rate of capital accumulation, as the process of reinvestment of profits came to a halt. This type of situations happened both in the North American and South American countries after the independence process, and was regarded, among others, as the direct consequence of the tax burden that affected the Creoles-class.

Different processes of capital accumulation and transformation encouraged the appearance of the *tenth* element associated with the diffusion of emerging technological improvements. Its importance lies in the linking nature of productive processes that increased efficiency, even during the earlier processes of industrialization, a movement that progressively developed into the establishment of industrial complexes. During the historical development of capitalism, productive activities emerged in different regional centers, leading in cases to the shift of firm location and concentration of industrial centers either in metropolitan or subordinated countries where transport cost were lower and trafficking more regular. Changes in the terms of trade between agricultural and industrial activities also affected industrial location and accelerated the transition into various stages of development within different countries and regions.

Wallerstein in the above mentioned work (1997. p.17 and pp. 25-27) identified some other changes in price mechanisms that modified the terms of trade between trading partners, in particular between 1600 and 1750, thus conditioning the flows of trade. This *eleventh* element allowed for comparing gains and losses and barter terms of trade. With the introduction of relative price equilibrating factors like efficiency gains attributed to technological improvements, crop rotations or later steam power, increases in productivity showed that costs could be continuously reduced. These circumstances are useful in explaining new causes of long-term economic cycles. Improved seeds and new crops, changed use of land, either to

cattle raising, introduction of cash crops and commercial herbs, or shifting from high cost grains to cheaper varieties, were in all, factors that accelerated the transformation process of traditional agriculture. The transformation where capital accumulated extended the whole capitalist productive structure in particular during the long term ascending cycle as demonstrated by Wallerstein.[78] Critics that follow this line of argument advice that recurrent financial crisis jeopardize world exchange and investment markets, a peril that becomes visible after the global financial crisis that put the world in alert. The aftermath of 2008 global financial and the severe drop of oil and iron core prices in 2015, suggests again that the recurrent world economic crisis raise the question that the solution to global problems is very much dependent on the Resources, Markets and Profits tripod's accessibility

4.1.1. Initial Conditions to Create a World Economic-System

As we suggested in the introductory section of this chapter, some initial conditions are associated with a long-term "path development" transformation, particularly intense and general during the 19th century. This process, as we will see, probably is the result of a long-term transformation process, where productive structures gradually accommodated to new political and economic rules—where emerging Nation-States did improve their economic performance thanks to the increasing productive capacity and the enlargement of the size of the market. We explored some of the causes that enlarged the emerging economic world order, a process in which several emerging countries gradually participated. The interesting point of this inquire relates with the nature of these initial conditions to explore in which context the emergence of the new process may repeat or at least resemble in the emerging 21st century. The emerging

[78] See Wallerstein, Immanuel.1997. *SpaceTime as the Basis of Knowledge. Key note address at Convergencia*. World Congress of Convergence. Colombia, May 31- June 1997. Wallerstein, Immanuel. 1997. The Rise of East Asia, or The World-System in the Twenty-First Century. Address as Symposium on Perspectives of the Capitalist World-System in the Beginning of the Twenty-First Century. Miji Gakuin University. Jan. 23-24. Wallerstein, Immanuel. 1999. Globalization or the Age of Transition? Fernand Braudel Center. Wallerstein, Immanuel. 1974. The Modern World-System. Academic Press. New York. Wallerstein, Immanuel. 1980. El Moderno Sistema Mundial.II. Alianza Editorial. México. Chase-Dunn, Chirstopher and Peter Grimes.1995. "World-Systems Analysis." Annual Reviews of Sociology. Vol 21. Pp 387-417.

century will presumable liberate unprecedented transforming world forces due to the rising preeminence of trading blocs and the accentuation of the globalization process ruled by liberal market rules, thus shaping a new political and economic order.

Entering into the Nineteenth Century.

A quick look into the development of Western Europe, allows us to see that this political unit had a preponderant participation of world income generation, certainly dominating trade and commerce until the early 20th century. At the end of the 19th century, its population accounted for nearly 25% of the world total, while in terms of trade figures its share represented 70% of total exchange. The U.K had the highest per capita income and in terms of steam production the largest production capacity in the world. The initial conditions that led to this improvement depended on several social and economic innovations. Basically, this process that accounted for growth abridges into:

- increases in agricultural productivity and better use of land, feeding a larger population throughout the world system.
- technological breakthrough associated with scientific advances leading to more productivity and efficiency in a larger number of workshops.
- managerial talent that improved entrepreneurial administration and wiser allocation of scarce resources.
- larger population and town development that increased demand.
- efficient capital markets that mobilized world savings into new risk investment.
- and the development of a complex transport network, made up of a railway system and a steam boat fleet that shortened distances to markets and nearer overseas territories.

Foreman-Peck (1995,p.4) in his precise historical economic history that there were some other factors. One of which had important initial condition that supported world order, was the control the imperial state had over newly acquired overseas territories as it proclaimed the right to hold arms and legal power, exercise violence and control borders. The state assumed control over conflict resolution and negotiation, in its favor and without limits on imposition of the rule of law. To be fully exercised, political power needed another initial

condition associated with control over the tax collecting system. The more a country engaged in the activity of international trade the more violent local actors would lose control of the situation, as more powerful external agents changed the correlation of interests and the degree of strength with which power could be exercised.

Sir John Hicks reminded us that the process of capital accumulation that followed during the English Industrial Revolution could be explained by the magnitude by which the value and volume of fixed capital goods used in production steadily increased. Disposed for the study of economic history that the pace of capital accumulation, range and variety of the fixed capital goods invested was wisely allocated and continued to increase throughout the 19th century (Hicks, 1969, p.143) where production engaged in the attention of the increasing world demand. Nevertheless, and despite this growth, there remained the restriction that the diffusion and distribution of this process was very unequal both in England and overseas, making this early globalization processes an asymmetric adventure. Technological change was certainly linked with industrialization, reminding students of this subject that what made the difference for the continuance of accumulation was the process of mercantile development as it occurred extensively in Northern Europe. These initial conditions should be contrasted with other policies and strategies launched during globalization process linked with empire political interest. In this kind of general analysis, "history and past really matter," as suggested by Douglas North, particularly in interpreting whether actual initial conditions for globalization resemble past experiences or if a sort of dependent path for growth follows.[79]

A careful study of Foreman-Peck's work, *A History of the World Economy* (1995), brings to the fore precise elements to appraise the idea of the pre-conditions required to understand originating causes that allowed the world to advance in political and economic terms. Separating history from economic theory, allows the reader to observe clearly that the world economy in mid-19th century improved the welfare level thanks to the better combination of factors and means of production placed at the service of trade. International relations due to this

[79] See N.F.R. Crafts. "Exogenous or Endogenous Growth? The Industrial Revolution Reconsidered." *The Journal of Economic History*. Vol 55. December 1995. No 4. P.746.

enlargement of the market size and international division of labor, to use a Marxist term, helped to change and specialize the nature of production and improve the trading structure of an increasing number of nations that adopted this globalizing model of trade and exchange.

New machinery and management methods brought into industrial production of iron and steel transformed the process of production, making it a global business. This transforming activity led to large-scale production, grouping producing countries like Britain, Germany and the United States into a whole competing business. Gradually production, thanks to technological plant research, evolved into a line of transformation where special steels came into production and with the best of engineering practices being learned, firms made new applications of steel. Many products and processes were redesigned to achieve levels of efficiency. Other workshops introduced emerging technological improvements, like adding vanadium and tungsten to steel making a much harder and flexible final alloy. The development of some other alloys came after non-ferrous metals were added to obtain much harder cutting edges to blades, determining under these conditions the appearance of a scientific production of machine tools and more exact production of engineering components. A consequence of increasing production was the development of better techniques of production leading to the appearance of Taylor's scientific management principles (Freeman and Soete, 1997, p.61). Steam navigation, railways and the telegraph allowed for international capital movements and for exchange of strategic information.

Trade as a source of World Economic Growth

The appearance of a world-economic and political system was the result of multiple microeconomic activities that gradually like an archipelago melted into a big whole. The formation of an enlarged market was partially perceived by theoretical minds after careful empirical evaluation. In Britain the ideas put forward by Adam Smith (1776), David Ricardo (1817) and John Stuart Mill (1848) partially allowed the distant observer to complete a view about the expanding world and its interconnections. These earlier developed theoretical devices partially allowed for an explanation about the relationship between free trade, its consequential impact on economic growth, and the expansion of the Nation-State.

Regarding the interpretation of the division of labor Adam Smith had (1973, p. 121, p. 132 and p.154), he suggests in his writings that "this division must always be limited by the extent of that power inherited by the size of the market." He first explained that when the market is small, "no person can dedicate to one employment for one of the power to exchange all that surplus part of the produce should remain for his own use." The exchangeable value of commodities depends on the exchangeable value of the commodity or real price of these goods. Second, he suggested that the different parts making up this real price, and the circumstances that are present, raises the prices above the ordinary rate. In third place, the whole price of a good comes from wages, profit, and rent, sources of exchangeable value. In the end, for Adam Smith, these assumptions are enough to explain some of the circumstances that lead the world to experience some degree of economic development.

In fact, he is concerned with long-term forces that govern the growth of the wealth of nations. His theory determines that trade is related to economic growth, and what trade does in fact, is to broaden the size of local and overseas markets and increase virtuous interrelationships (O'Brien, 1975, p.171). The growth of income is made dependent upon the division of labor, including technical progress, and within that entire process, the function of machines is to facilitate and abridge labor. Historians reminds us about the universality of his argument, none withstanding that Industrial Revolution was imperfectly seen by him. At the time what he saw in his work refers exclusively to a few water-driven factories that just had just been established in the British Isles, a kind of fixed capital that could contribute little to creating an appreciable amount of wealth.

In Book IV Chapter 5, he notes that the influx of species resulting from export surplus tended to turn the balance of trade against a nation. The term "export of surplus" as commented by Blaugh (1968, p 60), advanced the theory of economic growth as later developed by Nurkse.[80] The classical view on the advantage of trade according to these theoretical currents lies in buying commodities cheaper abroad than at home. While in modern economic language, this means that trade

[80] See the work of Ragnar Nurkse.1959. *Patterns of Trade and Development.* The Wicksell Conference. Amorrortu Editores. Buenos Aires.Ed 1968. This author attributes to trade a significant contribution to growth not only to developed nations but to new overseas emerging ones as well.p.12.

is the perfect means of disposing of the surplus produced, income obtained by extending the division of labor beyond the scope of the domestic market.

Ricardo (1971, p.147) suggests that no extension of foreign trade will increase the amount of total worth in a country, although it will very powerfully contribute to increasing the mass of commodities, and therefore the sum of enjoyments. He suggests that "in the purchase of foreign commodities a larger or lesser portion of the produce of the land and labor of England will be employed... and if the price of foreign commodities is cheaper, a lesser portion of the annual produce of the land and labor is employed in the purchase of foreign commodities..." Therefore, "the more will remain for the purchase of other things... if more of the produce of the land and labor be employed in the purchase of foreign commodities... and thus... less can be employed in the purchase of other things.""When capital is liberated from the production of goods, fewer local goods will be required to consume and more capital must be employed in manufacturing those commodities with which foreign commodities are purchased." This sharp way of reasoning allowed Ricardo to develop the new Law of Comparative Cost, separating the theory of international trade from intra-national trade, according to Blaugh's definition (1973, pp. 126-127).

The basis of this separate theory is the relative immobility of capital between nations. Comparative cost advantages considered as supportive theory of international trade explains the movements of goods between countries. Ricardo thought that trade took place only when both countries had absolute cost advantage in one good. Progressively the theory advanced the rule that each country would find it profitable to import those goods that could be obtained in exchange for exports at less cost than their home production. Ricardo's argument evolves to demonstrate the advantages of an international division of labor, that is, that the gains of free trade and international trade was the supreme way of enlarging the production possibilities of trading countries. When talking about trade and the value of money in various nations, "we must refer first to the value of money estimated in commodities, in either country to understand why goods move across frontiers..." as suggested by Ricardo (1971, p. 165).

With this argument, he lays the foundations of what we now denominate the purchasing power parity theory of exchange rates, reminding the analyst that the standard classical doctrine implies that the value of money is everywhere the

same. With free trade and metallic standards, the rate of exchange between two currencies depended on their relative purchasing power over identical exportable goods. Here is where his theoretical approach closes to explain why in the average prices of all goods between countries are similar, although some evidence suggests that discrepancies may exist leading to further theoretical inquiries to comprehend well the nature of all productive activities within countries (Blaugh, 1973, p. 132). The message in Ricardo's thought is that trade based on comparative costs, induces more efficient allocation of resources in the world trading system, thus economizing on resources to obtain a given income and increasing the possible output from given resources (O'Brien, 1975, p. 178).

John Stuart Mill improved the classical view of trade, helping to better understand discrepancies in trade composition, arguing that wages had hierarchies, particularly among countries. Wage costs, in fact, consign different relative input requirements leading to the discovery of the phenomenon of non-competing groups. Mills' suggestive view shows that profit levels also alter the range of comparative advantage, moving the internal prices of capital and labor intensive goods in relative terms. Comparative cost theory, in terms of opportunity cost, has some new implications. In welfare terms, it implies that trade wages affect costs. To complicate matters, changes in trade patterns do shift income distribution and hence move indifference curves. The production possibility curve does not take proper account of preferences for working in different industries. Longfield saw that relative wages depended on relative labor productivity in the current two-country example, contributing to different weights in productivity in the production of traded commodities.

Concerning different endowments of capital, the so-called Heckscher-Ohlin theory, with uniform technology, predicts that the world will produce different slopes for the production possibility curves and hence different comparative advantages. Torrens in the 19th century saw comparative advantage as deriving from natural resources endowment and on geographical position determining different stages of development. He regarded technological superiority based upon natural-resource endowment as an initial determinant for exchange. The assumption being made in this analysis, about the uniformity of technology, explains the retarded advance of the international theory of trade, as suggested one century later by Harry Johnson. This monetarist and international trade

theoretician pointed out that the extent to which a particular economy makes use of available knowledge depends on the degree of development of that economy. Mill's significant contribution to explain comparative cost ratios evolves from considering that where the terms of trade settled, emerges a reciprocal demand for each country's products by the other. Mill wrote that the equation of international demand may be concisely stated as (O'Brien. 1975, pp. 182-183):

> *The produce of a country exchanges for the produce of other countries at such values as are required in order that the whole of her exports may exactly pay for whole imports*

Trade and other conditions to Accelarate Growth

As we said the classic economists discussed the problem of economic growth as a process of capital accumulation, where the ruling class contributed with the capital for growth needs. Adam Smith's perception of national product interested him *in-tuito-persona* celebrating the fact that the dynamic view of the economy corresponded to an upward spiral of growth. These spirals were the result of endogenous phenomena a term or better a conception now fashionable among economists. North (1995) and other institutional economists, such as Lane and Nyen (1999) suggest that proper economic functioning depends on the set of rules and acting entities in the social system, the special social science methodology to comprehend phenomena and the institutions that determine or shape interests.[81] For Smith this institutional approach was embodied in the role of security of property, as an institution necessary for the steady supply of capital. An additional institution leading to growth was the succession of entitled land for adequate functioning of agriculture, allowing for the excessive land grants characterized by the lack of agricultural innovations and improvements required for increasing production and efficiency.

The effectiveness of labor in this model is central to the advancement of his view on growth, commenting that efficiency depended upon the degree to which the division of labor had developed. Labor productivity was associated with the amount of capital devoted to productive purposes and market competitiveness of chosen sectors in which labor was employed. Capital, circulating capital, and

[81] See the work of Pal Foss. 1999. *Economic Approaches to Organizations and Institutions*. Darthmouth. Aldereshot. England. P. 221.

fixed capital, provided the central elements for growth in his model. According to Smith, fixed capital was of no use without the cooperation of circulating capital. Distribution of accumulated capital could be employed in agriculture, setting into motion the most productive labor. Ranking below this productive sector, manufacturing was considered somewhat important as it employed an increasing quantity of labor followed by trading activities. Capital was allocated in accordance with profit opportunities, but respecting an order where initial conditions allowed for the development of the manufacturing sector. Specialization and the division of labor explain the increase in productivity, while improving labor dexterity, saving of time in production and invention of machinery would contribute to further growth. As the extent of the market increased, the division of labor brought about major productivity improvements, growth of towns and of transportation means like water carriage.

The initial conditions mentioned marked-up what Kenwood (1998, p.60) saw after 1850, a widespread reduction in protectionist policies—previously so common in many European countries—that came to an end with a general reduction of restriction on trade that lasted until 1880. At the national level this open approach to trade was thought to invigorate the economic unification of a number of Nation-States that later came to play a prominent role in international economic affairs. At the international level, trade involved the adoption of freer policies, marking the end of the system of privileged trading blocs. Unified in one trade purpose Nation-States were Britain, France and the United States, while still some economic fragmentation affected many geographical areas, nonetheless interconnected by trade and investment made of a whole system to start function as suggested by Wallerstein and Chase-Dunn (1995).

The Congress of Vienna, considered a worldwide wade political event, made of Germany a politically loose federation of thirty-nine states, each economically independent of the others and Italy similarly fragmented into a number of politically and economically independent states—the anticlimax of globalization. Since national economic unification was a prerequisite for the economic development of these countries, Germany and Italy later advanced into economic integration and political unification processes, to convert fragmented states into bonded nations. Some other European and overseas countries attempted similar political movements, tending towards promoting political independence,

unification and free trade attempts and a trend of increasing exchange of goods and services that reached its peak in the 1870s.Britain and Holland adopted policies of complete free trade and came close to attaining the ideal trading conditions postulated by classical economic theory.

The theory of international trade developed by the classical economists consisted of an explanation of the foundations of the gains of trade and the way these advances were distributed among the trading nations. Nations was proclaimed should specialize in the production of goods that they could make with relatively efficiency. The advantage of this economic viewpoint is that world producer tried to specialize in producing a larger output of goods through a more efficient allocation of resources. The limit is the size of the market made of consumers of this particular good. The extra output obtained during a rising export cycle makes it possible for each trading country to benefit from the international exchange of goods in particular world trading commodities and gradually of standardized products. 19th and 20th century advocates of international trade relied on the principle that every trading nation stood to benefit from international specialization and exchange where extra output meant gains from trade. British experience in benefiting from free trade was a gradual process but a world successful example.

Other Trade Links to the Formation of the World System

In the 19th century, theoretical economic wisdom linked colonization and foreign investment as elements of British imperial policy that helped to orient and expand local industrial production and integrate colonial markets into a single whole. Colonization embodied the process whereby British capital and labor moved out to establish a form of transplanted British society in the older and newly acquired territories, distinguish expansion based on force and dominance and the cooperation reached between the parties as concerns promotion of trade and welfare. Economists like Torrens and Mill favored colonization because a reformed industrial capitalism could operate in such a way that allowed mutual benefit from trade and investment as well as massive movements of migrants. Thus, colonization based on classical principles of free trade and free movement of resources, ensured an improvement in living standards both at home and in the colonies. Marx's pessimism; however, coincided with colonization as a

process where reforms being made would delay the ultimate collapse of the world market system allowing the capitalist class meanwhile to continue its expansion, deterring reforms for improving the living standards of the working class especially at home. The work of Hodgart suggests that the period up to the 1820s represent a carry-over from the Old Colonial System based on restrictive trade policies and political control.

This situation lasted until the 1870s, when a sort of anti-colonization sentiment emerged, carrying some political and economic consequences derived from tariff relaxation. Excessive control over the colonies was transformed into self-government for some existing territories like Australia, New Zeland and of course Canada and a general free trade policy applied to regulate colonial and world trade, or an embryo of the modern globalization we observe today[82]. Extremist currents as of New Imperialism defined the period from 1870 to 1900, when Britain reverted to formal annexations of territories and allowed for easier trade and investment policies with her colonies. Maddison and other authors considered that the golden age of free trade lasted from 1873 until 1914.

Self-government did not reduce Britain's economic activities in the older colonies. American experience indicated those strong ties of sentiment and mutual economic dependence could prolong British influence both in the formal and informal Empire. The political argument was complemented by free trade where specialization in production made Britain dependent on other countries for some commodities, primarily food and some raw materials. The security of this trade and investment could be achieved without formal control when common ties existed between Britain and the formal and informal linked territory, as in the case of the Oceania and the southern tip of Latin America. Free trade and imperial interests were consistent and essential in this new process. In other cases, as suggested by Thomson, three different forms of informal imperialism prevailed, like indirect power over foreign policy, internal politics, and domestic economy. Diplomatic pressure naval blockade or transfer or technical expertise for railway construction was common in the Argentina first case. Second, asymmetrical

[82] Hodgart, Alan. 1997. *The Economics of European Imperialism*. Edward Arnold. London. P.5. See also Michael Barrat-Brown, 1975. *La Teoría Económica del Imperialismo*. Alianza Editorial. Madrid, and Lawrence James.1995. *"The Rise and Fall of British Empire."* St. Martins Griffin. New York.

relationship helped to enjoy transfer of dividends by exploiting economic superiority of Britain´s over Argentina. Third, the idea of collaborating elites allowed for attracting national businessman into economic partnership with local ventures.[83]

Perhaps the notion of an "empire" was essential to Britain inasmuch as it meant long term stability for trade, investment, and re-exporting. In accordance with macroeconomic terms, free trade helped to increase returns on agricultural land as more productive fields were integrated with other less productive ones, but definitely more efficient imported food replaced local production. This was a way to avoid the falling rate of profit and allow the stock of capital to grow (Hodgart. 1977, pp. 16-20).

Classical economist supported the argument that the secular stagnation of growth could be reversed by exporting capital. This initiative corresponded to the minimal requirements for orienting economic growth and deepening financial capital export to more profitable lands. To Marx, the growth of capitalism required the accumulation of financial capital, reinvestment of profits, and increased monopolization to prevent a secular fall in the rate of profit. This approach regarded the foreign market as a mean to extract rents from property and capital, and one strong reason to encourage globalization—or imperialism, if one prefers—after exporting surplus financial capital''s, as suggested by Lenin'. Consumer goods produced more than domestic demand sold abroad allowing the extraction of monopolistic rents. Thus, the export of capital could reduce domestic surplus, helping to raise the marginal productivity of surplus capital and thereby contributing to extract a higher rate of profit from overseas markets.

Marx viewed capital exportation as a way to raise profits; a lower organic composition of capital that existed in the backward areas could be increased particularly because subsistence wages earned by the working class allowed for the exploitation of labor. The lack of controls over working hours and the employment of women and children in excessively long workdays diminished real salaries. In terms of organic composition of capital, the advanced nation possessed a high ratio of capital to labor, so the export of investment to a less

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[83] See Andrew Thompson. "Informal Empire? An Exploration in the History of Anglo-Argentine Relations, 1810-1914." *Journal of Latin American Studies.* Vol. 24. No2. May. 1992. Pp.419-436,p. 422.

advanced area would lower its capital-ratio, raising marginal productivity of capital, and thereby raising its profit rate.

Ricardo pointed out that foreign trade provided cheaper wage goods leading to lower wage rates and higher profit rates, reversing the natural tendency toward falling profit rates by allowing the import of food products. Falling profit rates could thus be avoided, either by allowing the area of fertile land to expand or by increasing the bulk of productive capital. Depending on the validity of that theory more lands were incorporated into world production.

Modern economics has a different approach toward protectionist policies towards markets and rising commercial obstacles. First of all, it distinguishes between long-term goals and the consequences of deepening the degree of specialization required by economic agents to integrate local markets into a whole business world. Finally, rules and institutions, so to say, encouraged free market forces. Institutional organizations, according to North (1968, p. 72) helped a new social contract progressively consented by nation's leading to increase the "accumulation of world capital and strengthening by diversified production and defense of risky world aggressions for market take-overs." Consequently, larger scale production units would permit satisfying expanding worldwide markets to appeal for organizations and institutional controls. As world demand expanded and the diversity of goods constituted a larger world basket of tradable goods, the need for specialized services and creation of investment opportunities made convergence of interests an objective for world powers' policy making. The following sections will delve deeper into the advancement of institutions leading to improve innovative paths that translate into an increase in productivity, especially in traditional sectors like 19th century agriculture sector.

4.1.2. Path to Capital Accumulation via Industrial and Agricultural Innovation

Inter-temporal comparative historical analysis helps to identify and provide a better understanding of the long-term effects of initial conditions associated with a latter rapid and steady development process that accompanied a world stage of overseas market expansion. Also of the economic integration accords in observance of a profit motive enlargement of the market and creating favorable environment for continuous innovation and benefiting of technology transfer. It established conditions under which path dependence growth or general theory

of variation follows after some institutional transformation did occur. In the case of agricultural development considered by many as a factor that intensified the process of capital formation; it is interesting to observe some of these perturbations early in the history of selection of policies, and the reinforcing nature of this selection that shaped subsequent sustained outcomes. The theory of cumulative causation—so much used in the analysis of early development stage—lead to an argument explaining how agricultural, industrial, and trade sectors developed based on innovative transforming activities. Usually put into practice, these economic ideas encouraged political or entrepreneurial decision making in modernizing cities and country-side productive activities.[84]

Diffusion of technological knowledge in agricultural production, industry, and trade is a matter of intense research and controversy for a global-high technology market. Particularly, some authors suggest that "organization theory confirms the importance of institutional decision-making structures, routines, information streams, language, norms and rules as constraints on individual behavior that serve to promote stability" as explained by Woodlief (1998, p. 409).

Additionally, "Path Dependence" view explained as a theory by David (1997), suggests that there is a lagging effect on changes in investment and technological improvements, particularly when a kind of measurement attempts to relate growth as a dependent variable. The effects of the first technological improvement occurrences tend to be higher than previous events when lags are taken into consideration within the production function and the effect on growth of total factor productivity, an event that is conceptually evident, but requires proofing and difficult statistical exercises. Past statistical figures are also difficult to reconstruct. Qualitative devices are required when strategic considerations are taken into account particularly when firms penetrate markets through innovative practices, where modern industrial advance lead world competitiveness through National Innovation Systems. [85]

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[84] See the work of Anthony Woodlief. 1998. "The Path-dependent City." *Urban Affairs Review*. Vol. 33, No 3, January. Pp. 405-437. P.408.

[85] See the works of Nelson, Richard R. 1996. *The Sources of Economic Growth.* Cambridge and London: Harvard University Press. Nelson, Richard R., and Sidney G. Winter. 1982. *An Evolutionary Theory of Economic Change.* Cambridge and London: Harvard University Press, Belknap Press. Nelson, Richard R. *National Innovation Systems: A Retrospective Study*. Downloaded from http://icc.oxfordjournals.org at University of Manchester on June 24, 2010.

Industrializing Nations Follow the Capital Capitalization Path

The world economy experienced a substantial change during the 19th century by a rapid transformation in the agricultural and industrial productive base. A strong process of accumulation of capital, reinvestment of profits, innovation and productive activities into other productive fields permitted this alteration. This historical movement was followed by an even faster expansion of world trade in which the exchange of raw materials and final products integrated newly created markets into a whole system. The market expansion, financed through the reinvestment of profits, as well as by a steady flow of direct foreign investment, introduced fundamental changes in the local economy and in the way business is made overseas. This activity that switched some determinants to ignite non-reversible processes was concentrated particularly in business-related matters with transport network improvements diffused all over the world, spreading public utility companies and banking services. The final outcome of an early world investment decision process well taken in the remote past is better explained by economic historians who care for the fact that in the course of development earlier conditions determined institutional trends.

Nations' paths to long-run patterns of structural change certainly differ from continent to continent or from diverse regional markets. They rely on market defined rules where aggregate figures for measuring allow observing structural changes like the composition of capital and labor in modern production, and via analytical exercises produce long-run tendencies that reveal cyclical behavior of aggregate macroeconomic figures or even discontinuities in long term trends. Narrative styles of regional and short-run history, although interesting, not always reveal or allow foreseeing the emergence of long-term changes that sustain long term growth. Structural changes or even discontinuities depend on the process of capital accumulation and technological improvements. These changes also depend on the composition of capital, including the labor force engaged in production, factor endowments, and to some degree the technological innovation that improves efficiency in the production line as suggested by Alfred Chandler in his work *Strategy and Structure.* In Chapter 6 of his book the author

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Nelson, Richard R., ed. 1993. *National innovation systems: a comparative analysis*. Oxford University Press.

refers to the conditions of creative innovation that leads "innovators to build the multidivisional structure with a general office whose executives concentrate on entrepreneurial activities and other operational decisions" (1982, p. 299).

The path dependency approach, applied to historical events, relies for analysis on national rather than on a regional focus; and it depends on a nationwide average to measure, contrast or interpret changes to support a long term effect of industrialization or agricultural transformation or trade movement in the final increase of efficiency. In the event that an enlarging international market advances, or let us say a profound regional development process follows, some elaborated theoretical apparatus are required to explain the long-term sustained growth. The development of capital composition structures, improvement in labor conditions for efficient work, and better use of factor endowments is regarded by economic historians as a fundamental condition for robust comparative figures. Repetition of events and related consequences are associated with inference and scientific method predictions. Nonetheless, history as an object of study is not always associated with repetitive events that lead to predictions. History may not follow the path of scientific hard rules—as suggested by economic studies—but rather to formulate credible explanations. The explicative approach to truth is a useful tool to describe emerging merging world scenarios after comparing them with past events—as we intend to draw a superseding picture both of what occurred in the 19th century with the emerging 21st century globalization scenarios.

Innovations in Agriculture and the Path of Sustained Growth

Continuity in history is a crucial question for the analysis of development. Long term economic and political experiences draw the attention of historians to see in the future the effect of change, always looking forward for prolonged cycles that might allow for predictions about forthcoming events. Political and economic development fit better into this explanatory approach, as some theories that are translated into laws and rules only fit to predict the future under certain conditions. Fulfillment of axioms within general theories confirms the validity of laws and theories and invites us to make predictions and draw scenarios with proper evidences. The economic historian P.K. O'Brien (1996, p. 213) considers that some important developments occurred among main economic variables that

supported further development and, above all, the accumulation of capital at a national level scale.

In the particular case of agricultural development he considers that the facts that allowed an acceleration of the rate of capital accumulation since the earlier stages of growth either depended on the reinvesting of profits or of funneling resources to other complementary productive sectors. Its development may be regarded as basic and an important element for sustaining long-term growth and a primeval source of ready production to feed an increasing urban and country side increasing population. These activities alone brought into production a substantial number of members of the workforce, despite the heavy concentration of landholding. In terms of its relation to demographic variables, on the eve of the World War I, the sole agriculture sector brought into production nearly 41 percent of the French population providing for 35 percent of the country's national income. And at the other extreme, British experience contrasts with this figure, as only 8 percent of the workforce employed on the land. The agriculture production accounted for 5 percent of the gross domestic product being urban activities the more dynamic.

This change in population growth and relative distribution of population by productive sectors made of this factor a source of growth. The composition of rural versus urban population changed, so that around 1911, 35 per cent of the population of France resided in towns containing a population of 3,000 people or more, while the comparable proportion for Britain was 78 percent. The interesting argument put forth by O'Brien is that the retardation of France's shift to attain this structural population composition was one of the direct causes delaying its commitment to industrialization; hindering in this way higher standards of living for numerous families in modern sector urbanized areas.

Unresolved problems, like a slower pace of structural transformation depressed incomes in France, and with this delay, retarded industrialization not proceeding apace with the speedy English trend. The issue of whether to make use of the path dependence view, centers on the fact that advancement in the agricultural sector did not adequately take place until some fundamental preconditions for sustained growth fully materialized. One example in fact was the sometimes stagnated 'French economy where structural changes were relatively slow during 19th century, not allowing initial conditions required for

sustained growth and for the economy's taking off as suggested in the language of other famous economists like Myrdal and Rostow.

Gradually, a combination of geographical endowments, such as land fertility—higher than in other latitudes—and resolving inheritance laws and land property rights, allowed from the perspective of basic institutional improvements to ferment initial conditions that would allow for improvements in agricultural production to follow and translate into further growth. However, lack of adequately diffused technological betterment limited the scale and scope of French attempts to follow the British path of economic accumulation. O'Brien's (1996, p. 215) view shows that in general, emerging processes of capital formation, encouraged French and British agricultural sectors to make better use of total production factors. Some other initial conditions for long-term growth were associated with increases in agricultural productivity and better use of an increased labor force, helping to make this movement truly sustainable. As this factor of production entered into use, both agricultural sector and modern town activities enlarged the size of the market, leading to sustain the activity of industrial capitalization in emerging manufacturing towns.

This initial 19th century fundamental cause moves this research to deeply explore conditions in facing 21st century globalization, appealing to hemispheric economic integration movements and city-region development, as institutional expressions oriented toward widely overcoming backwardness in an era of free trade and intense world competition as peripheral agricultural lands enter into production.[86] The proposal of urban development and industrial growth that

[86] O'Brien (1998, pp. 216-218) puts forward a formal theoretical relational approach that explain processes of capital formation and of factor productivity increase. Relates in this model labor productivity growth inputs and output per worker employed in agriculture, and associates these factors with more hectares of land cultivated per worker (H/L). Returns as physical yield per hectare (O/H), capital per hectare (K/H), and capital per worker employed (K/L) as a ratio that attempts explanation of transformation of agriculture sector. Historical evidence show that grains yield per hectare responded to population growth, to agriculture techniques diffused, and to increases in labor inputs per unit of land cultivated. The diffusion of technological improvements among producers, and the intensity of applied capital to land ratios, helped to increase crop's yield. With the establishment of better and established transport networks that helped wider commercial distribution of goods in regions, the initial conditions for further expansion of urban markets encouraged sustained economic growth in both Britain and France.

derived after these initial countryside conditions appeared allowed for the better use of economic surplus generated by the rural population-factor of expanding production to attend urban needs and thus becoming progressively more intensively exploited rural peripheral areas as suggested by the von Thünen model. So the supply of goods provided by the agricultural sector materialize in the form of appropriate amounts of food, organic raw materials, labor and capital, where these surpluses further allowed for the support of expanding industrial and service sectors in emerging industrialized towns.

Thanks to the improvements mentioned above, labor productivity in both countries multiplied 2.4 and 4.7 times respectively between 1520 and 1910. Throughout the different historical stages of production transformation, a rapid growth in the labor force was accompanied by an even faster rate in productivity improvement, particularly during the evolving "World-System" period comprised between 1750 and 1850. Although some of the work force engaged in agriculture declined between 1850 and 1900, production still increased as some other technological transformation followed in both countries. As a matter of comparison, France intensified the use of labor inputs to maintain the growth of agricultural output. The output per hectare cultivated increased in both Britain and France between 1700 and 1850; however, after 1850, the returns per hectare stabilized when the British workforce engaged in agriculture declined in absolute terms.

O'Brien (1998, pp. 219-220) reaches some other important conclusion to support arguments for path dependence, contrasting in his arguments the capacities of British and French agriculture to maintain increases in output per hectare cultivated.[87] The advantage in efficiency obtained from this improvement

[87] To sustain this growth at rate faster than the absorbed labor inputs, improvements in that capacity augmented by the incorporation into agriculture of the techniques of cultivation used by farmers including a wider range of knowledge, in essence unwritten know-how techniques to carry crops and animals. Mutual reinforcement of productivity derived of agricultural techniques to rise fecundity and the use of animals manure, implying accumulating nitrogen in the soil. Other techniques associated with crop rotations, fallowing of land, converting pasture to arable and back again, and above all incorporating human and animal manures as well as bones, rags, compost and other waste products into the soil. Deeply ploughed and well-tilled beds of soil and removing surplus water generated higher crop yields. Modern drainage field techniques, spread in the mid-nineteen century before obtaining greater returns per hectare of crops and the post-harvesting process was a later

during this earlier revolution to improve productivity is identified with fodder for animals and food crops for humans that required scarce land and labor for their cultivation. Animals needed food to produce more food, and the reallocation of land from the cultivation of food grains into fodder crops encouraged a better transport and distribution system, promoting regional specialization. Fodder from land to improve long run-yields and provide food for animals included "grass legumes, sown crops, such as clover, alfalfa, lucerne, vetch and sinfoin, as well as small grains like oats, barley, bigg, and roots like turnips, swedes, beets and wurzles." All these new crops allowed for a significant improvement in productivity that responded as a precondition of land tenure modernization (p. 224).

This gift of intelligence applied to technology and natural endowments allowed for the long-run development of trade favoring regional and local specialization within agriculture activities, allowing a higher proportion of cultivable land to be devoted to animal foodstuffs. In the case of France, higher population density not only pushed the allocation of land towards food grains, but it also biased choices by French farmers towards a more labor-intensive spectrum of techniques. In pre-modern technological conditions, farm animals represented an 'engine for growth' which provided for a cumulative rise in

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diffused innovation. Green manures such as grass, peas, beans and vetches were widely used as absorbers of nitrogen from the atmosphere, returning it into the soil. The accumulation of animal population provided farmers with organic fertilizer as well as high value protein and industrial raw materials. Supplies of manure per hectare of arable land depended not simply upon density of animal population, but also on their breeds and feeding regimes. The sequential reallocation of land between grass and arable recaptured nitrogen in order to boost grain and vegetable yields. Another specific applied-knowledge to improve land productivity associated with manures on non-acid soils because acidity limited the amount of nitrogen taken up per application of dung. Other technological improvement known by farmers in France and Britain related with increasing the populations of animals under their control and close to arable land providing increase supplies of fertilizer, more energy and tradable high value protein. In Britain during the 1890s the estimated volume of animal dung available for application onto farmland may have been two or three times greater that that available to French farmers. Alternative outputs to replace high value animal produce included the vines, olives and fruits accounted for around one quarter of French agriculture output. The advent of the railway improved distribution and provided farmers with profitable output. Progressive agrarian regions pushed further technological frontier. Additions to the output of animal food emanated from improved yields per hectare of pasture and arable land sown with fodder crops. O'Brien (1998, pp. 219-220)

agrarian productivity, which in turn supported structural change for the economy as a whole (O´Brien, 1998, pp. 227-229).

In France, natural endowments for the production of animal fodder, moved agriculture along a path that promoted a further process of capitalization for deeper industrialization. When French families left the land, and as knowledge of the technical possibilities continued to diffuse among farmers, output per worker employed in agriculture gradually moved towards levels previously acquired in Britain. Before 1914, convergence did not swiftly occur because industrialization in Britain and France experienced diametrically opposite demographic revolutions as initial conditions changed in both countries. The French workforce 'connected to' agriculture increased from 4.3 million in 1700 to 5.75 million before the Revolution. By the mid-19th century, the population active in agriculture stood at *7.5* million workers. By 1905, 13 another million had been added to the agrarian workforce, while Britain increased more slowly from just over 1.5 million in 1700 to 2.0 million in 1851, declining again to 1.6 million by 1910. British families left the countryside, partly in response to better opportunities in towns or abroad, but essentially because the institutions of capitalist agriculture would not retain as much redundant labor. For purposes of comparative historical analysis, it seems that institutions dependent on peasant agriculture, particularly in France, operated to restrain the outflow of people from countryside to towns, as well as from agriculture to industry. By abolishing seigneurial dues in France, the Revolutionaries transferred agricultural income back to those who farmed the land, while the tax and judicial reforms of 1790 lightened burdens on the peasantry and enhanced their capacity to prosper on small plots of land. Napoleon's legal code strengthened land plot inheritance and encouraged the young to stay on the land.

4.1.3. Industrial Revolution Experience and the Role of Technical Innovation Practices

One of the big questions we have formulated in this work relates with the mechanisms that led to the creation of big wealth that moved around the world in amounts bigger enough to generate a world political and economic transformation. Making an emerging economy sufficiently competitive to successfully face the opportunities of a world-market economy requires

substantial and continuous capitalization improvements in the traditional and modern sectors. To understand this hypothesis the academic discussion of Economic History has devoted several proofs to establishing reasonable distinctions that explain the exact meaning of the Industrial Revolution and the underlying conditions allowing for productivity improvements to continue.

According to the assumption of initial condition, an important question that needs to be resolved first is determining what really happened in the first instance. *One* current of thought suggests that there was a long lag between occurrence of changes in technology and the time when aggregate statistics, such as industrial production and national income per-capita levels, allowed a definitive confirmation of a structural change. A *second* defining trend of evidence interpretation in this discussion suggests that there are not sharp breaks in aggregate long-term growth. So confirming that the industrialization process was really a revolution, in terms of these variables and the accumulation it produced, remains an open question to be answered (Mokyr. 1999, p. 10). A *third* view that looks to particular changes in specific sectors identifies, through statistical evidence, some sectors like cotton, wool, iron and machinery industry that did register fast growth. This view shows that sector productivity, as compared with overall growth, somewhat explains faster growth paths, although general economic growth and the overall transforming process was rather slow during the initial stages of the capitalization process.

As in the case of agriculture development, British growth after 1850 depended on the number of expanding new industries and to some stages in older complementary industries. Linen, glass, brewing, pottery and paper experienced some technological progress that occurred on a variety of individual production fronts with different relative growth rates, adding up individual contributions and introducing new acceleration forces exerted on the rate of growth. The discussion about the nature or origin of the Industrial Revolution shows a *fourth* route that sheds light on explaining further increases in the rate of economic growth that would affect the general trend of the economy. This myth has coincided with the development of some other important social changes that occurred during the early stages of industrialization. Social changes, when considered as explicative variables for growth, suggest that the changes it encouraged was gradual as opposed to faster transformations leading to

discontinuities in growth so much found in the growth literature after technology made its break through.

As suggested by Alfred Marshall in *Principles,* "Nature non Facit Saltum." It is rather complex to develop a suitable theory to successful confirm or predict stages of growth from this premise, verifying whether or not this jump did or did not really occur. The dual economy argument stated by Lewis suggests that during the Industrial Revolution productivity in modern sectors gained an increase in growth. In his approach, the coexistence of traditional agricultural and some trade activities commanded by artisan industrialists—such as miller tanners and blacksmiths—'suggests that their activities reinforced and complemented each other, enlarging and strengthening the chain of value that was translated to production, leading into more growth.

During the 19th century, the so-called modern sector of cotton, iron smelting, chemicals, and transportation equipment, experienced different modernization waves that were very complementary to production and to efficiency gains somewhere else. In some productive sectors dual growth occurred. Evidence suggests that as productivity in the modern economy grew annually at a rate of 1.8% between 1780 and 1860, in some sub-sectors the rate of growth became substantially faster. The slower aggregate growth of the larger traditional activities coexisted with a faster growth in a smaller complementary yet much modern sector.

The average expansion of modern activity showed a progressive historic participation gain explained by the new technological breakthroughs and innovations adopted to increase efficiency in factory line of production. The growth rate, in general, should have been very high in the growing modernizing sector in order to increase its share and production participation in the economy. In the end the compound rate of growth following this transforming process would have converted this small modern sector into what we now denominate a leading sector of the economy. The dynamics of this practice is explained considering that if the growth rate remained fast for small modern productive activities; sometime later others would gain participation in the total as suggested by the total factor productivity hypothesis. Therefore, better conditions for technological transformation lead to productivity increases regardless of the fact that slow-growing sectors do coexist in some cases with modernization activities.

Hodgson develops an additional *fifth* argument whereby the economic system appears not to be a self-balancing mechanism, but a cumulative unfolding process. The cumulative causation approach used in Economic Development theory suggests that, because of the momentum of technological and social change, the process lead to perpetual crisis in economic expansion.[88] This emerging crisis process due to cumulative innovation in modern industrial society may oppose the idea of continuous change in productivity and growth. The innovative appraisal of technological change is its endogenous character where innovation may be analyzed in terms of systems and paths trajectory. This approach is different to Schumpeter's argument that technological change is exogenous in character. Biological sciences describe stable trajectory process leading to transformations—although changes and perturbations may occur in past developments, ensuring that further development is channeled along certain route. Nelson and Winter suggest that available technical knowledge may easily be introduced to innovate processes within firms after states innovation approach is followed by national governments that encourage these transformative processes.

However, Mokyr suggests that not all industries that mechanized grew fast enough, and not all industries in which output was growing rapidly were subject to steady or even rapid technological change (1999, p.14). A good argument for believers in overwhelming results of globalization as a promoter of growth lays in the motive that industry in which technological change was rapid, not necessarily experienced prompt output growth. Spillover effects, due to lower prices for its products, may gradually funnel to improve purchasing power in other industries. The dual model view suggests that the rapidly emerging modern sector experienced substantial technological changes. It grew faster than the traditional sector so its relative share in the overall economy increased. Therefore, a revolutionary aspect was how changes occurring in the modern sector penetrated and diffused in the traditional sector, eventually becoming fully modernized. In modern economic terminology, this means that market productivity expands and complements activity within sectors. In his study

[88] See the work of Geoffrey M. Hodgson. 1991. *Institutional Economics: Surveying the "Old and the New*." New Castle upon Tyne Polytechnic.

indicates that on the eve of the Industrial Revolution, Britain was already a wealthy and sophisticated market economy that helped to accumulate capital, removing hindrances to further development of capitalist market system as the productive chain—suggested years later by Porter—had already extended (1999, p.15). Although in real terms, the rate of growth of the economy was not very high in the earlier stage of taking off, and it was due to retardation of diffusion of improvements where the accumulation of capital big enough to sustain the expansion of the whole economy even at the world scale.

Technological change, innovation and investment.

The institutional changes within society are considered important determinants of the Industrial Revolution, and consequently of the progressive expansion of foreign trade and related business. These elements are commonly associated with economic growth during the earliest process of capitalist development when an earlier stage of a globalization cycle started at the turn of the 18th century in England. During the expanding period of the "Industrial Revolution," a structural transformation of the economy occurred leading to furthering sustained economic growth—a phenomenon much studied by economic development analysts. This emerging process of deep transformation did have identifiable causes that led to a prolonged revolution that was strongly manifested as the economic cycle advanced during the 19th century. This transformation process was followed by a long economic cycle or sustained trend of world trade expansion that allowed sustained growth and enlarged world markets. Authors like Hartwell (1967, p. 54) suggested that the Industrial Revolution was marked by discontinuities in the process of growth attributed to technological improvements. This discontinuity is explained and related with the transition from a stable subsistence *per capita* real income economy to one of sustained increase. Some institutional changes manifested during the period of economic transformation led to a path of sustained growth identified with the organization of government institutions and capitalist financial markets. Other structural factors that strongly alternated with this process were the rapid growth of population and the steady incorporation of consumer markets overseas, where colonization and increase in population swelled demand, causing some shifts in the slope of the demand curve.

In these terms, the Industrial Revolution is regarded by historians as a complex set of causes and reinforcing effects. It is also a matter of interest for determining which of these causes produced a sustainable and self-reinforcing "feed-back" process that encouraged a long-term growth path after locking in some of the initial conditional processes. The historical process referred becomes particularly complex to interpret when several causes are introduced into the analysis. It is likewise difficult to interpret the forthcoming result and foresee what a path might follow according to a set of initial conditions.

The Keynesian revolution encouraged advances in the interrelationships of economic variables like *capital as input for growth,* as well as labor and technical knowledge as new inputs. These theoretical elements when properly combined as policy measures have encouraged economic growth. If past really matters in explaining growth, economic history may help to identify causes in order to formulate proper questions to explain existing discontinuities or paths leading to further growth or a more refined approach defined as convergent growth. More difficult perhaps for this kind of analysis is to foresee consequences and aggregate effects coming from exogenous and endogenous variations, or predicting with a good degree of confidence that these changes would lead to sustained long-term growth or by external circumstances being effected by growth discontinuities. Econometric techniques identify variables that propel discontinuities within in the time series and usually respond to external shocks leading to further growth trends.[89]

Hartwell (1967, p.57) suggests that economists and economic historians tardily realized the importance of developing a formal discipline to study *initial conditions* associated with English industrialization and long term consequences of these occurrences, that led to economic sustained growth. The discussion of technological change was considered of prime importance to capital accumulation. The institutional and political element that explained market expansion was of a later incorporation into the theoretical framework, and a full list of factors used to explain the acceleration of growth is contained in the literature where many authors attempt different approximations and adequate mixes to guarantee good development and growth policies.

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[89] See Enders Walter. 1995. *"Applied Econometric Series."* John Wiley & Sons. New York. P. 235.

Mokyr raises very important questions related with the Industrial Revolution, suggesting that what really is axiomatic is *defining* first what it really was.[90] He suggests that it was a revolution in men's access to means of life, control over the ecological environment and a road to complete mastery of their physical environment. The Industrial Revolution in this context led to consumption of more goods and more services being produced, but also to a change in the family structure, the status of women and children a new role for the church and the State. This way of reasoning, in general, may be summed up into a process where no economic changes were affected by economic transformation. However, economic historians who have devoted attention to establishing the causes of the Industrial Revolution, go into deeper questions for better understanding of first causes. Therefore, they question why and when this revolution occurred, and what the effects on economic and social welfare were in this long-term process. Our main concern in this inquiry is an attempt to identify and put into perspective commonly signaled initial conditions that accelerated and pronounced this historical process. And from here try to foresee coincidences and effects of this process when focusing on the globalization expansion taking place at the opening of the 21st century.

The historical determinants studied show that agriculture development played a decisive complementary role in industrial development, a process where the economic surplus being generated and reinvested or funneled into industrial activity initiated a dynamic process of capital accumulation. In the same direction population increased and the transportation improvements that helped to expand foreign trade overseas and lead to growth. The New Economic History discipline attempted, with careful use of time series and statistical refinements, to solve some particular questions related with the identification of casuality and other new causes that determine economic expansion.

Other Historical Views on Growth

Authors like Toynbee and Polanyi initiated a new kind of study starting the analysis about the expansion of trade under the circumstances of the Industrial Revolution by exploring the *social* significance of change. They considered that

[90] See Joel Mokyr. 1985. *The Economics of Industrial Revolution*. Rowman & Littlefield Publisher, Inc. United States. P.1.

the significant element for their analysis was the emergence of a competitive, formal and impersonal market where competition replaced regulations and where the free market economy became a fundamental social factor for long term growth. Nearly half a century later the so-called *organizational* school focused on the scale, structure and emergence of large firms, mines, railroads and big stores to explain world market growth. This latter school incorporated additional elements into the historical analysis, attempting to find out about interrelationships between capital sources in the form of circulating cash-currency and accumulated fixed productive capital.

Some of these views were commented by Sir John Hicks in a *Theory of Economic History* (1969, p.141) where the Nobel Laureate considers the Industrial Revolution was the result of a rising modern industry and not on the rise of industry as such. He considers that the artisan who produced for a market is a trader who buys and sells again. What the industrialist sells is in a different form from what he buys. The capital of a merchant is mainly working circulating capital that is turned over. The fixed capital used by the merchant, like warehouses or containers is peripheral. Artisans or craftsman, use tools mainly for the turnover of their materials and not for advancing industrial innovation. Therefore the crucial point for him to understand lies on determining why fixed capital moves into the central position, and what determines the existence of an initial revolutionary condition for future steady growth. He disregarded buildings as productive factors as they absorbed consumer goods and not producers' goods. Therefore, he suggests that an Industrial Revolution may be called so when investment capital is absorbed in a range of fixed capital goods intensely used in production, rather than in trade. In his model, as the expanding capitalist process continued, capital accumulation increased in range and variety, either in fixed capital goods or in a variety of innovative investments. The permanent change attributed to technological changes led to a correct definition of sustained Industrial Revolution. Finally, industrialization as a process evolved later in the 19th century to a point where the overseas trade already expanded generated a demand so large that production became a self-perpetrating continuation of world mercantile development. Economic history so conceived in such intellectual terms taught us that its structural effects were felt first in the 19th-

century British economy, and as trade expanded globally, it pushed the process of capital accumulation in the entire world-system.

The Role of Technological Improvement and Trade Expansion

Following the previous line of inquire, a general price system mechanism—according to Mokyr (1999)—raises new interesting questions about the contribution of *technological change* as a source of fundamental market changes and to long term growth. His theoretical approach suggests that inventions along with mechanisms that helped to diffuse the new technical knowledge helped to accelerate the rate of economic growth.[91] The author suggests that under certain circumstances a discontinuity in the growth curve trend might exist. The econometric evaluation suggests that Perron's standard unit root test is the adequate approach that allows for confirming the nature of a structural change built upon long time series testing that considers various fundamental variables. Here is where durable effects of technological innovation will stand out as definitive change, and where apparently this improvement contributes as initial conditions to have lasting consequences on the growth path.

A good number of authors make use of qualitative approaches to present various arguments supporting that technological improvements resulted in discontinuities of the growth curve at least during the earlier stages of the Industrial Revolution. In terms of rapid economic growth, Deane and Cole (1969) found leaps and periods of fast aggregate growth rates and.[92] in addition to that, Crafts revealed rather slow aggregate growth during Industrial Revolution were affected by external shocks. Hartwell's discontinuity proofs and Walter Rostow's stages of growth leading to economic take-off broadened the picture, suggesting some discontinuities.

However, the use of macroeconomic tools to observe past Industrial Revolution experience tended to suggest no apparent support for the discontinuities Mokyr referred to (1999, p.9). The controversy widened as Harley's essay implied that "economic growth before 1830 was slower than previously thought and the acceleration that followed later during the 19th

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[91] See the edition of Joel Mokyr.1999. *"The Industrial Revolution. An Economic Pespective."* WestviewPress. Boulder Colorado. U.S.A.

[92] See Phyllis Deane and W.A. Cole. 1969. *"British Economic Growth. 1688-1959*. Cambridge University Press. Second Edition. Chapters V. and VIII.

century does not merit the adjective of revolutionary." Javier Cuenca's figures on industrial production show annual rates of growth with a compound rate of 2.61% for the period 1760-1800 and 3.18% for the period 1800-1830 signaling a moderate rate of growth for this crucial "expansion" period.[93] Some series presented by Deane and Cole (1969, pp. 28-30), respond to considerable effort to bring some figures reliable enough to establish what the rate of *growth of international trade* was in per-capita terms, and in addition to determining which conditions allowed for further sustained growth of the economy although is difficult to stablish discontinuities in the time series. The structural change associated with trade development throughout the period of two and a half centuries under study determined the expansion of the British economy after conditioning productive structures for mass consumption. The existence of expanding overseas markets demanded manufactured goods and under this strong condition, it´s explicable that the overseas supply of raw materials and staple foods as inputs factors contributed in the process of industrialization.

Growing trade gradually gained importance with respect to national income. The data suggest a substantial increase in the importance of overseas markets to British producers and manufacturing expansion. At constant prices the value of exports increased fivefold over the course of the 18th century and for national income the increase was nearly threefold. Domestic merchandise exports accounted for nearly 14% of national income. The level of domestic exports in the first half of the 19th century was between 9 and 11 percent. This figure reached a peak in the 1870s when it averaged roughly 23% of national income. Imports in the early 1880s reached a level of roughly 36%. In the half-century before the World War I, domestic exports dropped to a level of 15 to 21 percent. The level of imports fluctuated within the limits of 29 and 32 percent of national income up to 1914. Transformations attributed to the Industrial Revolution followed the expansion of world trade growth in Britain.

During the 18th century, foreign trade expanded at a rate of no more than one percent, temporarily checked by the American War of Independence. Over the last quarter of the 18th century and the turn of the following century, the annual

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[93] See the work of Javier Cuenca Esteban. Dec 1997. "The Rising Share of British Industrial Exports in Industrial Output, 1700-1851" *The Journal of Economic History.* Vol.57, No.4. pp. 879-906.

rate of growth of the volume of international trade was near 2.5% per annum. Trade currents continued to expand and in the third quarter of the nineteen-century achieved an average long-term growth of 4 per cent per annum. Three decades before the World War I the rate of trade expansion declined to 2.5% per annum (Deane. 1969, p.30).

Economic literature shows diverse statistical tests aimed at confirming the relationship existing between trade expansion and sustained economic growth. Econometric tests attempt to formally study cases where a sudden change occurred through an increase, for example, in export levels or technical improvements which would lead the economy to a stage where structural or permanent change in production output perpetuates. The role attributed to foreign trade in the increase of production during the British Industrial Revolution developed according to a historically defined trend. While theories attempting to explain origins and developments of this change abound no matter that they also attempt to determine whether innovation introduced permanent changes in the trend for growth or if under particular circumstances these effects died way.

Some lines of inquiry adopted by economic historians and economic development theoreticians, searched for cases in smaller countries' economies where the increase in exports improved long-term economic performance. The argument commonly used to prove this ascertainment suggests that the employment of idle resources introduced by the exchange of exports for imported goods did improve the level of economic activity. In the so-called peripheral countries, trade exports helped the use of imported goods to be used as inputs for enlarging and sustaining domestic production, especially when shortages of transforming capital goods were apparent.[94] Harley estimates according to this approach that this imports figure is about 6% of national income (1994, p.306).

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[94] See the work of Dominick Salvatore. 1992. *International Economics.* Mac Graw-Hill. Bogotá. Spanish Edition. P.73. Heckscher-Ohlin's Theorem states that trade comparative advantage are based on factor endowment differences, technological stock and amount of fixed capital. Theory points out that relative difference in relative factor endowments and in relative price level among producing countries determine as well trade currents. Each due country will export goods where abundant factors predominate and will encourage the import of those goods that are expensive and scarce. Either the postulate of factor equalization prices

Other approaches suggest that the effect of overseas trade can be of central importance to the expansion of the economy. Arguing that industry is considered the cause of overseas expansion, where evidence shows that it is valid since the 1850s, where industry at home had expanded considerably relying on the size of the world market and the increasing level of demand.

Finally, Kindleberger raises an interesting academic reflection upon comparing different theoretical approaches attempting to confirm the relationship between exports and growth. Points out about the importance of technical change as contrasted with capital expansion, posing an additional question about expanding exports.

The condition comprises on applying enough pressure on domestic resources to lead to cost reducing innovations. Here is where investment decisions rather than technical change induces linkages, and where the role of exports links to the entrepreneur ability to expand capacity and make use of available techniques, not exactly to invent or innovate.[95] The standard model that relates growth with trade is one in which expanding foreign trade precedes the stimulation investment. It is argued that a rise in exports leads to an increase in national output. The modern argument of the leading sector approach promoted by Rostow and followed by other authors like Lauchlin Currie may also be observed from the evidence where a decline in the rate of exports can slow down economic growth, arguing that policy incentives must be developed to restore growth.

Finally, the connection between trade and growth as suggested by Kindleberger may be concluded from three standpoints. First, from standpoint of the argument which states that a favorable change in the structure of demand abroad or an innovation reducing costs at home, may cause exports to expand, increasing the gains of trade or improving the terms of trade. The interesting theoretical point of view here is relating it to the Harrod-Domar model of growth where more trade means more growth. This important development comes as the increase derives from higher savings and investment with a constant capital coefficient. The second consideration develops from the sector articulation led by

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conducts to the elimination or to the reduction in absolute or in relative terms the price difference present within trading partners.

[95] Kindleberger, Charles P. 1964. *Economic Growth in France and Britain*. Harvard University Press. Cambridge.p.264.

the export activity dragging resources from underemployed and low-productivity sectors to ones that are more productive. The increase in a leading exports sector promotes investment opportunities even when the entrepreneurial activity and investment capacity is reduced. This movement resembles the backward linkage effect suggested by Hirschman. The third one suggests that an export market enable reductions in real cost leading to an increase in real incomes.

4.2. Industrial Revolution and th Pathh of World Economic Accumulation.

One important question that must be absolved before understanding the conformation of a world-system approach is realizing about the initial conditions that led to accumulate capital at a world scale to sustain growth in the whole world market, particularly during the 19th century when the Industrial Revolution showed its dynamic components. This is an important point of analysis as we remember that when economic market forces— especially those related with technological advancement—are liberated, and history tend to be ruled by this new incontrollable power engine. The expansion of the economy relates to the adequate combination of factors of production according to main stream economic assumptions and to the elasticity of substitution of productive factors.

Some of the principal causes that have been attributed to the Industrial Revolution, explains the progressive development of the western economy. One of the early initial conditions that illustrate rapid growth taking place mainly in England was innovation in the agriculture sector after the intensive use of technology, first within enclosures and manure improvement—as we saw in detail in previous sections—and second during the industrial manufacturing production when machines and water power multiplied productivity. Some of the technological breakthroughs associated with a rapid pace in accumulation of capital in industry were spinning of cotton, and the efficient engine that brought steam power to manufacturing.

Cost reduction of steam engines improved efficiency in production and brought higher rates of return to industry. An example of this gain in efficiency was the reduction from 30 pounds of coal in 1769 to run a steam engine to the 7.5 pounds required running the Watt engine in 1776. By 1850 this figure was reduced

to 2.5. "This cost reduction of power invited deepening the mechanization of manufacturing….and the effect of productivity on the iron rolling technique for making wrought iron increased 500 percent between 1788 and 1815. Its price fell from 214 to 22 pounds per ton from 1801 to 1815." [96] Productivity was associated with skill improvements mainly induced by technological innovation and progressive adoption.

The historical continuity was manifested through smaller gradual innovations as an age of learning proceeded. Also learning how to operate a machine as a process required months or even years and a worker continued to acquire and accumulate knowledge during his working age. This process extended throughout the Industrial Revolution and had to be added into thousands of techniques to yield the mechanized production that required many inventors and innovating entrepreneurs, mechanics and technicians.

Greenwood suggests that Britain's more advanced science did not fully account for the development of the Industrial Revolution. As knowledge and the dynamics of the learning curve flowed from the European Continent to Britain, this helped to improve those technologies in the expanding industrializing countries. A feedback loop was created that did not consider the geographical borders barriers—a world industrial transformation spread among advanced countries. This learning process, or destructive creation process, gradually allowed a progressive and uninterrupted route of technological diffusion. The economic inquirer relies on lagged regression models to determine how technological breakthroughs precluded sector investment—although the most common accepted argument to propel improvements is the effect of learning. This deepening is visible in a curve that relates learning-with-time. Here the degree of

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[96] Greenwood, Jeremy. 1999."The Third Industrial Revolution: Technology, Productivity, and Inequality." *Economic Review*-Federal Reserve Bank of Cleveland. Second Quarter. Pp.2-13. Pág 4. Section III. "The main cost of a steam engine was operating it: It was a hungry beast. A Watt steam engine cost £500–800.5 Operating a steam engine, though, was enormously expensive. Each consumed £3,000 of coal per annum. By comparison, 500 horses, which apparently could produce the same amount of work, cost only £900 in feed. Thus, the pursuit of an energy-efficient steam engine was on. The older Newcomen steam engine of 1769 needed 30 pounds of coal per horsepower hour, while a Watt engine of 1776 required 7.5 pounds. By 1850 or so, this number had been reduced to 2.5. So the cost of steam power fell dramatically over the course of the Industrial Revolution."

technological diffusion is presumed that it steadily spread among specific sectors and increased productivity.

The economic development due to innovation was an individual process and was not even continuous or a total local phenomenon. It even had reverses as both technicians and managers that pass through a learning period changed from work place. Therefore, productivity growth rate diffused changing general conditions of the productive world economy regions. Long-term growth during the Industrial Revolution was determined to some extent by productivity growth estimated at 0.5% annually during a prolonged period of seventy years thanks to this improvements and delocalization of industry, as shown by Greenwood (1999).

Different models shed light on explaining historical circumstances where stages of growth developed in countries other than Britain. The United States delocalization experience suggests that after 1840 a time of tremendous investment resulted in specific technological advances. Equipment broadly incorporated into production showed relative price decline, reflecting improved efficiency of new-equipment production. More goods were produced for less unitary cost. Empirically it has been demonstrated that between 1774 and 1815 the real stock of equipment per capita grew at 0.7 percent annually. Between 1815 and 1860, the average growth rate increased at 2.8% and between 1860 the compound rate of growth increased further to 4.5%. This rapid rate of physical capital formation brought about the expansion of the communication network in this country. Railroad tracks expanded from 2,800 miles in 1840 to 30,000 in 1860. As a direct consequence of this expansion in lines and cargo, the steam engines capacity increased from 760,000 horsepower in 1840 to 55 million by 1870. Industrialization brought skilled workers, such as engineers, machinists, and carpenters—whose wages and salaries rose relative to those engaged in the traditional economy (Greenwood, 1999, p. 6).

Landes proclaims the importance of innovations as a strong source of transformation of manufacturing in British industries during the years that followed the 18th century. He condensed innovation into three principles. Substitution of machinery for human skills, animated sources of energy for inanimate like motors that transformed heat into kinetic energy, and the

substitution of natural raw materials for artificial.[97] The implication of this transformation for growth was rapid increase in productivity and per-capita income. The now popular term of the "knowledge economy" did grow at a pace substantially larger than population growth creating a current of self-sustaining growth. These initial conditions associated with technical improvements transcended even the sources of political power both nationally and internationally.

The same author stated that what he means by a Revolution is a not an abrupt change in society, but instead a profound alteration of the world of business; or better said what is denominated as big business. Deep technological changes applied to industry were not a matter of rapid emergence, but instead a gradual and profound process of chained innovative transformation incorporated into the productive structure of a country. Deep changes introduced by innovation were the response to trial and error before an idea transformed into applied repetitive technique. Thomas Newcomen's (1705) first steam motor consumed a considerable amount of coal before James Watt (1768) invented a motor supported by an independent steam condenser profitable enough to be economically used in extractive mining activities. It was then another fifteen years before linear movement transformed into rotating perpetual motion.

4.2.1. New Institutions help Countrie's' Follow a Growth Path.

So far in this research we have relied for good explanation of growth on standard neoclassical concepts. New approaches bring into the fore impressive distinctions like institutional economics to explain changes in society. Comparative economic history needs to pay now special attention to institutions like property, money and inventions and their relationship to economic growth, particularly to interpret how factors of production combined by institutional improvements to promote overseas investment and endorse technological change. In the theoretical developments of Douglas North (1998, p. 3) we see efforts to integrate institutional analysis into economics and economic history. The comparative appraisal suggests finding points of resemblance within institutional factors that hint about at faster accumulation of capital in world integrated economies and for

[97] See the work of David S. Landes. 1999. *La riqueza y la Pobreza de las Naciones.* Editorial Crítica. Barcelona. P. 179.

developing countries to build closer links to globalized markets. It is assumed that institutions may evolve over time, provided that the way investments organize all over the world increases and when freer trade introduced changes in the investment arrangement, modern technology increases competitiveness.

North suggests that some kind of organization including regulatory agencies, firms and educational entities increases interaction between institutions and organizations. However, some quest must be introduced to establish how freer trade and technological improvements like railways and steam navigation increased growth in the 19th century and communications technology, computer sciences and the genome project changes growth path in the 21st century.

North (1999) suggests that since history is about how yesterday's choices affect today's decisions, any starting point is not just arbitrary and some institutional changes to determine like city-region development or world financial stability will "contribute to the essentials of continuity of forthcoming history."

Northwest Europe several centuries back made a path dependence to relate development of complementary processes of societal improvements like land property rights. A world of specialization and division of labor is considered the root of economic growth, and better life conditions and individual freedoms, support new institutional developments that sustain the expansion of the global market. It is argued that social change tends to be incremental while formal rules can be changed overnight. Thus, economic growth is the response to bureaucratic initiative to support perpetual changes in the distribution of social goods or in military defense to mention two of those.

Therefore, even if a ruler or a world governing institution wants to alter the path of an economy away from stagnation to economic growth, it would face opposition from many rulers. The search for the origins of modern freedom entails an inquiry both into the conditions that gave rise to the demand for freedom and into the origins of an ideology. These changes are necessarily to promote freedom as the basic ideal of a society-an ideology of such intellectual power that political decisions drive the force that shapes the modern world today.

From our present day globalization perspective there would appear to have been many more likely candidates-societies with more advanced economies, benefited with more sophisticated scientific and technological knowledge, with more attention paid to the arts, literature, and looking forward for the pursuit of

knowledge increasing freedoms. Therefore, our search for the origins of freedom must do more than focus on the polity; and thus provide an explanation for the overall rise of the Western World where democratic considerations like peoples participation in this race is in the emerging political agenda. The pending Summit of the Americas disposes measures to sustain democracy in the continent. In the competitive decentralized environment, numerous alternatives were pursued; some worked, as in the Netherlands and England; some failed, as in the cases of Spain and Portugal, and successful market integration processes like the European Union due to competitive interests become more distribution efficient in world markets[98].

4.2.2. From an Economic System to a Global Market.

A comparative description of the paradigm change is needed to indicate how theorems of globalization that frame the dynamics of trade and investment and capital flows, took the shape described in the historical works of Foreman-Peck and other economic history scholars that study market as an economic world system. Comparative history is a discipline that helps us to explore how this paradigm evolves and incorporate fresh elements to knit components to view a world economic system. For example, the multilateral agenda agreed upon with the United States contrasted with newer elements that helped this country to start from some initial conditions that allowed for growth in "Path Dependence" trend of a national market made of independent states into a world market made of diverse number of nations. Globalization is a new geopolitical academic phenomenon that is related to modernization, development goals and spread of capitalism system, as suggested by Huntington (1997). This phenomenon of globalization is manifested as a post-industrial occurrence which is important to compare and develop some paradigms identifiable with cases of valid or well proved initial condition, as it surely modifies investment choices in the whole set of international power relations converging the world into one single unit.

Globalization as a new historical phenomenon, which in some aspects resembles 19th century free trade and investment, has led to a broadening of world markets, facilitation of exchange and opening to new investment

[98]Douglass C. North.1993. *The New Institutional Economics and Development.* Washington University, St. Louis.

opportunities where the development of "Building Blocks" or trade zones help to increase market interactions. Trading areas are considered to be an intermediate step to world integration of markets, as perhaps occurred during the expansive trade wave of 19th century Britain with the preferential colonial tariff system. Capital investment and technological change that is flowing in this emerging historic process stimulates a competitive atmosphere with which the gains of free trade are attributed in a large extent to globalization. This world exercise has opened up abundant private investment resources and market access to different kinds of products that has improved and increase exchange of a diverse set of goods and services. Today, as in the 19th century, reinvestment of profits and private capital presence lead many countries to depend economic growth and development of trade currents. The stimulus of a larger market as proposed by Adam Smith encouraged new private initiative for business all over the world and some of its principles are accepted in the global trading market.

Today, financial innovations slip through electronic channels and computer systems that have made it possible to move billions of dollars in diverse kind of systemic risky investments in matters of seconds, creating opportunities to capital savers and more transparent transactions or precipitate non-systemic risk investment spiral crisis.

Economic Transformation produced by the Expanded World Economy.

The accelerated development process that followed after imperial nations spread their political power around the world was accompanied by an enlarging exchange economy, particularly as a consequence of the Industrial Revolution in England, France and Germany, countries that observed that the overseas market became powerful political tool to increase dependency of colonies via exporting all sort of goods and services in exchange of raw materials. During this age of market expansion, on occasions some discontinuities in the exchange trend affected stability in productivity improvement in exporting and recipient countries. Commodities, raw materials and consumer goods made the bulk of this 19th century expanding pattern of world trade. The process of technical innovation flowed across the new geographical board composed of the industrializing European countries and the North American continent. This improvement, due to science and technology shaped a dynamic process of exchange of goods and services with value added, particularly because the richer

countries benefited of higher export prices of goods with a high technological contain. Gains in efficiency attributed to specialization, led to primary goods producing countries to experience when favorable terms of trade of important trade gains. Exchange asymmetries were market distortions of more likely occurrence in the late 20th century, while the discontinuities in growth were the result of slope change in cyclical movements in world markets[99].

Adam Smith proclaimed the set of institutional requirements for an upward spiral of *economic* growth, and for the accumulation of capital increase to size of the total product through increase in productivity.[100] Fashionable 19th century economic theories partially explained productive factor connections to sustain larger world market scale contribution to output. This emerging transformation gradually helped developing world-trading institutions like property ownership, world-at-large transportation and banking practices, and concurrent improvements to help modern transport networks to increasing global commercial exchange and investment. The world trading process that developed in this intense and interactive period of growth helped to advance or modernize the world economic and political system.

Years later the Heckscher-Ohlin model theorizes about the intensive use of products that incorporates abundant and cheap factors of production and import products that use the countries' scarce factors. In this model use of factors depends upon the relative availability of capital and labor that differs internationally. The modern gravity export mode predicts bilateral exchange flows based on the economic sizes and distance that separate two countries or markets while tariffs associate to friction that hinder exchange of goods and even the raise of transport costs discourage trade. Regional theories of economic integration associate with patterns of trade that will be determined by the aggregated preferences for goods within countries and asymmetries. Recent

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[99] See the works of R.M. Hartwell. 1971. "The Industrial Revolution and Economic Growth." Methuen & Co. London. Jones. E.L. 1997. *"Crecimiento Recurrente. El Cambio Económico en la Historia Mundial."* Alianza Editoria. Madrid. Mokyr, Joel. Ed. 1999.*The British Industrial Revolution. An Economic Perspective.* Westview. Colorado. USA. Mokyr, Joel. Ed. 1985. *The Economics of the Industrial Revolution.* Rowman & Littlefield Publishers, Inc. USA. Mokyr, Joel. Ed. 1990. *The Lever of Riches*. Oxford University Press. New York.

[100] See the work of D.P. O' Brien. 1975. *The Classical Economist*. Clarendon Press. Oxford. Especially chapter 8. The Classical Theory of Growth and Development, pp. 206-207.

arguments around intra-firms-trade or intra-industry trade depends on firms respond to imperfect competition as they seek to expand as their markets to other countries depends on "reciprocal dumping" or subsidies aid and not on the hypothesis of differentiated goods.

As the modernization process advances in different countries the production of final goods depends on how a country responds to modern productive activities. This modernization process associated with globalization that eased the establishment of complex multinational corporations within countries and regions that requires the advancement and improvement of modern investments and specialized production on world mass consumption requiring higher technology goods. World trade demand for goods that increases value added and improves world purchasing power, helped in this way the diversification of consumption needs for developing countries that welcomed foreign investment. However, this social improvement would not be possible if previous political and trading arrangements have not taken place to satisfy conditions to comply with a long and stable policy that helps the exchange process path.

As we have seen the expanding world system mechanism has been widely analyzed by different theoretical development currents. It has been identified with the development of assumptions that relate theoretical elements to confirm structural changes attributed sometimes to the action of both exogenous and endogenous growth. This dynamic change process has been the result of factor movements and of variables like productive factor combinations, which according to different empirical developments make growth models in developing countries possible.

Nurkse suggested balanced growth theory approaches and Hirschman followers' relied on unbalanced growth paradigms that now explained by rigorous mathematical models proves that through longer value added production chains is possible to have increasing returns economies.[101] Solow-type models suggested aggregate factor proportions combination with exogenous variables to explain sustained growth. And contemporary fashionable convergence assumptions of growth models are supported by authors like Romer,

[101] See the work of Paul Krugman. 1997. *"Desarrollo, Geografía y Teoría Económica."* Antoni Bosch. Barcelona, p. 21 and 71.

Barro and Sala-i-Martín where theoretical propositions suggests that endogenous knowledge innovations accelerate growth benefiting peripheral and country regions particularly as economies of scale are generated by these projects.[102]

4.3. International Political Economy Proposals to sustain a Growing World Market.

During times of sustained growth, oriented investment and technological change was supported by the State as a convenient political economy proposal, granting preferences in the reallocation of income to this activity, and intending to do so, inducing a more rapid process of accumulation of capital. Over the last thirty years or so, economic policy in many developing countries was marked by the diplomatic and political support for economic integration processes and reducing tariffs and offering tax incentives to production creating an artificial comparative advantage to gain access to neighbor and distant markets. There was an evident rush to encourage growth of export market diversification as an alternative in the continuing modernization of the country's industrialization process, as we did during last century's free trade experience. Authors like Platt (1968) Ian Little (1971) or Nelson (1974) suggest how trade increases and diversification of manufactured exports helped reinvest profits in activities related to growth and productivity.

They tend to explain that government action might encourage the expansion of trading activities, making out of it a political way to intervene in the economy and linking one's market to international technology innovations. Some modern theoretical views suggest, however, that politics should mix with economics to take advantage of enlarged world markets and make local markets a more efficient place where to organize productive chains or efficient trading sectors. Particularly as the "Washington Consensus" approach to economic policy demonstrate that liberalizing markets and ordering the financial structure allows

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[102] See the works of R.M. Solow. "Growth Theory. An Exposition." Clarendom Press. Oxford. 1973. Romer, Paul M. 1990. "Endogenous Technological Change."*Journal of Political Economy*. No 98. October. S.71-S.102. Xavier Sala-i-Martin. "The Clasical Approach to Convergence Analysis." *The Economic Journal*. No 106. 1996. Barro, Robert y Xavier Sala- i-Martín. "Convergence."*Journal of Political Economy*. Vol 100, No 2. 1992. Barro, Robert y Xavier Sala-i-Martín. *Economic Growth*. Mc Graw-Hill International Editions. 1995.

for a possible sustained growth in the long run. Investing activities oriented resources where long run productive investments are a more rational alternative than short term speculative activities.

In some historical experiences the world markets organized around the Bank of England and the Gold Standard pattern, particularly during the 19th century when the world market expanded and made out of it a globalizing place to derive sustained gains. The first decade of the 21st century brought with it an awakening to economic liberalization upon lowering bureaucratic barriers to trade, recognizing, and institutionalizing a free exchange market and taking advantage of cultural globalizing experience to gain access to modern technology. Since then, the exchange rate has been liberated to respond to market forces, while fluctuating interest rates allowed for steady inflows of foreign private investment into a wide number of activities. In terms of world market dynamics, after 1994 forty-four new countries opened up their economies out of a total of 78 that had closed them since the end of World War II. They are now experiencing diverse forms of freer trade practices as of those in the 19th century. Nations achieved growth and technological transfer during this past experience when railroads, ports, and public utility ventures modernized peripheral economies. Now and then, tariff barriers covered about 40% of trade and customs tariffs that in average are today less than 20% within countries where FTA governs trade. According to Sachs (1997) this development of the international exchange of goods, is contributing to the boom in the production of export products as the case of China and some Asian countries demonstrate.[103]

Kindleberger suggests in an important economic history contribution about the European financial history, that the applicability of political economy as a science touches the intimate concerns of higher politics.[104] He explains how from the view of economic history it can be seen that political economy and the issues of trade and balance of payments acquired an indisputable preeminence in the analysis of international economics. The "interdependence" models developed by some other schools attempt to connect principles of political economy with this

[103] See the work of Francis Fukuyama. *El Fin de la Histori*a. Editorial Planeta. Bogotá. 1992.

[104] Charles P. Kindleberger. 1984. *Historia Financiera de Europa*. Editorial Crítica. Barcelona. P, 14. Spanish Edition.

reality suggesting that one country's experience may be linked to another's, whenever one is attempting to standardize general applications of a sort of dependence that rise among them. Systems theory applied to economics and finance comes as a result of the attempts to develop formal predictive models whose output responds to shocks or continuous inputs as credit practices facilitate feedback corrections to investment so international policy objectives may be attained for political and commercial ends.

Economic growth certainly was a matter of interest as early as 19th century widening the political debate to include policy rules that would lead to the best combination of productive factors and foresee its effect not only on growth but also on linking nations to world financial market expansion. This acquired historical knowledge about politics and economics may help to understand 21st century initiatives to predict and attempt reaching growth patterns just too successfully benefit of global market opportunities for investment and consumption financing and even attracting technological improvements as royalty payments facilitate this organized world foreign exchange market. The monetary system before 1914, tended to be passive and flexible as price changes were associated with different levels of production and by cost reduction bringing forth shifts in the supply curve. Changes in the demand structure by way of money supply at the world level were not sufficiently analyzed and discussed at that time, although its expanding consequences affected world welfare as commercial flows increased.

4.3.1. The Emerging Role of the Bankers as Global Investors.

Credit sector development in the 19th century responded to the need to develop railways and transport systems on various continents. Project finance, as a mechanism to develop these initiatives, complemented financial means provided by firms. Large projects required massive movements of capital, incorporated in the form of direct foreign investment. Equity investment was translated into cost and risk reduction within firms. In cases such as England's, the role of learning within the firm improved human capital and brought about new administration practices, diversification of production, change in the role of the manager and new marketing strategies.

Landes pointed out that the association of private capitals became a determinant factor in the development of public utilities works. Water canals, railways, aqueduct and sewerage services are good examples of early stages of public works utilities, assuming legal responsibility was a matter of public discussion, as projects embodied risk for share owners. West Riding Wool Spinning Association was considered one of the first attempts by a firm, where anonymous private savings assumed proprietorship rights and responsibilities of the firm. Lawsuits were resolved by common law judiciary instances. During the early stages of the Industrial Revolution, privately owned firms grew by reinvesting profits. Associations of capitals in the form of shareholders who commonly assumed responsibilities were not regarded as a condition for further firm enlargement (1960, pp.132-134).

Research on technical know-how and diffusion of improvements or better plant lay out and allocation of privately owned financial means was a concern of management. In Britain, the fundamental production unit associated with industrial households progressively depended on association of capitals for capitalization. Friends and acquaintances provided the bulk of capital requirements. Bank contributions to firms' financial needs associated with short capital needs that on occasions transformed for renewal into a kind of revolving-fund to permanently cover fund shortages. As collateral or guaranty for Banks' protection risk, they applied the subscription of a letter of credit or an overdraft. Issuance of bonds to attend to railway requirements led firms to largely depend on stock emissions for investment capital needs. After 1825, derogation of the Bubble Act allowed non-registered shares to fall under the jurisdiction of the Trading Companies Bill. Free association of capitals brought about greater firm development as banks' contributions to this development was marginal. Corporative expansion, where banks participated with credit extension, concentrated in the public services area, insurance companies and trading companies engaged in foreign trade activities. Industrial households gradually integrated into the expanding financial system.

This 19th century England emerging modern enterprises system engaged in shipbuilding, iron and metallurgy and in emerging electricity innovations. Cotton and textiles industries attracted a considerable number of new comers as capital has accumulated in the hands of potential entrepreneurs. Local petty traders,

managers and workers financed firms' activities, shifting personal savings to new ventures. London Stock was basically the reliable source of fresh capitals for infant and emerging industries. City specialization on production developed their own clusters, New Castle strengthened coal mines and iron core and produced pig iron. Manchester developed the cluster of textiles, Birmingham weapons and cutlery. The creation of earlier investment banking in England helped to mobilize increasing amounts of capital, financial organization that encouraged local fund raising to attend to managerial and organizational needs. Before 1914 Chambers of Commerce registered more than sixty two thousand shareholders firms (Landes, 1960, p.138).

Gershenckron approached the problem of firm creation and strategic establishment of these market initiatives, observing that in France, the current policy applied was the reduction of tariffs in iron core and in coal industries. These factors helped to invigorate otherwise stagnant steel industries in the 1860s. Investment banking was fundamental in contributing to the expansion of activity in this industry in the earlier stages of growth. Several financial institutions participated as investors in the development of firms and basic infrastructure, for example, construction of miles of railway, tubs up mines, open canals, built-up ports and modernize cities.[105]

The Pereire family established the Crédit-Ansalt investment bank in Austria, encouraging some railway projects and other industrialization initiatives. Capital risk venture became a fashionable business enterprise in those days in order to promote firms. Theoretical appraisals referring to the issue of endogenous growth is perhaps a matter of concern in recent times. Traditional British banks also practiced short-term credit ventures leaving universal banking to become the source of long-term capital to attend to firms' expansion credit requirements in latter stages of its industrial development. Some empirical elements explored by Mokyr (1998) and Jones (1997) invite further inquiry into determining growth paths following an evolutionary process based on the cumulative growth of collective knowledge.

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[105] See the work of Alexander Gerschekron.1970. "*El Atraso Económico en suPerspectiva Histórica*." Ariel. Barcelona. Spanish Edition. Pp-17-24. Relates the action of Investment banks and the development of growth projects in Russia and other Eastern European countries.

Modernizing 19th century management practices associated with modern principles of strategic planning coincided with the German conception of universal banking where financial structures allowed allocation of both short and long-term resources embedded in selective investment requirements for large scale ventures. Sources of financing allocated by institutions poured out according to project development needs, disbursed during different project stages. Stages included pre-investment studies, design project, public stock offering, project running and management, risk debenture bids, discounting of risk assets, securitization and tariff administration. Roll-on lines of credit implied the establishment of supervising and auditing firm's management. Banking expertise and knowledge about firms helped successful entrepreneurship. Throughout the stages of early industrialization, British firms relied for growth on reinvestment of profits. In less developed European countries, shortage of capital and of managerial talent was manifested as a hindrance to growth, requiring the presence of investment banking instruments to sustain projects and improve feasibility. Industrial investment in the Eastern European countries was characterized by projects with a high capital-output ratio. Therefore, investment banking in the end allowed bringing adequate financial requirements to develop capital intensive projects and proceed with the industrialization process. Investment banking activity progressively institutionalized and helped to allocate idle private resources in the accomplishment of these emerging stages of economic growth, previously followed by already industrialized countries.

Landes (1960, p.139) perceived that in Germany in 1815 industrial development, as such, was in its earliest stages. Regional development in Germany made it a rather provincial backward and hermetic society. This cultural barrier hindered capital and other factor movement and allocation for production. The liberation of financial markets in Prussia gradually encouraged productive transformation and the improvement of railway networks. The initiation of the Industrial Revolution started around 1815 and twenty years later its pace increased. After 1850, a real transformation in industrial productive activity took place after the capital market developed adequately to massively allocate personal savings into production. The adopted French "Code de Commerce" contemplated adequate legal provisions to facilitate the establishment of anonymous shareholder associations. In 1843, 74 enlarging corporations were

registered. Mergers, as a productive transformation strategy, were not very common. The relationship between investment banking and firm creation gradually became associated with the more common traditionally identified conditions of economic backwardness.

Gerschenkron (1970, p.23) assigns a significant role to State contribution to forced saving. This strategy was considered a reliable and prompt instrument to encourage capital formation, mainly with the help of the banking system, the Central Bank money creating mechanism and other emerging private banking financial instruments. Allocation of disposable income through the banking system helped early stages of industrialization where capital was badly needed. Bankers found some activities as preferential or strategic to further development, while others perhaps considered more risky did not classify for banking disbursements and capitalization. The German model of industrialization oriented production in activities connected with technical developments applicable in the industries of coal extraction, iron, electric machinery and chemical components. Textiles, leather and food products remained of the exclusive interest of British entrepreneurs. German success was also attributed to bank merging allowing a better control of expanding and flourishing firms. Banks in the emerging industrial sector encouraged strategic alliances.

The 19th century experience with international capital movements is a subject of particular concern. Diversification of the world economy led to the appearance of different forms of financial credit instruments necessary to mobilize substantial amounts of world savings. Equities, debentures, bonds and shares made up the bulk of these financial devices. During the seventeenth century, Holland became an important creditor market either for British or French financial requirements. Draining swamps, opening channels and developing the tulip industry claimed the particular interest of Dutch investors. An earlier futures and option market of hedging operations allowed some exchanges of financial debentures developed in Amsterdam. This financial center organized credit facilities for Austria, London and Geneva (Kindelberger, 1984, p. 292).

Early in the 18th century, Dutch financial merchants allocated discounted bonds among risk venture investors. Some corresponded to British discounted debentures, and French perpetual bonds. War financing was an attractive investment nevertheless honoring interest and principal repayment installments

embodied some risk. This risk increased when adverse peace situations developed and were transformed into wars. Napoleon sold Louisiana to the United Sates for US$ 15 million in bonds to pay for Continental armed conflicts. Baring Brothers of England discounted some of these bonds, a country at war with France.This real sector survey shows some 19th century economy elements that still keep resemblance with those other active variables that might experience dynamism in the 21st century economy, some of which aspects we attempt to explain and foresee in the following chapters.

PART V.

THE TWENTY-FIRST CENTURY AND THE GLOBAL KNOWLEDGE ECONOMY´S OPPORTUNITIES.

Knowledge, the multinational firm, and the free flow of financial capital seem to be the old and new elements that in the emerging 21st century lead as actors in the global knowledge economy. The regions and the cities in his new economic environment play an important role in the spread of the globalization process, as local economies and small business contribute to the specifities of the formation of capital and where in the innovation phenomenon they contribute to think about new and better ways of doing business and transforms inputs into innovated final goods. From a comparative basis and relating these variables, we attempt in this chapter to study and explore what we consider are some new basic initial conditions that led into the XXI st century to conform a global market where distribution of new products in some respect resemblances to 19th century's distribution of goods structure in particular the technological content. Path dependence approaches foresee current accumulating effects as a function of early random innovative technological shocks tend to change the whole trend of the productive process leading presumably to develop a new world economic balance that include the effect tacit knowledge.

The BRICS countries play an important role in defining the new international agenda as they tend to become new actors in the world of innovation in technology. The interesting exploring view in this fulfilling path process is that in the line of selection of the variables that enlarge trade currents the new actors have a command role to play influencing in time and space the governing role played by determinant variables related with the process of research and development.

The forces liberated by the interaction of these new actors create political situations that entail for states action and cooperation in particular in the matters of technology transfer. The emerging tendencies produced by this interaction of forces will in our view mark the difference in the globalization process that shaped the distinction between the 19th century experience and the emerging 21st century where the global market rules determine the appearance of virtuous

emerging scenarios in the involved countries that facilitate growth and development.

5.1. Applicable Knowledge As The Factor That Has Long-Term Consequence On Sustaining Growth.

As a departure first point in this section, we advance in the notion that is applicable knowledge the factor that may have a long-term consequence on sustaining growth. Secondly, we consider that economic practices advanced by the multinational corporations determine changes in the one-world one-single market structure creating a new division of labor and specialization. An important effect of this institutional change relates with the transfer of technology and knowledge marking a new trend and modifying the diffusion of firms and multinationals organization principles. Thirdly, we consider that the expansion of direct foreign investment flows and on the volume of risk capital ventures invested overseas may introduce somewhat permanent transformations in the world global economy.

5.1.1. Comparing Two-Century's Transition.

Appealing to a superseding view of history both of the 19th century and the emerging 21st century global framework, we contrast the referred pictures trying to identify in each framework fundamental initial conditions that reveal departure avenues. In previous chapters, we show how the Nation-State emerged as a self-governing body and established how in different historical global settings emerging market forces transformed the economic environment leading to form a political unit and a modern world market. As the exchange of goods and services increased on a worldwide level, some initial conditions, like the technological breakthrough led in the global economies to increase levels of efficiency that transmits and are shared by the whole system. We draw the attention about transformed productivity trends within the agricultural sector and in other modernizing industrial initiatives that led to a deep transformation in the productive structure shifting production to supply local needs into requirements to attend a global business. In this new emerging setting world distribution of goods through different channels changed the conception of doing business and of creating value within the firm. As financial capital accumulated

in developed countries, the geographical periphery linked an increasing number of emerging Nation-States and conquered territories, allowing for an increasing number of regions, local markets and towns to achieve new levels of progress. Agriculture's modernization, industry advance and trade diversification made for production traditionally oriented to attend local demands to gradually shift into standardized world consumer goods and products for the global masses.

Let's not forget that during the 19th century experience, world markets gradually integrated as transportation improvements helped linking diversified trading activities and extend migrations to different continents. Progressively and following this world integration trend the world market size increased and production became more responsive to world price incentives while tastes and needs diversified. Also consumption goods patterns gradually responded to world markets standardized production. As a consequence of this expansion and specialization the scales of production tended to diversify and substantial amounts of financial capital flowed all over the world to compromise economic activity in complex productive achievements while investment activities became more specialized.

Interdependent trade currents in the 19th century setting attracted country's specialized production, while tradable activities engaged innovative practices where the diffusion of technological knowledge determined new production practices. Reinvestment of profits and the increase in world savings readily helped to enlarge the world financial system and diversified investment currents. Previous century's unlimited world economic expansion that practically ended with the 1930 financial and trading crisis showed an unexpected economic shortage of revenues and translate in social unbalance thus leading to political instability and worsening general economic conditions.

As world-trading activities weakened due to the recurrent capitalist crisis, the stability of trading nations was threatened. The disintegration of the world market system accentuated by rising protective trade tariffs and by exchange control mechanisms that curtailed international transactions. A consequence of this deterioration of market conditions, trading markets observed sharp reduction of international money flows affecting trading currents and the trend of infrastructure projects an investment in industry.

Renewal of Freer Trade Currents.

The end of the World War II brought fresh air to trade and investment activities. The WTO-Gatt revolution led to trade barriers gradually to be removed, increasing the flows of commercial goods exchanged between countries that adopted the most favored nation clause to trade. As response to the difficulty of competing at a world level, regional integration agreements flourished. The FMI creation stabilized country's balance of payments and helped freer movements of world capitals. The challenge of competing for world market access caused substantial transformations in the field of technological investigation allowing for some rich countries to orient investment towards a world target of sustained growth.

Some developing countries responded to the new world order orienting first production via substitution industrialization in light consumer goods to attend local needs, and changing gradually this trend to compete in the world market with more value added. International liquid flows increased while the dollar baked by huge gold reserves made of America's money pattern the leading world source of value and means of exchange. Progressively capital started to move where profits and returns were higher all over the world. This monetary movement resulted in a more open world where profits were remunerative and where financial investment risk was smaller, helping efficient projects to flourish.

After a substantial increase in the world financial capital market the mitigation of risk exposure attracted world savings searching for less volatility investment activities. Where ownership of the means of production and the enlarging investment opportunities made easily accessible activities made for the world to shrink and foreign investment a more attractive practice. The 20th century economic wars led industrialized winner nations to come out politically and economically strengthened. Rich nations, especially the United States, developed an integral view of world affairs, as its mission required a perfect understanding of the complex view of the global world where the new linking element became the almighty dollar.

The long-term perspective allowed to see more clearly a picture where World Wars made of military efforts a strength that coincided with the wisely investment of wealth in productive activities. In this new and emerging long term political and economic cycle that we now name globalization, the 21st century

international economy view of world business led both the state and the private sector activities' to coincide in particular purposes like wealth destruction, so onwards the expansion of production became more oriented to the incorporation of specialized knowledge.

Technological improvements contrasting with 19th century globalization experience, some of them used for military end spread among the production line of many modernizing firms that received government aid in the form of Research and Development—R&D grants. During "peaceful" times industrialized countries accentuated competitiveness, and the establishment of firms overseas then became a new world strategy, converted into a tool for spreading economic power in peaceful times. This new initiative gained substantial amount of revenue for the owners of technology in favor of the most competitive firms. This initiative also helped promote the diffusion of new investment activities more dependent on technical know-how and more competitive in the rising interdependent world market of the 21st century globalization era.

The incorporation of improved technological knowledge into the line of production and the introduction of best practices generated, stabilized and increased the flow of revenue to capital ownership. Some of it was received by investors in the form of drawn out profits or in increased amount of royalty payments as found by Chudnovsky et al (1999) in their work *Las Multinacionales Latinoamericanas*. The higher level of income led to a virtuous growth process that encouraged more savings and more investment abroad as suggested by Kindleberger (1964, p. 135). In this economic competition for markets less capitalist oriented structures saw their productive capacity decreased or destroyed, simply allowing opportunities to pass them.

5.1.2. Emerging Countries and the New Economic Order.

Economic history reveals that at the end of the two World Wars, the center of gravity of world production changed. For example, advanced industries in Germany and in Japan raised production to incredible levels generating disequilibrium in the world political and economic system. After the end of World War II, only the United States emerged as a great world military and economic power where the stock of technology became an important reservoir of world power for this country, and the center of gravity of world trade located

somewhere between Mid Atlantic. After the incursion of China to world markets, and the expansion of BRICS countries, the center of Gravity is somewhere between India and China. However, free enterprise and state action did encourage not only mass production, but also substantial investment initiatives first in defense where technology improved military industry and progressively transferring the United States in military and commercial know-how. And then worl business oriented toward activities encouraged through research and development in the advance in the industry of electronics, computing and communication system allowing oter emergingcountries to enter into the edge of competitiveness where the United States has to compete in the 21st with other emerging competitors.

After World War II, the United States showed itself to be an indisputable industrial world power, where the knowledge for destruction that this nation developed, was later absorbed by the activities of atoms for peace, electronically devised controls, computers, telecommunications, biological sciences, satellites and the knowledge of the earth science and its climate change problems and use of technology to tap geographically available deposits of scarce resources like gas and oil, increasing the number of industrial specialization activities.

The financial world was also transformed as central bank gold reserves did not signify much in terms of financial wealth, and the new monetary order stimulated nations to increase foreign currency reserves. The dollar became the hard currency that spread worldwide, favoring exchange and investment opportunities. Indisputably, the dollar emerged as the prime means of international transaction, transforming this monetary sign into a worthy and strong currency as well as *par excellence* the banking and commercial means of exchange and the reliable source of value accumulation. Consequently, the dollar not only became the strongest currency in the world, but also reflected the political preeminence of America and its economic capacity led by substantial production capacity that might be used to war or to dissuasion ends, although the dollar converted into central bankig reserves contributed to strength financial

position of emerging countries yn the financial system as demonstrated by China with its gigantic more tha three trillion dollar´s reserve position .[106]

The emerging world order led to important institutional transformations making of the exchange activities a powerful and reliable source of business performance that helped to integrate the world economy even further, process in which emerging countries play an important role. The exogenous factors of production like land and labor, embodied in the conventional economic growth model were recognized as long term variables that, once incorporated into production, allowed for world economic expansion. Removal of structural barriers that hindered the expansion of the world market economy became a universal aim in its own right, where the integration of sovereign BASIC and other so called emerging nations enter into the world markets as competitors, fact was considered a political novelty and a source of competitiveness for world power share. Entrepreneurial talent in the industrialized countries, made trade and exchange one further reason to modernize and extend production to other emerging countries as reduced labor cost increased competition.

Goods considered as final production became the aim of increasing and diversifying multinational firms activities, institution that developed in the form of direct foreign investment. These multinational firms tended to organize production where consumer markets were ready available or where sources of input supplies were closer to production centers. Delocalization of investment and the selection of appropriate technologies gradually was interpreted as a concomitant approach for world competitiveness within countries and firms that progressively became transnational. Technology and efficiency in production was regarded as a determinant factor to further sustain growth and competitiveness, so production became progressively more specialized. Here the appearance of managerial advantages was later regarded as strategic. These strategic considerations for management practices allowed production to compete with quality goods, obtained thanks to standardized production, where final goods gradually developed into a wider and competitive global consumer market.

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[106] Bessel, Richard."The International Economic Order between the Wars."In *Global Politics* by Anthony G. Mc. Grew and Paul G. Lewis. Polity Press, Cambridge, 1992, pg. 168.

World tradable goods spread in the world market, so tastes and mass consumption patterns changed.

Financial requirements for world-expanding corporations became a matter of major concern to assure sustaining entrepreneurial growth and exercising control of world market demand. Furthermore, as the world market enlarged and incorporated new and specialized consumers into the emerging global structure, investment activities tended to modernize and rely more and more on decisions made by better-trained managers and skilled labor all over the world. The more these goals were achieved and the scale of production enlarged to satisfy new demands, standardized world levels of consumption became a determinant factor that transformed world demand patterns as suggested by Lester Thurow in his book *Head to Head*.

New sources of capital to finance scale production requirements increased and in this general way, the new distribution of world power facilitated the enlargement and specialization of the capitalist productive structure, particularly in the denominated triad blocs made up of the European Union, Japan and the United States and now the so called BASIC and BRICS countries. The process of technological innovation and accumulation accelerated growth, or to say in the Joan Robinson context, perpetually propagate the accumulation of capital. In her words,

> *The capitalist use the surplus drawn from the output on one set of workers to employ others-some, to supply their own wants and those of their hangers-on, and some or perhaps the greater part, to build up more capital to extract more surpluses.*[107]

A direct consequence of this self-perpetuating economic mechanics put at the service of globalization allowed for the expansion of production leading to fix a worldwide network of final product distribution channels. Enlarging the world market for this global purpose becomes the appropriate solution for further capitalist expansion and perhaps for assuring a more stable revenue source. Anticipating the advance of new managerial and technological improvements, a new common economic goal became associated with the extension of entrepreneurial activities, including new investment currents in some profitable emerging and world-developing economies. Increasing exchange of inputs and

[107] See the work of Joan Robinson. 1970. *Economic Philosophy*. Pelican Book. London. P. 39.

raw materials among developed countries became a mode of trade, where knowledge was embodied in new processes, representing an additional way of putting circulating ideas into production. Emerging countries participating in this widening process modernized production—a business that is becoming quite profitable. The next sections suggest how knowledge economy, the spread of the multinationalcompany, and the irruption of direct foreign investment in the form of venture capital, may contribute to shape the emerging 21st century global market.

5.2. Knowledge Becomes a New Source of World Power.

Integrating some elements of political science and economic theory, two disciplines with good explanatory capacity of world developments allows us to see in the global economy that power is exercised when economic developments generate gains to be appropriated. From this viewpoint is interesting to consider under which conditions policies launched either by ruling powers or by world governing institutions allow for competition in world markets, making as an especial case that economics transforms into a political international discipline. Within this state of political balance, competition for world resources and for control of universal institutions transforms into a determinant for access to world resources and trade gains.

5.2.1. Institutional Access to Trade System.

Under the new emerging conditions for world growth, scale political power has become associated with different intermingle elements, like access to the means of production, raw material sources, high-income markets and international financial means. Here is where institutions considered as a source of financial wealth help to diversify investment at a world scale. Transparent world markets become attractive to capitalist investors, as high returns combined within selected portfolios mitigate capital risk and open new investment activities. Experience shows that, in general, capital movements funneled to emerging countries tend to increase profitability and with an adequate country portfolio risk, it may be substantially reduced. Excess liquidity around the world tends to become reoriented toward emerging world financial centers, pouring considerable amounts as especially did happen with some Latin American countries and South

Asia emerging markets. In order to increase confidence levels for investment, governments supported democracy as a means to contain communist expansion, as happened during the Cold War when the political aim of industrial powers was to compete and protect the Pacific Basin market from the advance of totalitarian regimes. With the FTAA experience and other Free Trade practices, democratic principles tend to be encouraged first in thirty-four North and South American nations and then with particular free trade areas. Political consideration do fed the world financial economy, as surplus capital reinvested in expanding countries allowed for better returns while claiming for political stability.

The spread of technology reflects a new source of world power distribution, and becomes too an efficient means to allocate financial capital. This structural determinant of world power has become a matter of serious menace for developing countries, as some industrialized states have organized markets around their world distribution, where financial aid and trading mechanisms tend to encourage transfer of technology, while following strict investment rules. Regulating access to technological sources is now a decision that is more responsive to expanding world demand and the production needs and distribution patterns respond to multinational corporate requirements, so these foreign firms tend to become active participants in the freer allocation of world resources. Increase in world production capacity and global competitiveness is now a process strongly influenced by the interests of greater powers.

The expansion of peripheral markets is subject to last minute agreements to preserve some independence against advanced countries. Localization of world trading firms responds to licensing and technology transfer rules, where the allocation of resources is more responsive to world market growth. The political developments of individual countries tend to hinder the expansion and access of world-competing multinational firms, for which world allocation is a matter of strategic concern.

The historical view we have developed helps us to understand that some of these *initial conditions* that favored British overseas economic expansion, allowed Great Britain to become a strong modern industrial trading nation, situation that *in-extenso* is repeated by new competitors in the emerging global 21st century market after removing trade barriers. Remembering that Britain did establish the institutional and military arrangements that framed the world commercial and

financial empire following the supervisory or defensive environment offered by the Royal Navy security and defensive strategy. While today industrialized nations and world-governing institutions, like the WTO or the IMF, do establish world rules applicable to follower's country members, and subjecting them under failure to abiding rules to applicable sanctions. Economic policies adopted during the whole 19th century, aided in the establishment of some powerful economic institutions, like the gold standard payment parity mechanism, allowing for the organization of the world economy and materializing, in this way, a primeval successful attempt at globalization.

5.2.2. Linking Political and Economic Interests.

Strange (1988, p.10) attempts to organize some of these 19th century principles into a novel theoretical framework to explain emerging conditions, linking politics and economics to better explain globalization effects. The approach of international political economy helps us to understand how political forces relate and casually connect with other branches of knowledge. The international political economy framework we use today attempts integrating elements considered to be fundamentals for the evolution and behavior of security, production, finance and knowledge. These institutional factors, if adequately interconnected, do clarify the emergence of possible political and economic scenarios while the global 21st century is developing.

Despite this advance in the conception to allow for better interpretation of the emerging reality, some fuzzy views related with social elements need to be further clarified to better understand and see possible virtuous or conflicting emerging scenarios. Ethical formulas tend to put together elements like migrations, minorities, race, gender education and health into a single pot to easy explanations. Common sense fundamentals still deserve explanations to understand why if economic cost made in war exceed the economic gains of proceeding in such a destructive manner, do not open new ways of understanding that is more profitable benefiting from an enlarged world competitive market than sinking in war struggle. An important commitment that follows from a peaceful view of politics and ethical approach to economics corresponds to setting a political-economy framework, where states and parties in conflict as we experience in Colombia's guerrilla warfare, follow rules to

regulate or stabilize the international distribution of trade and exchange gains whose contribution to growth and welfare is undeniable.

The 19th century scenario offers some resemblance to 21st century departures, particularly in what concerns the widespread application of technology to manufacturing and the larger use of financial structures in the world economy to finance capital formation activities. Strange (1988, p.23) made further advances in ideas like these, when she considered the impact of linking power with the expanding world economy structures. She suggested the existence of some linking variables to connect international political economy advances with world economic development. Some historical developments relating to the expanding industrialization process in England correlated with those emerging within world market patterns, where productive processes lead to proportional acceleration of the rate of capital formation and deepened technological transformation within a firm's structure. However, diverse world supply sources and use of other factors of production contributed in the past to increasing and sustaining growth. Catching up, certainly for developing countries, is still considered to be a condition to fulfill for the development of institutions regarded as determinants to the diffusion of newly acquired knowledge, a pattern that must be followed to support the rate of capital accumulation. This argument corresponds to the leading stream of thought embodied in the discussion of endogenous growth.

World Power Distribution.

In terms of power distribution, Strange furthers the argument that international political economy has a different view of the growth combination of productive factors. She suggests that a mix of other factors like wealth, order, justice and freedom originating in an international setting have to be comprehended, if a definitive integration of other markets is desired in the new political scenario so that the growth process may continue. This process, as she suggests, requires defining and understanding a more complex scenario, where "power, for example, determines the relationship between authority and market" and where the dominant role is played by the political economy, factor that should work on integrating whoever possesses authority into this process. In the enlarging context of globalization, managing or ordering the market requires some political direction to allow it to function continuously. Externalities and

market failures may represent special cases of malfunctioning that need to be repaired.

New or at least appropriate conditions are necessary for the market to surmount situations like the Latin American external debt or Asian crisis. Attempts to overcome this sort of problem lay in establishing the interrelationship between the economic mechanics and the sources of power. In political economy those who exercise power, no matter what its source are, determine the extent to which the market operates and the rules to follow to govern its trends. That is why it is difficult to experience appropriate technological advances or attract risk and venture capital to create a world competitive industrial structure in emerging countries. Openness of the economy is not sufficient to sustain growth. Sebastian Edwards (1997 and 1998) concludes on a statistical basis that robustness tests on the use of an openness indicator, allows for determining faster growth after freeing trade[108]. The way power is used shapes the political economy, however further considerations need to be made to adequately distribute costs and benefits. Competing in global world markets needs further study within the international political economy structure before seeing "who gets what" in the particular mix of basic values that we observe around us.

Strange attempts a deeper explanation to further inquire into the sources of power, distinguishing two kinds of endowment that explain the game of political economy, that is the structural and the relational. She considers that in the world system structural power counts far more than relational power. The Realist School describes the power of A to get B to do something it would not otherwise do. Relational power over Panama dictated the terms for the Panama Canal. And here is where... "structural power shapes and determines the shape of global political economy within other states, their political institutions and relationships, and

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[108] See the works of Sebastian Edwards, 1998, "Openness, Productivity and Growth: What do We Really Know?."*The Economic Journal*. Vol. 108. March. Blackwell's . U.K. pp. 383-398.Also Sebastian Edwards. 1997. "Trade Policy, Growth and Income Distribution." *American Economic Review Papers and Proceedings*. May. Pp. 205-210. Indexes are used considering if a country is or not open in one year, according to the perceived degree of openness of a country, with the average residuals from disaggregated trade flows. Distortions are measured considering: the average value of the black market premium in the foreign exchange rate, the average import tariff, the average coverage of non-tariff barriers, the extent to which government policy distorts trade, and finally the ratio of total revenues on taxes on international trade.

their economic enterprises, scientist and other professional people operating it..." (1988, pp. 24-28). This structural power relationship means whom sets the agenda of discussion to design the international regimes or rules like these established in the Summit of the Americas or other modern trade agreements like the TPA.

Or whose banks or investors dispose of spare money to orient and control credit and new ventures. Structural power confers the source of more power to those who decide how things shall be done and shape the framework within which states relate to each other, that is, how rules governing technological transfer to emerging countries or the amount of risk capital invested in these country follows.

Economic power, according to this structural and relational definition, links and equates economic power to the amount of money spent to obtain an objective. Emerging powers within these environments receive regulations from supranational institutions, and larger transnational corporations use their members' power to compel obedience or conformity with new commercial and direct investment opportunities and protect rules. This exercise of power is shown in the international forums and explains how the structure of commercial preferences, including author's rights, environmental and health-safety rules, not to mention some modern international negotiating elements within the world agenda are determined.

5.2.3. Wider Scope of the Theory of Political Economy.

Strange includes in her analysis further interesting arguments to characterize how structural power affects political economy. She considers that if it does not advance in a single structure, this power will do it in four separate and related structures, where production is the main explanatory variable. Given that states live in an anarchical world order, she imagines this in a four-faceted triangular pyramid, where each side touches the other three, representing in this tetrahedron one of the four structures through which power is exercised. The four sources identified with each side exercise control over security, control over production, and control over credit and capital, control over knowledge and technology, and finally beliefs and ideas (1998, p. 26-27).

This profound structural model relates power attempting to exercise control over people's security and the mode of production and services apt for survival.

Most capitalist countries provide adequate control on the supply and distribution of credit through Central Bank regulations. The advance of knowledge in society and access to technology follows as an additional source of structural power displayed globally. This conceived structural power in the new emerging globalizing world creates some access barriers for countries showing high risk levels, therefore, making it more difficult for emerging countries to compete for financial resources.

The technological race, where Research and Development-R&D are favored by the State benevolence also appears as an entry barrier. The important point is that United States hegemonic power is big enough to compete with this asset, even with other advanced countries. Furthermore, this country is in a favorable position to manage a worldwide monetary system and independently advance in research, moving the technological frontier.

Regarding these four basic structures of power conceived by Strange, that is security, production, finance and knowledge, all are assembled into one mechanism to exercise influence in the international political economy set-up. Summing up, these are the fundamental structures of the emerging world power and of driving the international political economy. There are other substructures or secondary structures in the international political economy like trade, aid and energy that are relational in nature. Cereals, timber, computers, e-commerce, databank services are simply elements that shape like new initial conditions of the international economy in substructures. New economics analysts regard electronic technologies as the source of a new structural change and long term growth.

The expanding economy in the process of globalization poses questions about the sources or origin of the power forces that induce this process. Market forces contribute to expanding the economy as suggested by neoclassical economists. International political economy, following the way of reasoning of Strange (1988, p.29), proposes that someone in the world economy decides what means and how the factors of production as land, labor, capital and technology will combine to sustain that growth and by which means relative prices will reward factors. For example, left wing views demonstrate class concurrence, where power over other groups determines the final mode of production. Here, the class is in a position to decide to change the mode of production and can use its structural power over

production to defend its social and political power and privilege. However, current practices concentrate on the creation of political institutions laying down legal and administrative processes to consolidate the power structure. In this free trade context, globalization means exactly that the territorial limits of the Nation-State are crumbling. So structural power over production, geared to an expanding world market, crosses geographical borders and penetrates tariff barriers. Less developed countries in this new scenario will have to strengthen the structural financial sector to attract saving sources coming from advanced industrial countries and relax control over credit flows from one country to another. Trade was the determining 19th century structure that shaped the world economy and financial flows and exchange of knowledge may become 21st century the driving force.

World Financial Flows as a Source of World Power.

As initial conditions for growth, the 21st century perspective seems to start by facing increasing flows of financial and risk capital embedded in making corporate enterprises competitive and countries a source of capital market investment. This emerging tendency will change the relative importance of this sector within the whole forthcoming economy. The more efficient it becomes in allocating resources and reducing risk dispersion, the more it enables this activity to become a decisive structural power factor for future sustained growth and Nation-State interaction.

Another issue that perhaps will largely dominate the early 21st century is the association of other institutional arrangements established to face and improve access to technical knowledge. Knowledge has developed after the electronic information revolution made it a determinant structural power source or factor that will transform international relations. The new international political economy will become progressively transformed as access to the kind of knowledge embedded in control channels becomes available to others, considered a determinant factor of development and of the spread of emerging firms dependent on such knowledge for competitiveness and further expansion of world business opportunities.

The general trend of the discussion on initial conditions for emerging 21st century Colombia, which so anxiously awaits its emergence in global markets, depends considerably on the policy mix adopted to benefit from technological

and financial advances. The appropriate combination of these factors according Strange's view (1988) speeds up the rate of economic growth and improves business opportunities along with international flows of capital.

5.3. Knowledge is a Source of Endogenous Growth in the 21st Century.

The international political economy approach to world productive economy takes into consideration various numbers of structural and directional variables to explain the exercise of world distribution of power derived from the accumulation of capital. An emerging discussion for 21st century development of integrated world markets is related to the dynamic changes in the whole economic structure derived from the firm's specialized technological knowledge. Development and growth in the Solow old model was associated with technology as an exogenous source of growth while in the modern growth theory this transformation source is considered the endogenous leverage of transformation where the improvements they bring into the economy traduce in an increasing line of return of capital. A kind of knowledge society is swiftly emerging and rapidly affecting local and worldwide distribution of power. An academic debate on the causes of economic growth has evolved through the years and has been a matter of deep concern to professional social scientist where in this branch of literature change in productivity is a particular subject of development economics where growth and welfare melt together.[109]

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[109] A comprehensive review of the literature on economic growth surpasses the scope of this research. Some titles of interest may be: Aghion, Philippe and Peter Howitt.1998. *Endogenous Growth Theory*. MIT Press. Cambridge. Barro, Robert. J. "Economic Growth in a Cross Section of Countries."*Quarterly Journal of Economics*. 1991. Pp.407-443. Barro, Robert y Xavier Sala- i-Martín. "Convergence."*Journal of Political Economy*. Vol 100, No 2. 1992. Barro, Robert y Xavier Sala-i- Martín. *Economic Growth*. Mc Graw-Hill International Editions. 1995. Bruno, Michael. 1994. *Short-Term Macroeconomic Management and Long-term Economic Growth.* Banco Mundial. Bogotá. Junio.*Business Week*. Americas New Growth Economy. Conventional Wisdom. Does it Hold Anymore. Mayo 16/1994. pp. 42-48. Cannon, Robert H. 1967. *Dynamics of Physical Systems*. Mac Graw Hill. United States. Corbo, Vittorio. 1994. *Main Determinants of Latin America's Growth*. Banco Mundial. Bogotá. Junio.De Long, Bradford. 1997. "Old Rules for the New Economy" November 11. http://econ161.berkeley.edu/Comments/for_hudson.html.Fagerberg, Jan. 1994. "Technology and International Differences in Growth Rates." *Journal of Economic Literature*. Vol.32. pp. 1147-74. Fagerberg, Jan. 1999. "The Need for Innovation-Based Growth in Europe." *Challenge*,

After World War II, political scientists and economists posed a fundamental set of questions trying to identify the causes of economic growth. For trading nations, this discussion is relevant as a relationship that should exist between trade expansion, foreign investment and sustainable growth. Fagerberg from the economics view point presents a comprehensive approach to surveying some of the new research currents that attempt to provide explanations of the new observed causes of endogenous growth. He explores the possibility of connecting technological discoveries with innovation and world market expansion. Along this line of thought, some other related questions deal with identifying the structural determinants associated with new economic growth, as well as with the enlarging world market (1994, p.147).

5.3.1. Rate of Growth associates to the New Growth Model.

A first query leads us to compare two distinctive historical periods where the rate of growth, instead of being similar, substantially differs among countries of a like degree of development. New economics considers that technology has become the indisputable source of permanent growth and has been regarded as a public good, one that becomes a good available to everyone, as well as cost free, when market conditions are open for every entrant. When the economy opens to the global market, theory states there is ready access to technology openly available to firms. Therefore, growth may spill over to almost every country or local market. Evidence suggests that when firms tend to monopolize this factor, this is due to

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Vol 42. No 5. , September/October. Pp.63-79. Gould. M. David. "What Determines Economic Growth?." *Economic Review*. Federal Reserve of Dallas. Second Quarter 1993. Kregel, J. A. 1972. *The Theory of Economic Growth*. Macmillan. London. Krugman, Paul R. 1991. *Inestabilidad de la Tasa de Cambio*. Norma. Bogotá. Lucas,R.E. "On the Mechanics ofEconomic Development." *Journal of Monetary Economics*. 1988. 2: 3-42. Mandel, Michael. 2000. "The New Economy." *Business Week*. January. 31. Pp. 35-49. Myrdal, Gunnar. 1968. *Asian Drama. An Inquiry into the Poverty of Nations*. Penguin Books. London. Apendix 3 on Economic Models. Naim, Moises. 1994. *Instituciones: El eslabón perdido en la Reforma Económica de America Latina*. BancoMundial. Bogotá. Junio. Romer, Paul M. 1990. "Endogenous Technological Change." *Journal of Political Economy.* No 98. October. S.71-S.102. Romer, Paul. "Endogenous Technical Change." *Journal of Political Economy*. vol 98. 1990. Sala-i-Martin, Xavier "The Clasical Approach to Convergence Analysis." *The Economic Journal*. No 106. 1996. Sahlman, William A. 1999. "The New Economy is Stronger Than You Think." *Harvard Business Review*.November-December 1999. Pp. 99- 106. Solow. R.M. 1973. *"Growth Theory. An Exposition."* Clarendom Press. Oxford. Stiroh, Kevin. 1999. "Is There a New Economy?." *Challenge*, vol.42.no.4. July/August 1999, pp. 82-101.

successful research and development processes followed within. The fact is that this factor of growth is not equally distributed among countries in a given instant of time and its gradual availability only depends on the extent those technologies are appropriated, thus making the discussion of future growth a matter of controversy. The economic growth approach is exploring evidence to support theoretical assumptions that underlie predictive growth trends.

Generally speaking, growth has been analyzed within the one-sector framework, but has been extended to other avenues like income distribution, capital accumulation and market force relationships. The post-Keynesian theories were based on standard neoclassical assumptions, such as perfect competition, free access to information, no externalities, decreasing marginal productivity and homogeneous production function. The share of savings in the product and the rate of growth of labor are taken as given. In Solow's 1950's growth model, productivity growth results from an increase in the amount of capital where in this context marginal productivity of capital declines. In the long-run equilibrium trend gross domestic product, capital stock and the labor force all grow at the same rate. This author added the term "technological progress" associated with knowledge, an asset accessible to everybody. However, his analysis does not deepen on the implications of this availability for a multi-country world. Two strong assumptions associated with this model are, first, that knowledge is an international commodity, and second, that economic growth in per-capita terms grows exogenously at the same rate in all countries.

During the 1990's, Fagerberg suggests that "transitional dynamics" can explain why initial conditions differ up to a point where countries may experience different growth rates in the process of long-run equilibrium searching for endogenous causes of growth. Poor countries growing faster than richer ones should be expected to have higher rates of profit on capital, higher rates of capital accumulation and a higher per capita growth (1994, pp. 1148-1150). If this theoretical model is consistent, it should be of universal applicability, therefore to the extent that capital is internationally mobile and it freely moves to the countries where the prospect of profits are highest, investment should rise and eventually income levels between rich and poor countries should narrow.

One cause for rapid convergent growth pointed out by this endogenous model may be attributed to the interaction between capital accumulation and

technological progress as new technology is embodied in new capital goods. One economic policy question that needs further elaboration is, "Who owns and controls investment in capital goods?" and "will production be oriented to satisfy world-growing demand?" and "will productivity growth be zero in the long run, in the absence of exogenous technological progress?"

For developing countries where the national system of technology is precarious, the process of accumulation of capital may even be substantially slow. Learning by doing, is left as a consideration for encouraging the process where technological change may be regarded as an externality and technological progress that comes through R&D, becoming a new investment possibility that must be addressed by wealthier private firms. Exogenous theory of growth advanced up to the point that the process of technology diffusion to the rest of the world comes from these countries on the edge of technological advance, making it necessary to study new approaches for technological transfers as suggested by Lall (1997, p. 236).

A further and important explanation is given as a break through by Paul Romer to the old 1950's Solow model as he persuaded economists that there are ways to think about equilibrium for the whole economy, using simple functional forms and simplifying assumptions allowing technology to be brought explicitly together with capital and labor. Because of the constraints imposed on him by the existing toolkit, the only way for him to talk about technology was to make it a public good. Romer closes the circle of technological endogenous growth by concluding that "the theory reclassified technology, not as a public good, but as a good subject to private control." An important breakthrough in the analysis occurs, if we assume that "technology is a very different kind of good from capital and labor, as this combination portrays as the good that can be used over and over again at zero marginal cost" [110].

Contemporary growth theory has moved away from perfect competition converting this good not in a public one, but in a non-rival good. Furthermore, one important reason to endorse part of the discussion to emphasize technical change as a determinant of growth is that *technological change* explains a

[110]See Brian Snowdon and Howard Vane.1999.*Conversations with Economists: Interpreting Macroeconomics*. Edward Elgar. Interview to Paul Romer.

substantial part of *growth* as its contribution to *productivity* explains its *sustainability*. From this perspective, it is comprehensible to realize how important investment is, particularly when local investors achieve it, aware of their contribution to push the whole growth process further. Technology considered from such a refreshing perspective moves the investment process in the capital sector by indirectly bringing new avenues to support growth. By recognizing that "without technological change, growth would come to a stop" new policies must be advanced.

An interesting point of analysis and comparison from the previous discussion followed by Fagerberg (1994, pp. 1148-1150) is that the small contribution to growth associated with the growth factor, including technology, is that an unexplained part of the factor contribution is associated with classified residual. Here is where this author, when quoting the work of Abramovitz, suggests the possibility of exploring some other underlying causes of economics related with our own ignorance. Authors, like Nelson, attempt opening this black box associating technological progress as an explanation growth factor considered by others as the residual of the production function. In 1967 Denison suggested adding to the conventional growth framework a possible explanatory variable that underlines some other current causes of structural change and scale growth increases that from his view are associated with land and labor abundance. That explanatory variable is related to education, and furthers an empirical comparison with ten industrialized countries revealing that technological progress is the most important catch-up element. The fast growing countries like Japan, Italy, Germany and France reveal a strong contribution to growth in the accounts of capital accumulation, where technological catch-up is in important determinant.

5.3.2. Scale Economies and Technological Innovation.

Empirical work shows that the gains in economies of scale are related to a kind of investment that makes capital accumulation a diffused activity, more common in larger markets where capital investment responds to innovation efforts. A strong interdependence between factors that account for growth also exists. This coexistence encourages the self-reinforcement of technology put into production, where this input generally speaking is the consequence of technological progress.

In this analytical approach, historical development of the U.S. economy shows how biased it has been towards capital intensive investments, thus explaining the acceleration in the high rate of growth of capital during the period studied by Fagerberg (1974, pp. 51-53). New techniques brought into production lead to more specialized processes and better combinations of productive factors.

An analysis made by Maddisson relying on decomposing the growth determinants of six countries between 1913 and 1984 finds that 20 percent of observed convergence in productivity levels can be attributed to technological catch-up, notwithstanding the fact that interaction between capital growth and technological progress is somewhat difficult to measure. Accountants find it difficult to measure how technology contributes to economic growth and distinguish its causes from other sources. Nevertheless, wider views from analysts consider that the technology gap explains these differences in the GDP per capita across countries.

Technology is embedded in organizational structures and considered difficult to transfer from one setting to another. While technological change, is currently analyzed as the outcome of innovation and learning, the activity developed by firms to compete in world business environment gains increasing attention to improve competitiveness. Absorption capacity and adaptation of technology from abroad may require domestic R&D efforts and even further the development of a national system of innovation to diffuse gained knowledge as claimed by Fagerberg (1994, pp. 1155-56).

A strategic advance applicable to the developing 21st century emerging economy is related to the inclusion of adequate avenues that help move the technological frontier, thus closing the gap in technology vis-a-vis the more advanced countries. Perhaps this is a way to accomplish a higher stage of economic development as stated by Rostow (1980, Part Five). Barriers need to be removed before rising growth rates associate with resistance to change in backward economies especially among social groups. Some other sets of structural barriers are represented by the larger requirements of capital and factors brought into production before growth experiences higher sustainable rates.

Gerschenkron's earlier contribution (1962) suggested that the increased capital requirement allocated by a modern financial sector to advance the process of

industrialization might have been insufficient to continue the catch-up process, unless a leading sector fell into a virtuous cycle. Historical evidence proves his view, as strong economic cycles in earlier Russian development coincided with higher rates of technological advancement embodied in the railway and iron industry, an expansion that definitely helped to close the gap between richer industrialized countries and other advancing countries for some time. In this respect, the productivity gap within nations did show a change in sign widening or delaying a convergence trend.

To follow the technological lead or catch-up in different stages of industrial investment requires considerable amounts of resource capital and the introduction of scale-intensive technology extensively engaged in the innovative process. Firms need to advance changes in the organizational and managerial innovations process so that they may raise productivity. A leading innovation process must continually be accompanied by managerial commitment where "high-tech" transformation combines with improvements in education. Increasing international technology flows require new changes in the investment patterns, and associated investment by larger internationalized firms willing to modernize production when brought into a country. Historical evidence shows that the development of international financial institutions helps to capitalize firms and improve investment conditions.

Disputes over world trade and investment opportunities are associated with the relative preponderance of technology and innovation of a country's profile. The U.S. policy and strategy towards the advancement of science may only be threatened in relation to growth and exclusively considered a factor that encourages the creation of a national system of innovation. Active processes like these usually originate in different technology plans or adopted strategies.[111]

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[111] See the work of Chris Freeman and Luc Soete.1997.*The Economics of Industrial Innovation*. The MIT Press. Cambridge, Massachusetts. Chapter 12 makes an account of the development of National Systems of Technology, considering that Institutions like the World Bank regard that knowledge accumulation resemblance like intangible investment. Physical capital has been considered the variable that accounts for sustained long-term growth. The historical evidence shows that in Germany the ideas put forward by List to develop a national system of science and technology contributed to the institutional organization of technical education and became a training system for production. The case of the German dyestuffs industry characterized by profitable putting the business research for new products and development of new chemical process. p. 299.

Liberal views that open avenues for the advancement of science and sharing of a common technology pattern derived from a world-system of innovation aspect that militates against this planning view. Recurrent financial crisis jeopardize world exchange and investment markets, a peril that becomes visible after the global financial crisis that put the world in alert. The aftermath of 2008 global financial and the severe drop of oil and iron core prices in 2015, suggests again that the recurrent world economic crisis raise the question that the solution to global problems is very much dependent on the Resources, Markets and Profits tripod's accessibility

5.4. Knowledge Economy Changes World Markets Structure.

Colombia, as many other emerging countries in the global economy, will have to compete for market access. Emerging countries are facing the bitter reality that many traditional productive activities engaged in the modern sector now lag in terms of productivity with respect to other advanced and more competitive producing countries, where technological change has rapidly advanced. Market access now becomes a rather difficult alternative for products to compete, not because tariffs may be considered high, but rather because requirements related with quality and origin norms, sanitary requirements and other requests have become quite difficult conditions to fulfill. To gain volume levels and achieve marketing conditions in a very competitive world trading system requires achieving high productive skill standards and expertise. Currency devaluation in real terms is a necessary but not sufficient condition to compete in open world markets. The mobilization of domestic and foreign capitals to transform production into world competitive standards requires a high amount of investment capital. Negotiating trade agreements with neighboring countries, or members of smaller trade groups, apparently allows for enlargement of productive activities and gradual transformation of the modern sector, and access to global markets with a set of standardized products is a matter of concern for emerging countries.

The theoretical approach of increasing returns growth that received firm encouragement by Barro (1991) and other authors like Lucas, Romer, Aghion or Sala-i-Martin shows that endogenous variables explain the sustaining of growth like innovation and knowledge creation that translates its effects in the rate in

which technical progress spreads as a consequence of educational improvements and innovative skills. As the process of globalization extends, policy tools that tend to be encouraged to seed technological change are those where development helps firms enlarge and modernize productive activities, particularly in these areas where the knowledge sector brings more efficient patterns. As global markets compete for different and cheaper sources of raw materials and for other market sources where demand for standardized products grows, bloc policies tend to divert trade creation delaying the achievement of world efficiency standards as suggested by authors like Bhagwati (1998).

Some other analysts like Stern (1998) proclaim that instead, trading within blocs is shorter run and an expeditious way to improve dialogue and commercial agreements among partners. It may be considered a viable alternative to encourage and increase trade and investment between blocs helping developing country's firms to obtain adequate technologies packages and transference. Policy makers may regard this process of successive approximations as an attainable and previous stage for competitiveness. It may also be considered an adequate international political economy approach that will follow before a single world market becomes a global system.

Knowledge and Firm's Cost Reduction.

In this new open trade market approach where knowledge deepens market access, learning is considered an endogenous process associated with technical change, important in the terms of a production function evolution or mutation that characterizes long-term growth models. Barro's contribution (1990, p. S. 103) accounts for the importance of the residual in the production function to explaining growth. Some other authors are less assenting as to see changes from within. They tend to consider that in the world peripheral countries' structural obstacles to production need to be removed first in order to diffuse and incorporate innovative practices into production.[112] The appropriate questions to rise in order to remove the entrance obstacles of technology correspond to government policy priorities making research, development and transfer of technology, an industrial policy objective to attain competitiveness. Lack of

[112] Greenaway, David. 1994. "The Diffusion of New Technology." *The Economic Journal*. Vol. 104. July. p. 916.

diffusion of knowledge hinders the progressive process of capital accumulation and of technological transformation in modern entrepreneurial activities. Therefore, to encourage the technological transformation, a set of new business oriented policies and private initiative ventures become essential to sustain growth, particularly as the world market becomes more open and competition tests countries' efficiency.

Facilitate Technology Access Conditions.

The aim of productivity growth in this particular framework is that policies must firstly be shaped to facilitate initial conditions for growth to follow where exogenous forces and knowledge shaping new productive practices may introduce better firm practices as stated by Gould and Ruffin (1993, Second Quarter. P.25). Comparative cross analysis of different historical periods sometimes allows identifying existing path processes of investment and technological change for improving market conditions. A good example refers to international financing where capital flows are abundant and diverted in the form of private investment and venture capital so to explain the emergence of rapid capitalization and modernization of leading world industries. The 19th century history experience shows that comparison with recent globalization experience made of capital formation a source of new investment opportunities for wider development. For example, public utilities investment and private risk initiatives allowed for technological transference, where risk capital set for better portfolio investment activity that was oriented to select competitive value added lines of production. This kind of environment endorsed for entrepreneurial talent and direct foreign investment to match better microeconomic decisions and later on prolonged long-term effects on growth. Agglomeration of investment gradually induces the appearance of sequences of production that the author Michael Porter calls the value chain.[113]

5.4.1. Protectionism or Convergence.

When questioning occurred with respect to the scope of certain theoretical currents that predicted that protectionism as a model was outdated, it stirred up

[113] See Michael, Porter, *La Ventaja Competitiva de las Naciones*. Vergara. Buenos Aires. 1992.Several pages. Lucas Jr. Robert E."Making a Miracle." *Econometrica*. Vol. 61, No 2. March 1993. p. 252.

the debate over the argument that favored the promotion of schemes that intensified the use of abundant production factors. The theories popularized by Ricardo and Viner pointed out the implication of immobility among sectors, so when capital or labor moved between sectors, the immobile factor tended to encourage protectionism within its own sector. In the case of Latin America, the conventional theory coincided with occurrences where landholders favored free trade, so urban workers were left to settle for protectionist practices. In this exemplary approach, the process of allocation of scarce resources coincided with the virtue of political power demonstrated by pressure groups. These interests exercised influence on final allocation of investment within their sectors.[114]

Digging into this question of resource allocation, novel theoretical approaches used in economic history, focus its attention on local and regional trends of accumulation of capital. Paul Rosenstein-Rodan's ideas developed after the "Big Push"[115] argument have a strong influence on the regional development debate, as well as on industrialization, a mechanics that seems to pronounce "Unbalanced Growth". The argument over the Big Push view, later deepened by Krugman in *Development, Geography and Economic Theory* (1995) supports in a new context the view that localization and agglomeration may be regarded as economic principles that account for transport reduction costs within firms supply chain, therefore allowing for trade and cost reductions to take place and finally produce in the steady state increasing returns economies after a combination of a set of virtuous investments promote growth.

The fundamentals of Gershchenkron's theory on induced growth, includes important arguments of this tenor, so participation of investment banking in capital formation issues is regarded as a source of new opportunities and investment paths. The above mentioned authors state, in their own manner, that the State under favorable conditions may provide aid for capital accumulation, expressed in terms of fostering processes associated with industrialization and with technological change. Particularly this accomplishment occurred when it

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[114] Ibid, p. 16.

[115] See the work of the first author who referred in academic term to the notion of "Economic Development" after planned large-scale investment programmes are accomplished, Paul Rosenstein-Rodan.1943, in "Problems of Industrialization of Eastern and South- Eastern Europe,"," *Economic Journal*. Vol 53, No. 210/211, pp. 202–11.

was found that it was politically convenient to encourage private investment to follow as a direct consequence of government inducement. Promoting sustained growth in this fashion still may facilitate the processes of capital formation. Development aims justify assuming on occasions some degrees of protection especially for nascent industry and for capital formation pursuits in the earlier stages of industrialization.

An emergent theoretical stance allows for different policy guidelines, so convergent development among countries or regions put entrepreneurial activities into a different competitive production stance. This change of thought has been the consequence of a new school where changed courses of investment cause faster growth to follow. New economics as it is now referred to, assumes that for rapid convergent growth there must be an appropriate technology mix, better learning conditions, and economies linked to international trade and foreign investment trends. Altogether these conditions follow a better factor combination and allow for agglomeration principles to stimulate accelerated and long-term growth. Convergent growth assumes for emerging markets higher rates than those experienced by countries or regions with a relatively superior degree of modernization and technical advancement.[116]

The theory of the firm including new criteria such as production chains, value chains, and product differentiation, concepts developed by Porter, suggests that, together with lower transaction costs, a nest of companies become world competitive. This occurs regardless of whether foreign industrialized markets are well organized for production. New initial conditions coincide with current views explained by Nelson and Winter (1982) who suggest that growth develops as an evolutionary process conditioned by collective and accumulated knowledge.

5.4.2. Old and New Views about Growth.

The 19th century Industrial Revolution demonstrated that productivity steadily increased both in the United States and in England, even at rates that allowed for more than tenfold growth (Lester, 1998, p.51). The world economy found, thanks to this increase in productivity, that it could absorb increasing and large numbers of workers including a steady flow of immigrants. During the expanding cycles

[116] See for this important topic. Jeffrey D. Sachs. and Adrew Warner. 1995. "Economic Reform and the Process of Global Integration."*Brookings Papers on Economic Activities*. I: p. 16.

of world trade, the United States, for example, increased the volume of exports of bulk commodities like cotton, sugar and tobacco. The increasing size of this export productive plantation sector, furthered a rise in the standard of living, as a great number of laborers swelled aggregate demand.

Productivity in the traditional sector helped to reduce costs, thus increasing world export revenues leading to a final increase in world market size. A consequence of new production patterns was a rise real income. As the economy diversified, demand for goods and services rose, stimulating the incorporation of more workers into new productive activities, including urban services. As the industrialization activity proceeded during the 19th century experience, for every job left particularly in the traditional agricultural sector, two more were created in the towns' developing modern sector. The total number of jobs related to agriculture and food production gradually declined and a number of redundant agricultural laborers shifted to more productive and remunerative activities in manufacturing and services sectors, especially in growing towns. Exogenous factors, including technological improvements, stimulated transportation advances and a larger and more efficient labor force encouraged cost reductions and improved productivity. Many examples contemplating a traditional pattern of economic activity including investment and trade are referred to in the works of Maxwell (1971), Peter Mathias (1972), Paul Mantoux (1970), A.E. Musson (1972) and Francois Crouzet (1972).

The vision of the new-economy of never-ending cost reductions driven by technological innovation, learning curves, economies of scale, network externalities, and tipping points, contrast with the old economy where one makes money by selling goods for more than they cost. In the new economy firms make money by selling goods for less than they cost, relying on the learning curve to lower costs by next year. In the old economy boosting corporate stock prices occurred by selling valuable goods to customers. In the new economy market makers promote company stock prices by giving away a product to customers and relying on network externalities to advance the price charged for what the firm has to sell next year. The first entrant often made big mistakes that followers could learn from and avoid by not being the first into a market. So the attractive

entrance point for a new comer in the new economy is to pass a tipping point to assure a degree of market dominance.[117]

As a matter of contrasting past with present experience, let's remember that 19th century economic growth was largely attributed to the concurrence of abundant exogenous factors of production, like raw materials, unskilled labor, land and financial capital, while 21st century assumptions rely more on analysis of new knowledge endogenous factors embodied into production. These are identified with technologies that incarnate significant learning inputs where skills are important for adapting economies to change, especially the learning process. Greenwood (1999) found that plant productivity increased 15 percent over the period from 1973-86 in 2,000 firms due to learning effects. As equipment aged, skilled labor's share of the wage bills declined, so less skilled labor share was needed as production experienced a substantial gain through time with new equipment. A rise in equipment investment usually leads to an increase in the skill premium and to a higher relative employment of skilled labor.

Empirical evidence shows that, in terms of elasticity, an increase of 1 percent in the ratio of equipment investment raises output in 1.9% compared with the 0.5 percentage ratio of unskilled employees. This historical figure implies that for 21st century picture emerging countries substantial investment must be attained to compete in the global economy, made either in terms of physical capital investment or encouraged via the development of adequate innovative worker skills and value added in the supply chain. Successful adoption of new technology and innovative lines of production requires skilled labor making this factor redundant in less competitive sectors as in the case of robotics.

Important questions such as these are explored by authors like de Long (1999) who shows concern about the length of economic booms, and has found that new technology avenues, whose effects are lasting too long in emerging countries, constitute some of the intrinsic causes. In 1850, Manchester, at the heart of the Industrial Revolution showed the potential and the dangers of the Industrial Revolution, where the potential was associated with the enormous increase in productivity and output introduced by the steam engine. The dangers of these

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[117] See the work of J. Bradford De Long. *How "New" Is Today's Economy?* August 18, 1998. Version 2.0, Second Draft.

breakthroughs were not economic, but social and were found in the slums, for the British government was not then investing in the infrastructure needed to keep its rapidly expanding urban population healthy. Few in Manchester noticed that the British government was not building schools for children of workers migrating in from the countryside to the jobs in the new factories. Yet it was clear to observers that industrial technology was becoming closely linked with science. By the end of the 19th century, the lack of a well-trained workforce meant that the technologies of electricity, metallurgy, and chemistry developed instead in Germany where large investments in schools with technological curriculum had been made. Britain entered the 20th century behind in the progress race, due to a lack of technological sufficiency. Innovation did in America what 19th century did for Britain, that is, changed industrial, economic, institutional, and political structures to take advantage of the possibilities opened by emerging technologies.

A second wave of the Industrial Revolution of the late 19th century required a technically oriented workforce. Comparing 19th century and 21st old and emerging economic scenarios, suggests that new technologies is the force that drives both economic cycles and from it a new generation of productive processes made up of an increasingly computer-and-communications-literate workforce, a technological breakthrough that will have to be followed by developing in emerging economies abreast modern production routines. University graduates' will become a valuable asset to any society oriented toward encouraging new-knowledge-economy postulates. This change in the conception of accelerating growth will need increasing flows of capital to fund investment in research and development. Transfer of technology bought in advanced countries will provide the network-specific for diffusing access to this public good requirement in the third world. The development of the international political economy raises important policy questions linked to the formulation of research and development programs to keep the stream of new technology objectives readily available. The American learning process was based on experiences like these developed by Bell Labs and Xerox and supported on the fundamental Research and Development question.[118]

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[118] Stephen S. Cohen, J. Bradford DeLong, and John Zysman An E-economy?. December 13, 1999. http://econ161.berkeley.edu/OpEd/virtual/technet/An_E-conomy.html .

5.4.3. Making Growth a Convergent Process.

Another interesting phenomenon posed by Romer and Sachs theories of growth is that the countries that have adopted an economic liberalization process as an economic policy strategy are achieving a very rapid rise in the growth rhythm, thus raising the speed of convergent growth. Although their models contemplate observations on a large sample of countries, empirical tests allows some observation on preliminary creative production of some individual productive sectors. This school of analysis argues that in the process of liberalization, a literally attractive hypothesis, such as convergence, is induced by a series of automatic events or phenomena, like promoting education and new techniques of production that take place in this new context where endogenous growth is a constant. It is also possible to strengthen investment in infrastructure, or adopt strategies that free interest rates, exchange rates and increase the tax base, finally encouraging countries to grow more rapidly than developed ones. Evidence indicates that liberalized countries grew between 1970 and 1989 at a rate of 4.9% annually, as opposed to 0.69% for those with closed economies. This process of convergence is partially explained by the fact that in the production process there is spillover, where this irrigation process of technical knowledge helps better factor combination. Knowledge acquired and developed in one section of the economy raises the productivity in others, removing the obstacles associated with a decrease in marginal productivity of capital.

Path dependence of these evolving variables merits comparison from the standpoint of historical perspective, and as the technological change process we refer to proceeds, the greater income generated is explained by the creation of technical knowledge, where this change contributes to raising the productivity of capital. William Baumol (1973) suggested that with an adequate level of human capital, especially if it is capable of taking advantage of the effect modern technologies introduce on productivity, may help the economy to benefit from the phenomenon of convergent growth. Sachs (1998, pp. 35-39) suggests that countries that persist in the liberalization process will experience a tendency toward economic convergence and an acceleration of growth in the long run.

5.4.4. Innovation and the New Growth Theory.

Numerous models incorporating R&D activities and the production of "ideas" have been developed, but those of Paul Romer are among the most prominent.[119] In one recent version, he models an endogenous growth process in which growth results directly from physical capital investment, which in turn is driven by investment in a research and development sector generating ideas for "new" designs/goods.[120] "The creation of these new goods is a function of the stock, as well as the growth, of human capital in the form of basic and applied scientific knowledge acquired via higher education." Thus firms with a pool of qualified scientists can innovate more readily, while the argument for globalization comes from the fact that larger markets induce more research and faster growth. In this sense, countries that do not encourage research activities and do not promote innovation will find it more difficult to integrate into the world economy. Romer suggests that what is important for growth is integration, not into an economy with a large number of people, but rather into one with a large amount of human capital. This argument of appropriating benefits of increased human capital sector via world trade is considered a justification for bringing an economy, like the Colombian one, into the Free Trade Area of the Americas-FTAA or the reduced version of regional integration blocks or the FTA's with the United States. In particular, the existing correlation between the degree of integration into world markets and technology advance strategies determine that international trade acts as an engine to speed up growth. This view transforms into an alternative viewpoint where trade and investment become a way of linking ones' economy

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[119] See Paul Romer,1990. "Endogenous Technological Change" *Journal of Political Economy*. Vol 98, N0 5. Pt 2. This author suggests that technological change that arises from intentional investment decision leads the economy to growth. Technology considered as input is neither a conventional good nor a public good, while the stock of human capital determines the rate of growth. Romer's argument respond to the premise where technological change leads to improvement in the mixing of raw materials, providing incentive for capital accumulation, where technological change arises because of intentions actions taken by people making change rather an endogenous result. Once the cost of creating a working technological routine in production using raw materials has been assumed it can be used without cost over and over again.

[120] See Paul Romer. 1990. "Human Capital and Growth: Theory and Evidence." Carnegie-Rochester Conference Series on Public Policy, No. 32. (1990), pp. 251-286.

to a larger total stock of human capital engaged in spreading production practices to other parts of the world.

Recently, Jones has proposed a model including three sectors producing human capital skills (education), new intermediate goods (ideas) and consumption goods. This model shows that human capital acquisition has effects on the level or growth rate, while rising income is associated with educational spillovers. The outcome of the endogenous knowledge model is the sensitive degree of assumptions relating to externalities. Also in countries with higher investment rates for both physical and human capital, a faster population growth and a higher level of technology produces rising income levels. A time-series analysis by Canning sheds some light on the nature of the education-growth debate. He estimates via a time-series model for 77 countries, that output per worker is explained by physical and human capital, using, as an empirical test, the "average years of education" as a dependent variable. For the education parameter, he estimates high volatility and an often-negative impact on growth.[121] He establishes that education and long-run economic growth rates are related, leading to heated debate on the proper allocation of resources if the educational variable is so fundamental.

5.4.5. Future of the New-Economy.

The debates on the new economy open a new prospect for a technological breakthrough and for sustained and long run opportunities to develop new sources of economic growth. The emerging paradigm brings into the fore a discussion with interesting considerations to determine the existence of new factors for growth that may be examined as initial conditions to open paths for prolonged and sustained growth both in emerging and developed countries.[122]

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[121] D. Canning, P. Dunne & M. Moore, "Testing the augmented Solow and endogenous growth models,"," mimeo, Queen's University of Belfast, 1995.

[122]Literature Stephen S. Cohen, J. Bradford DeLong, and John Zysman An E-economy?. December 13, 1999. http://econ161.berkeley.edu/OpEd/virtual/technet/An_E-conomy.html. Discussion on New-Economy is wildly increasing as confirmed in the research advanced by Bradford De Long. 1997. "Old Rules for the New Economy." November 11. http://econ161.berkeley.edu/Comments/for_hudson.html. See as well Kevin Stiroh. 1999. "Is There a New Economy?." *Challenge*, vol.42.no.4. July/August 1999, pp. 82-101. Alan Greenspan. 1998. "Is There a New Economy?" *California Management Review*. Vol.41.no1. Fall.pp.71-85. William A. Sahlman. 1999. "The New Economy is Stronger Than You Think."

Old models considered that technological progress accounted for growth to be sustainable in the long run, only if a productivity parameter in the aggregate production function reflected the current state of technological progress.[123] Endogenizie technology came to account for international differences in growth paths, particularly after adopting that the broad view where capital, including both human effort as well as creative capital, allowed for perpetual productivity. The conventional Solow economic growth model seemed to be incapable of accounting for persistent differences in growth rates across countries, because it took the rate of technological progress as exogenous for every country. Founding a theory of sustained growth on exogenous technological change requires that growth and changes of technology do, in fact, respond to an economic decision, inasmuch as capital does accumulate. Growth of technology being a consequence of an endogenous action resembles a model where increased saving propensity is also affected by the observed time path. The idea that investment and technological progress are linked to learning by doing and needed for new vintages of capital goods opened serious prospects for transforming future growth paths.

Innovation on Connectivity.

A major characteristic of the century just beginning is rapid extension of global business and pace where connectivity and information technology opportunities associate with the expanding world economy and the increase in interdependence. Basically, the new emerging path seems to rely on the generalization principles of global business and computerization, regarded as a possible view where new economic assumptions need to be embodied in the model to achieve sustained growth. The structural change attributed to introducing new external changes and variations in technical progress presumes the prevalence of constant returns to scale. These newer theoretical considerations invite technical progress, as a universal fact to be considered as an irreplaceable input to achieve competitiveness. Therefore, innovation comes as an unavoidable policy making decision for improving institutions concerned with furthering

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*Harvard Business Revie*w. November-December. 1999. Pp. 99- 106. Michael Mandel. 2000. "The New Economy." *Business Week*. January. 31. Pp. 35-49

[123] See the ten years research work of of Phillippe Aghion and Peter Howitt. 1998. *Endogenous Growth Theory*. The MIT Press. Cambridge, Massachusetts. P.16.

efficiency at a world competitiveness level. Conventional wisdom in economics suggests that increasing availability of capital factors comes as a result of the removal of obstacles for new investment currents to come, and eventually for the increase in consumption of high value products.

Competition at the world global level demands substantial improvements in the competing country's educational level to increase productivity and incorporate technical advance. Solow's residual economic growth approach reflects technical progress, spillovers, and improved efficiency and scale economies in the long run as a means to sustain growth, although the new economy conception about growth modifies the total factor productivity version, adducing that new technology incorporated in leading sectors may transform the whole economic structure and temper factor proportion composition theorems. Network economics, it is said, generates new externalities and introduces standard improvements never seen before in economic history.[124] The value added of information technology products, such as Internet connections or software programs, increases interdependence among countries and firms as equipment acquisition is required and more software is designed.

Production spillover allows for ongoing growth, as well as positive feedback in industrial organizations such as Silicon Valley and emerging city-region development poles. To further sustain growth, further reductions in price and quality improvements via technology breakthroughs and scale economies are expected. The new economy impetus regards this breakthrough as the driving force of economy-wide growth (Stiroh, 1999, p.97).Therefore, information technology is seen as a force in the new economy where modern networks like Internet communications and software creation induces increasing returns

[124] See the work a Walter Hatch and Kozo Yamamura, 1996, Asia in Japan's Embrace. *Building a Regional Production Alliance*. Cambridge University Press. Hong Kong. For a detailed analysis of networking analysis see Chapter 3. Shows that the developmentalist analysis in a developing economy may achieve dynamic technological efficiency with the help of an effective government that uses indicative or guidance-based intervention, promoting saving and encouraging financial institutions to allocate additional capital to innovative industries. Furthermore argues that Japan recognizing that it is regionalizing the development policies and industrial practices allows for integrating larger manufacturers and its suppliers and distributors around Asia via networking. This policy reduces transaction costs and uncertainty derived from larger fixed investments in R&D, restoring in more economical term's vertical integration.Pp- 55-57.

among interdependent firms spread worldwide. Initial conditions for globalization of enlarging the world input supply chain for production, and of conductivity favoring intra-firm and e-commerce to allow for business to business trade do, in general, expand the scope of the markets permitting critical sectors to grow more and achieve size for scale effects. At least this occurrence seems true for industrialized countries where computer availability and Internet communication sources are available for a wider audience. Networks sometimes concentrate geographic production of goods, such as steel or textiles in producing clusters.

Multinationals as Factor for Technological Change.

The mainstream neoclassical approach considers the multinational firm as the black box that maximizes returns. This approach avoids detailed analysis of corporate organization, rules and international management strategies to penetrate markets. Chudnosky (1974, p.23 and 1999, p.32) suggests that firms attempting to control organizations overseas tend to reduce competition and obtain the appropriation of economic surplus. His personal view on the multinationals has evolved up to a point where he sees some new managerial approaches like firms negotiating practices, converted into valuable elements that allow firms to proceed toward a process where systemic risk may be minimized and allow for conditions of maximum profitability. Transaction costs, internal and external contracts as suggested by Reve (1999, p.139), principal agent relationship described by Petersen (1999, p. 187) or the culture of the firm as explained by Penrose in the *Theory of the Growth of the Firm* (1996, p xvii) are regarded as managerial practices that introduce intense analysis to guarantee better market access. These new theoretical approaches face international management from a scientific approach to allow for a rise in profitability levels in a world where margins tend to decline. These theories still are attached to the neoclassical business assumptions to interpret markets and tackle firm business logic.

A wider world-view approach to multinational firms is regarded as an interesting exercise of research to understand in a proper way how the world is becoming an integrated system where the confluence of powerful forces contribute to shape the modern economy. Multinational firms are regarded now as central actors rivaling for global power and surplus income distribution. In a

recent work by Wallerstein, he pointed out that in a Kondratieff B-phase [125] industrialization is achieved largely by the contribution of the multinationals; nonetheless it has been a hand-me-down process. The shift of activities that no longer could be monopolized in the new competitive environment are now regarded as niches where some high profit rates still may be won. The game of capitalists jumps from one activity to another in search of monopoly profits, and so it still remains as a never-ending process. Chase-Dunn (1995, p. 400) complements this view, reminding the analyst that inter-firm competition associates in a way to compel business to be in constant search for new techniques that may help reduce production costs. The forecast decline in the rate of profitability would encourage the rate of technical change to further advance within the enlarging capitalist system.

A current management view of multinational contributions to growth argues that productivity increases are regarded as factors that encourage the eradication of market distortions like inflationary pressure, and also propel initial conditions in terms of adequate technology mix to allow for a prosperous economy to increase business economic returns and growth spillovers. Strong institutional signals must be launched as policy mechanisms to pronounce the development of new paths of direct foreign investment to take full advantage of globalization, computerization and technological advances. Powerful stimulus to technical change has to become permanent to encourage pronounced productivity shifts and permanent changes in the economy growth path. It is said that technological impulses in the production function may affect a growth trend on a permanent basis. More convincing explanations are required to furnish a convincing view of the magnitude of the minimum effort required for sustaining growth. These structural changes or occurrences are usually formalized by standard econometric procedures to test for unit roots.[126]

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[125]See Wallerstein, Immanuel, 1997, *The Rise of East Asia, or the World-system in the Twenty-first Century*. Symposium on Perspective of the Capitalist World-System in the Beginning of the Twenty first Century. Meiji Gakuin University. Jan 23-24.

[126] Time series draw by sufficient number of past measured events if large enough allows applying unit root test to prove structural break. Dickey-Fuller test involves splitting the sample into two parts applied to this test in each contrasted part. Partition signifies diminishing the degrees of freedom for each of the resulting regression. Perron's procedure to test unit roots in the presence of structural change starts considering the null hypothesis of

Historically, leading sector contribution to growth change depends on new technology developments and changing patterns of production research adopted as an internalized practice. The new economy approach suggests that if certain rules aimed at reducing costs are followed, then it is possible to deepen productivity growth and check inflationary pressures, despite the consequences in the employment level or world competitive level attained.[127]

Greenwood (1999) established some definitions for new endogenous growth where he relates the learning curve components, the diffusion curve and the new economy managerial approach with the computer revolutions. The diffusion of new technologies in history is a slow process certainly accentuated in emerging countries, where knowledge about technological breakthrough is substantially delayed. The early twenty-first century may register substantial changes in productivity as knowledge spreads throughout, and as computers evolve from performing calculations to transforming the whole productive and marketing information process. Here demand devices oriented to deepen communications and networking will increase specialized knowledge and segment consumption. Allan Greenspan, the Federal Reserve Chairman, acknowledged the new features of the economy remarking that we do not fully understand the ultimate stimuli of rapid technology nor the highly visible advances in computing and related

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one-time jump in the level of unit root process, against the alternative of a one-time change in the intercept of a trend of a stationary process. Under the null hypothesis test, a unit root process with a one time-jump occurs in the level of the sequence in period t=tao+1. Under the alternative hypothesis test a stationary state trend occurs in the variable growth, except that in the intercept is present a one-time jump (Enders, 1995, p.246).This elegant model has been applied for many past experiences. However cycles and linear trends may be projected with degrees of confidence, nor explicitly for partitions and jumps in the linear curve trend attempting to predict structural changes. At most we can learn from the past, implying that as history really matters, if some initial conditions are given it is anticipated or counted as forthcoming experience new changes or discontinuities in the patterns of growth.

[127] See the work of Oliver Blanchard. 1997. *Macroeconomía*. Prentice Hall. Madrid. Pag 327. The Phillips curve relates the declining inflation rate with an increase in the rate of unemployment. Inflation depends positively on expected inflation rate and relates negatively on the level of employment. An additional view is the Phelps and Friedman remark where they define the natural rate of unemployment as the rate where the effective rate of inflation corresponds to the expected rate. They conclude the argument stating that when effective unemployment rate is above the natural rate inflation declines. And when has opposite sign inflation increase. The practical policy application corresponds to establishing what the rate of unemployment would be to make the inflation rate constant.

fields that account for productivity growth. He suggests that the global financial market offers new lessons to be seen, where current investment flows in physical and in financial capital will certainly increase the degree of expectations about the sizes and risks of profit and loss within firms.[128]

State participation in the whole process, where the transition from a basic product exporting economy to a manufactured goods intensive country, suggests that some good results will come from the liberalization of the countries' economies, as did occur in East Asia with efficient industries. Said policy measures assumed rational investment policy and sound finances within firms and banking sector contribution to guarantee steady increases in the volume of exports and continuous change in the structure of exports. Authors, such as Amsden in *Corea: un proceso exitoso de industrialización tardía* insisted that the liberalization measure succeeded in attaining accelerating growth when investments were economically sound. She suggests that, given that State action can and, in fact, may be a conditioning factor of the capital formation and technological transformation process in sectors, it is a measure that should be carefully applied by governments, perhaps more so now after crony capitalism showed moral hazard consequences in Asia. State presence perhaps will be required where incorporation of up-to-date technology needs intensive investment and research and development strategies are long term possibilities. The Asian crisis discredited state intervention and increasing world business activity.

5.5 The Multinational Spreads Knowledge in the Global Market.

In our view where the world is transforming into a one-market system, is surely an important historical event that will transform the growth and investment pattern in the productive activity. The process of technological transfer exercised by the institution of the multinational corporations probably will deepen within this borderless world as many knowledge diffusing activities are embodied in the managerial contractual arrangements. The Multinational Corporation as a global institution has evolved becoming more strategic in its permanence plans to stay

[128] Greespan, Alan. 1998. "Is There a New Economy" *California Management Review.* Vol. 41. No 1. Pp. 74-85.

in the market bringing sustainable development opportunities in many countries. International trade is commonly identified with the flow of goods and services among countries. Moreover, some other important elements associated with the transfer of technology, like turnkey projects bring a technological package to the supply chain. Multinationals may be considered valuable diffusers of best practices. Knowledge spillovers around foreign investment contracts transform into the economies' sources of growth. The business of the flow of knowledge via patents and copyrights comes as waves of technical change and uses practical learning to improve the regional's value chain of competitiveness.

A wave of analysis regarding openness of the economy and the role of multinational corporation grows as a business and global governance strategic field of study where considerations about the increase of the size of the market and the rewards obtained by innovators, has been considered as the scope for spillovers of faster technological change and government alliances. However, the international political issue is more concerned with the degree to which the competition effect leads to imitation and the point where innovation in the developed countries affects trade contracts with the developing world. This event is associated with Vernon's product-cycle theory of international trade, and more advanced views suggested by Krugman where innovation in the North and imitation in the South are regarded as exogenous to the model. So the crucial point for the advancement of the multinationals within developing economies lies in the comparative advantage of who owns the technology, who researches, who innovates and how knowledge spillovers widen its international scope with its correlative patents costs.

Gains in Competitiveness.

The multinational company plays a determinant role in the globalization process of the economy, becoming a determinant component and factor for the long-term growth tendency. It gives rise to structural changes in the economy starting from discontinuities in growth, acceleration and sustaining the growth trend and even a stable agent for integrating world and regional markets. The microeconomic view of the multinationals is associated with research and development strategies, where via contracts; it incorporates into production part of the stock of world technical improvements, thus inducing efficiency and improvements in

production. Other considerations like the reduction in transaction costs, together with efficiency improvements, help maximize the production function and, from the welfare point of view, allow for a better distribution of goods and services. The economic transformation goals of multinational activity are associated with the appropriation and transference of technological improvements, and with the creation of specialized and technically upgraded jobs, as well as acquiring cheaper and better quality input components for production from diverse world sources.

Strategic elements associated with the production structure of multinationals bring a different and intermingled cluster conformation, thus improving city and country regions to achieve higher efficiency levels. Conglomerates contribute to strengthening productive linkages favoring productivity, reducing transport and transaction costs, and promoting the creation of a value added chain. Better distribution of goods and services to improve welfare and mobilize production factors also helps the formation of complex productive chains. This enlarging and integrating of production chains seems to become a predictive variable component where new clusters evolve in size, diversity and complexity. As a consequence of this technological and managerial improvement, sustained expansion of regional production may emerge and specialization of a city-region's economic activity leads to the transformation of economic units embedded into a compact economic production network. The bottom line of this productive process is the mobilization of considerable economic surplus into other productive activities, to competitively reach world markets as production now satisfies particular needs.

The multinational corporation as an economic independent unit as suggested by Snowdon (1999) in the previous view is considered as a structure that under conditions of technological improvement may contribute to accelerate the rate of growth of the economy. It is also suggested that the interaction among world firms leads to an emerging relationship linking foreign trade and improvement in growth as intra firm inputs costs decline. Some emerging causes of this new growth pattern amend the catching-up process, where developing countries may improve access to productive knowledge available in the rest of the world.

This world knowledge stock may transfer into improved standards of living for everybody, including most developing countries in the global market. The

controversy furthermore proclaims that slow development cannot be attributed to lack of physical resources, but rather to insufficient access to the knowledge and ideas worked in highly industrialized countries. Knowledge should flow into emerging countries, including simple aspects like improving operating distribution systems or quality control processes in manufacturing. The political economy issue relates with putting knowledge to work in poor countries, if allowed the transfer of knowledge through trade. "Direct foreign investment from multinationals is important for getting quick access to these ideas," notion that was proclaimed by Romer in his growth theory. Relating the expansion of world markets through globalization will allow investment to be established as initial conditions that will stimulate the development and transfer of new ideas. So trading within larger markets will create greater incentives for innovation and consequently more technical progress to advance, hopefully as it did in Silicon Valley.

***Wage** Increase and Factor Productivity.*

Authors like Lester suggest that under competitive conditions the requirement to satisfy an expanding world consumption market, a multinational firm must encourage permanent increase in productivity.[129] Economic analysis poses that a distinction should be made between productivity and economic growth to establish its limits. The current argument suggested by the literature is that in the long run an economy cannot grow any faster than the rate at which productive capacity grows. Supply of labor and capital when fully and efficiently utilized opens two ways to productive capacity growth. One is productively adding new inputs of labor and capital, the other increasing the productivity of the same inputs.

Productivity-driven growth has the potential to make everyone truly better off. However adding new workers, would not necessarily increase the hourly wages of the existing workforce or even reduce wages to international levels. Additional infusions of capital lead to marginal increases in the returns of existing capital resources as suggested by Lester (1988, p. 34). To support this crucial argument for productivity determination, empirical evidence obtained for the period

[129] See the work of Richard K. Lester. 1998. *The Productive Edge*. W.W.Norton & Company. New York.

comprised between 1987 and 1994 shows that the American manufacturing sector became significantly more productive as technological improvements were added. Exports of durable manufactured goods during this period increased 11 percent a year and the share of world manufacturing exports also rose during the period.

A good explanation of this increase is the one that is associated with productivity improvements and with international political economy advances. Movements in the exchange rate leading to appreciation or depreciation of money exchange rates affect international currents of goods and services. This is what happened with countries like Japan and Germany that experienced appreciation of their means of exchange. The relative devaluation of the dollar against the Yen and the Deutsch Mark improved American competitiveness vis-a-vis these countries.

If we express the level of competitiveness as an equation in terms of unit labor cost, we see that:

- unit labor cost ($/unit) rate is equal to the ratio of wage rate ($/hr) divided by labor productivity (units/hr).

And the price at which the product sold abroad considers the value of a foreign country money exchange leads to:

- Price (Pesos/unit)= unit labor costs ($/unit) * (1+ profit rate) * exchange rate (Pesos/$)

This set of equations shows that low wage-cost countries don't necessarily dominate world trade, particularly because low salary levels do not constitute a real advantage to compete in terms of unit cost, as they remain below productivity increases. The consequence of this ratio is that regardless of the fact that unit labor costs remain below the level of industrialized countries, this situation does not constitute a determinant factor to make a poor country more competitive.

In the United States between 1986 and 1992 unit labor costs fell at a rate of 8% per year due to rapid increase in labor productivity. That is to say that labor productivity increased faster that the ratio of wage rate. Despite increases in labor wages, unit labor costs increased at a slower pace than growth of productivity and exchange rate movements favored North American export prices. Relative variable movements made faster increases in wages (Lester, 1998, p.48) a favorable combination when the productivity growth rate was faster than the

wage increase. This point is important for emerging countries, where appropriate economic policy equates increased productive investment, allowing for standard of living conditions to increase. Emerging global economies may attain world competitiveness levels if wage increases run below productivity rate increases.

Multinationals Spread in Developing Countries.

Martinussen advances some considerations regarding multinational policies to establish trade landmarks in emerging countries. Improving competitiveness is important for the firm, while encouraging direct investment becomes a source of economic growth for emerging markets.[130] A closer look at developing countries suggests that transnational corporations allow for accelerating capital formation. The internationalization and globalization of capital has taken place overwhelmingly by corporations. Transnational corporations have increased their share of world production, trade exchanged and paid services. A significant proportion of corporations' activities are located outside the home country and their activities have extended in several countries. In general international trade between the industrialized countries and the developing countries has increasingly been taken over by these corporations (1997, pp.122-128).

Around 500 large corporations control more than half of the developing countries' exports to the OECD countries. A large proportion of the total production in these countries they control is not known, while the foreign-controlled part of industry is around 10 per cent. Corporation's control is more prevalent in the most dynamic and expanding sectors and with regard to products of great strategic importance for accumulation, growth and export of manufactured goods. The corporations exercise a particularly intense form of control over exchange and pricing through so-called intra-firm trade, that is transactions between units within the same corporation. The executive management of the parent company decides the rules and the prices according to which intra-firm transactions take place. By the end of the 1980s and 1990's about one-third of United States exports consisted of intra-firm transactions, while more than two-fifths of total imports from the entire world were exchanges in this

[130] See the work of John Martinusesen. 1997. *Society, State and Market*. Zed Books Ltd. London.

manner. In the case of Japan and the UK, it was estimated that intra-firm transactions accounted for one-third of the total value of their international trade.

For third world development, neoclassical economists generally come to the conclusion that corporations have net favorable effects on the economies of developing countries. The analyses and theories of development covering the whole spectrum show mixed views. The capital transferred may amount to a substantial share of the total investment required, but it may also, depending on the circumstances, constitute merely a fraction raising capital within the host country from public financial institutions or from local investors. The buying of the inputs is required for the production process, labor, raw materials, and means of production, fuels, intermediate goods, and know-how. These inputs may be acquired locally, but they may be imported from the parent company. If they are imported, the corporation may apply over-pricing in order to ensure a transfer of resources from the subsidiary to the parent company. After the production process, which constitutes the third stage, the resource circulation process enters the fourth stage where the products are sold in the domestic or foreign markets.

If the subsidiary sells commodities or services to the parent company, this provides the corporation with another opportunity for the transfer of resources. The commodities and services may be sold at prices significantly below those prevailing in the world market. Even if this *under-pricing* in intra-firm trade does not take place, the corporation is still left with opportunities for transferring resources in the form of profit remittances or divestments. Notwithstanding these practices, the developing countries need the transnational to provide large and much needed financial resources for industrial investment. Not only do they generate substantial financial resources, but they have privileged access to international capital markets and financial institutions. Secondly, they offer sophisticated technology, know-how and management skills. Thirdly, they have distribution and marketing networks suitable for increasing their cooperation. As well, they may contribute to diversifying the industrial structure as suggested by Lall and Streeten (1977) and Martinussen (1988; 1992).

5.5.1. Technology Spreads Globally.

Along this line of ideas, countries such as the United States at the end of the great wars came out strengthened from the industrial and financial point of view.

Nations such as Colombia and others in Latin America, have had important financial gains during these cycles, but as we previously stated, those riches have not always led to a strengthening of a gross capital formation process. In the field of technological change, this wealth has rarely been transformed into an increase in the amount of said capital as a condition for long term growth.[131]

Extensive review of literature shows that sometimes political classes, upon committing errors in the priority of strategies to be chosen, have diverted public opinion when they confuse the scale of values with enjoyment produced by conspicuous consumption, contradicting theoretical appraisals. With this rising and frequent confusion which does produce political dividends, the order of priorities is inverted with respect to investment and creation of wealth. Economists, submerged in the rigor of modeling methods sometimes lose objectivity in order to theorize about the definition of structural investment alternatives required that are sustainable in the long run, and, of course, about the definition of politically convenient scenarios for the country's strategic interests. They do not always make good statements about long-term formulas that mean prosperity for the people or opportunities to lend impetus to research and development. This to ensure sustained endogenous growth to stimulate social development or better yet to be able to eventually negotiate in demanding competitive world environments. Historical patterns to be compared may be revealing for past trends in investment in productive activities.

Innovation as a Source of World Power.

Innovation may be considered within this expanding trend of technology as an international source of political power. Access to technological improvements and to the diffusion of knowledge becomes a privilege of developed countries engaged in this race of technological advance and applied knowledge affecting world social power relations. The nationalist or mercantilist view of technological diffusion suggests that it is economic activity which is the source that affects relative wealth and power distribution, for example, of Nation-States competing for world power. The strengthening of the economy becomes crucial to national security and to financial and commercial influence to exercise control of markets.

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[131] See for a detailed analysis of technological determinants in growth. Fagerberg, Jan. "Technology and International Differences in Growth Rates." *Journal of Economic Literature*. September, 1994. p.1153.

Literature is not very specific, pointing out that as a deliberate strategy, the country or Nation-State establishes institutions for the purpose of developing a national technology policy to compete with the manufacturing sector in the world markets. When competitor nations are technologically ahead, it is said that one's nation is behind, and the economy's security may be threatened. An innovation policy leads the civil society to shape social institutions to favor knowledge activities although this institutional arrangement may create an unequal share of domestic power. In an open world market structure, knowledge becomes political, because it implies a social power distribution in favor of technological aptitude. This path of competition for knowledge power becomes the countries' priority to accelerate the pace at which productivity may increase allowing for firms and countries competitiveness.

Access to technological knowledge becomes a source of political interest for emerging countries as a mechanism for sustainable growth. The price of agricultural commodities and some other basic raw materials have deteriorated in the world markets, so new sources to improve productivity become a political end. Less developed countries tend to improve competitiveness and to incorporate experience into the production of newly standardized products as reaching global market quality standards becomes a source of access to entry. The world trade market figures show a rapid increase in volume and value. Exchange has particularly concentrated on these goods that technologically contribute to improve information and communication activities.[132]

One major political concern for developing countries where the neo-classical approach of development has just been adopted is to shape a set of political tools that may help accelerate the rate growth as proclaimed by convergent growth theoreticians. This conception of modern growth requires the creation of a new institutional setting to enable innovation to follow. Transferring knowledge sometimes requires newer and more efficient state intervention where a number of trained jobs are needed to attend to emerging labor requirements. This unequal process has to go together and deeper with the societal, let's say civic or public institutions related with growth and globalization concerns. Convergent growth,

[132] See the work of Jan Fagerberg. 1999. "The Need for Innovation-Based Growth in Europe." *Challenge*, Vol 42. No 5. , September/October. Pp.63-79.

productivity improvements and entering into the knowledge economy constitute a fundamental policy objective for developing economies. A major difficulty in achieving this end is creating adequate institutions to assert access to technological improvements and knowledge. Adopting liberal economic policies in a largely competitive world market does not always provide the labor and growth requirements for developing countries, as accessing to new technologies implies institutional transformations before innovation practices comply with conventional management culture.

Historical experience shows that this innovation and diffusion process may have different paces depending on a country's stage of development. In the United Kingdom, the leading capitalist country in the world during the 19th century, per capita income was about 50 percent above the average of the leading capitalist countries. At the turn of the century the United States caught up to Britain thanks to a new technological system it adopted based on large-scale production and distribution systems suited for large-scale production. Thanks to this progress where the roads and railway system diffused the distribution system, the economy became efficient and firms used management practices that were adequate to attend to a larger and homogenous market. The endogenous principles of the knowledge economy later adapted to incorporate processes of production conducive to steady growth. It is interesting to observe that markets in Latin America and emerging countries are still small and fragmented. As a consequence, it is less advantageous to take advantage of exogenous factors that encourage growth through the benefit of the "new economy" business opportunities, as suggested by Fagerberg where technology take the lead (1999, pp. 64-66).

Therefore the problem that must be resolved for emerging markets is accelerating the rate of growth, improving investment and commercial opportunities available in the emerging global market and from technological parks. During the 1950s and 1960s the gap between America and Europe to compete in the world market was reduced thanks to the potential for rapid productivity advances obtained through imitations. European production and export volumes in industries such as cars, electric equipment and electronics grew rapidly. The reduction of barriers to trade within Europe since the 1950s has been regarded as an important contributing factor to this process.

Japan and other Asian economies targeted the same industries as those that had grown rapidly in Europe. Good performance was not attributed exclusively to low wages, but to innovation in the organization of production, better quality and higher productivity gains. Catching up to America was the consequence of science-based industry and massive public investment in research and development. European countries and Japan started to devote massive resources to science and to research and development. So, new breakthroughs in industry were related to science, particularly in the newly industrialized countries. They massively oriented savings to invest in innovation since the 70s. The result of this rational decision was a rapid productivity growth allowing them to acquire the same levels as the United States. The catch-up of Europe and Japan in capital intensive technologies was associated with an increasing export-market share for products embodying technologies within science-based industries.

Fagerberg suggests that Europe adapted to these changes in five types of industries, like agricultural products and raw materials, manufactures, scale intensive industries and specialized suppliers of various types of machinery, and finally in science-based industries such as electronics, pharmaceuticals and aerospace. The first two sectors depended on technology developed in other sectors, while the second two regarded as technology producing sectors, spilled-over to the rest of the economy. Scale intensive industries received much of their technology from others, and also had significant in-house technological activity (Fagerberg,1999, pp. 66-67).

The teaching experience for emerging countries is that science-based industry has displayed the highest recent growth in the world. Between 1970 and 1995 the share of science-based products in total world trade more than doubled, largely at the expense of agriculture and raw materials. Between 1970 and 1985 Japan and the Asian NCI's gained market share at the expense of the United States and Europe, in particular, the Asian NIC's where their overall market share increased more than five times, from 2.1 to 10.8 percent of the global market. The rapid growth of Japan and the Asian NIC's was accompanied by structural changes, converting these countries into economies where a new specialization pattern emerged. In the case of Japan, science-based industry increased rapidly, so that

by the end of the period Japan had its major strength in it.[133] Europe and the United States lost overall market share in high-technology sectors, particularly science based industries as shown by Fagerberg (1999, p. 68).

The discussion about globalization becomes particularly interesting when the international political economy issues relating technology advances comes to the fore and is susceptible to forming part of the World Trading Organizations Agenda. International Organizations Agenda and trading bloc-areas are aware of the importance of improving country competitiveness. Technological development during the 21st globalization century may receive institutional encouragement to spread as a new profitable business; however, deep institutional reforms are needed and shaping a set of policies to induce direct foreign investment in local markets as we proclaim in the next two chapters after financial institutions an democratic advances help financial capital movements and the celebration of foreign trade agreements.

[133] For an account of Japanese incursion in technological improvement see: G.C. Allen. 1972. *A Short Economic History of Japon.* George Alle &Unwin University Books. London, pp.170-205. Michio Morishima. 1984. *Why Has Japan Succeded?.* Cambridge University Press. Cambridge, pp 158-191. Mark Mason, Ed. 1995. Japanese Multinationals in Europe. Oxford University Press. Oxford.

PART VI.

WORLD FINANCIAL MARKETS AND GLOBAL POLITICS

The first part of this section attempts to review some of the 19th century initial conditions that were favorable to the development of the capitalist industrial productive system regarding the influence that the financial market after the export of capital encouraged productive investments at home and at abroad. To facilitate the movements of capital in an enlarging world economy some institutional mechanisms had to be created first to regulate the entrance of foreign exchange into an economy that became global. And secondly there had to be a reliable institutional device to capture the entrance and remittance of payments abroad sustaining balance in the trading partners' accounts. A detailed account of what the world financial history and its counterpart is in Colombia, lies beyond the scope of this introductory note.[134]

In the second section of this chapter we attempt indicating how capital markets regarded risk as an opportunity to link productive investments coming from world financial savings. Some thoughts are attempted to show how Colombia as an emerging country had to transform first its financial system, creating the Central Bank organization to orient national credit system and linking up with the world savings currents. After the creation of control institutional this entities uncharged of financial risk reduction like the Banking Superintendency and protecting creditor's confidence were created. This organization has been responsible for control of the financial and stock market systems in the country. Promotes, organizes and develops the stock market and the protection of investors. It is the organism of surveillance of the financial institutions as well as protector of the interests of savers. Secondly the Guarantee Fund of Financial Institutions-Fogafin promotes the protection of the confidence of depositors and

[134] See a good historical view on the advances of the world and Colombian financial system, particularly in the Works of Carlos Marichal. 2010. *Nueva Historia de las Grande Crisis Finanaciera. Una Perspectiva Global, 1873-2008.* Bogotá. Editorial Sudamericana. S.A. Random House Mondadori. S.A. Barry Eichengreen. 2009. *Que Hacer con las Crisis Financieras.* México. Fondo de Cultura Económica. Charles P. Kindleberger. 1885. *La Crisis Económico. 1929-1939.* Barcelona. Editorial Crítica.

creditors at registered financial institutions. The organization prevents undue profits, and economic or any other shareholders. Is who recommends fusion or partial capitalization, and promotes the protection of the confidence of depositors and creditors.[135] In Chapter 11 we explore some of relevant causes of 2008´s world financial crisis, like non-systemic risk factors that originated the 21st century financial event that merits observing this man-made crisis still affecting in the long run the stability of the world market. World financial crisis are recurrent in the financial system as suggested by Marichal.

6.1. Gold and the Emerging 19th century World Financial System.

An important development associated with the growth of the international economy between 1870 and 1913, was the emergence of a now complex multilateral payments network, reliable enough to allow for easier movements of goods, services, capital and income payments[136]. Basically the new accounting device allowed for economic transactions to be registered in the balance of payments, including in their different accounts, goods and commodities while gold was accepted first as a tradable good and then used basically to settle any outstanding trade balance as the gold standard established. After 1934 Great Depression, gold as riskless means of holding reserves changed.The gold standard evolved from the 1930´s into the 1968 gold exchange standard where gold was turned over to a banker, then into obligations convertible into gold on demand, and then accepting obligations as a means of payment whence previously accepted gold. A minimum obligations to gold allowed after maintaining a minimum ratio.

As trade volumes expanded and diversified, needed the exchange and support of financial transactions and proper investment means to allow for the proper functioning of the expanded world trade market. Ports and railway developments investing are a good example of the planned financial ventures that were so

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[135] See also for the Colombian case, the works of Carlos Caballero Argáez and Miguel Urrutia. 2006. *Historia del Sector Financiero en Colombia en el Siglo XX.* Bogotá. Grupo Editorial Norma, and José Antonio Ocampo. 2015. *Una Historia del Sistema Financiero Colombiano. 1951-2014.* Bogotá. Asobancaria.

[136] Kenwood, A.G and A.L. Lougheed. 1998. *The Growth of the International Economy. 1820-1990*. Routledge. London.

common during the last two centuries. The widespread world market demanded for the proper functioning of payments settlement of a credible exchange mechanism and of a worthy stable and reliable world monetary mean of exchange backed by hedging risk debentures. The expanding and developing British financial system was funded by world disposable credit assets to cope with the larger trade and investment currents that spread around the world on those years. Since the 1880s England's monetary supply so far available and circulating in many trading countries encountered possibilities to clearing world credit requirements. A consequence of liquidity excess to attend the world demand needed gold surplus to attain the stability both of the British domestic economy and the emerging world payments system well in process to be intermingled to the overseas trade market expansion as suggested by Foreman-Peck (1995).

A useful view for understanding how the world financial system attended credit and investment needs, is considering governments as baking agents that allowed for determining world investments in development projects. A stable function of the world money aggregate allowed collateralizing credit requirements and the currently financial market that conceived the idea of money clearances payments were regarded as the solution circulate sterling disposals. The importance of the balance of payments approach to allow for world price stability depended on swift price adjustment of local economies. As the peripheral economies tapered the amount of circulating money and the increased level of money base checked the rate of interest at home and allowed for overseas investment.[137]

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[137] See the work of Graham Bird. 1994. "Changing Partners: Perspectives and Policies of the Bretton Woods." *Third World Quarterly.* Vol 15, No 3. Pp. 483-502. Modern Balance of Payments approach based on the so called-Swan diagram puts into perspective that an internal and external balance possibilities curve, opens a number of regions showing various combinations of inflation or unemployment and balance of payments deficit or surplus. The appropriate policy mix depends on the economy's location within the region. Exogenous sources of credit may through demand deflation create unemployment, while in other region devaluation will cause inflation. An appropriate action would be to combine deflation with devaluation. In a foreign assisted economy, a specific region of the Swan diagram shows that devaluation needs to be combined with demand expansion, while in other region demand contraction needs to be accompanied by revaluation. The effect of expansionary fiscal policy may have effects on the capital account and as it is used a demand-based theory of inflation, that inflation cannot coexist with unemployment. Notwithstanding this expressed restriction, there is a region where it is possible that devaluation may fail to affect the real exchange rate,

On an individual country basis, this approach contemplated that the variation of foreign exchange reserves was a direct function of the difference in the domestic money supply, expressed in dollar terms with the domestic monetary base[138]. However, in a country like 19th century England, submerged in the Gold Standard rules where the exchange rate was fixed, the level of adjustments to its own money supply largely depended on devaluation. In this case the money base was endogenously determined, while in a country like the United States money supply expansion was, instead, exogenously determined.

Under the gold standard conditions, a view that attempted an explanation for the creation of a reliable world mechanism was the conception of a balancing device that registered the movement of gold, so much needed in the balance made by debtor and creditor country. In a triangular payments system, a large proportion of the international payments between countries had to be first bilaterally settled. While in a multilateral payments system, a country's payment surpluses could exclusively be offset by reinforcing deficits in another, reducing the need for gold movements as a final balancing item in international transactions.

6.1.1. Gold Standard and Theories of Expanding Credit Facilities

A better explanation of the 19th century liquidity issue was the fashionable approach of those days, embedded in the current theory of the Price-Specie-Flow mechanism—PSF. This was developed in the work of Hume, whose line of reasoning predicted that the adjustments in the balance of payments could be largely attained by buying and selling gold reserves. Many world-system countries' as a solution for integrating the economy into world trade and international finance adopted the Gold Standard mechanism as an international finance tool. Germany, at the end of the French-Prussian War, received five million French Francs used to buy French goods. The value of the indemnity represented 5.6% of the national product between 1872 and 1875 and the 30% of

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precisely because of the additional inflation it generates. Via its effects on the real money supply and the aggregate domestic spending reduce demand whose final product is the creation of unemployment. P. 492.

[138] García Ruíz, José Luís. "El Sistema Monetario Internacional Antes de Bretton Woods-1875-1944." in De la Iglesia, Jesús. 1994. *"El Orden Económico Mundial."* Editorial Síntesis. Madrid. P. 34.

the export of good values allowing for a Deutsche mark-gold value mechanism and for management purposes of the emerging credit for the creation of the Central Bank.

Since 1865, bimetallism, where gold and silver accounted for liquidity, extended to other countries, including the United States, France, Italy, Switzerland, and Belgium, demonstrating that more countries entered into the world financial market. Spain and other European nations attached to French franc money parity searching for price stability. Apparently this mechanism absorbed metal price fluctuations improving price endurance. Unfortunately, steady silver circulation deteriorated bimetallism credibility, as predicted by Gresham's Law where bad money would displace good money. Gold supplies left bimetallism-attached-countries to pay for debts and for this reason silver were sold back to monetary authorities at an officially higher price. After 1878, the Latin Monetary League finally adopted the Gold Standard mechanism that was applied, as well, in some other European and overseas markets until 1914.

This formidable globalization of the money market led to a crucial financial problem faced by a larger set of countries, associated with the lack of an adequate and reliable payment mechanism suitable to mitigate trade and payments uncertainty or settlements delays in particular when market fluctuations were rather violent. As the world market persistently showed unexpected commodity price fluctuations or sometimes liquidity shortage, country risk became a common denominator that dissuaded foreign investors from world business as suggested by Gerschenkron (1970, pp. 17-21).

The widespread insurance services and financial discount market for bonds resembled the modern hedging and options mechanism conceived to mitigate financial risk. The cost of protecting investments against defaults and exchange rate fluctuations was hedged via principal discounts. The modern floating exchange mechanism protects the economies against uncertainty. Conventional fixed exchange rate became innocuous within prolonged inflationary cycles, while fixed exchange rates favored short-term foreign investments, not allowing for protection against devaluation risk. Supporting the fixed exchange mechanism assumed piling up large amounts of gold reserves. Thus fixing the rate of exchange in a widespread market became a delicate international political issue that confronted larger economic areas where trade and investment activities

diverted to different markets and debts in different currency denominations had to be honored.

A prevailing criticism of the automatic balance of payments adjustment mechanism called the Price Specie Gold Flow-PSF was that supposedly it worked to equalize prices among countries and bring international payments back in balance[139]. The uncertainty of this mechanism lies in the difficulty of predicting the accomplishment of the automatic adjustment of the balance of payments. As the industrialization process advanced, historical economic evidence showed that equilibrium could not be easily restored as the economy faced problems like the appearance of rigidities that interrupted proper market mechanism operation. These rigidities induced the appearance of inefficiencies in the allocation of economic resources. Due to a world price level decline between 1875 and 1896, Britain and other industrialized countries, like France, exported capital overseas, struggling sometime for higher speculative returns.

García-Ruíz (1994, p.28) brings up some criticism of this point, suggesting that where adjustment of the balance of payments was not automatically attained, it led to strong movements of metals. Unfortunately, due to lack of administrative Central Bank policy to stabilize the balance of payments via devaluation led to an artificially low level of the rate of interest in some markets. This attracted and repelled overseas gold reserves. Therefore, the expedience of moving interest rates caused expectations to rise, inducing quick and undesirable capital movements. Long and short-term capital flow not always captured interest rate tendencies and differentials.

World trade and investment expansion during the second half the 19th century was accompanied later on, by increasing world financial and banking participation in country business. Currency in circulation, as well as bank deposits, increased above metallic reserves in many countries. In 1913, of all money notes in circulation, gold reserves represented 10% and silver 7%. In 1885 this proportion was 17% and 21%. Between 1880 and 1913, the coefficient of total banking assets and national product shifted from 0,77 to 1,33 in Europe and 0,49 to 0,91 in the United States. World liquidity, as well as public expenditure, increased above gold reserves. At the turn of the century, public expenditure

[139] Shapiro, Alan C. 1999. *Multinational Financial Management*. Prentice Hall. New Jersey. P. 93.

compared with national product represented 10% and as governments could not affect the money base to finance expenditure they appealed to increasing the level of the public debt.

Several Nation-Sates increased their participation in the world economy financing overseas investments and celebrating an increasing foreign credit loan schedule. In 1913 this figure had risen to US$ 44 billion, while this increase in foreign indebtedness accounted for as much as five times the volume of foreign trade. Particularly during the period 1904-1914, warrants to finance public debt were very active in the international financial centers, while its contracted level acquired unprecedented volumes.

Before 1914 The United Kingdom supplied 43% of financial investment resources to the world, followed by France with 20% and the United States with 7%. The North American Country received 27% of all financial investing resources followed by Europe with 27%, Latin America with 19% and the Asian continent 16%. In terms of external debt to the volume of foreign trade, this ratio showed an 8.6% for Canada, followed by South Africa with 6.3%, Latin America with 5.2% and Oceania with 4.8%. García-Ruiz confirms that foreign investment in transport networks and other infrastructure projects represented a large proportion of total investment overseas particularly during the period 1904 and 1914 (1994, pp. 31-34).

Supporting the Gold Standard sometimes was a heavy burden in terms of growth as gold could only be used as a means of exchange for good and services. In monetary terms, Gold Reserves represented part of the Central Bank requirement to support the general level of credit available in an economy. The larger the amount of Gold Reserve the larger the volume of credit available for economic agents' requirements. Milton Friedman suggests that money is a kind of asset available to the productive enterprise. When money assimilates to capital goods, it becomes a source of productive goods that combines with services, yielding benefits to the products that the enterprise sells. The amount of money, as a consequence, becomes a piece for each side of the capital market, where in equilibrium it should be either the supply of capital or the demand for it[140]. In

[140] See Milton Friedman. "The Quantity Theory of Money: A Restatement." In R.W.Clower.1969. *Monetary Theory*. Penguin. London. The demand for money depends on the total wealth, the price of and returns on this form of wealth and the tastes and

terms of world finances, this figure shows that the British pound could well support an adequate proportion of gold reserves, and therefore constituted a world fiat money, carefully thought of as an equivalent world money reserve. Here the property of preserving value resembled in nature that displayed by the dollar, during the life of the Bretton Woods System.

During the second part of the 19th century, the British economy became a sort of world central bank that allocated world credit surplus according to trade and investment needs all over the world. This world attainment occurred independently of the balance of payments situation in one's own economy. Historically, the arbitrage position of the American dollar in the world credit system resembles the Euro-money currency, whose storage value assimilates the function of a buffer for world reserves.

The excess of liquidity that the American economy cannot absorb nowadays corresponds to the proportion the country is not ready to accept as a domestic inflationary cost. International political economy as suggested by Strange teach us that The Bank of England managed the Gold Standard issuing cheap credit letters, thus exercising in the world its temporary economic power reflected in the financing of low-cost imports. In this way, it kept an artificially favorable equilibrium in the balance of trade whose major economic long-term effect was to reduce British export competitiveness. Many rich and poor countries in the world very commonly incur in this mistake.

García-Ruiz puts forth some econometric tests where the principle of causality suggests that English prices were not directly correlated with the amount of money in circulation in that country. The explanation this author advances lies in the consideration that demand for money is a stable function that follows the general world price level. However, fixed exchange rates in England based on constant money in circulation, determined that the money supply had a considerable dependence on external or exogenous expansionary events. Therefore commodity or rate of interest price tendencies, introduced long term effects on the money supply where the excess of domestic liquidity was not

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preferences of the wealth-owning units. The Friedman contribution associates with a relationship where the rate of interest expresses the relation between the stock which is wealth and the flow which is income. Therefore Total Wealth or Stock, is equal to the Total Flow of Income divided by the Rate of Interest

always easily transferred abroad to restore one's balance of payments equilibrium[141].

6.1.2. Central Banking, Business Abroad and the Rule of Gold.

Special privileges for minting coins were few and the international use of bullion did not represent the particular source of power one expected for rich countries. The creation of money developed along with trade expansion, pillage or the possession of mines. Nevertheless, the value of international money according to Gilpin (1990, p.135) closely related to gold availability and its value was not comprehended to be dependent on a state's wealth and credit control.

So the American Continent in this expanding process did exercise during the sixteenth and seventeenth centuries a significant influence on the determination of world financial liquidity, on which the imperial power economies relied so much. Abundant stocks of gold and silver helped to increase links between local and international means of exchange and also to increase world monetary flows during this mercantilist period. The international economy behaved according to exchange rules, making of the emerging Nation-States a more complex and interdependently financial network.

David Hume reasoned in economic terms associating the accumulation of metals to the consequent surplus in the balance of trade, leading, as a consequence, to a rise in the domestic price level and making exports a dearer activity. Positive and negative flows of metals determined the increase or reduction of money in circulation and, as a consequence, of a corresponding movement of relative prices, conditioning opposite movements in tradable goods inflows or outflows. This simple equation determined positive and negative flows of goods that materialized as the basis of modern balance of payments equilibrium theory.

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[141] The consequence of this adjustment due to the balance of payments deficit in England associated with a government induced fall in the level of primary product import. A direct consequence of the high elasticity of demand for primary goods implied a more than proportional fall in import prices, improving through international political economy means the terms of trade in favor of British consumers. This practice that lead to the development of the periphery dependence theory still explains the consequences of deteriorated terms of trade of primary product country exports prices around the world.

In general, controlled money supply expansion is associated with proper functioning of the economic wheel. A direct consequence for the international finances of this world credit rationalization increase was the control of inflationary pressure defending world purchasing power. Money creation indeed was a deterrent factor of international inflation, until larger industrialized countries found that fiscal and creditor countries could be financed abroad. However, exporting inflation meant jeopardizing economic stability.

6.1.3. World Financial Organization.

The current search for economic explanation is based on theoretical approaches to allow for understanding the mechanics of the world financial system. In terms of the international political economy, the assumptions that draw the attention of analysts are those searching for stability of the international payment system. Power associated with nations where gold reserves were higher, so controlling the mechanics of the international gold standard, allowed for control of capital and trade movements. As poorer trading nations could not create their own international means of exchange they regarded the classic gold exchange mechanism as a source to support payments and above all to benefit from automatically transferred world stability. The emerging international monetary order tried to support domestic prices with gold reserves, making domestic economies very dependent on world metal production and trade balance. The exchange-price-mechanism defined by Hume assumed automatic balance of payments adjustment. As an initial condition to start balancing the mechanism, buying or selling gold by the Central Bank led to contraction or expansion of money supply. The simplicity of the mechanism for proper operation implied that with small fluctuations in gold market stronger effects were felt in the balance of trade.

As a consequence of making price credit dear the flow of imports reversed in favor of exports, restoring balance of payments equilibrium. The British as a check to the Empire payment system used the balance of trade as a price regulating mechanism, according to the author Gilpin. Due to the influence of the pound in world affairs, it was considered a regulating tool for the world's financial market stability. Buying and selling gold to allow the economy to perform adequately

was a privilege practically reserved to the Bank of England as a crucial political device to divert trade.

The City of London, which regularly intervened in the world movement of goods, promoted financial operations within the world system and capitals backed most of the time by the Bank and other private financial institutions. Trade organized around British world exchange expansion, so pegging their national monetary system to the command of the London financial market allowed for credit lines. The London gold market was tight and controlled to the point that no trading country could gain access to this economic exchange circle unless it demonstrated proper Central Bank policy adjustment mechanisms and closely respected the requirements for gold reserve. The asymmetry of this mechanism was evident, particularly when individual countries were affected by sudden price declines, particularly in export extractive activities. Unexpected changes in export price did jeopardize Central Bank gold reserves level.

The centralization of the money market in London and a few other European capitals conditioned not only credit flows, but also the movement of gold. World gold reserves made the availability of credit facilities a very concentrated world financial structure. The price level and the employment conditions heavily depended upon credit availability, which suggests the reason for the government's involvement in creating and expanding lines of credit. In general, the world at the turn of the 19th century relied for transactions on the existence of a monetary sign in circulation. Dear money and deflation were preferred instead of cheap money and inflationary allowances to restore stability. Supporting gold prices to maintain equilibrium in the balance of payments was considered a general imperial policy of worldwide application. 19th century monetary policy concentrated upon limiting and supporting money value vis-a-vis world gold prices. Liquidity was associated with gold mine extraction and trust in British support of the value of gold against the pound made for economic autonomy and world international monetary stability more than an occasional commitment..

6.1.4. The British Investor Overseas.

D.C.M.Platt in his work *Finance, Trade, and Politics in British Foreign Policy* links money issuance to the expansion of trade and investment. He reminds analysts

about the remarkable new phenomena in British economic history characterized by an outflow of capital overseas particularly after Industrial Revolution, when it was in a favorable bargaining position. The balance of credit abroad steadily increased during the 19th century, expanding from about 10 million pounds in 1815 to 208.7 million in 1850; 692.3 million in 1870; 1,189.4 million in 1880; 2,396.9 million in 1900; 3,371.3 million in 1910, and 3,396.9 million in 1913. This diffusion was the consequence of the great force of capital once spoke by Churchill, as well as the response of the need to export capital regarded as a convenient political tool for imperialism as suggested by Lenin. The financial advances overseas became an important political ingredient that led to an increased economic presence of British capital overseas[142]. The literature displays numerous arguments searching for the nature and causal direction of the influence of business in government and of government in business.

Britain with its commercial wealth and its strategic position in the world of finance strengthened government influence overseas. 19th century authors, aware of this fact, attempted to find connections between bankers, industrialists, ministers, and aristocrats with foreign investment trends. Interrelations among monetary and economic variables, particularly the causes and effects of this investment, were not sufficiently studied or even considered important questions concerning the direction of investment currents overseas.

Preoccupation centered on opinions like George V's, who was considered the "crowned agent of English bankers," suggesting the degree of involvement of politics in investment overseas. Other statements were heard, like the H.M. Government "developed some attitudes to issue foreign loans, protect bondholders and promote the celebration of contracts and concessions overseas." The purpose of these suggestions was to foresee the Crown's political involvement overseas, a strategy that became part of the reigning atmosphere that justified the adoption of arranged investment policies overseas.

Risk appraisal faced by financiers attempted protecting investors after emerging opportunities opened overseas, while the British financial system gradually followed direct foreign investments. On occasions, governments did

[142] See the work of D.C.M. Platt. 1971. *Finance, Trade and Politics in British Foreign Policy. 1815-1914*. Clarendom Press. Oxford. Pp 3-9.

intervene in the economy to protect foreign investment currents. Some elaborate accountability existed as shown by the attitude followed to preserve and to keep control over the stability of the Bourse, particularly when it was necessary to influence the direction of French overseas investment. In Germany after the 1880s the government also took a position on every foreign loan issued to obtain favorable terms to trade.

In America during the Taft administration, the President had a great deal of trouble persuading U.S. bankers to invest money in certain Caribbean countries where the U.S. Government policy required capital backing. The relationship between the U.S. Government and overseas loan issue was put on a more formal basis by the State Department's declaration of March 1922. The Secretary of State requested that American firms considering making foreign loans let the State Department know the facts of the case and keep it informed of developments. In Britain the author Brailsford claimed that the close understanding between the City and Downing Street was reflected by the fact that the city never invested where such investment might hamper British foreign policy. The extension of loans required a counterbalance to protect lending countries, where borrowers had to experience tough conditions as negotiated tied loans lead to accepting and discounting resources.

D.C.M. Platt pointed out that Government's financial guarantee system responded to assure honoring principal and interest pay back. Debtor States would protect themselves against loan service default. In general political hedging was a current financial practice, as intervention within the *laissez-faire* money market did not have bankers' general approval. Guarantees were part of the financial deal, where promoting the economic development of the Empire was nevertheless regarded as a profitable venture.

Prime Minister Canning refused to assume risk exposure, refusing drafted guarantees offered by Latin American markets and arguing that such guarantees when defaulted could lead to political complications. The Parliament refused to assume State credit for the purpose of financing or assisting industrial or commercial undertakings overseas, leaving private business quite openly to assume risk. Issuing government loans overseas was a rare financial practice that had to be authorized by the British government. In general City financiers made their own contracting legal arrangement with overseas governments, and most of

the time running business was independent of political artifices (Platt, 1971, pp. 13-23).

In the particular case of public utility and railway investment loans, these could not entirely be detached from government affairs. In 1916 the government, when negotiating a preferential loan, suggested to British financial houses and manufacturers that they encourage preferential treatment for British manufacturers, as in the case of contractors. It recommended this as could be seen in the Parliamentary Papers, where port and railway construction needed government guarantee[143]. Iron and Steel Traders requested government permission to make the issuance of foreign railway and public works loans conditioned on the purchase of British plant and material. In general, it may be argued that the financial organization of London had developed in answer to the needs of commerce and trade, rather than of industry.

The practice of government involvement in business overseas mentioned above was a matter of advanced and expanded trade currents, as has been found by Mokyr and other economic historians. However, when British industry began its 19th century Industrial Revolution process, entrepreneurial financial requirements was modest, and massive exportation was a mere expectation. Platt suggested that industrial units were produced on a small scale, so that their financial needs were met by capital obtained privately within families or by reinvested profits. It was rare that they called on the London capital market, where capital in Britain was concentrated in few hands. So investors had to convince higher social and intellectual classes to support their ventures (1971, pp. 20-27).

A different history corresponds to infant industrial expansion in Germany, where activity was very resilient to indebtedness. Due to scarcity of capital, industrialists were forced to associate themselves much more closely with investment banking and venture capitalists' proposals. Before 1931 no single important company in Germany had been founded or emerged without the collaboration of a bank.

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[143] See C.C.A. Lee in Department of Overseas Trade.1924. *Trade Report on the Commercial and Economic Situation of Colombia.*p. 15 and p. 84.

As compared to the spread of overseas interests with British investors as individuals, contractors and concessionaires, always this country found it difficult coming to terms with governments and commercial partners. A registered exception found by Platt perhaps was the case where "The Government encouraged investment when the War Office in 1888 found it in its best interest to build railways in Asiatic Turkey, which coincided with Britain's main political and commercial aims." In the particular case of Turkey, British capitalists were not seriously committed to investing in any form of enterprise due to high risk.

Tied loans, however, as a financial practice before 1914, were not very common. Some government officers estimated that not more than ten per cent of long-term international capital investment represented tied-loans. The practice of tied loans, when city financiers extended into overseas loan business, reduced risk by tying clauses in some loan contracts, later becoming a common commercial practice. The presence of capital overseas perhaps was not similar to what we know today as direct foreign investment. It tended to specialize, leaving the varied financial instruments in current use in the monetary market for the next century, as new initial conditions.

A direct consequence of the abundance of private savings made this activity a source of capital allocation for investments overseas and for exporting engineering talent. Railway and public utility loans became, therefore, the most popular form of foreign investment and of transferring technology abroad. Contractors, engineers and management were encouraged to use British equipment as suggested by Platt evidences.

Platt saw that the banking system converted into a world or at least international political economy instrument, that was an effective source for exercising world power, as occurred with the Imperial Bank of Persia. The British Government granted its Royal Charter in 1889, mainly to rebuild Persian prosperity, as a barrier to a Russian take-over. The Hong Kong and Shanghai Banks on the other hand, were more independent of the British Government, which helped improve its political position as Far Eastern finances strengthened… in 1898, together with the British and Chinese Corporation, the Peking Syndicate became the chosen instrument of British financial diplomacy in China..." (1971, p.31). Access to sources of foreign capital was considered

onwards as a prerequisite to sustain economic development in overseas countries, subject that inspires 21st century world market expansion.

6.1.5. Global Politics and World Liquid Surpluses.

The transformation of financial development overseas was linked to productive investment patterns that became self-reinforcing especially if appropriate conditions for capitalization and furthering trade expansion were given. This kind of bifurcation associated with evolving systems aspect that is now a matter of great concern to growth future evolution. Depending on the evolving scenario where profits did reinvest different participation of capital and money in the globalized credit system determined self-sustaining-growth in the periphery. All through the 19th century Great Britain's financial experience, coexisted or alternated with trading and worldwide investing.

This great nation found itself after the Industrial Revolution and imperial expansion in a very advantageous position to rationally allocate its increasing liquid surpluses in different investing ventures. This kingdom was well prepared to absorb and at the same time allocate larger abroad volumes of exports to peripheral and early industrializing nations, or to re-export goods and commodities to colonial markets and even planned where to allocate capital goods industries to encourage the production of industrially transformed goods. In other words, economic growth closely associated with the expansion of world credit and financial flows.

World Wars and the 1930 crisis shifted Britain's position in the world trade and financial market. As the gold standard stopped to be the storage instrument of currency value and convertibility to metals was restricted, trade tended to slow down, affecting the economy visibly as it became dependent on the world market for daily business. Inconvertibility, high debt payments due to higher interests resulting from the crisis of contraction and the deflation that affected many countries, forced protectionist practices and launched emerging countries into import substitution industrialization policies. These historical developments or

emergent strategic scenarios co-evolved with new developments in the world economy breaking traditional trade ties [144].

The world crisis led to a disruption in the over-stimulated production of primary products, whose prices had in real terms been very high after the World War I. This unexpected world development pushed governments to rely more for credit on domestic indebtedness, bringing about conditions of convergence or turning point in world finances trend as the rate of interest and risk index conditions the rate of product growth increase among peripheral countries. The influence of this vector trajectory along a new dependent growth path made for a directional change that moved the world into an evolving structure determined now by the public investment alternative as a means of restoring long term growth. Hence forward this juncture launched the economies onto a somewhat endogenous growth path adequate for combating unemployment and producing industrial and strategic goods in a selective number of countries.[145]

6.1.6. Expansion of World Financial System.

The 19th century gold standard mechanism helped create a world monetary system and a world trading order. Recurrent monetary crisis and World Wars changed the institutional order during most of the century. Britain no longer could support the financial power exercised throughout the previous century around the sterling pound. New independent institutions developed and the mechanics of money management also changed, before talking again of a new emerging global financial order where capitals and money surplus could be easily allocated to promote further capitalist investments or even attempt hedging operations where to overcome financial non-systemic risk.

An interesting institutional change that occurred and introduced a new role for the State in monetary matters was the control it exercised over money creation, as well as the disposal of part of the liquid assets circulating in the economy. Money creation to finance fiscal deficit, expanding public and private credit

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[144] See George Modelski and William R. Thompson .1999. "The Long and theShort of Global Politics in the Twenty-first Century: An Evolutionary Approach." *International Studies Review*. Vol.1. No 2. P. 109.

[145] Bessel, p.157. Import substitution policy was the consequence of export limitations in Europe and the United States.

through monetary measures like the "bank monetary reserve requirement" and balancing government accounts via new taxes closed the circle of intense government intervention in the economy.

This State run policy was oriented toward increasing the level of employment and promotion of economic activity in strategic sectors. Fiscal and monetary policy was oriented toward formulating political and social aims, supplanted 19th century laissez-faire with a welfare state. A world trading system, as well as a global exchange market, was determined by policies oriented toward increasing trade and easy credit among nations according to Gilpin's evidences (1990, p.143). Macroeconomic theory gradually abandoned the idea where simply the movement of the natural rate of interest restored the entire equilibrium. Adjustments relied on government expenditure, and improvement on social welfare income redistribution action that determined aggregate demand. Expanding the rate of economic growth was considered a source of development of the modern Nation-State where credit was considered a confident source for this purpose.

Large and powerful countries, as well as poorer Latin Americans took the opportunity of this easy money scheme to shift money from producers to savers and from productive activities to speculative ventures in the form of expansive government public works programs. Unemployment declined, but so did the burden of private savings increase to support unproductive activities. The welfare state became an inefficient political system ruled by generals and politicians rather than economists. The gold exchange mechanism introduced after the end of the World War I collapsed after the Great Depression.

Economic stability and the preservation of the level of income led many independent states to favor this social policy that militated against the stability of a world monetary order. British restoration of the sterling-gold standard at a high level gave evidence of the inefficiency of British industry, accentuating the decline of exports and the raising the level of unemployment. After the Great Depression, Britain no longer had the power to remain as a powerful country able to run the world finances and trade demands and rule by itself. According to Kindleberger

(p.220),[146]the economic policy of "*beggar-thy-neighbor*" that had been followed led to poor performance, and deepened the world depression after 1929.

After the World War II, governments strongly mediated the economy, and so emerging World organizations attempted regulating monetary and balance of payments issues, as well as trade and development. This was the result of 1944 Bretton Woods Conference. In financial terms, this international policy was assumed to be convenient in order to avoid competitive devaluation, pegging world monetary signals to a fixed dollar exchange. Current account transactions were allowed and left as an accounting mechanism where Central Banks would be responsible. Destabilizing the massive monetary flows gradually became a past experience. During the eighties and nineties, we saw recurrent financial crisis that affected the world and especially some emerging trade areas. In particular the payments crisis in Latin America and crony capitalism corrupted the credit mechanism leading to an economic collapse in East Asia.

History had already proved in 1971 that dollar parity against other exchange rates and principally gold disarranged and affected world parities as the United States had exported its trade and fiscal deficit to the world. This deterioration of the dollar purchasing power led the Nixon government to suspend dollar world reserves inconvertibility for gold especially at the fixed price of US$ 35 per ounce. The OPEC oil crises in 1973 and 1974 that followed brought about the advent of a great financial surplus concentrated mainly in the oil cartel producing countries. The increase in world financial assets in the hands of speculators, combined with the export upsurge in newly and rapidly industrializing countries in Asia and Latin America generated out of the expanding liquidity irrigated an unexpected world inflation and rise in the nominal rate of interest throughout the international monetary system. Government policies that followed encouraged outward led growth-promoting exports in many industrialized and developing countries, thus increasing world trade expansion and production. The dollar became the principal means of change and current account signal, converted into a reservoir of value and signal of direct foreign investment in the world.

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[146] See the work of Charles P. Kindleberger. *"The World in Depression. 1929-1939"* Editorial Crítica. Barcelona 1985.

The United States turned into the largest creditor country where gold reserves and financial investments overseas reached unprecedented levels. This new initial condition commenced just after World War II ended. European nations and emerging countries in Latin America and Asia related the value of their currency to the dollar, assuming that once the equilibrium exchange rate was defined, the dollar reserves would not experience a loss in value against itself or even to gold reserves. The sterling pound and gold reserves stopped to be the international means of exchange. The emerging international political economy allowed the powerful United Sates to make the dollar the new-world financial system of reference and become the world financial store of value.

The expanding world financial system was backed by the unquestionable capacity of the United States' economy to allow for the liquidity the system demanded. As suggested by Gilpin (1990, p. 149) the increasing trade and fiscal deficit that followed, after being the world's largest creditor country, gradually introduced some loss of confidence in the international dollar market. Billions of circulating dollars in the world financial market increased speculation and instability although the Eurodollar market tended to allocate spare dollars in the world economy around one new purpose. The excessive cost attributed to the Vietnam War and to the affluent society stimulated by President Johnson produced an excessive public deficit that augmented world financial instability and encouraged speculative attacks on the dollar.

6.2. Twenty First Century Global Capital Movements.

To predict the future course of history is impossible. However, possible scenarios may be drawn in world affairs. Susan Strange's (1998, p. 90) posthumous work made suggestive contributions to allow for drawing revealing paradigms. In her work she attempts to integrate money matters, where the mere transactional function of money could be linked with deeper political considerations, searching for an explanation and impact of the new world power being exercised. She suggests that developing recurrent crisis, the financial structure we know is the result of a gradual evolution and change in the historical vector trajectory where the central political element lies in the consolidated capacity of a country or group of nations to determine credit creation at a world level. This particularity if

sustained by new institutions in the emerging global world would allow or deny other people the possibility of spending today and paying back tomorrow.

For the country's life this particularity will substantiate social infrastructure investment, public goods creation or advancing expensive technology improvement programs. This 21st century evolving scenario tends to condition world finance advances, subject now to variations, selections, cooperation and amplification of new power principles. Thus, to foresee in the new vector of world finances where money goes we need first to develop a new economic framework. In it a coalition of actors in the enlarging world financial system competes for resources and investment possibilities. Here is where big decisions follow after carefully designed alternatives. Complementary financial policies should encourage efficient allocation of world savings, where a crucial improvement that must emerge in this evolving mechanism is the one that is associated with credit orientation. Discounting the value of money in the time horizon makes this uncertain investment a profitable, but risky alternative. Discounted ventures in the money market are represented by shares, bonds and letters of credit. The power factor that accompanies money movements determines where multinational or other private financial instruments, suggests where long term investment will go as suggested by Alan Rugman (2000, p. 75) and Stopford and Strange (1993, p.16).

Within this trend, the new century differs from previous XIX century, as the indebted world financial environment characterizes by economic shortages needed of other long-term profitable transactions and for tapping profitable investment in more profitable and less risky trading areas, open opportunities for global investors. These policies perhaps will be determined by institutional arrangements made for governing credit and investment allocation properly hedging risk where more stable markets open opportunities for investing. Circumstances like the excessive short-term capital outflows of capitals originated by short term risk expectation led to unexpected scenarios, where the excessive money overvaluing moved the system to react for a new content of stability regardless of massive corrective devaluation that might take place, as in the cases of the Mexican, Asian and Greek crises.

6.2.1. Sustaining Trade and Global Finances.

World trading markets are articulating within the global market system. The traditional financial system observed within the international political economy setting seems to be governed by nations or markets that become recipients of world liquidity. Due to rapid increase in electronic business transactions now a day, the upsurge of the capital market leads to the emergence of new rules to allocate resources. The enlarging world capital markets now tend to integrate or link together via electronic networks, making of it a single world risk investment-system. Banking syndicates and capital investors support each other searching for best portfolio maximizing return and for risk reducing ventures. What is a novelty in the new environment is that customers' deposits search for coupling investment alternatives where risk covariance is negative, so portfolio returns improve and risk declines. As the world finds out that it is possible to unify the world monetary system, at least governed by a few major currencies, the existing uncertainty in world financial markets will diminish. National currencies will reflect less and less the systemic risk that involves fixing currency value to political, financial and economic risk factors.

As business tends to be global, so will there be fewer monetary signs, revealing more clearly what the world systemic risk will be. In accordance with these new principles, the emergence of monetary means of exchange like the Euro will allow for transaction costs to diminish. Individual Central Banks will henceforth exercise less influence in determining world exchange rate value. Private financial markets in the emerging atmosphere tend to become global, while monetary authorities restrict their influence to preserve credit stability as monetary boards adapt the dollar as an anchorage to prevent value deterioration of local currency, therefore finding it difficult to support an increasing level of credit. It becomes a determinant for countries to rely on endogenous growth as the key factor for sustained growth as domestic money supply will depend on world financial credit movements. Globalization of capital and financial markets brings to the fore the upsurge of new political issues. Risk exposure in major portfolios will have to be reduced to protect economies and allow for the stability of civil society. Proper administration of world credit may bring war and peace, repression or freedom. Strange (1998, p. 94) warns about the perils of a developed monetary

system increasing inequality, as accumulation of capital may increase inequality through the increased bargaining power it confers on exploitable resources.

6.2.2. Organization of Global Capital Markets.

Initiating the 21st century we will see that financial centers like London, New York and Hong Kong will be orienting capital investment resources within the periphery. Beddoes (1999) shows that foreign exchange transactions are now worth about US$ 1.5 trillion a day, whereas in the mid-1980s it amounted to less than US$ 200 billion. This source of disposable income will allow for growth and investment around the world. Private capital flows to emerging countries have soared from US$ 50 billion in 1985 to US$ 152 billion in 1998 according to UN, world trade and investment figures. The strategic importance of this trade is that free capital flows may be allocated to their most productive uses, regardless of geography or politics. According to the United Nations (2015) "World Economic Situation and Prospects 2015", net private capital flows to developing countries increased more than threefold from $155.7 billion in 2005 to $327.7 billion in 2013. And Foreign direct investment exhibited the largest increase rising in net terms from $246.4 billion in 2005 to $448 billion in 2013. Neoclassical assumptions suggest that developing countries are now more attractive for investment than they were in the past as ventures in emerging countries are more profitable. Capital mobility and diversified portfolio allocation hedges investor countries to protect against drops in export revenues or a fall in interest rates. Country access to credit lines will depend on how market makers hedge risky economies. Direct foreign investment, considered as an important method of stabilizing balance of payments, would, in the emerging scenario, allow for attracting technology and know-how. Lack of sound economic policy increases a country's exposure. In Argentina, political, economic and financial volatility caused substantial recessions when foreign capital worth 20 percent of GDP fled in the 80s and 5 percent in 1995. In Asia the late 1990s brought far worse crises, as in Thailand capital flight accounted for 26 percent of GDP in 1996.

The complexity of world financial flows will call for approaches to tackle risk and overcome transaction costs, where the participation or world transaction in favor of portfolio investment surpasses conventional credit. Global capital market operations find emerging markets to be a profitable source of investment. Many

banks that lent to Asian firms suffered huge losses as country risk forecasts were inadequately considered. After huge capitalist country speculation, Russia's stock market lost for the same reason, as much as 90 percent of its portfolio value in the nineties. However in emerging countries, despite the recurrent financial crisis observed at the turn of the century, there are still good alternatives for the aging population of the rich world to earn these higher returns. In the new globalization era where capital transactions depend on the spread of technology the way of doing business is changing.

Financial capital allocation in the global world-system increases the degree of expectations about the risks on profits (Greenspan. 1998, p.75). This senior Argentinian Central Bank officer pointed out the changes that have been emerging in doing business across countries, emphasizing that risk cannot always be shifted indefinitely to investors. He shows that the danger of turning down the capital stock in this new path has its limits. The crucial question that arises for an expanded 21st century world financial-system corresponds to the design of a reliable world trading exchange mechanism. The restoration of equity market values relative to income and production will reduce instability subject to improving the payment system after 2008´s world financial crisis as we will see in Chapter XI.[147]

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6.2.3. Adoption of a "One World Currency."

Trade and investment deserves significant attention, particularly regarding income and power distribution. However, in terms of world politics, aspects like unification look forward to a single transaction unit. The debt crisis in Latin America and Asia an latter the 2008 world finanacial crisis showed that states still have enormous power to equilibrate or destabilize the world payment system. The argument put forward by Gilpin (1990) is that a well-functioning international monetary system is necessary to evenly distribute the benefits of growth and investment. Evidence suggests that international capital flows; when they exceed market trade needs seriously disturb world economies. The level of confidence, liquidity and payments capacity is associated with an orderly payment system. Emerging economies happened to be strongly influenced by fluctuations in the exchange rate level, while expansion or deflation of economic activity distorts international transactions. The total volume of national currency pegged to world liquidity standards allows for the stability of international exchanges. Some authors consider that a relationship must exist between world liquidity and the level of world international reserves, to better guarantee the stability of world prices[148]. In the Mexican financial crisis, as the peso reevaluated the level of non-performing expectations increased bringing about an extreme increase in country risk[149]. The world financial crisis we study in the Chapter 11, shows how the dollar became too sensible to speculation in the house mortgage market or in the Iraq war efforts and the Euro to excessive and lavish borrowing in countries like Greece and Spain accompanied by the lack of a coordinated pull of states taxing system.

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[148] Zaheler, Roberto. "Política Monetaria con Apertura de la Cuenta de Capitales." *Revista de la Cepal*.No. 48, December, 1992. This policy seeks to make the dollar reserve or the interest rate based on devaluation forecasts the "anchor" for the exchange rate.The danger of sudden liberalisation is that a deficit can occur in the current account that is unsustainable in the middle term.

[149] See Stephany Griffith-Jones, Ana Masrr and Alicia Rodriguez in "El Retorno de Capital a América Latina." *Revista de Comercio Exterior*.Mexico.Jan. 1993, p. 43 and p. 46.The authors question whether the region and some countries can withstand indefinitely the disorderly influx of net amounts of capital, particularly flows of short-term speculative capital. Lack of adequate financial provisions translate in the burden of proximity of dues expiration, costs, guarantees, investor risk where projects were not sufficiently productive to honour debts.

To reestablish equilibrium between short-term liabilities and adequate firm capitalization levels, steps are being taken toward encouraging Multibank activity in the United States. The revisions in the Glass-Steagall Act[150], a legal figure that prohibits commercial banks from carrying out underwriting operations and negotiating in corporate shares, whether through banks or affiliated brokers, is beginning to change. Historically, Senator Glass considered during the Depression years that bank commitments in shareholding operations would be detrimental to the stability of the financial system. Emerging views about this position have led the debate in a direction where much functional division between commercial and investment distorts the level of a firm's indebtedness translating into excessive risk for a firm's assets. Modern risk view suggests that commercial banking should integrate its commercial activities into the business of buying and selling shares and hedge risk. The historical divorce between monetary objectives of the Central Bank and the return possibilities attributed to the real sector urgently needs to be resolved. Where the return possibilities offered by the international financial market tend to be hedged by capital owners risk preferences.

The excessive financial economic surplus generated by multinationals or investment funds tends to be rapidly translated from different capital markets allowing for a great number of firms located in industrial and developing countries to spread within many different markets. Emerging financial institutions like investment banking, so important in the 19th century, now tend to link different institutions through their financial activity. Investment banks specialize in financing projects; stock underwriters deal with exchange market operations, buy and sell commodities and derivative products. Here is where interdependence between old and "new" financial institutional orders mobilizes great volumes of savings. The magnitude of these new asset movements requires as safeguards elaborated theories to rationally solve the problem of world surplus allocation or a taxing device system to cover public sector liquidity deficits. Financial credits and liquid assets become a politically valuable commodity easily transferred electronically from one continent to another where political

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[150] Kroszner, Randall S. and Raghuram G. Rajan."Is the Glass-Steagall Act Justified?A Study of the U.S. Experience with Universal Banking Before 1933." *American Economic Review*. Vol. 84 No. 4 September 1994. p. 810.

determinants for this allocation also count[151]. To complete in this world economic picture, Susan Strange[152] pointed out that international trade and investment have important political implications for the world distribution of wealth and for power sharing among nations. Conventional economic literature on the international payment mechanism was very incomplete to allow for proper explanation of how international political economy may help orienting the world of global international finances.

Robert Gilpin (1989) who began the fourth chapter of The Political Economy of International Relations entitled *"International Monetary Matters"* attempted a valuable explanation about the mechanics of the world financial system. He considers that money and financial flows exceeded trade flows by nearly 365 times, when compared to international trade transactions, making this new activity the emerging link among national economies. The efficiency and stability of the international monetary system enhanced the international economy, revolutionizing this relationship in terms of interpreting world politics. It was a revolution that almost no one else in international relations, or even international business recognized or wrote about. As the globalization process extends and Nation-State boundaries dissolve, the "seigniorage" principle fades away in aspects related to money creation. The system we will see in the emerging 21st century will be governed by one or a few currencies determining the stability and credibility of the "international financial system" and a sort of universal portfolio of minimum risk where government's attempt equilibrate portfolio profitability via non-systemic risk investments.

6.3. Colombia Linked to the Global Financial System.

The adequate allocation of resources and reduction in transaction costs allows for the financial sector to increase the rate of growth. Some theoretical and recalled empirical evidence points to an existing relationship between financial development and growth. Credit availability and portfolio investment determine future economic growth and technological change. The modern financial system

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[151] Ibid. 181.

[152] See the posthumous work of Susan Strange. 1998."What Theory? The Theory in Mad Money."University of Warwick, CSGR and International Political Economy Department, *CSGR Working Paper* No. 18/98.December.

facilitates trading of risk, allocating capital, mobilizing savings and performing better financial contracts. Despite some banking and capital market developments, to support larger investments for development requires world financial concurrence. A larger investment flow to put the country into the world competitive edge requires assuming a heavy cost burden to acquire information and make proper banking transactions. Rising transaction cost elevates market frictions as suggested by Levine (1997, p. 691) who developed five functions to explain why sound financial activities affect economic growth when inadequate institutions hinders banking transactions[153].Here is where marginal improvements affect capital accumulation by altering the savings rate and savings reallocation among capital producing technologies.

The new risk theories consider the financial institution to be a factor that improves growth as resources are allocated more efficiently. This means ameliorating liquidity risk, easing the speed with which agents convert assets into purchasing power, and better linking high-return projects. In this new context, capital markets mitigate liquidity risk allowing for faster industrialization to follow. Technological innovation within a larger and global market requires large injections of long run capital installments. Industrialization, trade and technological change are associated with a financial revolution including joint-stock companies. Here is where stock markets encourage transaction costs to fall and induce more long-term investments in high return projects. The advantage of the world's liquid financial market is that availability of resources induces longer gestation on higher return technologies. The new role attributed to mutual funds optimal portfolios and the securities market is where they provide for diversifying risk affecting long-run economic growth by improving resource allocation and increasing savings rate in productive activities.

In the new global financial context made of large investment funds, there is a shift toward projects with higher expected returns, thereby affecting

[153] In this model, Market frictions associate with information and transaction costs. Financial markets facilitate trading and hedging. Financial functions resume in mobilizing savings, allocate resources, facilitate risk management and easing contracts. The channels to growth depend on capital externalities or on factors that generate steady-state endogenous per-capita growth as suggested by Romer.Technological innovation focuses on the invention of new production processes and goods.

technological change. Banking activity has to transform investment policies, searching in the global market to identify and funnel profitable ventures and best producing technologies, as well as to boost technological innovation. This requirement comes from the fact that economies tend to integrate into a larger and competitive world market. Stock markets help the acquisition of strategic information about firms. The role of financial intermediaries, including international branches and other new institutional devices like the ADR's tend to reduce information costs and intermediation expenses. Electronically connected world financial markets help mobilize capital savers to provide opportunities for households to benefit from efficiently diversified portfolios. Investment banks used their European connections to raise capital abroad for investments in the United States as suggested by Levine in the 19th century (1997, pp. 691-701). Now the initial condition bankers and investors are looking forward to sustained growth patterns in the open world market associated with identifying different financial structures, where financial contracts, markets and institutions interact across countries. In this respect, more has to be known about financial structures and how information mitigates transaction costs, as well as the formation of financial intermediaries that accelerate growth by increases in the value of allocated capital.

Researchers established different criteria to measure economic development as a variable that relates to financial advancement. First, recounting the size of liquid liabilities of the financial system divided by the GDP. Citizens of the richest countries held two thirds of a year's income in liquid assets. Citizens of the poorest held only a quarter of a year's income in liquid assets. Second, the ratio of bank credit divided by bank credit plus central bank domestic sales. The ratio here is greater in the richest countries. Thirdly, the allocation of credit, where the ratio of credit allocated to private enterprise with respect to total domestic credit shows that private firms are more engaged in researching, providing risk management services and facilitating transactions.

In this research, it was found that total productivity growth may be defined as real per capita growth minus 0.3 times the growth rate of capital stock per person. A test to examine whether finance follows growth indicates that financial depth is correlated with the above mentioned growth indicators. Therefore, the initial level of financial development is a good predictor of subsequent rates of economic

growth, physical capital accumulation and economic efficiency according to Levine (1997, pp. 703-708). However, recurrent financial crisis jeopardize world exchange and investment markets, a peril that becomes visible after the global financial crisis that put the world in alert. The aftermath of 2008 global financial and the severe drop of oil and iron core prices in 2015, suggests again that the recurrent world economic crisis raise the question that the solution to global problems is very much dependent on the Resources, Markets and Profits tripod's accessibility

6.3.1. The Capital Market becomes Global.

Theoretical considerations, such as the above led the Colombian government to reform the Charter[154] and in particular issue Law 9 of 1991 and Law 31 of 1992. The management of monetary exchange and credit policy in Colombia now lies in the hands of the Board of Directors of the Bank of the Republic created for that purpose. This organization became a new agency with faculties to design and manage financial, credit and exchange policy, absolutely independent of interests and powers that the national government once had in this matter. The rulings body for "currency matters" now a legally chartered agency, functions as a state corporation. It enjoys autonomy in the management of macroeconomics policy in monetary and credit facilities without any interference from the Government or Congress. The Bank according to its newly authorized functions issued a new Exchange Law through its Board of Directors that state the exchange market must be free, as international exchange will likewise be. It also liberalizes investment of foreign financial capital and allows laxity in private foreign debt.

The emerging world political and economic scenario for global trade and investment merits deeper considerations on the setting of the initial conditions enabling the creation of newer opportunities for 21st century Colombia. A new-world competitive environment and the removal of factors that hindered access to technological improvements require access to huge sources of equity capital. Better communications access tends to attract technologies and venture capital to formulate new initiatives for regional development, and to improve investment opportunities to encourage competition in the global market among trading blocs.

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[154] Constitución Nacional, Articles 371-373.

The globalization of financial markets is thus the consequence of the capital accumulation dynamics process in industrialized nations. For many years, Great Britain was a great creditor nation, placed in an advantageous position to invest its liquid surpluses principally abroad. World Wars and the 1930s crisis modified this globalizing tendency of financial markets when the gold standard was the instrument in force to allow currencies to be converted. Inconvertibility, high debt from payment of the crisis and growing inflation in many countries, forced the appearance of protectionist barriers and the emergence of substitution industrialization, particularly after 1930.

New emerging institutions linked to financial activity then appeared, such as investment banks, exchange markets, commodity markets and the derivative products to finance this worldwide global process. In order to keep internationalizing the economy, certain institutional changes had to be made to preserve foreign investment currents, and Colombia's financial reform came as a response to world trade trends. This reform was the result of an emerging need attributable to the change in world model, reflected in constitutional reforms for financial sector functioning, that is, assimilation of the changes in the structure and functions of the Central Bank. [155]

The Board of Directors of the Bank of the Republic created for that purpose is now the new agency with faculties to design and manage financial, credit and exchange policy, independently of interests and powers that the national government once had in this matter. The Bank according to its new functions issued a new exchange regulating mechanism that states that the exchange market is free to determine its level, as international exchange will likewise be. The Board also liberalized investment of foreign financial capital and allowed laxity in private foreign debt contracts. Due to the above reforms, international financial institutions encouraged the adjustment of political and economic structures and all investment and influx of private capital was welcomed. The total amount of national currency and the stability of international exchange were

[155] Junguito Bonnet, Roberto.*La Independencia de la Banca Central en America Latina. Seminario Latinoamericano Sobre Crecimiento Económico.* Banco Mundial, Bogotá 1994.It suggests that recent literature establishes that a central bank will reach greater formal independence when the group of directors and the General Manager have a long term mandate.In general the interest rates tend to be freer and the exchange rate functions on sliding scales.

subject to keeping the total liquidity in circulation equal to international reserves, which guaranteed the stability of prices without causing concern over social problems and the allocation of scarce resources[156]. Or as they wished to do in the Mexican case, allowing the dollar to reevaluate up to the level of expected devaluation, increasing country risk[157].

Nowadays financing growth activities must to a large degree be directed at stimulating technological change within the productive system, be it through banking, investment banking, saving funds or individual private initiative. The possibilities of expanding this change are enormous, especially if it is taken into account that the amount of foreign lending has increased to US$ 5.3 trillion in 1997. International Bank loans represented 6.2% of fixed capital investment during the early sixties and in 1997 surpassed 130%. World institutional investors allocated via pension funds and insurance companies rise to nearly US$ 21 trillion.

Peripheral countries received from institutional investors nearly 10% of total assets. The derivative markets have grown very fast, where total transactions represent nearly US$ 30 trillion dollars. Foreign exchange transactions are the most dynamic market in the world with daily transactions of US$ 1.6 billions[158] (Ferrer, 1999, p. 529). The A.D.R. market for example in the U.S. which is a source for offering receipts backing sales of company stock in the region on the North American stock market financed more than one thousand five hundred companies, negotiating more than 50% of the shares of companies in emerging

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[156] Zaheler, Roberto. "Política Monetaria con Apertura de la Cuenta de Capitales." *Revista de la Cepal*.No. 48, December, 1992. This policy seeks to make the dollar reserve or the interest rate based on devaluation forecasts the "anchor" for the exchange rate.The danger of sudden liberalization is that a deficit can occur in the current account that is unsustainable in the middle term.

[157] See Stephany Griffith-Jones and Ana Masrr and Alicia Rodriguez in "El Retorno de Capital a América Latina." *Revista de Comercio Exterior*.Mexico.Jan.,1993, p. 43 and p. 46.The authors question whether the region and some countries can withstand much longer the disorderly influx of net amounts of capital.Many of them are new flows of short term speculation capital.They ask if these credits are not burdensome due to the conditions on expiration, costs, guarantees and risk by the investor; and due to the fact that they are not sufficiently productive investments to service the debt later on.

[158]See Aldo Ferrer. 1999. *"La Globalización, la Crisis Financiera y America Latina."* Comercio Exterior.México.June 1999. Pp 527-536.

countries.[159] With the awakening of the real economy in many countries, the financial market, as in Japan, in spite of its economic problems, continues sending more than US$ 140 billion abroad annually to invest in search of new opportunities to place its companies and its capital. The general level of global savings is high and becomes a world source of corporate equity and good for business to join the international financial arbitrage market. 2008 World Financial Crisis, shows higher figures that contributed to destabilize the dollar and euro markets.

6.3.2. Investment Banking and New Financing Instruments.

As markets open, as a consequence of globalization, the need arises to create a generalized financial and monetary order that responds to a legal order or line of thought similar to that of a global government. In this sense, currency plays a principal role in the orientation and rationalization of investment and consumption on a world-wide basis. Therefore, even though it may sound ambitious, Colombia, as many other countries, had opened up its economy to international finance capital that hurriedly sought new investment alternatives that would fulfill the minimum requirements of profitability and risk coverage. For this we need clear financial rules that can be applied across the board.

In order to internationalize the economy, certain institutional changes must be made otherwise foreign investment and international capital flows would not appear in the amounts the region's possibilities lay claim to. Colombia's financial reform, as in other countries in the Latin American region, was the result of these needs attributable to the change in model, which demanded constitutional and institutional reforms for its functioning that modified, among others, Central Bank[160] functions, and were complemented as in our case with an Exchange Law and Foreign Trade measures reform.

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[159] Business Week. September 19, 1994. p.41.

[160] Junguito Bonnet, Roberto. "La Independencia de la Banca Central en America Latina." *Seminario Latinoamericano Sobre Crecimiento Económico.* Banco Mundial, Bogotá 1994.It suggests that recent literature establishes that a central bank will reach greater formal independence when the group of directors and the General Manager have a long term mandate.In general the interest rates tend to be freer and the exchange rate functions on sliding scales.

Arguments such as those referred to are a disconcerting starting point in understanding how the possibilities that the Latin American continent has are immense for financing the process of accumulation of capital that is necessary to raise and sustain in the long run the level of growth. Financing activities must to a large degree be directed at stimulating technological change within the productive system, being through banking, investment banking, saving funds or individual private initiative. The possibilities of expanding this change are enormous, especially if it is taken into account that the derivatives market alone carries out annual transactions for more than US$ 30 trillion, that is several times more than the total value of all annual operations on the New York Stock Exchange[161]. The A.D.R. market in the U.S. which is a source for offering receipts backing sales of company stock in the region on the North American market financed more than one thousand five hundred companies, negotiating more than 50% of the shares of companies in emerging countries.[162] International investment banks such as Warburg and Duff & Phelps attempt to administer risk assets in the amount of US$50 billion.[163] The countries of Eastern Europe, conscious of this new phenomenon, are actively seeking US$500 billion in the capital markets to invest in the region. Companies, such as Renault, have gone out into the marketplace in search of US$100 billion for their expansion over the coming five years. The Mutual Funds industry can be found nourishing investment projects in many emerging markets. Around US$1.5 trillion is being channeled into the formation of portfolios with risk assets in international markets.[164] The evolution of world market retirement funds alone accounted for US$4.6 trillion in 1994, of which the United Kingdom has 25% of its portfolio invested abroad.

The interesting point in the analysis concerning this evidence is that growth in international investment runs parallel to world financial market integration. More interesting still, when we ask about the "Crisis in our Capital Accumulation Model" that demands bountiful resources to stimulate and sustain the rhythm of growth, we discover that for the health of the international financial model,

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[161] Time. April 11, 1994.

[162] Business Week. September 19, 1994. p.41.

[163] Business Week. February 6, 1995. p.50.

[164] Business Week. October 3, 1994. pp.42-45.

portfolios need to be diversified by countries, with Latin America as a still highly attractive market alternative[165]. If our leaders understand their historical destiny well, as an ideal that surpasses the dimensions of small interests, which now characterize our political workings, they will find a massive amount of liquidity in the US$10 trillion invested abroad by investment funds from the U.S., Japan and Great Britain[166] which is nothing less than an inexhaustible source of alternatives for structuring the region's technological change.

With the awakening of the real economy in many countries, the financial market, as in Japan, in spite of its economic problems continues sending more than US$ 140 billion abroad annually to invest in search of new opportunities to place its companies and its capital. This level of global savings is so high that it will even be good business to join the international financial market in order to enter into the intermediation business, and thus attempt to compete in the activity of professional and specialized financial market making within this colossal capital market. The following two chapters show that Colombia, as an important regional Latin American economy may be considered as a recipient of capital in the form of direct foreign investment, in order to improve competitiveness in the FTA with the United States free trade process. As a country framed by as many as one thousand regional municipalities or thirty-four domestic interdependent regions that have been growing at a very uneven pace, the growth tendency must be restored, especially in the poorer areas, so the country may in the future smoothly compete in the emerging global economy. In the last chapter of this dissertation we attempt to show that investment-banking proposals may be of a great help for local and national economies to obtain a steady stream of capital to accomplish sustained growth and compete in the context of globalization.

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[165] Odier, Patrik and Bruno Solnik. "Lessons for International Asset Allocation."*Financial Analyst Journal*.March April 1993, p. 63.

[166] "Investment Management."*The Economist*. November 27, 1993. p 6.

PART VII.

THE NATION-STATE TRANSFERS ITS SOVEREIGNTY TO NEW POLITICAL ACTORS.

Partial scope and Economic Complementation agreements were signed with 45 different countries, and of particular significance were the "Acta de Bogotá" held the 16th of august 1966 signed by the Presidents Carlos Lleras Restrepo, Eduardo Frei, Raúl Leoni and Galo Plaza proposal that ended with the Cartagena Agreement. In the last few years, widespread negotiations concluded with the signature of fourteen Free Trade Agreements signed recently by Colombia, names of which these institutions are included in the following footnote showing the diplomatic effort exercised by the country to facilitate access to remoter world markets," the FTA between United States and Colombia went into effect on May 15, 2012.[167]

[167] Comunidad Andina. Secretaría General. 1997. "*8 Años de Integración Andina. Un Recuento Histórico."* Lima. Comunidad Andina.

Since 2005 Colombia has signed 14 Free Trade Agreements with:

- Mercosur (Brasil, Argentina, Uruguay y Paraguay): 2005
- Chile: 2009
- Triángulo del Norte (El Salvador, Guatemala y Honduras): signed in 2010
- EFTA countries(Switzerland, Norwey, Island and Liechtenstein): 2011
- Canada: 2011
- Mexico: 2011
- United State: 2012
- Venezuela: 2012
- European Union: 2013
- Pacific Aliance (Alianza del Pacífico): 2013
- South Corea: 2013
- Costa Rica: 2013
- Panamá: 2013
- Israel: 2013

7.1. Democracy, Multilateralism and Trade Building Blocks.

Colombia and some other Latin American countries have delved imaginative ideas to strength democracy and reach competitively the world economy through opening its market to trade, commerce and investment. Liberating the price mechanism in the region allows national economies to compete in the world market. This global decision encourages low-priced products to reach world demand, and reassuring price reductions as a result of gradual improvements in technology innovation and particular regional countries competitiveness. In this chapter we mention the existence of characteristic staple goods in the agricultural sector where the local Colombian regions observed competitive improvement together with new products. This progress is also a direct consequence of selective gains in transformative capacity in manufacturing, while in the mining extractive activities this competitiveness gains is attributed to innovations in exploration practices.

In general, each Latin American country has developed its own competitive staple product following a long trend strategy to capitalize the modern sector export structure thanks to a set of policy actions oriented to gain efficiency and to take advantage of world changing demand for new foreign products. Competitiveness has been encouraged by reinvesting saving resources systematically in the new productive chains hoping that the exporting sector responds to widespread institutional and productive improvements. Therefore increasing exchange currents and inflows of locally produced goods between neighbor countries, allowed access of national production to regional and sub-regional markets and in this way the region gained a competitive advantage position.

The 1991's Summit political and trade Hemispheric Trade Round was so conceived, first as a geopolitical alternative to encourage in the Western World the end of militarism and dictatorships and to organize politically the democratic institutions that sustained citizenship electoral participation. And secondly, allowing different regional representative countries to compete with other advanced world markets, especially those of the European Community and with an important emerging nation like the Republic of China nowadays in the 2010's decade the second strategic market in value terms to Colombia hoping to increase and diversify trade and investment opportunities. This emerging geopolitical

view about the Hemisphere's competitiveness in the world market is considered a convenient strategic approach to democratize foreign affairs and is economically conceived as a viable solution to improve development and modernization in the short and medium term.

Some argue that the Obama's regime has a wider view about democracy in the Western Hemisphere where the discontent with neoliberalism exposed by some Latin American reformers traduces into a populist turnover intending to accomplish different political, economic and social reforms. However, liberalism and pluralism are political positions that equate sustainable economic growth and democratic development against equitable and improved social wellbeing that disregard growth as a fundamental objective. A discontent view was offered by some Latin American Leaders in recent 2015, VII Conferencia Latinoamericana y Caribeña de Ciencias - CLACSO held in Medellin.[168]

Despite these historical changes, the Political Multilateral Agreement responded as a viable arrangement to preserve democracy and institutionally to increase people's participation in communal activities. Trough social policies for some years the region expanded democratic participatory practices within the most Western Hemisphere. As an economic opportunity this ambitious democratic agenda intended to preserve and support market access and diversify free trade currents and help competition to follow after the entrance of India, China and other South East Asia countries into the fore of open world trade. Politically, regional social movements are considered as a suitable open space to increase investment currents in the benefit of the whole Latin American development. This model successfully implied wider development improvement as happened in China and other APEC countries following the example of Latin American where Import Substitution Industrialization strategy developed into export promotion, productive alternative that justified the experiment of state management and favor of growth especially when income terms of trade helped to improve region's competitiveness. At least this is what happened in the early South Korean export stage experience when the State governed trade policies to gain competitiveness.

[168] http://www.clacso.tv/vii_conferencia_clacso.php

The commercial practices adopted in the Hemisphere were commonly agreed on several World Trade Organization-WTO Rounds that favored freer access to world markets in goods and services and conceived to make the Free Trade Area of the Americas-FTAA a project of suitable geopolitical foresight if trade among economic blocks were negotiated among these geopolitical groups. The bilateral FTA's negotiations that followed after these rounds, as a second best foreign policy encouraged by open economies as the United States to let world trade to remain as an engine of growth with some of its loyal and strategic commercial partners. Within emerging regional agreements accorded at the local level the MERCOUSOUL settlement, the Andean Community, the PACIFIC TRADE ACCORD or "Alianza del Pacífico," and other political rounds followed after some other more socially conceived approaches to integration like the political initiatives of the UNASUR, ALBA and CELAC movements intended to combine trade with the advancement of social and political practices in their own political ground and apart from US influence.

Unforeseen political and economic effects are the decision taken to interrupt the emerging political possibility of integrating the whole continent into a single market after the suspension of the FTAA. This situation occurred, after the 4th Summit of the Americas that was held at Mar del Plata, on November 4–5, when some governments in 2005 declined to launch the full application of the commercial agreement although preserving some of the Summit principles at least until the Cartagena's 2012 and Panama's 2015 Summits brings new considerations to sustain Hemispheric democracy in the forthcoming future and brings into the fore of the discussion Cubans pretensions' as a renew member of the Hemispheric community[169]. Some discontent left-wing political leaders in

[169] Cartagena´s Summit Mandates are:

Mitigate the adverse effect of natural disasters.

Security issues in order to combat violence, corruption and transnational organized crime.

Infrastructure development by enhancing projects in order to establish hemisphere-wide road, rail, and electrical networks.

Information and communication technologies to be enhanced in the spheres of education, healthcare, innovation, entrepreneurship, productivity, competitiveness and the rise of micro, small, and medium-sized enterprises.

Eradicate poverty by "establishing inclusive social policies that foster decent, dignified, and productive employment will be the priority for the region."

Latin America agreed to encourage a delay or interruption of this geopolitical FTAA's trade liberalization process, expecting that economic and political practices adopted by its governments would bring equality, inclusion and economic development.

In subsequent chapter's sections we basically concentrate on showing some political advances made at different negotiation's stages that followed between region's democratically elected mandates after the proposed policies agreed in the Miami Summit in 1991 by President George Bush Senior and other Latin American democratically elected Presidents that took a liberal reformist view form in various Summits of the Americas. Following this trend of facts we explore along this exploratory work some other relevant aspects that lead to the change or transfer of sovereignty principles when traditional national-state agreeing on accepting multilateral trade rules as those in accordance with WTO trade and investment clauses, as those reached after the approval of the Uruguay and explored in the after Doha Rounds. Thus, in this study we assume that the political view that responds to letting freer state structures and development of institution amicable to trade and investment do help to strengthen democracy and growth.

7.1.1. Historical Development of Regionalism in the Americas.

Closer view to historical past allow us to observe how the Latin American region started to build a democratic structure after many years of militarism, dictatorship and all sorts of local "Caudillismos." In the Latin American Continent the good neighbor policy adopted by President Roosevelt after the World War II and above all the policy followed by his successor Harry Truman intended to extend the practice of democracy and later on deepen the development process to eliminate generalized poverty signals. These democratic policies together with Panamericanism implied after Truman's government novelties the rule of a new world order where the democratic and modern economic development programs accorded in the academic world would be adopted in the forthcoming years by many regional governments as studied by Robert A. Pakenham in his work *Liberal America*.

Truman's Point Four for example encouraged economic development, emerging policy regarded as a favorable condition to eliminate poverty and

support long-term democracy in the world. The emerging complex political conditions that were acknowledged by peace-loving nations on those years were oriented to dissipate total wars. Fewer numbers of Nation-States particularly in this American Hemisphere seriously followed the democratic approach to government and development although some few members of this political system aligned its political practices to the notion and exigencies of economic development, an emerging concept considered a suitable vehicle to increase economic growth and improve welfare gains in most different social stages as capital accumulation and social reforms gained momentum.[170]

When President John F. Kennedy, promoted assistance foreign law of 1961, known as the program of the "Alliance for Progress" it meant that change and development were matter of political decision. Title IX of the rule of law, collected

[170] See the work of Robert A. Pakenham. 1973. *Liberal America.* Princeton. Princeton University Press. In his work Liberal America is suggested that President Roosevelt, promoted the good neighbor policy in the Western hemisphere and laid the groundwork for progress in Europe the Marshall Plan for the physical reconstruction of the country destroyed by war. In 1949, Harry Truman proposed four guiding points for the foreign policy of the United States in the post-war. The first concerned the support to Nations United was essential for this purpose, second, advance the program of recovery in Europe, thirdly offer a military assistance program. The fourth point of referring to the benefits of scientific progress and industrial progress to underdeveloped areas of the world to say by Pakenham (1973: 43) in his work "Liberal America and the Third World." Point IV accorded to developing nations the possibility of modernizing institutional mechanisms aimed to raise the level of well-being of the population. Parallel to this continental proposal, European countries took a few political responsibilities overseas, using economic aid as a mechanism to support programs of economic development, particularly in its former colonies. Thus complied a political framework for structuring a new world for structuring a new world order, governed by democratic systems, that would fight with all the means at its disposal to eradicate the signs of poverty, a social illness reality considered as the main cause of World Wars. Preserve peace became a central concern to stabilize global growth, restore financial balance and spread the benefits of trade. The novelty of this strategy of international relations was put in a same political level as the principles of freedom. During the Cold War the United States combined with proposals for development policy and trade and the European Nations that abandoned its imperial destiny to the independence of its colonies, sought to collaborate with these economic principles. This time the strategy was based on financial aid and promoting tariff reduction and customs policies. The author Robert Packenham suggests that the United States led three types of policy aimed at promoting political development to justify programs of foreign aid for economic development in the countries of the third world. The effect of the first project was to allow Governments in the region and live with one economic policy in which the State supported the accumulation and growth and elimination of poverty-considered a deep war cause (1973: 109).

for the first time, a sense of the American Congress, which argued that economic development and political democracy does not necessarily coincide in time, but that model using and lent to other countries by the friendly Nations could shorten historical times and stabilize the democratic process. The Alliance for Progress, pursued through the development of social programs to stimulate growth and thanks to access to the land property would let peasants without land property to gain access to expropriated land after a program of agrarian reform, to eliminate poverty within the Hemisphere. The geopolitical and international financial aid initiative with social content, served as an argument to justify the strengthening of democracies on the continent. The scope given to Title IX allowed to support the role of political parties by improving the ability to include in the process of change to the mass voter; organize the Governments departmental and municipal; order the Courts to improve the administration of Justice; Constitutional Reform, issue Election Laws and enact the legislatures in Congress.

Based on the spread of the principles that supported economic development including land reform programs, the International Agency for Development - A.I.D., financed several oversaw programs of distribution of land and capitalization of companies, using as an institutional mechanism supporting external loans accompanied by counterparts form of local private savings. The relevant fact of this union between the political and the development was to discover that their relationship was not exactly linear, and that involving the civil society in the process, change, could deepen effecting real jumps towards the development.

Kennedy, the father of the Alliance for Progress, some decades later, delved more deeply into the concept of Democracy that he tied to International Aid as a means to accelerate development. Growth and social improvement was regarded as significant element to support representative government at a time when the Cold War atmosphere was somewhat asphyxiating. During his mandate, there was great concern over the advance of communism. So the A.I.D's Alliance for Progress carried out land distribution programs and plans to strengthen the economy, thinking that it could thereby guarantee a more favorable political climate in the Western Hemisphere to protect nation against subversion. The decade of the 90's brought a historical landmark, particularly as a consequence of the end of the Cold War. The economic growth cycle, integration and democracy

trend coincided with the fact that thirty-four nations on the continent had for the first time in the hemispheric history popularly elected democratic governments, where the issue of economic integration becomes after opening the economy a new determinant of development. Freer elections became a determinant of western hemisphere goal despite some countries delayed this proposal, being Cuba the excluded country due to its reticence to partisan elections and regulating Diplomatic relations with the United Sates, at least until December 2014 when these were restored. After this event much will be advanced about emerging geopolitics in the Hemisphere asf Cuba intends to return to democratically elected governments, becoming again a full member of the Organization of American States-OAS, as the adoped position shown in 2015 after the Obama government opened diplomatic realations with Cuba despite the U.S-Republican political fact that allowed it to control Congress, and how will react other South American democratic and left wing oriented movements like UNASUR, ALBA and CELAC support this diplomatic stance.

To add an emerging element to the theoretical effort to put together democracy with development, Samuel Huntington in an interesting book and journal article suggests that integration is a process that under favorable conditions relates to modernization. As such, the social concept of modernization is a consequence of the parallel political, social and development process. Therefore as modernization proceeds, the future social and industrial base widens and the urbanization process raises living standards. Education, health services and equal distribution of wealth improve as trade investment and technical changes accelerate.[171]

Gradually the peoples of the hemisphere observed how dictatorships lost its legitimacy so that thirty-four Nations at the beginning of the 1990's received the favor of the popular vote, what Samuel P. Huntigton (1991) collected in his work *"The Third Wave."* Democracy and trade are confuse in threads and frames of the same fabric, whereupon it was the advance of freedoms and are favoring a sustained exchange increase. In the year of 1989 when President Bush father spoke of the *"Enterprise for the American Iniciative-EAI"* and the scope of NAFTA institutional framework as it was part of a developing country program,

[171] Huntington, Samuel P. "The West: Unique, Not Universal." *Foreign Affairs*. November-December 1996. P. 29 and p. 43.

complemented the proposal to trade with that collected on the issues of investment, and aspects related to the external debt and other issues such as transport, access to groundwater and the mobility of people between borders were added as proposals of a political nature relating to the extension of democracy.[172]

In June 1990 President Bush launched the EAI, two weeks having agreed negotiating NAFTA with Mexico and Canada, recognizing that the region had many common problems as in the cases of foreign debt, unemployment, pollution of air and water. The social problem was to correct based on the help of the larger flows of capital and the fight against economic stagnation, with the political reforms that would contribute to the growth and development. Thanks to the adoption of tariff concessions as available under the GSP sought to favor the access of products of the region to the United States without any economic restriction except for the value added contain. Other aspects that were treated at the initiative of the Caribbean Basin were included in the fourteen treaties signed for the year of 1991. The importance that ascribed the EAI to the issue of external debt was complemented by the Brady Plan, which was projected to refinance the debt in particular headings of the AID, the import-export Bank and the old PL-480 program.

Common knowledge suggests that as integration and free trade extended, democracy consolidate leading to a modernization of the State system in different countries at least in theory. A closer look should be given, thus, to the successful example of NAFTA integration process as Mexico's rate of investment and improvement in the modern sector together with a more democratic and participant partisan practice has been a process that strengths after integration deepened. Huntington and other authors coincide and suggest how important it is to promote a political and economic alliance to consolidate democracy in the continent well to liberate the region from the reign of terror, guerrilla and drugs, or broadened Western Civilization coexistence if such a paradigm exists, and in some cases allow coexistence with fashionable left-wing view about integration.

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[172] Schott, Jefffrey J. 2001. *Prospects for Free Trade in the Americas*. Washington. Institute for International Economics. P. 9

Integration is thought a way to increase world security standards, and an alternative to share common institutional values if a conglomerate of a political or trade federation sharing a similar legal and institutional framework. Signing the Free Trade of the Americas-FTAA signified on those days and more recently with the approval of several regional US-FTA proposals the creation of an alternative mechanism that enables the hemispheric nations to face world trade competition, making of many group economies when open up to global trade, to follow a path dependent process leading to a self-reinforcing growth stage where economic emerging events leads the region to a process that starting with minor perturbation transform into a global competitive scenario:

…here minor initial perturbations are important for historical development, and has grafted this result on an accepted theory where there are a finite number of perfectly stable alternative states, and only one of which will continuously arise along a sustained path based on the particular initial conditions…that never settles down in any repeatable pattern[173]

From Unilateralism to Bilateralism.

Colombia as many other developing countries following these paths to sustain growth through economic and commercial integration schemes, has concentrated institutional efforts in different ways to create a legal framework that allows for integration of the productive sector into the international and global economy. The logical path followed has been to improve our degree of exposition to our neighboring countries, taking advantage of the diverse degree in which we can complement one another economically and put into open competition our import

[173] S. J. Liebowitz And Stephen E. Margolis. The Fable of the Keys. *Journal of Law & Economics*. Vol. XXXIII . April 1990. On the excerpt from the EH.RES forum on Path Dependence, the author's claims there are three limitations to chaos theory, where small events or perturbations do tend to cause the system to evolve in very different ways. And affirm that where the system never settles down in any repeatable path or fixed equilibrium is due to a path dependent process. The first form of limitation constitutes simple recognition that some things are durable, such as institutions and standards that transcend individual capital goods. A second thread of analysis examines the concept of network effect (externality), a related concept that is often considered a prerequisite for path dependence. The third strand has been the debunking of the empirical support often claimed for path dependence. These cases are the QWERTY typewriter keyboard, the VHS videorecorder, the DOS/Intel computer design.

substitution traditional Latin American manufacturing firms taking advantage of gained competitive capacity. Of course, with recognized democratic governments and friends' willing to negotiate and reach agreements of common interest to all, however it as has been observed by successive signed trade agreements at the bilateral and multilateral level the common wish to increase exchange as a common purpose. Relations with the United States, one of the dominating powers in the world, have developed much more around the general principles involving hemispheric security and the question of drugs in development of the international law known as the General Systems of Preferences-GSP, the Mixed Trade Commissions-TIC and finally the Free Trade Agreements that govern bilateral relationship, while finally the FTA between United States and Colombia that went into effect on May 15th, 2012 is showing substantial improvement in bilateral trade exchange.

It is true that an effort has been made to frame them within the criteria of general preferences, such as the United States at one time offered the Caribbean countries known as the Caribbean Basin Iniciative-C.B.I. And later on they took advantage of punctual initiatives such as those emanating from the Law on Andean Tariff Preferences, known as the A.T.P.A; The Bilateral Trade Agenda discussed within the Commission on Investment and Trade T.I.C.; and the signing of a Bilateral Investment Treaty-BIT, as prior steps to achieving more general proposals farther down the road that concluded with the FTA-Colombia-USA after the mentioned delay of the Free Trade Agreement known as FTAA as occurred in Mar del Plata process that was interrupted after the 4th Summit of the Americas in the year 2005.

The multilateral legal order endorsed by the U.S. has experience great change, due to the breadth of the Agenda agreed to in 1994 at the Miami Summit which includes among other elements the consolidation of the democratic process and the formation of the Free Trade Agreement for the Americas-FTAA, which was intended to be negotiated by thirty-four countries of the hemisphere. Despite this emerging historical complications previously noted, it is important to point out that the United States have pushed for a special policy to combat the production of hallucinogens in which four Andean countries were to be given extensive tariff benefits to the degree according to the principles established on the A.T.P.A. and A.T.P.A-D.E.A., unilateral US government disposals considered as important

initial condition for growth. In the year 2013, we heard official government voices indicating that marijuana and other addictive drugs consumption should be de-penalized idea that suggests that the Andean eradication program failed or was not successful to combat drug production.[174] Still legalizing marijuana for medical pursues lives open the door for criminal activities around this so called world "recreational" market.

This geopolitical commitment that is known as the A.T.P.A. can be said was the most ambitious exemption that has been unilaterally granted to our country in the commercial area before the signature of the FTA, unilateral act later complemented by the Drug Enforcement Authority under the conditions to drugs production and eradication plans to be fulfilled. The T.I.C. or Trade and Investment Commission became another meaningful element in the previous Bilateral Agenda sustained between Colombia and the United States in the late nineties and earlier XXIth century, in which a complete review was done annually on commercial and investment matters affecting the two countries. This Commission studied trade problems concerning a set of products that have specific management shortcomings related to fulfillment of the existing regulations in the area of bilateral trade or rules agreed to in multilateral rounds. Plan Colombia delved first by President Clinton and Bush, and later complemented by President Obama attempts discouraging development in coca producing areas and curtails by modern intelligence practices and air transported troops the advance of guerrilla so much engaged in narco-traffic illegal business. Peace guerrilla process in Colombia has not responded yet the legalization of revenues of this multimillionaire business where guerrillas and other illegal gangs trade in this commodity and launder their money criminal rewards.

In furtherance of the multilateral agenda, the FTAA or Free Trade Agreement for the Americas was included on the regional agenda, promoting a considerable set of initiatives with geopolitical repercussions. This Agenda together with the Summit political principles marked the expected future of our hemispheric political relations, due to its variety and social content. This last initiative has been complemented in six successive Summits of the Americas celebrated in various

[174] Most of the referred material presented in this part of the chapter corresponds to government unofficial transcripts and FTAA discussion papers prior to the Santiago Summit in 1998.

cities including two especial ones to discuss about poverty and sustainable development. The one held in Cartagena in April 2012, where political aspects of which we advance ahead in this chapter are complemented with the 2015 Panama's round.

The enlarged Summit Agenda for Hemispheric Integration was based ever since its conception on the preservation of democracy on the continent, including hemispheric security issues, such as the struggle against drug trafficking, money laundering and arms trafficking and concluding with other particular topics such as the adoption of criteria related to the improvement of welfare in the social sphere. Specific social proposals were also made, such as improvement in education and health services; adoption of consensual orientation in economic matters; and signing of agreements and mandates of widespread application in relation to trade and investment in each one of the countries.

There has been a series of Ministerial and Vice-Ministerial meetings and encounters in different cities, prior to which the private sector has been especially active. Of particular noteworthiness have been the meetings in Cartagena, Bello Horizonte and San Jose de Costa Rica. At these encounters, the general guidelines for what will be the negotiation agenda were proposed. The second Summit was held in May 1998 in Santiago de Chile, in which an important social agenda was established, but also the formal initiation of a round of FTAA negotiations.

Once the mandates accepted at the presidential summit in Santiago on topics where "Single Undertaking" negotiation tactic oriented the general development of the FTAA that would take effect, whose horizon of commercial negotiations among Agreement signatory countries were promising during the initial period, and broaden later on. Within the general framework of negotiation we have what will be the new mandates that include such important topics as: access to markets, customs procedures, investment, and rules on origin, phytosanitary measures, subsidies and compensatory measures, state acquisitions, property rights, services, competition policies and small economies. This last element is considered a possible factor in promoting convergence at the negotiation tables in the sense that it sheds some light on the question of asymmetric development that was so ever present at the numerous previous rounds in Santiago.

The fundamental point of this emerging political agenda is the Americas try to form the largest trade bloc in the world, expressed in geographic terms and gross

product, initiative that obviously generated political detractors in several walks of life especially after some South American countries thought they had the acumen to become world leaders in a new "regional and political alliance" to promote a social and critical integration process.

Trade prospects that were ambitious especially after NAFTA's developments suggested new possibilities for direct investment increase in the Latin American region. Political proposals were also of incalculable global dimensions and projection, given the fact that preservation and development of democracy becomes the pivotal point of all the negotiations in most countries in the Hemisphere, even under XXIst century socialism assumptions where freer elections are seriously jeopardized by voting intrusion and undermining welfare assumptions.

This global political and trading initiative for the Americas is of such magnitude and scope that this negotiation cannot be limited to a few officials or countries leaders with a restricted perspective of what means a global market made of open economies and freer trading areas. Petit politics as we saw with the Socialism Sao Paulo's view of XXIst developments worries for short sight view about integrating to world economy. Some political leaders suggested it was necessary to move ahead with deep structural reforms of state apparatus in order to strategically face this historical path dependent commitment, as the paradigm habitually employed to manage integration processes on a sub-regional scale. Sao Paulo Populist proposals or "Foro de San Pablo" after the retirement of Venezuela, Bolivia and Ecuador of formal FTAA negotiations, faced a precarious economic theoretical framework to multiply trade currents and conclude a byproduct and sector diversification of the economy to sustain long term social development goals.

Changes in the Global Trade Environment.

None withstanding, the creation of a building block mechanism that has been a consequence of the development of capitalism as suggested by analysts like Maddison, Krugman, Waters, Williamson, O'Rourke and Hirst to mention few of them has become fashionable. We see that traditional or liberal trading rules have governed trade enlargement production and the distribution that now follows after the gravitational approach to trade better explains exchange both of parts

and selective inputs obtained from multiple foreign market sources within countries with complementary stages of development. New global world trade rules explain better the effect of emerging conditions to improve global convergence of some less advanced free markets in comparison with those more advanced[175].

Here diverse inputs and intermediate goods interchangeably supplement world production of more complex advanced technological goods. Innovation activities within firms become a constant determinant to long run sustainable growth of world supply chain. The irruption of new knowledge technology and innovative practices has accelerated the pattern of economic globalization. In the interim, the theory of Building Block and regional integration has become an intermediate or convergent approach to world free trade where some temporary rules allow the state to intervene in the economy.

In this competitive environment a country like Colombia is experiencing growing rivalry within the globalized market of business and trade, as well as a substantial dispute for fresh financial resources to attend investment needs. The principal challenge for countries with a similar degree of development to ours is to adapt their economies to the raising middle class demands within those

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[175] Axford, Barrie. 1996. *The Global System. Economics, Politics and Culture.* Polity Press. Cambridge University Press. Cambridge. Dunning, John H. 1999. *Governments, Globalization, and Internacional Business*. Oxford University Press. Oxford. Paul y Grahame Thomson. 1998. *Globalization In Question*. Polity Press. Cambridge.Kenwood, A.G. and Lougheed. A.L. 1973 y 2000. *The Growth of the International Economy. 1820-1990*. George Allen & Unwin. London. Keohane, Robert. 1998. "International Institutions: Can Interdependence Work" . *Foreign Policy*. Spring. Special Edition. Frontiers of Knowledge Pp.82-96. O´Rourke, Kevin H. "Globalization an Inequality: Historical Trends." CEPR y NBER. April 2001. O´Rourke, Kevin H. "When did Globalization Begin?" Working Paper 7632. NBER. April 2000. O´Rourke, Kevin H. y Jeffrey G. Williamson. 1999, *Globalization and History. The Evolution of a 19th century Atlantic Economies*. Massachusetts Institute of Technology. Págs. 41-54. Ocampo, José Antonio. 2002. *Globalización y Desarrollo*. Documento LC/G.2157(SES.29/3). Vigésimo noveno período de Sesiones.Brasilia. Mayo 6 al 10. CEPAL. Santiago de Chile. Polanyi Levitt, Kari. "The Transformation of the World System: Some Insights from the Work of Karl Polanyi." Inaugural Lecture. International Conference on Development and Regionalism. Karl Polanyi's Ideas and the Contemporary World System Transformation. November 5-6, 2004. Budapest. Schwartz, Herman M. 2000. *States vs Markets. The Emergence of a Global Economy*. St Martin's Press. New York. Strange, Susan. 1988. *States and Markets*. Pinter. Londres. Taylor, Alan M. 2002. "Globalization, Trade and Development: some Lessons From History" NBER Working Papers Series. Working Paper 9326. htpp://www.nber.org/papers/w9326. Waters, Malcolm. 1995. *Globalization*. Routledge. Londres.

markets, and in the process of which they must consolidate appreciable competitive advantage where further investments must be realized both in the basic infrastructure and in industry capital intensive goods. Within the sphere of international business, policies must be urgently designed to ensure advantageous strategic positions in order to make a particular country an attractive center for business and modern investment in technology and sciences.

Two policy lines next must be followed to achieve this end. First, the microeconomic discussion heard in recent years about sustainable growth that follow the theoretical orientation of authors like Krugman, Lucas, Barro and Romer, which leads political economy towards innovation and economies of scale creation along agglomeration of industries in determine geographical spot that invigorate the strategic importance of innovative practices in regions and global cities. In the new microeconomic theory it is said that geographical location as suggested by Krugman and articulation of production chains as proposed by the author Michael Porter, helps the creation of value circumstance that explain endogenous growth thanks to innovative firms action to accumulate. Secondly, the macroeconomic discussion indicates in turn that the important thing is to establish conditions to achieve a degree of stability that will allow markets to allocate efficiently scarce resources. In this double helix economic forces the main premise for the speed of convergence of growth to be greater than that of more advanced countries is possibly fulfilled if right investment is promoted.

7.1.2. Trade and the Transforming Model of Democracy.

This section proclaims that the trade and investment agenda must be fostered by strengthening democratic principles as a first initial condition to enlarging the Hemisphere to one global political union. To clarify what is meant by democracy in the post-world war view, let's remember that it was the result of a long process and deep discussion by diplomats, politicians and development strategists, as well as by the believers in trade as spreaders of progress throughout various U.S. administrations. They discussed the fact that democracy on the continent is seen as a formula to guarantee human rights and safeguard cultural diversity and pluralism. O'Donnell in his work on "*Another Institutionalization*" (1996, p.7) indicated that the way to modernization of the State, has a degree of sacrifice, because it includes the difficulty of preserving democracy. Preserving it is

sometimes painful because it implies conceiving of institutional and control mechanisms that will allow public authorities to be elected in representation of the primary constituency, as it is expressed in Colombia with greater strength than in other more populist regimes.

And that it is easier to ensure free elections when said authorities are inclusive and allow for peoples representation in collegiate forces. Here is where universal suffrage, access to public positions, freedom of expression and information are the benchmarks of the creation of an active hemispheric infrastructure, in which governmental cooperation with civil society is active and complementary. In general the topic of democracy and development as seen at the Miami Summit associates these topics around the theme of trade and investment; subject that is not really a new one. Since the end of World War II, there has been a vigorous discussion of whether it is democracy that generates development, or it is development that leads to democracy. The economic aid previously offered to nations through long term policies, such as the Alliance for Progress and the Marshall Plan supposed that under them there would be greater growth possibilities.

These policies adopted first by President Roosevelt, when he formulated the proposed Marshall Plan and then by those of his successor like Harry Truman, who developed what was called Point Four Plan, showed that the theory of democracy was enriched by the unquestionable stability brought to Europe's restored democracies by economic development. Thanks to this theoretical political view efforts to coordinate and support the economic and political principles, translate in more democracy, principle that was significantly sustained and disseminated in many parts of the world. Doctrines like putting property at the disposition of the productive function and that political stability and access to the urns were guaranteed by the degree of the population's welfare, stimulated support for political reforms adopted in several countries. Later on it was President Kennedy who pushed the Alliance for Progress, trying by any means possible to find the common tie between democracy and international aid for development.

The A.I.D. as a ruling institution of these liberal principles helped promote development programs associated with the strategy of land distribution and improvement in productivity in the countryside, as well as stimulating growth of

entrepreneurial activity through policies of state intervention to grant credit. Authors such as David Held (1995) point out the way democracy has advanced to incorporate determinants based on the occurrence of international phenomena. He shows that in general terms there are some fractures in the democratic system as a consequence of the globalization of relations. Interpreting this view we find some eventual fractures in the national model as seen below.

The Complexity of the Global Emerging Democratic Process.

One important aspect of Colombia's foreign policy is the evolution of its international agenda over the years. Its historical evolution has been marked in many cases by the impact of events rather than the implementation of rigorous theories. It is certain that many diplomatic actions taken by the United States have marked the scenario of national life, and from the last century until today there have been many issues forming part of the bilateral framework, which has evolved along paths that go from the development of political commitments such as consolidation of the republic to very concrete points such as our global trade relations.

Table No. 1.

USA Latin America Diplomatic Turning Points.

1. Two Century's diplomacy	During the past century, the political and military presence and preeminence of the country to the north was the visible sign of its exercise of power. The U.S.'s central concerns were limited to the development of cultural, ideological, economic and political aspects.
1. **Bilateralism.**	The topic of bilateralism was aimed at the development of trade and it was found that diplomatic relations were constrained by a strategic and geopolitical obstacle which was finding a solution to the difficult access to the Panama Isthmus in order to build a canal there.
2. **Multilateral Frame**	Within the multilateral frame, the United States was ready to avoid the presence of European powers in the sub-continent, having insisted on the importance of respecting the sovereignty of Latin American nations as a condition to preserving world peace, subject which historically represents aspects of the Monroe Doctrine, now officially finished according to Secretary of Defense Kerry's declaration in 2013.

3. **Bilateral Agenda**	With respect to the non-negotiable topics on the bilateral agenda, the benefits of promoting foreign private investment were demonstrated and insisted upon, conserving the validity of the political institutions.
5. Panama Canal Reparation	The early 20th century was characterized by the discussion of territorial topics, such as the loss of the Panama Canal, and later the reparations for $25 million dollars agreed to in the Urrutia-Thomson Treaty. Since then the imbalance in power relations exercised by the United States has been observable with its strong influence on the development of domestic policies and economics, so eloquently expressed in Marco Fidel Suarez literary work entitled "Luciano Pulgar's Dreams." During the beginnings of the decade of the 20s there was an increase in foreign investment, especially the development of the railroad lines and other public works, such as roadways, oil exploration and the banana industry. Many of these works were benefited by resources from international reparations, including the millions of dollar's representing the Panama payment and the flow fresh foreign currency loans to finance municipalities, departments and the nation. Between the years of 1920-1945, economic nationalism was practiced, reflected in the management of the oil resources and in foreign investment policies, characterized by a low level of tax collection for the public treasury. Foreign investment was concentrated particularly in the exploitation of raw materials, such as banana, oil, gold and tobacco. The political and commercial influence of the United States as of 1934 exceeded the influence of British investment in the development of business.
6. Good Neighbor	Following World War II, Roosevelt and Truman expanded his Good Neighbor Policy, activating a kind of tutelage over the continent through the Pan American system, and combining bilateral actions in general, with multilateral decisions that were stimulated through institutions such as the UN and multilateral development assistance and credit organizations like Cepal, World Bank and the IMF.
7. Cold War	The Cold War Period which began under President Truman's government was characterized by support to Europe through the Marshall Plan and by a strong anti-communist position, especially in Europe and the Pacific.

8. Cuba and the Cold War.	In the 60s, the conflict with Cuba can be seen as the conflictive part of the hemispheric agenda with the United States. The proposal to carry out military action in that country ended with the Missile Crisis, but the fear of a confrontation with Russia, led to an embargo ultimately expressed as the Helms-Burton Law that we all know. In December 2014 after the mediation of the Vatican and the Government of Canada bilateral relation were restored.
9. Alliance for Progress	The Alliance for Progress initiated by Kennedy at Punta del Este in 1961 attempted to sweep the continent with development and democracy. Policies aimed at promoting agrarian reform, supporting state intervention in the management of the economy, directing foreign credit through rediscount policies for production, stimulating improvement and coverage in education and supporting wherever possible the dissemination of democracy. On this last point there were a lot of exceptions with the support for "caudillos," populism and military regimes.
10. Drug Trafficking.	Between the decade of the seventies and the nineties, a characteristic note of North American foreign policy was the effort to propitiate a distension of relations in Europe and the continent, including the topic of drug trafficking as part of the hemispheric agenda. There was support for the governments that found them facing a well-financed guerrilla force with activities related to drug trafficking. Finally they admitted that drugs were a danger on the streets of American cities, and that their effects were striking a blow to schools and youth. Santos government with the help of the American Embassy in Bogotá followed la Habana negotiations with the FARC to reach a Peace Process.
11. Dollar and Euro Crisis.	The 2008-2013's Lehman Brothers ruin and the Greece economic default few years later characterized the subprime dollar financial crunch and the emerging euro crisis events that mark the initiation of a historical global financial crisis affecting trade and investment currents in Latin America and in the world.

The Miami 1991's Summit establishes as a condition for development, integration, the expansion of trade and stimulus to foreign investment where democracy becomes the political guide for the region's involvement. Principles,

such as the dissemination of international justice and moral conduct in international relations have become essential to widely understood democracy changing national regional international politics (Brown; 1997, p.283). Likewise, the general principle of the international distribution of justice has found an important space within international political theory.

That is why some of Rawls' ideas on international relations can be included in the discussion in an attempt to satisfy and understand the needs of the third world, when development and the elimination of poverty are in the focus of politics. One question to answer is the establishment of institutional procedures to advance toward the goal of international justice or preserving human rights. The topic becomes more complex in the practice when the international project involves intentions to reconcile the rule of sovereignty with other rules such as the extending and observing principles associated with respect for these human rights, together with promoting social justice and due process, and at the same time be compatible with the principle of sovereignty of the state. We must recognize the contradiction existing between sovereign states associated with attending to the elementary demands of social justice, principles that Rawls considers to be inapplicable internationally, due to the fact that it is necessary to conciliate equality in the right to self-determination and the right to self-defense, excluding from this framework the intervention of other nations, above all in domestic problems (1971, p. 378).

Held (1995) and other important authors point out the complexity of the topic of democracy within a global context, by showing that there are notable fractures in the process when various Nation-States are involved or intertwined in a common global process. In this hemispheric dream we have to face how:

1.In international law, individuals, governments and non-governmental organizations are subject to new regulations that go beyond the demands of each individual Nation-State.For example, the sovereignty of the State has extended or even transferred with these global models and organizations to control over natural resources and biodiversity.

2.A second fracture between the theory of the sovereign state and the global system comes from the large number of international regimes and organizations. They now manage trade, money and financial institutions, the oceans, space, etc.

3.The third fracture involves the idea of the State as a strategic military actor that develops the global system of states subject to the tutelage of a great power that limits the authority and integrity of the state itself. This is the case of NATO and the Reciprocal Assistance Treaty. We can see how Trade and Investment Commission-TIC, ALBA, CELAC and UNASUR intend becoming legitimating treaties that are practically across the board negotiations to bring new parties and subject into the discussion.

4.Globalization and the hemispheric agreements affect national identity, which in many cases takes years and bloody battles to consolidate. This means moving on to world history without having gone through national history.

5.A fifth fracture occurs between the authority of the Nation-State and the global or hemispheric system or production, distribution and exchange. We are in the midst of an empire of multinational companies that internationalize production and financial transactions according to some international rules. Information technology ensures transactions and movement between economic units, such as money, shares and futures. As we have seen in Asia, Mexico or Colombia, speculative movements of currency affect domestic economic policies and attempt monetary sovereignty.[176]

The foregoing discussion is interesting and disquieting, when we take into account that to sustain democracy is an even more complex process than arriving and supporting enduring democracy. Some of the requirements to sustain long term democratic process can be expressed as follows:

- First, there must be a consensus as to liberal style politics.
- A balance must be struck between stability and efficiency.
- The quality of democracy must be improved, preserving the guiding principles of freedom, justice, equality, representation and participation.
- For elections to be credible there must be some form of accountability to increase participation, representativeness and the rule of law.
- The latter point requires strengthening the national and international legal system in order to guarantee the equality of citizens before the law and respect for their individual rights. However, democratically elected governments face the danger of becoming an eventual dictatorship.

[176] Held, David.*Democracy and the Global Order* Stanford University Press. Stanford. 1995.

- As we have observed, the preservation of human rights implies the elimination of tortures, avoidance of impunity, granting of minimum guarantees to the population, elimination of injustice, ending private justice, etc.

In order to put an end to the climate of violence and civil war common in Colombia, or the effect of extremist and radical views unveil of democracy in other latitudes, some ambitious goals must be attained first in the area of politics, economics and global governance. This means to achieve socio-economic development, protect human rights henceforth, subordinate military authority to civil authority, and severely punish corruption and terrorism and the dishonesty than in some cases invade national system of distributive justice.[177]

7.1.3. Strategic Considerations about New Economic Integration facing Global Markets.

The theorems of globalization incorporate new elements that have repercussions on the stability of the democratic model and the evolution of trade, to the degree that the dividing line between the bilateral sphere of negotiations and the multilateral one tends to become less diffuse, subjective and a question of personal opinion to be converted rather into a rational approach to gain political integration and participant of world competitiveness. In international negotiations, globalization becomes the aspect that determines the greatest changes in the national and local economies, due to the variety of agents and possibilities that the productive process confronts. For this reason it is now possible to include this topic on the overall agenda of any country's negotiation at the multilateral level.

Authors, such as Bhagwati, propose from their academic stance that the TLCs are a sub-optimum trade initiative because they tend to divert trade instead of generating it and for this reason the possibilities of attracting and generating new competitive investment can hardly result in substantial increase of volumes of trade. This author states that having to acquire more costly goods from a nearby economic bloc its implication is a direct and deliberate deterioration of welfare

[177] See: Christian Reus-Smith and Duncan Snidal. 2010. *The Oxford Handbook of International Relations.* Oxford. Oxford University Press, p.604.

and the effect also is trade diversion instead of trade creation.[178] Other international analysts such as Bergsten a commented on author writing about topics of international economic relations, suggests that certain judgmental views on what they consider possible opportunities and threats that arise when one operates first in a limited system of trade, and second in a formed by the "block building" may organize exchange under the rules established by the World Trade Organization on free trade of goods, services and investment[179].

This open institutional setup which is the most general possible alternative tends to better allocate the benefits of free trade and maximize welfare throughout the world theoretical argument based on some very complex conditions required by the new general contract. Mexico, in the face of a great opportunity to become part of a trade system through the formation of NAFTA, and foreseeing the opportunities and threats presented by that model preferred to run the risks and take advantage of it to attempt to accelerate their level of trade and receive significant capital investment oriented many investing opportunities to strength knowledge economy. Mexico obviously did not reach this decision out of the blue, but because it had the vision to form a high level negotiating team as a broad spectrum strategic measure, as a prior step to negotiation. It gathered an interdisciplinary team in Washington and this team progressively reached significant levels of understanding of the topic of integration, basing themselves on multipurpose bids. Overcoming natural conceptual resistance, explicable in terms of its proximity and historical memory of its relations with the United States, it attempted to take refuge in the rigorous logic of capitalism and concrete practices in research and development. Thus, prior to negotiating NAFTA, and with the cooperation of this team, it developed its negotiation strategy and with the support of the forum of researchers and discussion in universities, explored and became knowledgeable with the access to its markets in precise terms before moving ahead with the various steps that preceded signing of NAFTA.[180]

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[178] Bhagwati, Jagdish. "Fast Track to Nowhere." *The Economist.* October 18,1997 p. 22.

[179]Bergsten, Fred. 1997. "American Politics Global Trade." *The Economist.* September 27 1997. p. 23-26. And Bhagwati, Jagdish. "Fast Track to Nowhere." *The Economist.* October 18 1997. pp.21-23.

[180] Blanco Mendoza, Herminio. 1994. *Las Negociaciones Comerciales de México con el Mundo.*Fondo de Cultura Económica. México. P.161.

Globalization as a geopolitical phenomenon is related to modernization and the development and diffusion of capitalism and the expansion of knowledge. It becomes a theoretical element and for this reason requires study and analysis to improve understanding, and since it is a determinant of development it is especially useful to give transfer knowledge to policy makers and businessmen. It manifests itself this occurrence as a post-industrial phenomenon that contributes to modifying power relations in the world at large, especially in the three spheres of the geo-political and social structure.

First, in the geo-political aspect because it affects the way that power is distributed among the different agents or even states, establishing new conditions for negotiation in the management of decisions and because it introduces unknown patterns of control and coercion by the state, or affecting relations with other nations making this space less anarchic. Diplomacy and public administration depend more now than before on the political view of things that contribute to development. The new geopolitical order requires greater control over population movements and immigration, territory and resources defense, since in the global context and on larger trade blocs, the demand and borders movement for productive factors is now very great and politically conflicting especially at the borders level. Second, in the cultural and social aspect because the structure of production needed to compete within an open atmosphere that requires a new collective contract, with symbols, beliefs, preferences, likes and differentiated values.

Their incorporation into the international political realm requires profound institutional reforms. Now, in the globalized world, and the world of large trading and integration blocs of different political perception, the exchange of goods stimulated by a diversity of agents modifies the social relations among producers and consumers and between regional blocs and political alliances celebrated among countries and local political parties. Likes and tastes and labor tend to concentrate among persons and cultures distribute themselves differently, as do capital and inputs. The exchange of goods is carried out between localized markets and the transportation to sites at a distance is left to specialized intermediaries, with continually decreasing mobilization costs for these goods. Thirdly, in economic terms, because it has repercussions on the structure of the country agreements especially in the field of world production, and other deals

affecting trade relations, leading to a different pattern of distribution and consumption of goods.

The sovereign territory finds its limits at its borders, for which reason international relations are now more complex and require the application of professionals in the art of diplomacy and trade relations for their proper understanding and discrete application. Trade barriers become blurry with the exchange of symbols, thereby freeing referential spaces. In this historical process of globalization, the political and social symbols are reproduced at almost no cost and transferred with ease and so in goods intensive in technology and specialized knowledge.

A particular vision so developed is that of the well-known author Lester Thurow (1995), who with a businessman's perspective on the issue suggests that the model of blocs is neither optimal nor realistic when ideological precepts are in conflict. Argues instead that because with the generalization of modernization schemes, "any product can be made in any part of the world and likewise be sold everywhere… and manufacture at the same time each component and develop each activity in the distance place where it may be cheaper to produce… and sell it exactly where the profits are greater." This conclusion is one way of interpreting how the development of trade would be subject to the dynamics of the large globalized markets, where high tariffs and non-tariff barriers on trade would become a thing of the past. Therefore the emerging issue is that both globalization and larger trading areas become a part of a convergent world-system subject to respecting adopted institutions to resolve controversies.

From the foregoing reasoning, we can see that globalization represents the formation of a unified economy, the dynamics of which move beyond the interaction between states and their domestic economies. Technological innovation and property rights to knowledge become the agents of the diffusion of power, used now by states and enterprises that enter the stage of international context. The global strategy becomes the use of production and its financing, according to managerial propositions based on the application of planning, design, production and distribution schemes on a whole earth scale. Globalization can be understood as a market where financial transactions occur without limitation on amount or currency and where operations take place for the fostering of world production. Attending to this new market requires the

possibility of undertaking transactions in different currencies and types of credit arrangements, as well as the structuring of sophisticated operations, that make investment a professional exercise for administering capital investment and encouraging systematic risk investment. The general business atmosphere requires the extension of bank and financial corporation networks for its adequate functioning that also operate in an unregulated market at the same time, in which international transactions for more than $1 trillion a day can be handled, figure which is equivalent to doing operations fifty times greater than the total trade of goods exchanged in the world[181].

7.1.4. Multilateralism and Bilateralism in the 1990's

Free trade treaties are inspired on the theoretical principle of comparative advantage and the endowment of productive factors, where the distribution of profit is equitable and the full use of factors leads to maximization of production and welfare. Following World War II, suppositions such as these inspired the expansion of trade around the world without either tariff or quota restrictions. The adoption of the most favored nation clause became the basis or institutional foundation of the treaties or agreements that gave rise to the GATT and in this decade the World Trade Organization—WTO.[182] This fundamental principle has been respected and it is for this reason that agreements, whether they are for free trade zones, customs unions or economic unions are nothing more than particular variations of the principle of the most favored nation clause. In theory, the trade agreements propose to generate new or at least greater flows of trade. However, not always is more trade created, nor is the businessman inspiring to enter into the production of new competitive products on a world scale, nor are competitive scenarios guaranteed. Neither is it evident that important flows of capital are incorporated into a country's productive process.

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[181]Breteherton, Charlotte and Geoffrey Ponton. 1996. *Global Politics.* Blackwell Publisher. P.7. Globalization tends to rapidly and permanently change the international agenda since it incorporates new elements such as the topic of international security and peace, economic relations, development of poor countries and poverty, protection of the environment, protection of democracy, defense of human rights, women's rights, among others.

[182] Any access granted to a country by agreement must be extended to all those nations that are members of a regional trade treaty.

The Crisis of 1930 and the suspension of trade during World War II brought about a huge and generalized shut down of markets through the introduction of high tariffs and the establishment of severe import quotas. Since the creation of the GATT in 1947, seven multilateral rounds have been negotiated with extensive decreases in tariffs and there have been all types of efforts to eliminate quotas or limit quantitative restrictions on commerce including those formulas after the fourth meeting of the WTO's topmost decision-making body like the Doha trade talk where several topics are under negotiations since 2001.[183] Tariffs reached an average of 100% in advanced countries during the most critical phase of protectionism. In 1993, this tariff average was only 5%. It is estimated that by eliminating this obstacle to trade and thanks to greater interest in exporting in the entire world, trade grew considerably in real terms, reaching figures greater than US$1.9 trillion after the Uruguay Round.

In 1979, after the famous Tokyo Round, the less developed countries were allowed to adhere to the clauses of Article XXIV, which facilitated the formation of regional trade agreements for these countries.[184] In Latin America, there were agreements such as the ANDEAN GROUP, MERCOSUR, NAFTA, G3 and some bilateral ones, for example, between Chile and Mexico or Chile and Colombia. The United States negotiated thirty-one bilateral treaties with Latin America extended to FTA's with Colombia, Chile and Central America.

Nevertheless, the most common criticism of this rash of treaties and agreements is that trade might grow more through the effects of the most favored nation clause than with the institutionalization of regional agreements. In the

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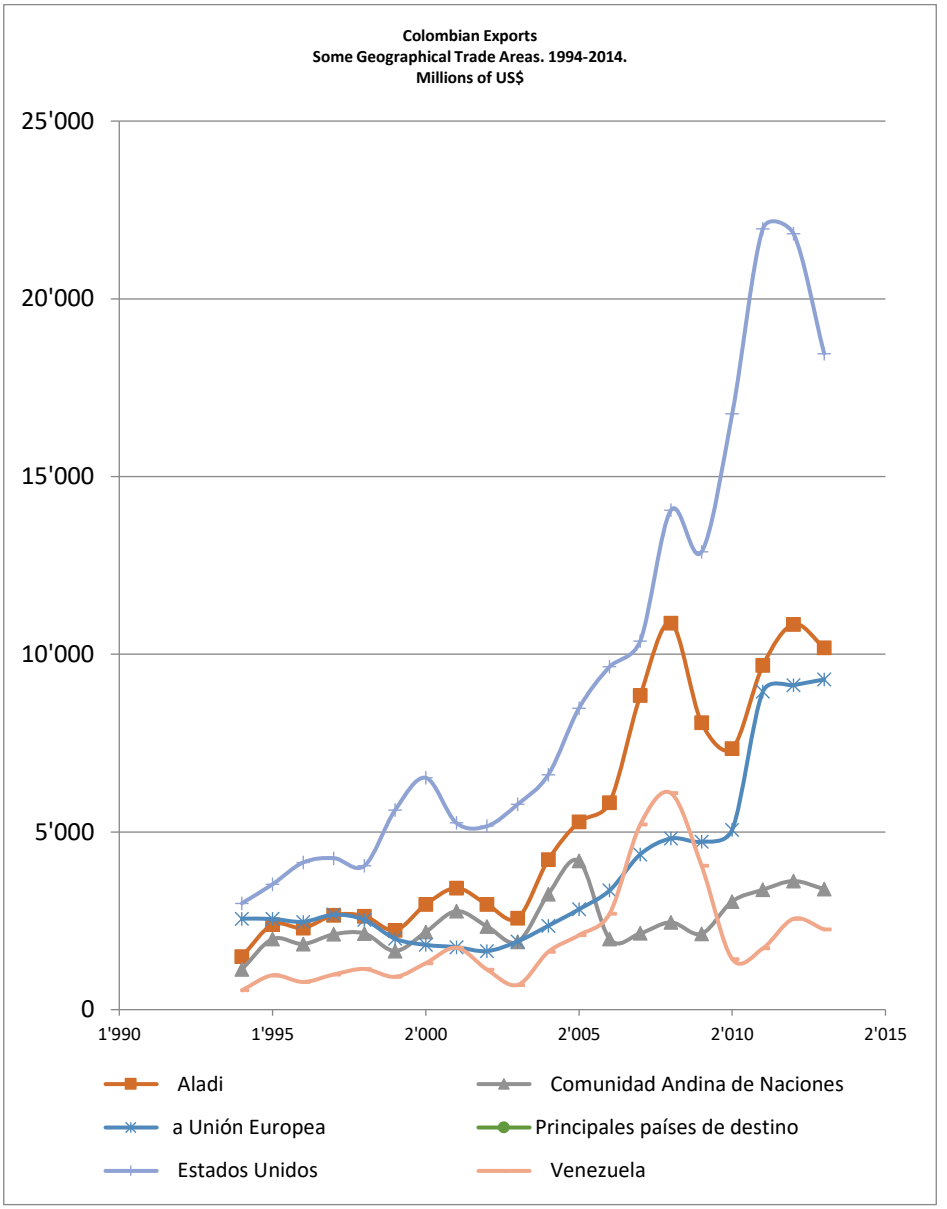
[183] Doha areas of single undertaking negotiation: Agriculture, Non-agricultural market access, Services, Intellectual property, Trade and development, Trade and environment, Trade facilitation, WTO rules, Dispute Settlement Understanding. Geneva 2003 The first major agreement in the Doha Round after the Doha Ministerial Conference was on special treatment in services for least-developed countries. The Geneva 2004 or The General Council's decision of 1 August 2004 narrowed the gaps, focused the negotiations and raised them to a new level. The 2004 included "Frameworks" for the negotiations in agriculture and non-agricultural market access. The Hong Kong 2005, Ministerial Conference, locked in a further narrowing of differences in the negotiations and adopts modalities. Once the modalities have been settled, countries will apply the formulas to tariffs on thousands of products and to a range of support programmes.

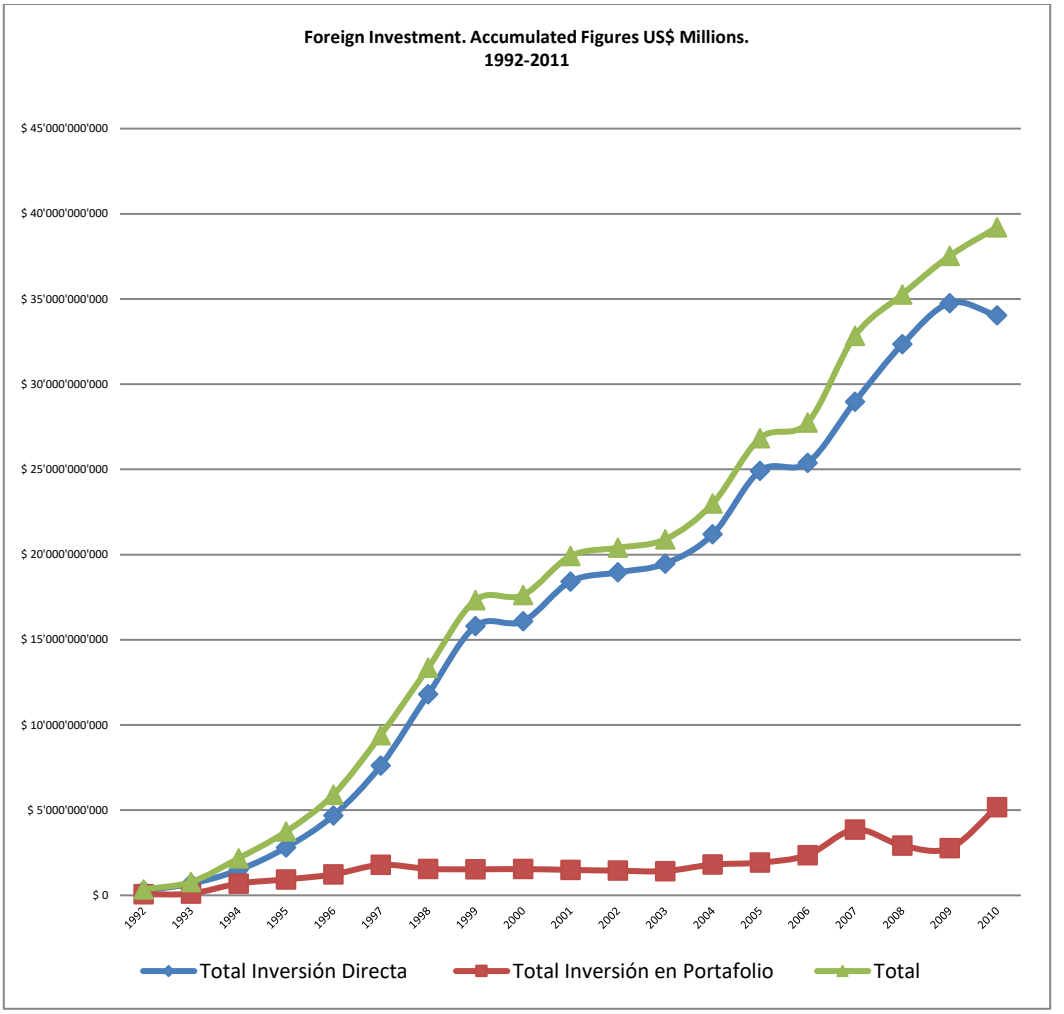
[184] Less developed countries were able to establish preferential agreements on a regional and global level, with which it is estimated they reached trade levels greater than those achieved under the most favored nation clause.This gave credit to the GATT-plus principle.

particular case of Latin America, the notion that is most frequently heard is that trade has grown because of preferential treatment toward its regional trade. Trade also depended on national contain of finished goods or "origin condition for national export product." This conditionality treatment is thought to have benefitted the expansion of trade flows and increase economies of scale. The most serious doubt—even if we take into consideration the presidential mandates of Andean Community signatory countries, including the Guayaquil Act—is that the model is entering a stage where the growing yields from integration and high volumes of exchange may reach a limit and begin to drop. Based on such a visionary suggestion, it is believed that they must launch into a new paradigm where initial regional trade agreements melt into one, like the Mercosul-Adean Group scheme. Countries' like Venezuela attempt a protectionist model, where most products will be produced in this country. Bilateral trade between Colombia and Venezuela drooped from more than six billion in the year 2008 to less than two billion in year 2014, while the regional markets of China, ALADI, United States and the European Union became important commercial partners after year 2000.

Figure No. 2

Colombian Exports. Some Geographical Trade Areas. 1994-2014.





Source: DIAN - DANE. Cálculos DANE.

Other theoretical conception that complements the theorem of globalization is that which develops elements of analysis to frame the integration needs of the poor countries. It is common to hear empirical corroboration of the postulates of the thesis of regional development in an open context. The *open regionalism* scheme attempts to conciliate aspects such as the granting of tariff preferences that contrast with the hypothesis of total freedom to trade that is reinforced by elements such as the advantage of geographic proximity among markets. It is said that in this way opportunities are stimulated so that activities reducing costs such as the improvement in infrastructure help increase the performance of the economy. With the conceptual framework mentioned, a broad liberalization of markets is guaranteed in terms of sectors, where the freeing of markets is promoted according to the dynamics that propel the countries involved. Flexible

adhesion by countries to the agreement is guaranteed and giving the associate a treatment as a national facilitates intraregional investment.

The United States, like many other countries in the world, including ours, appreciates the way foreign trade has gained in its share of domestic product and how its contribution to growth is elastic due to better factor combination. This situation has indulged countries to place the topics of trade and investment at the top of their priority of policy actions. Many economic analysts find numerous justifications to explain how the share of this determinant within growth components is extremely important to them, and how it is for industrialized economies that persist in this process. In these cases, trade activity and capital and investment movements seek to spread too many countries, in an aim to increase trade opportunities, which in this dynamic atmosphere find greater business prospects.

The terms referred to globalization, multilateralism, bilateralism and economic integration tend to orient direct investment practices. Globalization of markets, as a paradigm superimposed on the limited frameworks of regional integration, has brought opportunities and threats for the traditional consumers and investors, the more so given the growth of new opportunities based on greater volumes of trade. One problem with control is that it becomes more and more difficult each day to divert or attract trade, in such a way that it can stimulate improvement in welfare and the rate of growth.

Some general world trade rules are inspired by the mandates of the World Trade Organization, whose goal it is to extend the *multilateralization* of trade and investment. In contrast, we remember that this contract has exceptions that are conciliated in the form of *bilateral agreements.* These agreements have an apparent practical purpose when they are inspired by government action, but they depart from the liberal spirit that guided the contracting parties to the WTO. The United States is no exception to this game of bilateral power, and in some cases, it tries in every way possible to exert influence on its own behalf. Usually, taking advantage of the many markets and trade zones now open to trade and investment, while more general rules of universal application are adopted through multilateral schemes. With respect to profits from greater levels of efficiency, it is expected that through the process of globalization the economic losses will be reduced by improving levels of competitiveness of the companies more than of the countries.

In this way the danger of being isolated from the stimuli of world trade is avoided and new opportunities are opened for the modern sector to be capitalized and to take advantage of the opportunities of the level of trade that occurs in the competitive environment of globalization[185].

The overall challenge is to be able to improve the conditions for investment, research and development, as well as adapting management to the commitments and opportunities offered to the businessman by the new competitive business scene. Countries like the United States have propitiated the signing of trade agreements within the atmosphere of the World Trade Organization. This has occurred under the premise that their preeminent position as a nation will favor it once it establishes relationships in the sphere of trade negotiations, especially in topics like services and investment promotion. In these particular cases, countries with lesser degrees of economic development find it beneficial to enter into contracts or multilateral agreements with which it is possible to increase the speed of convergence and commercial relationships among countries.

The dynamics of the geopolitical system and the different cultural manifestations has led to a flowering of discussion for opening new spaces that favor the development of the global framework for trade and investment, in accordance with the new cultural determinants of a borderless world.

Some novel impressions are presented by Professor Samuel Huntington that are usually controversial and that are also interesting as a contribution to enriching the analysis of relations among countries and economic blocs, according to the development of their own agendas.[186] When speaking of *modernization*, the author mentioned suggests that the non-Western societies can be modernized, not having to abandon their cultures. The author finds that with the plurality of cultures, some civilizations have reached the threshold of their own dissolution. The new fact indicated is that with modernization, some cultures have become weakened, which is evidence of the greater relative power of the West, with respect to emerging cultures. Nonetheless, the point of discussion is that the conflict is latent, inasmuch as the world becomes modern,

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[185] Iglesias, Enrique. 1997. BID. "Globalización e Integración Regional: Consecuencias para América Latina." México. November,p.4.

[186] Huntington, Samuel P. 1996. "The West: Unique, Not Universal." *Foreign Affairs*. November-December, p.29 and p.43.

but less Western, thereby increasing the resentment and deteriorating communication[187]. Furthermore, Huntington argues that globalization brings a country closer to higher levels of development with more trade and welfare for some. Unfortunately, such undesirable phenomena as dualism and social backwardness coexist in this new world, as manifested in the inadequate levels of education and health, to name a few examples that have generated a world dissent.

The process of integration among blocs can improve knowledge of the cultural element and also of the ethical principles of equity. This is a very serious matter indeed that calls for further study and much observance in the 21st Century. This one phenomenon could lead us to a situation in which the United States as the nation sharing its Western culture and values with us tries at least for some time to preserve an alliance that should be natural with certain countries that furthermore deserve strategic treatment. Failing to understand these simple principles is to deny ourselves the opportunity to receive technology and investment, with which we can participate in the economic dynamism that trade offers based on the stimuli of the big world markets[188].

Globalization is a novel political fact and has been announced as the source of the transformation of the legal framework for economic integration. Is also an evolving historical fact that determines the change in the architecture of the new economic groups of Nation-States. Changes originate after the advancement of free trade constitution and a world exchange and system of allocation of resources. Some authors reach suggestive conclusions and manifestations, Bergsten (1997. Sept.27, p.23) being one that suggests that the United States is able to negotiate its insertion into the rest of the world at all costs, in order to obtain further advantages by negotiating with each bloc for the following reasons. First because he considers that the United States is the only leader with initiative to achieve agreements. Second, because the time is propitious since it enjoys credibility to exercise its negotiating authority. Third, because it can complement its leadership both in regional negotiations and broad geopolitical scenarios

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[187] Huntington, Samuel. 1997. *El Choque de las Civilizaciones.* Barcelona. Paidos, p. 91.

[188] The participation in consumption of 850 million people is at stake in the international market with a total trade flow estimated at US$13 trillion dollars.

where it can develop it's negotiating capacity and penetration with greater intensity. Good examples are the trade agreements being discussed with FTAA and the APEC, and progressively the project known as the Millennium Round and the FTA's with fourteen friendly countries.[189]

7.1.5. Economic Integration Experiences.

Latin America has debated between the convenience of entering into world markets without having clearly defined in which sectors or activities it wants to be competitive on a worldwide scale, or to trust the economic stimuli associated with subregional integration, as determinants for growth. In 1960 the LAFTA was created as an agreement that brought together the theoretical elements of import substitution, a principle that attempted to progressively generate economies of scale, and in 1969 the Andean Group was established. One of the characteristics of these early regional agreements was that they attempted to promote an increase in trade flows through government regulations and intervention in trade and investment activity. Unfortunately, these competitive mechanisms led each country to extend the same distortion generated by individually applied protectionist policies to the others. In terms of negotiating strategy, agreeing on tariff reductions product by product avoiding exchange of sectorial lists, held back the evolution of the political process of integration. The final total of this initial effort was that growth in regional trade compared to that with the outside showed negative results. The signing of new agreements, such as Mercosur, the Group of Three and the adoption in 1992 of a common external tariff in the Andean Market helped increase and renew trade flows, strengthening the integration process and increasing the speed of convergence in the region-this time contemplating the possibility of negotiating bloc to bloc. The Asunción Treaty that took effect in 1991 established Mercosur, including Brazil, Argentina, Paraguay and Uruguay. In just four years they achieved a general tariff reduction and in 1995 adopted a common external tariff. Particular agreements were signed for subsidies, dumping, restrictive trade practices and new commitments on agricultural and industrial issues, as well as establishing monetary, financial and common exchange measures.

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[189]Bergsten, Fred. "American Politics, Global Trade." *The Economist.* 27 Sept. 1997. P.23-24.

Latin America closely followed the economic integration process undertaken by the countries signing the Treaty of Rome. It could be seen how Europe had understood that the future competitiveness of its oligopolistic enterprise depended on a wider European market. At the same time it was subject to the geopolitical response of Soviet expansion. This new economic bloc advanced by means of overcoming successive stages that were established in agreements, such as the Coal and Steel Treaty. It can be said that the process culminated in the Treaty of Rome in 1957. Between 1973 and 1985, European community countries penetrated more deeply into the process, incorporating new members and continuing with policies of tariff reduction. As of 1985, the European Commission pushed ahead with the signing of a Single Market Charter Act. This constituted a ratification of the spirit of Rome, in the sense that it abolished all restrictions and non-tariff barriers to trade, movement of goods, services and factors of production in the community. In 1992, the community had become one of the most powerful economic units in the world, thanks in large part to the fact that the level of development in the member countries was similar.At this point they signed the Treaty of Maastricht, the main purpose of which was to lead Europe toward the reality of a single European currency, the Euro and incorporating into the trade process other Eastern European countries. In a subsequent chapter we compare elements that characterize the 2008-2013 dollar and euro financial and fiscal crisis.

With the creation of the Euro, headway was made in the formation of:

- A single monetary authority
- Basics for a unified fiscal system
- The establishment of an integrated legal and regulatory framework

Progress was also made in promoting political integration with the adoption of common policies in the areas of:

- Environment
- Migration
- Security

There was much discussion of whether the Community could become an economic strength as deregulation advanced and the idea that the most closed and backward economies of the region could eventually become part of the

community caught on. Today these advances seem obvious to us, but they were the fruit of a gradual process of negotiation that ended in liberalization, tariff reductions and the establishment of clear rules to play by in order to consolidate a regional and sectorial development policy that would be a preliminary but permanent step toward the formation of a common market. The principles of financing the depressed regions were extended now and then to the countries of Central and Eastern Europe, as a necessary step to avoid creating strong asymmetries through the integration process. Industrial policy at the time evidently accelerated the integration process, characterized by the creation of new flows of trade. The adoption of a common agricultural policy heading initially to the evident shift in trade to a lesser degree, since it prohibited the entrance of cheaper products from third party countries. In response to the common tariff policy, the level of exports and imports within the region increased. A good example was the performance of the automotive sector, which generated an increase in the level of trade of about 400% through tariff reductions and elimination of taxes on trade. As a result of increased consumption, a number of new production plants were set up all over Europe[190]. Examples such as these deserve more attention from Colombian strategists, who cannot calmly sit back and wait for a few community technologists in Lima, or our precarious Ministry fined the saving formulae right around the corner for negotiation of the FTAA among thirty-four countries right.

The integration process in Asia-APEC, offers a few new lessons on the process of structuring or formation of economic blocs, as a response to the exceptions born of the special agreements contemplated with the framework of the WTO. As of 1967, six countries in East Asia formed the ASEAN. From its inception, they propitiated a scheme for the generalized elimination of tariff barriers. With economic growth generated in the region, trade became equally important. In 1992, 42% of international trade was within the region, an index that has been far less within the Latin American region. Currently there is much discussion on the formation of larger trade blocs, including Japan, China and the Asian tigers and other expressions of commerce like the oriented to the world by BRIC's countries.

[190] In terms of international trade theory, as a consequence of the reduction in the tariff level, a GATT-plus situation became apparent, since opening this market segment under the new regulations propitiated the creation of new trade.

Nonetheless, their commercial future is still a bit uncertain due to the effect of the financial crisis that began in 1997 and suffers a deep slump in 2008. Within this process, there is greater credibility with the results of the bilateral agreements reached and signed, for example, between China and Japan, and the United States, Japan and Philippines. Even more auspicious is the formation of the megabloc headed by the United States, such as APEC, a forum created to discuss international trade topics and conceived of a dissuasive factor against discriminatory trade practices with the Pacific Basin countries or the Pacific Alliance composed by richer Latin American countries located in the Pacific. One particular case of this large basin is that referred of ASEAN, an integration process that hopes to sustain foreign trade levels above US$850 billion, or 25% of world exports, once the effects of the crisis have passed.[191]

North American Integration. 1994-2004.

The integration process in North America began with the establishment of free trade principles in the auto parts market between the United States and Canada. The immediate result was an increase in trade of cars and car parts and with the decrease in the tariff levels there was a rationalization of production, guaranteeing greater specialization in the distribution of assembly plants. During the decade of the 80s, trade grew at a rate of more than 10% annually. It is difficult to show whether in terms of GATT-plus there was more trade under this Agreement, or if this was so because of the development of the most favored nation clause. It is true; however, that trade did increase at sustained rates and there was more specialization and a better level of competition, increasing the national content of finished products.

Finally in 1988, negotiations were held that led to the ratification of a free trade agreement between Canada and the United States, which as an ambitious integration project almost as big as that undertaken by the European Community. The idea of this agreement was to facilitate trade and help clear up the political questions that hindered the construction of a geopolitical bloc capable of

[191] It that these countries have benefited from their industrial policy and the effects of the most favored nation clause, more than from the creation of a regional trade market, taking into consideration that East Asian trade depends on inputs from countries outside the region for its supply. Its commercial and productive infrastructure is oriented toward and coordinated so that it can satisfy the demands of international markets.

competing with the rest of the world. Mexico knew how to interpret the U.S.'s interest in the topic of trade and integration and took advantage of the historical moment to advance by subscribing a treating on subsidies and compensatory rights in 1985, two years later to advance in the definition of a framework agreement on Investment and Trade, and thus strategically approach the trilateral free trade negotiations together with Canada, including investment, financial services, telecommunications and transportation.

The inclusion of Mexico in this commercial scheme was a highly strategic move, both convenient and opportune since it brought the total population covered by the free trade area to 360 million, the gross product of which was in 1995 US$6.5 trillion. For Mexico it was a particularly advantageous agreement because it meant the alliance of developed countries with a less developed country. The benefit consisted of enhancing its competitive position and raising the employment level, as well as guaranteeing access to an enormous market, which made it easy to simultaneously access diverse sources of technology and thereby raise the level of efficiency of its companies to international levels.

Nafta attempted to reach a Free Trade Agreement on twenty-five section that comprised six specific sectors of economic activity, that is, textiles and garments, automobiles and parts, energy and petrochemicals, agriculture, land transportation, telecommunications. Two sections on commercial regulations of cross-border goods and services, six on technical regulations and standards including new specifications for origin, customs administration, sanitary and phytosanitary measures, technical standards, emergency measures, anti-dumping measures, and compensatory rights. There was one section on intellectual property, one on investment, one on financial services and two on special commitments in the area of state purchasing, competition policies, monopolies and state enterprises, as well as six on legal measures and special topics such as business trips, institutional regulations, solution of controversy and environmental measures. This Agreement was complemented by an agenda that agreed to 17 schedules for deregulation that would eliminate or reduce tariffs within specific periods of time between five and fifteen years. Other measures were adopted to eliminate the triangulation of trade, establish steps in the area of technology transfer, local content and improvement of productivity, together with stipulations for solving controversy. The interesting aspect of this overture

to liberated trade is that in other trade agreements this institutionalized regulations was the pattern followed in successive negotiations trend we will observe in successive sections of this book.[192]

7.2. First Attempt to Achieve Integration. 1991-2000. Colombia and the United States,.

An especial relationship characterizes the geopolitical situation between the United States and Colombia at least prior to the conveyed Free Trade Agreement-FTA. Both in the political and economic sphere the relationship between the two countries has evolved from a "paternalistic" attitude into a modern "participative democratic practice." Colombia's bilateral agenda with the United States experienced an unprecedented transformation in the last decades in particular since the Andean Trade Preference Act-ATPA was accorded in Washington, during the Clinton-Bush Administration. In the past The US-Colombian relation characterized by government granting unilateral generalized concessions on a broad selection of activities including reduction of export tariffs to sensible national products that could enter free into the North American market and accorded if accepted a especial reciprocity conditions given severe and effective control of arms trafficking, money laundering checked, and adopting security issues like police curtail of terrorism and drugs production and distribution.

7.2.1. U.S. Mechanisms to Promote Trade-The Fast Track.

The Fast Track is a mechanism that allows the President of the United States to enter into agreements on trade, amendment which later is submitted to Congress for their legal ratification, under the condition that incumbent countries cannot introduce later modifications once approved. In November 1997 important debates were held in the Congress of the United States and by decision of President Clinton, the project was withdrawn because it did not receive the

[192] Villarreal, René. 2004. *Diez Años Después. Experiencia de México y Lecciones Para América Latina*. Grupo Editorial Norma. Bogotá. Villarreal, René. "México Avanza hacia una Economía Avanzada en el Siglo XXI: Las Condiciones Para El Desarrollo De Sus Empresas. La Competitividad Sistémica De México y El Desarrollo Sustentable De Sus Pymes. Agosto 17, 2004. Villarreal, René. *Industrialización, Competitividad y Desequilibrio Externo En México. Un Enfoque Macroindustrial y Financiero*. 1920-2010.Fondo De Cultura Económica. México.

majority of votes needed for its approval. President Clinton has strongly promoted hemispheric integration and it is clear that a "fast track" would facilitate negotiations, and for this reason the fact that the administration has not received support from Congress may be interpreted as a negative sign on those days.

However, world tendencies toward integration are irreversible by the fast advance of globalization and the next American government did perhaps contemplate the possibility of presenting the new and revised Fast Track project, accompanied by a massive information campaign on the public and private levels about its public convenience. Although Fast Track is an agile mechanism that would aid FTAA negotiations, as well as other U.S. trade agreements with other American hemisphere countries, this does not mean that without this mechanism, integration processes could not advance. It should be clear that topics such as labor, environment and corruption among others would be the basic elements on any negotiation agenda and do have constitutional repercussions as they affect fundamental rights.[193]

7.2.2. The Unilateral U.S. Agenda and 1998 Houston Project.

To explain the U.S. trade policy along Fast Track lines and the emerging interest of this Nation to extend a new political influence in the Hemisphere it is opportune to remind in this lecture that the United States Trade Representative-USTR Presidential Office handles two important unilateral lines of political pronouncement. Those referring to a particular country like the applied to the countries of the Western Hemisphere, and the Middle East and the one proclaimed to preserving the world security. To this international treatment the unilateral actions like the ones that rule North Korea or Colombian as special case of General System of Preferences-GSP where ATPA-DEA applies subject to officially accept combating terrorism and drugs trafficking. In some particular confines of international relations this discussions was extended at the bilateral

[193] In order to understand the historical roots of the debate on U.S. customs policies see Bailey, Michael et al. "The Institutional Roots of American Trade Policy." *World Politics*. April 1997, pp. 309-38. The Reciprocity Trade Act stopped Congress from acting unilaterally on tariffs and granted such agreements the status of Treaties without having to resort to the 2/3 majority rule.

level in a strategic scenario in which bilateral talk like the US Free Trade Agreements-FTA's were subscribed with Colombia, Chile and Central America. Multilateral decisions as those referred to round talks taken at the level of the APEC, the WTO and UNCTAD tend to change the whole international trade agenda.

From the perspective of the ATPA, the commercial agenda is interesting for trade and production. The bilateral agenda is complex when it involves political actors, such as the guerrilla forces and drug traffickers, even though the two are interdependent. The stability of the Nation-State system seems the question posed at the Houston meeting in February, 1998, where the topic of guerrilla – narcotrafficking conflict in Colombia was analyzed since then as a factor in national security as well as hemispheric stability. Political scientists, economists, congressmen, retired military and experts in negotiation and conciliation processes attended from countries such as Spain, Guatemala, El Salvador and Nicaragua. Seen in this light, it is suggested that the country can become a factor of imbalance for neighboring countries. This Seminar took shape as the beginning of a process by which the United States proposes helping Colombia, leading it to commit to a search for solutions to its national problems that also affect hemispheric security. The United States attempts to act as a facilitator in the process, thinking that in this way Colombia can find its peace. However the topic becomes complicated in that difficulties have occurred along the borders that can contribute to a political de-stabilization of these countries.

Border and regional limits episodes become a dangerous interruption in the sub-regional and regional integration process. The presence of guerrillas, para-military troops and drug traffickers along the borders endangers the peace and tranquility of the nation and even of neighboring countries. U.S. intervention could lead to a militarization of the struggle against narcotrafficking and thus the conflict not the least to say about guerrilla's greed. It is for this reason that the United States has offered to serve as a facilitator, proposing that as a first step that its presence is in the form of military intelligence consultation, preserving and respecting human rights.

Over the last few years, the American Congress has shown concern over the excessive militarization of the guerrilla forces, and the government of President Clinton finds the way the XX Brigade administers the topic of intelligence. The

theme of human rights within this atmosphere tends to be generalized and becomes an inseparable item on the agenda. The topic is a priority for both sides and in strategic aspects such as when a request for intensified military consultancy is made, particularly after well-known "attacks" on Mitú and later on the communication equipment in places like Patascoy and other strategic geographical spots like hundreds of municipalities partially destroyed by guerrilla mortars attacks. These factors draw attention, since they help explain the interest of the United States in persuading Colombia to delve deeper into the peace process in various presidential administrations.

And that the United States attempted since then to become a facilitating agent so that the country can find its own stage for peace, avoiding as far as possible any direct intervention by that country, even though it may be the only country that could head a peace process. The danger is that the conflict in Colombia could cause the process to turn into something like a Latin-American Viet-Nam, generating a series of regional threats. In Houston, it was insinuated that national military forces have on several occasions shown themselves to be incompetent in the face of armed subversion, the reason for which analysts do not hesitate to qualify as a reason that danger of an intervention in the country is increasing. That style of intervention and the way the scenario would unfold remain to be seen. Whether it would be a Vietnam style military presence, something the U.S. government is reluctant to repeat for fear that the peasant population would turn against them or an interminable peace talk as happened several years later with President Santos during Habana secret and uncertain rounds.

Military Fight against Drug Production. "Plante" and Anti-Corruption Statute.

Given the globalization of topics and agendas, a high degree of participation in these conflicts by a considerable portion of the world is foreseeable, making it dangerous not to find a solution to the topic of "narco-guerrillas." The world seems not to be interested in tolerating much longer the production, consumption and traffic of drugs, as observed at the G-9 Meeting in Birmingham or in the Joint Positions proposed by the countries in the European Union at the commemoration of the fifty years of the GATT-WTO in May, 1998.T

he concern over costs imposed by this illegal trade was evident among various societies of the world, due also to the threat it poses for the environment and the

dissolvent effect it has on democratic institutions and the international order. McCaffrey's statements show the fear the United States feels with respect to this illicit market, in that it involves a large mass of consumers in that market. This explains its action oriented at working on five large fronts, aimed at diminishing the presence of drugs in primary schools and in attacking and preventing internal consumption, recognizing the problem of national and home-grown demand and increasing the penalties for distribution and consumption.

The chemical precursors will also be strongly attacked when their production and distribution are identified with drug activity. On an international scale, there has been insistence on the multilateral and bilateral efforts, aiming precise actions at production and distribution of psychotropic substances. Another group of efforts are oriented at preventing the laundering of assets and money from criminal sources, including drugs, kidnapping and extortion among others and deserve special attention from international agents involved in the conflict. It was, of course, recognized that advances had been made in the area of cooperation, especially cooperation against the Andean air bridge, subject partially understood about its scope by the general public.

Before the signature of the ATPA's Act and in compliance by Andean countries, reach accorded proposals with respect to the particular case of Colombia many steps will have to be taken. In its long struggle against drugs and secret activities, the country has to go through the persecution of drug traffickers, killing them and imprisoning them, destroying their financial structure and attacking the production and traffic. Through the Plante program a large number of crops have been eradicated it is true and in the political realm a significant number of agreements have been reached. The Law of Extinction of Possession was approved by the Congress of the Republic, leading to the confiscation of a number of properties. The government approved the Anti-corruption Statute. The repressive forces of the State, the National Police and the Military Forces have confronted drug trafficking with endurance. With respect to international agreements, the signing in December of 1995 of the Memorandum of Understanding by the United States was important for the division of confiscated goods. In February, 1997, the governments of Colombia and the United States reached an agreement on maritime cooperation. The bilateral treaty of extradition between the United States and Colombia was signed in 1997 and is still in effect

according to international law that is for the U.S., but due to problems with internal legislation, it has not been possible to apply it. Agreements were signed with the United States in order to restructure the program of Reforms to the Judicial System. On August 1, 1997, the United States and Colombia agreed to the use of U.S. military equipment by Colombian Air Force Unites for anti-narcotics operations that will at the same time ensure that the human rights of Colombian citizens are respected.

- Other important political initiatives that have been the result of bilateral agreements with the United States aimed at strengthening democratic institutions are:
    - The establishment of training programs for the jurisdictional branch by means of support from U.S. governmental agencies, including the DEA, FBI and AID.
    - In 1996, the letters of agreement between the government of the U.S., the Anti-narcotics Police-DANTI and DNE received aid of US$13 million and US$1 million each.

It was hoped that with help from the United States the ability and efficiency of the judicial sector and the attack on narco-traffic organizations would be effective. The internationalization of the conflict leads to tight supervision so that control over money laundering and greater air and coast enforcement and development of infrastructure can be carried out. The airborne eradication program should take on a more central role to the extent that the American government provides more and better technical assistance and greater numbers of planes, as well as to the extent that granular herbicides are applied[194].

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[194] Plan Colombia and Military AID program after Houston talks. http://en.wikipedia.org/wiki/Plan_Colombia

Army Aviation Brigade (2000-2008 cost: $844 million)

This program is executed by the U.S. State and Defense departments. It equips and trains the helicopter units of the Colombian Army. It is subdivided into various specific programs.

Plan Colombia Helicopter Program (PCHP) comprises helicopters provided for free by the U.S. government to the Colombian Army. The program needs 43 contract pilots and 87 contract mechanics to operate.

17 Bell UH-1N helicopters (Former Canadian aircraft bought via US gov

22 Bell UH-1H (Huey II) helicopters

13 Sikorsky UH-60L helicopters

Foreign Military Sales (FMS) helicopters are purchased by the Colombian Army but supported by U.S. personnel.

20 Sikorsky UH-60L helicopters

Technical Assistance Field Team

Based at Tolemaida Air Base (Melgar, Tolima), the team provides maintenance to U.S.-made helicopters.

Joint Initial Entry Rotary Wing School

Based at Melgar Air Base (Melgar, Tolima), it is a flight school for Colombian combat-helicopter pilots. Additional pilot training is provided at the U.S. Army's helicopter training center (Fort Rucker, Alabama)

National Police Air Service (2000-2008 cost: $463 million)

The U.S. State Department provides support to approximately 90 aircraft operated by the Colombian National Police. The U.S. Defense Department supports the construction of an aviation depot at Madrid Air Base (Madrid, Cundinamarca).

National Police Eradication Program (2000-2008 cost: $458 million)

This program is executed by a private company, DynCorp, under the supervision of the U.S. State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL), and operates out of Patrick Air Force Base in Florida. U.S. State Department-owned planes spray chemicals to destroy coca and opium poppy crops in rural Colombia. From 2000 to 2008 more than 1 million hectares (2.5 million acres) of crops were destroyed.

13 Air Tractor AT-802 armored crop dusters

13 Bell UH-1N helicopters

4 Alenia C-27 cargo planes

National Police Interdiction Efforts (2000-2008 cost: $153 million)

The U.S. State Department equips and trains a Colombian National Police unit known as Junglas. The unit's 500 members are divided into three companies based in Bogotá, Santa Marta, and Tuluá.

Infrastructure Security Strategy (2000-2008 cost: $115 million)

This program secures part of the Cano Limon-Covenas Pipeline, benefiting international oil company Occidental Petroleum. Its air component has 2 Sikorsky UH-60 and 8 Bell UH-1H (Huey II) helicopters. Its ground component includes U.S. Special Forces training and equipment for 1,600 Colombian Army soldiers.

Army Ground Forces (2000-2008 cost: $104 million)

Joint Task Force Omega

It was established to operate in the central departments of Meta, Guaviare, and Caquetá. U.S. military advisors provided planning and intelligence support. The U.S. also provided weapons, ammunition, vehicles, and a base in La Macarena, Meta. It has about 10,000 soldiers.

Counternarcotics Brigade

It was established to operate in the southern departments of Putumayo and Caquetá. The U.S. Defense Department provided training and built bases in Tres Esquinas and Larandia,

Emerging Trading Legal Elements.

It has been recognized that there are non-tariff measures, such as rules and technical regulations that hinder and restrict trade. Therefore, governments must guarantee that standards and these rules and regulations do not become unjustifiable obstacles to trade. Consequently, these topics must become priority in the liberalization of trade and commitments acquired through the respective WTO agreements must be implemented. Furthermore, it is recommended that in consensual manner that non-tariff barrier be totally eliminated from free trade zones, and a timetable established for the elimination, taking into consideration a transition period for the coordination of rules and technical regulations.

Governments must negotiate an agreement on such rules and technical regulations that is consistent with the provisions contained in the agreements on

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Caquetá. The U.S. State Department provided weapons, ammunition and training. It has about 2,300 soldiers.

Joint Special Forces Command

It was established to pursue wanted individuals and rescue hostages. The U.S. provided training, weapons, ammunition, and a base near Bogotá. It has about 2,000 soldiers.

Police Presence in Conflict Zones (2000-2008 cost: $92 million)

This program aims to establish government presence in all Colombian municipalities. Fifteen percent of Colombian municipalities had no police presence in 2002. Today all municipalities are covered, but in many of them government presence is limited to a small number of policemen. The program organized 68 squadrons of Carabineros, of 120 policemen each. The U.S. Department of State provides training, weapons, ammunition, night-vision goggles, and other equipment.

Coastal and River Interdiction (2000-2008 cost: $89 million)

This program gave the Colombian Navy and Marines water vessels and aircraft to patrol the country's coast and rivers. The Navy received 8 interceptor boats and 2 Cessna Grand Caravan transport planes. The Marines received 95 patrol boats. The U.S. also provided both services with weapons, fuel, communications gear, night-vision goggles, and other equipment.

Air Interdiction (2000-2008 cost: $62 million)

The U.S. State and Defense departments provided the Colombian Air Force with 7 surveillance planes and their maintenance support. The program also operates five radars inside Colombia, other radars outside the country, and airborne radars. The program is also known as the Air Bridge Denial Program.

Another $2 billion were allocated from 2000 to 2008 to other programs including the **Critical Flight Safety Program** to extend the life of the U.S. State Department's fleet of aircraft, additional counternarcotics funding and aviation support for battlefield medical evacuations.

technical barriers to trade (TBT) and on sanitary and phytosanitary measures (SPS) by the WTO that should become part of the final FTA agreement. An inventory must be made of the rules and technical regulations, including the sanitary and phytosanitary specifications that exist in each country that will allow trade barriers to be identified. Technical regulations must be limited to the spheres of security, health and the environment, avoiding the transformation of voluntary regulations into technical regulations.

7.2.3. Strategy to Democratize Politics via "The Plan Colombia."

Following the Huston Seminar of 1998, the international community that has repeatedly manifested that Colombia experience a threat to its democratic structure, was considered a circumstance that tend to affect the degree of economic development due to uncertainty introduced buy guerrilla and drugs trafficking. [195] Authors like Paul Krugman pointed out that the problem of labor creation has registered a cyclical stop here and there and where the rate of growth of the economy is affected by uncertainty as an element that has been introduced in Colombia by the irruption of the combination of Guerrilla warfare and drugs trafficking generates a situation of instability that may create long run problems. Uncertainty and instability traduces in difficulty to gain trade access to foreign markets as income dispersed and investment spurred outside productive and specialized regions. In complementary works the author theorizes about interesting development issues where the relation between increasing returns and regional development is a new focus in his theoretical development to gradually gain increasing returns due to generation of scale economies. Following this line of inquire he suggests that when imports displace national production as tend to occur in Colombia, this situation shifts the economy into an scenario where a loss in productive opportunities in particular in the country side or in specific

[195] For the first time in 2009, Partners Colombia, as an organization with experience in Consensus Building and construction of bridges of dialogue and discussion, has acted as a facilitator of this high level event and has managed to make it with a resounding success.

http://www.partnersglobal.org/network/colombia/PC%20Newletter%20January%202010.pdf/view?searchterm=None

country's regions, creates an undesirable climate of social unrest and loose of opportunities to local development.[196]

During an Inter-American Bank-IDB meeting in 1999 Enrique Iglesias, President of the institution applauded some other historical virtues shown by Colombian politics that translate eventually in political stability. Application of a viable macroeconomic model allowed a stable industrialization-export model that helped to diversify production and allowed open access to international credit. However he observed that the degree of diversification of the economy to make out of it a sustainable country the balance of payments needed to be in equilibrium. This condition allowed to honor its external debt as was recognized after negotiations that followed the "Cartagena Consensus." Consequence of this round talks Latin American countries approved the Brady Plan conditions to equilibrate in the long run the external sector. Iglesias also admired that Colombia was not affected by debt contagion after the Latin American and Asian 1990's

[196] Krugman, Paul. *El Retorno De La Economía De La Depresión*. Bogota: Norma, 1999. Other important works of Krugman for the development of the concept of economic geography, scale economies and increasing returns are:

Krugman, P. 1994. *Peddling prosperity*. New York: Norton.

Krugman, Paul and Anthony J. Venables. "Globalization and the Inequality of Nations." *Quarterly Journal of Economics*. November 1995. Vol.CX. Issue 4. Pp. 857-880.

Krugman, Paul R. 1991. *Inestabilidad de la Tasa de Cambio*. Norma. Bogotá.

Krugman, Paul. 1990. *Development, Geography and Economic Theory.* 1995. Antoni Bosch. Barcelona.

Krugman, Paul. 1991. "Increasing Returns and Economic Geography." *The Journal of Political Economy.* Vol. 99. No. 3. pp. 493-499.

Krugman, Paul. 1992. *Geografía y Comercio*. Publicado por Antoni Bosch. Barcelona.

Krugman, Paul. 1996. La Organización Espontánea de la Economía. The Self-Organizing Economy. Antoni Bosch. Barcelona.

Krugman, Paul.1995. *Desarrollo, Geografía y Teoría Económica*. Publicado por Antoni Bosch.Barcelona. 1995.

In addition the work of Michael Porter "New Strategies for Inner-City Economic Development." *Economic Development Quarterly*. Vol 11 No 1. February 1997. pp.11-27 Porter, Michael. Douglas C. North. 1955 "Location Theory and Regional Economic Change."*Journal of Political Economy*. Vol. 63. pp.243-58.

payment crisis reason that allowed the Bank to extend a fresh line of credit to finance development programs.[197]

Iglesias admitted that:

"…entrepreneurs that have brought innovation with them and penetrated the markets help us confront the times we are facing. A defensive attitude should be rejected so as to speak, trying to survive with traditional forms, instead of seeking an offensive attitude in the sense of looking outward, preparing the country, penetrating markets, improving organization, and incorporating technical advances in business… It is this new type of attitude that will separate the 20th century from the 21st century and which I believe is the main message. For these reasons it is encouraging to see companies that are getting out…Some time ago I was looking at events in Costa Rica, to name another country, that is exporting 1,500 million dollars of high technology products and my small country, Uruguay, that is exporting 100 million in software to the rest of the world…"

This kind of political arguments about properly running international economics apparatus must be supported with the idea that security matters. Therefore the control of drug production, stopping the illegal traffic of arms, avoiding financial illicit activities like money laundering and combating terrorism activities, should be combined with passing stricter laws, as well as improving the justice system to strongly penalize consumption and distribution of drugs that finance terrorist activities.

At the Interamerican level political actions have been programmed to coordinate fight against these illegal activities. Actions include the Andean air bridge, the adoption of strict legal frameworks to penalize laundering of money trafficking, enacting laws and ordinances against corruption that include rulings on extinction of possession of property. Accomplishments on this new agenda are identified or associated with the struggle and persecution of heads of the cartels, destruction of physical and financial infrastructure, the constant attacks on drug production and traffic, which is also being complemented by the development of programs for crop substitution, such as Plante.

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[197] Enrique, Iglesias. President of the Interamerican Development Bank.*Speeches by Speakers at the Forum on Competitive Productivity.* Cartagena de Indias, July, 1999.

On a multilateral scale this policies identified with processes designed to further inform countries as to the importance of forming a common front in the fight against drugs. Repressive actions in the Andean countries have been combined with the extension of ATPA-DEA a further support, and agreement unilaterally granted by the United States. A similar situation was achieved with Europe through the General System of Preferences-G.S.P. and now by the free trade agreements signed with this geopolitical block of nations.

Political and economic cooperation has acquired greater depth on this matters that retard development and destabilize partisan life. Since February, 1997, the United States, through the Congress increased penalties for drug trafficking and money laundering and the set of anti-narcotics regulations has been extended according to the conventions set down by the United Nations, and complemented by the Agreement on Chemical Inputs with the European Union, signed in 1995, which was based on a Memorandum of Understanding already existing on the repatriation of impounded goods and the intention of progressing toward a Bilateral Extradition Treaty signed originally in 1997 and still in force as per international law.

On August 1, 1997, there was an agreement on Military Equipment subject to much controversy due to the unsuitable quality of the equipment. This bilateral cooperation agreement includes programs with the DEA, FBI and AID. In the area of training, it is designed for the training of thirty-three pilots, a number of aircraft, and technical consultancy. The general strategic program includes checks on progress in the area of narcotics flows and improvements in the judicial system. The ATPA-DEA, as mentioned, is related to the de-certification and the latter based on the achievements of the country in drug control.

Security and defense combined with this bilateral agreement and with respect to access conditions, it is important to point out that the United States is a market strategically important for us as it represents an exchange of goods in excess of US$20.000 million, while ATPA covered before the FTA USA-Colombia, about 77% of the exports from the U.S. that is 4,290 tariff classifications. Only a few products such as watches, clothing and footwear were excluded in earlier phases of the negotiations. This treaty went in effect until 2004 when transformed in ATPA-DEA and later on replaced by the Bilateral FTA-Colombia-USA in 2012.

A particularly difficult economic condition that characterized the economic counterpart of the security issues of Plan Colombia is that with respect to the proportion of input used to transform exported goods, compliance with origin level must be acknowledged. The benefited goods must be produced in the country of origin with a substantial degree of transformation, such that there is a jump in tariff's adding value level, and that a direct operations cost of minimum 35% is achieved in the country. If raw materials from the U.S. are used they will receive a discount of 15% of the added value requirement.

Initial Bilateral Trade Discussions with the United States.

The sphere of hemispheric security sometimes combined with the subscription of a bilateral agenda or Trade and Investment Comission-TIC reviewed by both countries' government officials every May. Issues like the drugs production, money laundering, arms trafficking, and illegal person's movement implies the adoption of security actions. As no formal trade agreement existed between the United States and Colombia except via the administrative procedures, the Fast Track provision adopted to combat the drugs problem, an emerging agenda was adopted before WTO negotiations adopted further rules.

The right to obtain emerging benefits for trade depended on the application of a politically anti-drug fight in the benefit of the United States security interest. Adopting other defense clauses affected sovereignty principles as troop movements or advisory military practices or the adoption of fumigation practices to eradicate drugs crops required strategic help. The President of the United States annually is the authority that informs Congress on the progress of this control mechanism and depending on results, Colombia experience the nitty-gritty effect of being *decertified* to receive foreign aid for purposes different of development. In the annual review of this agenda innumerable points generated differences among national institutions. Some of the discussed policy actions apart from drugs and terrorism that were of particular importance are the following:

- CBI parity.
- Services.
- Foreign investment.
- Intellectual property rights.

- Review of Decision 344 of the Andean Pact.
- Information Technology Agreement.
- Primary Products.
- Sugar Quota.
- Flowers.
- Bananas.
- Seafood.
- Shrimp.
- Tuna and Dolphin.
- Tennessee Whiskey and Bourbon.
- Technical Exchange of Phytosanitary Methodologies.
- International Perishables Center.
- Customs Appraisal, Smuggling and Money Laundering.

The Bilateral US-Colombia Trade Discussion of June 1998 and Trade and Investment Commission-TIC.

After several periodical revisions on these issues previous issues in the meeting sustained in June 1998 with the U.S. government some aspects touched sovereignty claims. Although about fifty different topics were reviewed on the non-publicized TIC's agenda, being the most important and which merit an extended study is:

- AFTA.
- Andean Community- USA.
- Intellectual Property Rights.
- Parallel Imports.
- Exclusion from Patentability.
- Colombia and the TRIP'S.
- Efforts at compliance.
- Foreign investment.
- Negotiation of a Bilateral Investment Treaty.
- Automobile Regulations.
- Textiles.
- Liquor.
- Sugar.

- Tuna embargo.

Other topics of much interest for the nations of the continent, and particularly for Colombia, are those of the defense of democracy and other reviewed on the TIC discussion as suggested by topics contained in Table 2.

Table No.. 2.

VII Colombia-United States Bilateral Trade and Investment Commission-TIC.

1. **FTAA**	• **The Negotiations Committee hopes to achieve agreement on mandates of negotiation groups.** • **The CAN will participate in FTAA negotiations as a single voice.** • **The Representatives committee will receive contributions on labor and environment topics.** • **The National Integration Council will channel the concerns of the various sectors.** • **The practice of not imposing customs rights on electronic communications will be maintained.**
2. **Andean Community**	• **The Community eliminated trade barriers.** • **A free trade zone was created in 1993 and a customs union in 1995.** • **Colombia showed its leadership by exercising the presidency of the Community as of June, 1998.** • **The Guayaquil Declaration indicates the steps toward intensifying integration.** • **It proposes to free services, seeking to coordinate macroeconomic policies and protect investment.** • **It has created the Andean Entrepreneurial Forum.** • **It has signed a Free Trade Agreement with Panama.** • **It has developed the CAN-MERCOSUR Agreement.** • **There is a framework agreement to create a free trade zone. Preferences are respected on the** • **Basis of Historical Legacies until September, 1998.** • **It may include new products.** • **The blocs will negotiate a Free Trade Treaty beginning in 2002.** • **Partial Agreements will be extended.** • **A US-Andean Council is created.**

3. **Andean Community-USA.**	• **The U.S. is the principal partner of the Andean Community and vice-versa.** • **There is awareness as to the importance of broadening and diversifying trade.** • **The Can wishes to increase investment opportunities.** • **In 1998, guidelines were issued to bring CAN closer to the U.S.A.** • **A Bilateral Council was created and expansion of the FTAA was proposed.** • **In Costa Rica on 18 March the following points were analyzed:** o **The need to extend the FTAA to incorporate Venezuela.** o **Agreement was made to study the memorandum to establish an Andean-U.S. Council on trade and investment.** o **An agreement was made to work jointly on topics such as intellectual property and investments.** • **As President of the CAN, Colombia will promote dialogue with the U.S. on trade and cooperation.**
4. Intellectual Property Rights	• **On May 1, 1998, it was announced that Colombia is on the "watch list" for an annual review of special article 301.** • **Colombia must accelerate adoption Decisions 344,345 and 351 on TRIPS before 2000.** • **There have been losses in pharmaceuticals due to lack of protection for patents.** • **The government should open licenses for subscription TV.** • **Partial observance of copyrights was recognized.** • **More severity is needed in controlling income from pirated CDs.** • **The U.S. is interested in the topic due to its competitiveness in information,** • **Telecommunications, biotechnology and other sectors.**
5. U.S. Interests	• **With respect to intellectual property, the spirit of Foreign Trade Councildocument CSCE S.18, D001/94 may be cited:** o **On Pipeline, it is known that protection has been granted for products with patent applications under evaluation by national authorities.**

	○ **Likewise, for products under development, or still not for sale.** ○ **The United States requested a pipeline be granted, or an exclusive marketing and sales license, while the original patent is lacking.** ○ **Granting of such a license violates Decision 344 of the C.A. which records the novelty as a principle for patentability.** • **Pharmaceuticals not included in the list of WHO essentials, would acquire patentability.**
6.Parallel Importation	• **A prohibition on parallel importation means that as long as there is a titleholder the importation, marketing or sale in the other member country of merchandise from third countries is prohibited.** • **The TRIPS agreement allows parallel importation, as a consequence of the principle of exhaustion, as web as the principle of free circulation of goods.** • **The impact on Colombia could generate abuses of a dominant position, affecting the flow of commerce.**
7.Exclusion of patentability	• **The United States requests that patents be granted for the processes of diagnosis for plants, human genetic material and pharmaceutical products on the WTO list.** • **The TLC allowed the patentability of biotechnological inventions and diagnostic methods to be excluded.** • **The TRIPS adopted the same position.** • **National and Andean rules do not grant patents for diagnostic processes or the biological processes used to obtain them.** • **The United States requested expansion of patentability to all technological fields.** • **The exceptions Colombia makes will end with the Trips Agreement.**
8. Colombia and the TRIPS	• **Colombia, as a developing country has until this year, 2000, to implement the TRIPS.** • **Decision 344 is under review and being updated, at the meetings held at the Secretariat of the CAN.** • **It includes obligations signed by CAN members, especially those established by TRIPS.**

	• **Article 65 provides for a special term for developing countries until the year 2000 to adapt their rules on industrial property.** • **This also benefits local and foreign companies operating in the broader market.** • **It facilitates the protection of industrial property rights.**
9.Efforts at enforcement	• **An inter-institutional work group was created to analyze the enforcement of rules in this area.** • **Mincomex, the Superindustria and the Director of copyrights make up part of this effort.** • **They are attempting to coordinate rules according to international requirements for the protection intellectual property rights.** • **An anti-pirating program was established to combat violations in works and records, complementing it with training programs on copyrighting.** • **There should be effective procedures and actions in the application of TRIPs obligations.** • **The Intellectual Property Group reported activity in the areas of confiscation, arrests and searches, forfilms, records, books and software.**
10. Foreign Investment	• **With the exception of Article 58 of the Constitution on property protection, our legislation is rather advanced.** • **International credits have been classified as foreign investment.** • **Colombia has requested the exclusion of these from the concept of investment in order to avoid speculation and to maintain debt margins.** • **Signing of the BIT attempts to coordinate equal treatment for investors, similar to that** • **given to citizens.** • **Colombia does not grant domestic treatment during the pre-establishment stage, since it would be applicable to situations that are broader than that of bilateral investments.** • **The government reserves the right to determine which sectors of the economy can enter into foreign investment treaties.** • **In the fiscal area, Colombia has sustained that commitments to domestic treatment should not be made with respect to taxes.**

	• **To provide flexibility for the entrance of capital it has entered the MIGA-Multilateral Investment** • **Guarantee Agency and the CIADI- International Center for Settlement of Investment Disputes.**
11.Negotiation of a Bilateral Investment Treaty-BIT	• **At the Washington Meeting, the American government presented a BIT project, based on previous experiences.** • **It was suggested that there are still barriers with respect to local content in the Automobile sector. CAN required 33% content in 1998, a mechanism that should be abolished in the year 2000 if it is to coincide with WTO mandates.** • **Foreign capital is requested in the area of television programming.** • **With the arrival of George Muñoz, OPIC manager abroad, Colombia will have a chance to undertake 20 projects for a value of US$ 800 million.**
12. Automobile Regulations	• **Automobile policies are framed within the Andean Community Regulations-Resolution 355 of the JUNAC.** • **It includes minimum percentages for integration in the addendum. Modification of the agreement according to commitments acquired with the WTO is pending.** • **Modification of the Complementation Agreement with respect to performance will be kept until 2000.** • **By changing the CKD sub-regional absorption quota system sub-regional for tariffs, the assembly industry in the sub-region is endangered.** • **Some countries have raised questions with WTO Secretariat, about the possibility of modifying the dismounting of it with WTO countries.** • **U.S. companies in Colombia and the sub-region have benefited from the possibility of exporting without tariffs, and have actively participated and benefited from the Automobile Agreement.**
13. Textiles	• **Exports of some textile products are included in the Multifiber Agreement through application of quotas and the Agreement on Textiles and Garments.** • **Colombia occupies the 32nd place among suppliers of this market, but in the category of *Men's and boy's woolen suits* the quota assigned is insufficient.About 80% of the inputs come from the U.S.**

	• **Tariffs on acrylic fiber used by Monsanto derive from the common external tariff, the modification of which is up to the secretariat of the C.A.** • **The Sunset textile review is programmed for December, 1998. This review will be carried out according to the Suspension Agreement on Garments and Textiles.**
14.Liquors	• **Law 223 of 1995 modified Article 473 of the Tax Law, establishing tariff levels of 35% and 20% for liquors. Premium imported whisky of more than 12 years aging's subject to a20% tax, but not other whiskeys, for which the tax is 35%.** • **At the bilateral meeting it was agreed that a proposal to level off the added value tax on imports would be put before the Congress, including Bourbon.**
15. Sugar	• **In 1982 the government of the United States assigned a sugar quota to Colombia.** • **It was based on the share each country had in total imports from 1975 to 1981. It punished Colombia for not including the years of greatest production, and for not being a member of the World Sugar Organization.Taking into account the changes in production and exports of these countries participating in the contingency, the U.S. government was requested to apply a system for determining quotas that would reflect current production, modifying the base and taking into account current production.**
15. The tuna Embargo	• **Since Colombian legislation was not coordinated with that of the U.S., there was a Primary embargo on exports of yellow fin tuna and its products.** • **It required throws to be made on schools of spotted dolphin on high seas if they had been seen before throwing the net.** • **This prohibition regulated fishing in the exclusive economic zone and in Colombian territorial waters.** • **In the 1992 La Joya Agreement, Colombia and other countries signed an agreement to reduce the mortality of dolphin involved in yellow-fin tuna fishing in the Pacific Ocean.** • **The *Interamerican Tropical Tuna Commission*-CIAT, has reported a drop in the rate ofdolphinmortality, thanks to the introduction of reasonable ecological methods for the capture of yellow-finned tuna.**

	• **Based on application of the Panama Declaration, Colombia will again export tuna.** • **One of the proposals is that countries sign an agreement with the United States obliging them to comply with requirements of the Panama Declaration, now incorporated into U.S. legislation.** • **Another is to carry out a study to verify application of the Panama Declaration measures.** • **For the embargo on Colombia to be lifted, Congress must ratify and adhere to the CIAT and sign an agreement with the U.S.**

Source: Ministerio de Comercio Exterior. Subdirección de Relaciones Bilaterales. 2002.

Agreements on the absorption of crops are subject to bilateral discussion since they operate according to different principles than those inspiring the World Trade Organization-WTO.As to minimum prices, something similar occurs which is the loss of transparency in markets and manifest restrictions to trade. The guidelines on price bands make it difficult to determine the tariff corresponding to each product and create a discrepancy between its price and the international level according to the Andean Union practice.

Policies on absorption and minimum price agreements. This is in principle quite far from practices established by the WTO. Negotiation of these bilateral topics is subject to a legal controversy of a different type due to the fact that the regulations they are based on are governed by JUNAC standards that transcend the bilateral sphere. The price bands are established on a forecast of future prices during a four-month period in an attempt to stabilize them. With respect to the tariff, it is below WTO consolidated tariffs. The licensing system and absorption policies do not violate WTO provisions and will be withdrawn on December 31, 1999.For imports, such licenses have been approved in 95% of the cases, and are not therefore considered restrictive.

Sugar Quota. It has been difficult to calculate the sugar quota for the last 16 years. In 1997, the calculation of the sugar quota amounted to 48,000 tons, less than in 1996. Unfortunately, the American system is based on the figures between 1975 and 1981 in order to determine the amount accepted, and there is no intention of eliminating this system.

Flowers. The private sector has been concerned about the methodology of dumping used by the Department of Commerce. It has been suggested that the

methodology for fixing prices use the monthly and not the annual average, precisely due to the characteristics of the product and the market. There is still concern; however, over the fact that calculation of the export price must deduct the importer's profit. The Department of Commerce has stated that as of October 14, 1997 and following the review on the topic of compensatory rights for 351 producers and/or flower exporters selling in the U.S., a dumping margin was found for a number of companies. The Federal Registry on October 14th indicated the average margin of compensatory rights that will be imposed on the companies.

Bananas. Colombia favorably adhered to the WTO decision on the Solution of Controversies I the case of the 16 supposed violations of WTO regulations. The previous decision of the WTO Panel indicated that the established system of quotas in the European Union is discriminatory and it opposes the principles of WTO agreements. The United States will have a year to withdraw the system or begin to negotiate a new scheme with producers.

Seafood Products. The government of Colombia has followed with interest developments in the U.S. Congress over the bill that would implement the contents of the Panama Declaration, thanks to which the tuna embargo kept against that country would be lifted.

Shrimp. Following a visit by North American experts the embargo on shrimp was lifted. The country's commitment to protect the environment through mechanisms that do not affect the right of the population to use economic resources such as fishing was highlighted.

Tuna and Dolphin. Colombia is still concerned about the embargo it remains submitted to in spite of efforts made to sustainable use of fishing resources in the eastern part of the Pacific Ocean. After the final approval of the International Law for the Protection and Conservation of Dolphins on August 15th, interested countries have met to facilitate negotiation of a multilateral instrument that will provide for implementation of that law and the Declaration of Panama. Countries in the Andean Community maintain several ships in the Pacific Ocean: Colombia, 9, Ecuador, 54 and Venezuela, 21. The combined capacity amounts to 84 ships and 49.6 metric tons representing 45% of the total number of boats in this part of the Pacific. Colombia considers that current U.S. law leads to poor management of fishing resources since it increases the catch of young tuna and the taking of an

immense number of incidental marine species, and thus hopes for a modification in this law.

Tennessee Whisky and Bourbon. For the United States all whiskies are identical products according to the provisions of the WTO and thereby are subject to a 35% tariff, as compared to 20% for those aged for more than 12 years. American brands are aged between 4 and 8 years. The U.S. argues that this violates Article 1 of the 1994 GATT, since it favors other members of the WTO to the detriment of the U.S. It suggests that according to appeals made to the WTO, the product has the same physical characteristics and an equal tariff position. The Colombian government did not show any differences in the tax treatment given to the various brands of whisky; however, Congress did not approve the reduction in tariff for the more aged whiskies, in order to lessen the incentive that an excessive fiscal burden would lead to tax evasion and failure to fulfill the customs regulations.

Technical Exchange of Phytosanitary Methodologies.Joint cooperation programs between the Animal Plant health Inspection Service- APHIS and ICA have prevented the flow of agricultural products in both directions on many occasions. With respect to these experiences progress can be made in defining other areas and products with export potential, seeking to eliminate restrictive measures on trade for phytosanitary reasons, as in the case of the moth in American apple shipments, as well as blackberries and raspberries. These programs can be extended to other products such as papaya, avocado and uchuvas, helping gain access to the U.S. market for tropical fruits. With respect to the topic of recognition of aphtose free zones, Colombia needs a formal application to the American authorities.

International Center for Perishable Products. This project seeks to consolidate all the logistical activities for exportation in a single area, along with the controls required, such as pre-inspection and anti-narcotics checks. An evaluation by the APHIS in the U.S. is needed since the project would imply the transfer of American personnel to work in it.

Sorghum brooms. Colombia has shown its concern in safeguarding exports of sorghum brooms, which barely reach $600,000 dollars annually and are carried out under the auspices of FTAA. This measure affects a preferential product included in FTAA in Colombia's opinion.

Customs Assessment, Smuggling and Money Laundering. About one million cartons of cigarettes of a well-known brand enter Colombia as contraband, amounting to about US$1.500 million. Today the most important form of contraband is the so-called technical contraband, against which there are fines and jail sentences. Due to this, it is important for the two countries to work together to combat contraband in all of its forms. Since a large amount of the contraband that enters the country is related to the laundering of assets and therefore, drug trafficking, it is necessary for authorities in the two countries to design mechanisms for control and repression of it.

7.2..4. Andean Trade Preference Act-ATPA and Drug's Control.

In December 1998, President Clinton presented to Congress a document on the Andean Trade Preference Act-ATPA and its unilateral applicability, concretely depended on the degree to which the countries fulfill the selection criteria for the program of unilateral trade preferences obtainable to countries that comply fight against terrorism. Colombia showed that it complied with these criteria, point by point. The Andean countries that were beneficiaries of the program consider that it was a good opportunity to act jointly leading to a gradual shift form the Trade and Investment Commission-TIC into the ATPA's Act. The ambassadors in Washington found support for the program from Ms. Charlenne Barshefsky. Grant from the ATPA The Foreign Aid Law of 1961 and the Trade Law of 1974 for the so-called decertified countries has at times been applied to Colombia as a recipient of Exim-Bank loans for suppliers, when the struggle against drugs has not shown the results expected by the U.S. Government.

Finance restrictions to Colombia have not ever been applied to credit requests to multilateral banking, which do not in all cases require the support or approval of the U.S. and other member countries for the funding of development of projects. By applying decertification and withholding the support that Colombia received from the United States would mean a serious set setback to 13% of total exports to the U.S. With regards to the number of products if suspended the effect would be devastating given the great number of tariff categories benefited by this incentive. The greatest cost not having sign the ATPA would be assumed first by the flower sector, whose participation is 13% of value of this line. Flowers account for 8.5% of exports to the U.S. In this sector the new tariff is aimed at would

receive an average level of 7.5%, incurring costs around US$23 million. Some other products like textiles and apparel gained an enormously benefit from tariff exemptions. As the ATPA agreement finishes Colombian exports position toward the North American market put exporters under severe strain reflecting once again how strategic trade is and so having market access extended upon the benefit of acceptance of the ATPA clauses.

The Andean Trade Preference Act-ATPA passed by the U.S. in 1991, authorized the President of that country to name the CAN countries as beneficiaries of trade preferences similar to those granted the Caribbean Basin Initiative-CBI. It granted customs franchise to nearly 6,100 tariff sub-categories, except for textiles and leather garments, certain types of footwear, oil products and various sugar products. Nearly 13% of exports to the U.S. receive preferential treatment through the ATPA, particularly flowers, with 64% of this benefit. By the end of 1996 the International Trade Commission published its third report on the use of the ATPA and its effects on the economy of the U.S. It requires the President of the U.S. to submit a report to Congress on the operation of the program before the third, sixth and ninth anniversaries of the date of enactment of the law.

The report presented by President Bill Clinton to the Congress of the United States in December of 1997, reflected a general review of the operation of the Andean Trade Preferences Act, based on considerations described in subsections 203 (c) and (d) of the ATPA. One of the aspects under detailed review required by the U.S. Congress was that an explanation be given of the efforts made by countries to eradicate crops associated with drug production and the substitution of crops in beneficiary countries that are directly related to the effects of ATPA. The four countries eligible indicated that from their point of view they had fulfilled all the necessary criteria and wished to receive ATPA benefits. President Clinton's second report presented to Congress covers the period between 1994 up until mid-1997, and seeks to renew ATPA for the three year period from 1997 to 2000. What happens after this date is a matter of negotiation fulfilled partially by the President Clinton visit to Cartagena in September 2.000 where a grant of US$ 1.6 billion will complement an important allocation of government budget funs on matters related Plan Colombia peace programs.

The authors Hylton (2010) and Rochlin (2011) explored the measure of success of Plan Colombia to fight counterinsurgency and illegal activities followed by armed groups intending the rebuilt of the republic and the establishment of the new rule of law.[198] The *first* author suggests that the application of the strategic practices like air fumigation, organization and modernization of armed forces, and fighting against local-regional governments run by narco-paramilitary mafias helped to "win" a counterinsurgency war. He claims that "…other political decisions strengthened institutions and improved human rights practices…as four-fifths of US $1.3 billion aid package was designed for the military and police in hopes of breaking the stalemate developed by the FARC" (Hylton, 2010, p.100).

Intelligence networks linked population into the war of terror framework for national security following Bush and Obama war on terror and counterinsurgency. Plan Colombia was inspired in the counterinsurgency practice regarding "clear, hold, and build" strategy played out at the regional local level in terms of human rights. Despite guerillas animosity their political support has been minimal and their political representation is non-existent in a urbanized country and the FARC as a terrorist that extended criminal activities in the country side group never represented a serious political alternative into the national-popular bloc except perhaps in the emerging political space generously given by President Santos to the terrorist group in the Habana 2013 talks. Union Patriótica a political movement allied of FARC tended toward radical nationalism and proposed a common project of non-violent social transformation (Hylton, 2010, p. 110).

Rochlin, the *second* author argues that the "Plan Colombia" is a manifestation of the "Revolution in Military Affairs-RMA." Over 75% of US$ 6 billion divulged through Plan Colombia was devoted to military and police assistance and some less to social programmes. This plan made insurgents weaker although violent conflict has not ended as terrorist found on drug trafficking an unlimited source of finance. Determining as the cause of violence mercantilist and agro-export liberal interest and conservative agrarian and landed elite properties in conflict

[198] Hylton, Forrest. 2010. "Plan Colombia the Measure of Success." *Brown Journal of World Affairs.* Fall/Winter. Vol. XVII, Issue 1. Pp.99-112. Rochlin, Jim. 2011. "Plan Colombia end the revolution in military affairs: the demise of the FARC." *Review of International Studies.* Vol 37. Pp.715-740.

each other is a simplification of the conflict's origin in Colombia. Lack of centralized state, absence of security and a state presence lacking in many regions are accepted as causes to persistent national violence (Rochlin, 2010, pp. 717-719).

The deep violence causes are attributed to absence of centralized state with a real monopoly on the use of force, to the fact that security historically has been privatized and dispersed, and to the fact that it operated totally outside government structures. Finally the state has been weak and illegitimate in many regions where the economy operated outside government structure. The FARC main guerrilla unit argued that peace in Colombian country side depended on land redistribution and more equitable division of wealth. FARC growth started in the 1980s after participation in narcotrafficking and other related crimes. Consequence of this activity passed from a hidden activity to an offensive movement ending with the establishment of 48 guerillas fronts.

The major political movement depended on the adopted political development of the political unit the Union Patriotica-UP during the filed peace negotiations during Belisario Betancur presidency when UP wined 14 congressional seats. Between 1986-92 more than 3000 members that supported the UP-FARC movement were assassinated by paramilitary forces. President Gaviria launched an attack against the FARC in Casa Verde killing Jacobo Arenas the ideological cofounder while the rebels planned a major offensive increasing by 15 the number of fronts. President Bush administration devised the Andean Drug War leaning on interdiction and eradication rather than in the reduction of US drug consumption while the Andes were militarized and provided with military assistance. The audio cassettes that appeared to link President Samper and humiliated Colombian military forces in Las Delicias and Patascoy were provided to President Pastrana. Presidential candidates' decision to cede to the FARC a cease fire zone-or-"Zona de Distensión" allowed to demobilize some of the 17,000 troops that spread over 60 fronts. The Revolution of Military Affairs-RMA featured the advent of information warfare an after Zapatista struggle, and in Colombian guerilla to transform into a mega-military machine through the adventures of transnational crime. This guerrilla movement obliged government to depend on real time satellites images to allow for the US direct involvement in a war fought in real time (Rochlin, 2010, pp. 719-723).

The privatization of war opened a new chapter in Plan Colombia history especially after private contractors offered their labor and skills to the lead the conflict. Professional resources provided tactical and strategic advice for structuring, training equipping and employment of armed forces. Colombia authorities used contractors after receiving US$ 7.5 billion in aid by 2006 where 75% turned out to military and police aid and the rest to institutional programmes. Professional resources amounted US$4.3 million to structure warfare in the Armed forces High Command along with US defense personnel. Private Military Corporations associated with Plan Colombia providing radar systems of Lockheed Martin, Sikorsky and Bell provided fighters helicopters, Arinc did training, and supplied equipment and intelligence, TRW gave radar systems, Matcom logistic coordination services, Air Park Sales equipment for riverine battle, Integrated Aero Systems disposed aircraft and communications devices and California Microwave Systems supplied fumigations pilots (Rochlin, 2010, pp. 726-727).

Thanks to this technological advance the Colombian Military refashioned to fight a highly successful and well-funded and dispersed guerrilla with a quicker, more mobile and equipped intelligence. "With Uribe's Plan Victoria designed to defeat the FARC, which included the novelty of satellite surveillance system supported with intelligence to Colombian army and strategic capability to a number of fighter aircrafts such as C-26 and AC-47 and to other spraying coca planes like OV-10 and AT-802."[199] In the geographically difficult places the Huey II and the UH-60 Blackhawks helicopters supported with fire capacity to the army and the police. In terms of operational restructuring the FUDRA or "Fuerza de Despliegue Rápida" a rapid action brigade gained strategic space as a high-mountain battalion. Thus Colombian Army became in the asymmetry war a more informed, mobile and quicker actor in the battle field (Rochlin, 2010, p. 729).

In this irregular war some claimed that US intelligence documents demonstrate that the US government has a nexus between national security forces, paramilitary groups and narcotrafficking evidence that has not been fully proved or concluded in a formal trial, although this kind of alliance fits into the

[199] Real-time aerial surveillance began to be used extensively in the conflict involving Platform aircraft equipped with heat sensors capable of detecting human activity.

theory of asymmetric warfare. For a wider audience the significance of terror is the amplification of fear for larger audiences and the exaggerated use of fear to achieve a political goal contrast with a manner to erase any consideration of state responsibility for such acts. Due to the deleterious effect of this practice the US government defined global terrorism as an activity advanced only by US enemies. In the War on Terror the US provided counterinsurgency training to some 32.000 national troops between 1999 and 2004. However the Colombian guerrilla found different sources to finance this war, like "the US$ 300 million received from the drug trade in 2008 and according to Rodrigo Granda his organization implemented a tax on coca paste buyers who have to enter the areas where these crops are grown. FARC finance financed also from diversified investments in cattle rising, mining, transport, construction and other productive investment (Rochlin, 2010, pp. 730-735).

The author Russell Crandall wrote a piece untitled *Colombia's Catastrophic Success* and together with other authors argued that the prize of the consolidation phase of counterinsurgency witnessed an unprecedented campaign to bring security, technical assistance and social welfare.[200] Since the Rio Pact of 1947, Colombian military cooperation meant that US military doctrine, tactics, organizations and equipment were adopted for counterinsurgency and terror fight. Since the Cuban revolution defense, strategy turned into internal security, and since Eisenhower government in 1960's Colombia received the help of a team of counter-guerrilla experts.

7.2.5.. The U.S. Agenda Evolves to the Caribbean Basin Initiative-C.B.I.

In the face of the possibility that the U.S. Congress extended a commercial benefit under the Americas like the historical experience of the Caribbean Basin Initiative-CBI, the US Trade Ministers issued a statement, expressing their support for measures that seek to strengthen the trade links among the countries of the hemisphere. They indicated that an extension of a NAFTA system would

[200] Some authors that evaluate Plan Colombia and its relation with US Governments are: Crandall, Russell. 2014. "Colombia´s Catastrophic Success. The U.S. government´s Plan Colombia worked almost despite itself." *The American Interest*. Vol. IX, No 3. January/February. Pp.58-65. Shifter, Michael. "Plan Colombia: A Retrospective." *American Quarterly*. Summer. 2012. Pickering, Thomas."Anatomy aof Plan Clombia." *The American Interest*. November/December. 2009.

affect trade relations between Caribbean Basin countries if including the Andean countries executing a new unilateral policy denominated Andean Trade Preference Act-ATPA. This Act would benefit this regional area via free market access to textiles, garments, leather goods and footwear and other agricultural and manufacturing products. During the Congressional session, the Ways and Means Committees approved bills that sought to grant first parity with NAFTA to countries in the Caribbean Basin and the government on an especial provision security act accepted Colombia's request on the possibility of giving textile and garment exports the same treatment given to Caribbean exports to the U.S. within the framework of a C.B.I. It was accepted as a convenient measure for the country's security extending the obligation to the country to advance a policy to fight terrorism and drugs trafficking.

This inclusion as a Caribbean country to Colombia is due to the fact that access for this product has been previously restricted as a consequence of the preferential treatment already received by Mexican textiles and garments within the framework of NAFTA. And that it was pending whether the United States, taking into account that Colombia is one of the few FTAA country that export textiles and garments to the U.S. market extended the benefit to improve its national textile industry competitiveness respecting inputs origin provisions. The exclusion of Colombia was claimed to be a discriminatory decision that had some serious consequences for textile producers and the Colombian garment industry, as well as for U.S. businessmen doing trade with Colombia.

Since 1996, the foreign sector textile activity was freed to foreign investors and in the case of the financial sector and according to Decision 24 of the Andean Group the financial sector could only participate given certain property participation restrictions on banks' capital. Some reforms that followed in this area were made dealing with tax stability contracts, protecting the investor against eventual increases in tax rates. Facilitation of foreign investment was the result of a subsequent constitutional reform bill early in 1999 when the Congress approved eliminating paragraph 5 of article 58 of the Constitution. The BITS could then be signed immediately as Colombia showed interest in advancing this issue of protecting investors from expropriations without properly compensate-indemnify or pay adequate reparations for taking overs, even though it was acknowledged that historically there have never been politically motivated

expropriations. As a consequence of good faith Colombia being a member of MIGA and CIADI helped in this institutional way to facilitate emerging international commercial relationship including author's property rights.

Elimination of these institutional restrictions allowed the United States to demonstrate particular interest to improve investing opportunities in Colombia, and thanks to the emerging legal orientation upon signing a Bilateral Investment Treaty-BIT and the Trade Related Investment and Property Rights Agreement-TRIPs, assured on its convenience the defense of intellectual property protection. The intellectual property in Colombia has been previously regulated by Decisions 344 (Industrial Property), 345 (Vegetable Variety Matter Rights), 351 (Copyrights and related rights), and 391 (Access to Genetic Resources) of the Cartagena Agreement Commission. And as the regulations on industrial property contained in Decision 344 compiled the provisions established in the TRIPs facilitating the development of this activity was evident. Nonetheless, there were many other aspects that gradually modified to make Colombian legal framework compatible with the TRIPs Agreement during the early 2000s.

The Superintendency of Industry and Commerce in Colombia years back encouraged some levels of protection granted by Colombian legislation, and have sought to pass gradually from existing regulations to the full observance of protection of intellectual property. The intellectual property indeed followed the line of a bilateral treaty on protection, very similar to Chapter XVII of NAFTA. However some differences between the two countries had to reconcile in the following points: pipeline, parallel imports, patents, and obligatory licenses, period of protection for copyrights, moral rights, legal nature of sound recordings and the treatment accorded satellite broadcasts.

In the U.S. government annually National Trade Estimate Report on Foreign Trade Barriers, identified that the government feels deny sufficient protection for intellectual property rights. Both countries judged to be responsible for serious acts or practices to preserve such principles. The Andean standards on intellectual property, in order to make it consistent with the TRIPs agreement lead to Revision of Decision 344 especially on the topic of the Information Technology Agreement, and the importance of completely freeing the trade of computer chips, computers and semi-conductors.

7.3. A Second Attempt to Achieve Hemispheric Economic Integration after Ministerial Trade Meeting held in Toronto-1999.

This immediately diplomatic event deserved a great amount of reflection and shed light in order to understand that the international agenda of the involved countries in the integration process became more complex as we advance toward the signatory of the FTA. In a statement on November 4, 1999 at the Fifth Ministerial Trade Meeting held in Toronto, the parties attending to the meeting reaffirmed the favorable climate existing since the meeting in Miami where embraced the principles of "Single Undertaking" with which to fulfill the task of reaching an agreement by the year 2005 for the multilateral task.

They supported the initiative of freeing trade more and support the idea of strengthening integration through the sub-regional groups, bilateral agreements, and adoption of unilateral measures of liberalization. However, the idea of combating restrictions on trade that had been adopted with unilateral criteria was celebrated. They showed the conviction that the principles of the free market contribute to the economic recovery and growth and under these principles they would support the meeting in Seattle.

Likewise, they approved the fact that in spite of hemispheric contrasts and their particular problems, both trade and investment continue to grow. Both the small countries and the large ones showed special consideration in the process. For the purpose of linking the entrepreneur to the process and attracting the civil society, networks of friend of the integration process have been created. This knowledge has been shared integrally and publicized by the governments of each country. One practical point and of sharp interest is the fact that the TNC-Committee for Trade Negotiations has the necessary institutional elements to orient negotiations if the FTAA would reach a happy end for Hemispheric Integration via trade currents expansion. Likewise, they have made progress in the nine working groups, the consultative group for small economies, and the Committee for Governmental Representatives for Participation in the Civil Society, and the Electoral Committee of Experts in Electronic Trade.

Prior to the meeting in Argentina in April of the year 2001, it was agreed that each one of the signatory parties would prepare a detailed revision of the points discussed in each one of the groups on the topic of FTAA. It would take into

account the opinions of each one of the participants in each of the areas, which then on be taken into account within the framework of reference that would facilitate negotiation of the corresponding groups. Topics such as access to goods and services markets deserved strong attention in the discussion on ways and means finally included in the individual reports and submitted to TNC. There accorded coordination meetings prior to the meeting in Buenos Aires and the work groups and vice-presidencies continued to rotate to improve countries participation. Other topics that deserved attention were: business facilitation, customs procedures, customs modernization to reduce transaction costs, and ways to lend transparency to markets. The ministerial meeting showed the unconditional support for the Seattle meeting beginning this millennium's round. The commitment to global business was supported, its rules for the WTO trade system, as well as multilateral negotiations of the Third Ministerial Conference of the WTO in Seattle, and the WTO procedures followed in a search for free trade.

With respect to the priority topic, which is future multilateral negotiations on agriculture, the ministers announced they would: work toward an agreement for multilateral WTO negotiation, elimination of agricultural subsidies, compliance with commitments made at the Uruguay Round, and greater discipline to avoid practices that distort trade and be able to reach an agreement at multilateral negotiations. It was confirmed or, rather, ratified that the FTAA process would be transparent only to the degree that the society shows its will, interest and commitment to the topic. Meanwhile, the academic, labor and entrepreneurial communities have been absent from the process. The North American Business Forum has been very active submitting recommendations and proposals.

7.3.1. Tripartite Committee of NAFTA in the OAS Assembly..

Canada, one of the countries most interested in promoting the topic of FTAA, received the members of the tripartite committee of NAFTA in the OAS Assembly in Windsor, Ontario in June 1999. The Ministers of Foreign Relations of the receiver's country discussed first the topics of social human security. And immediately after, all leaders of the America's that heard the Colombian case with respect to hemispheric security and about the urgency to discuss about the preservation of democracy agreed on some general political trends common to all of them. The armed conflict and the soaring business of drugs endangered

Colombia and its neighbor's foreign policy and national security to say the least. For the Summit of the Americas this topics became a very delicate matter as explained by the Minister of Foreign Relations of Canada, the Honorable Lloyd Axworthy, as he reminded participants about how the topic of drugs "is an illegal business that is in the position to continue feeding corruption, distorting value systems, benefiting money launderers, sustaining illegal arms traffic and supporting the guerrillas and para-military forces."[201]

This moral problem extends to the unprotected members of society, children being the most touching example of these injustices. In response to progress made by the Inter-American Drug Abuse Control Commission and the diplomatic intermediation of Canada, as figures in the adherence to the Protocol on recruitment of soldiers, the Colombian Army withdrew all minors from their reserve troops. The topic of hemispheric security was discussed again as a response to the treatment agreed upon at the Summit of Santiago and included until this day in the OAS mandate on hemispheric security.

Due to Colombia's economic difficulties to settle the peace process, out of the fact that conflict has become internationalized to the point that the topic of displaced persons has become an issue for the OAS as well as the extension of drug lords activities in countries like Mexico and other Central American ones. In general terms, this political fact has to do with including all citizens within the benefits of democracy and the defense of their human rights. In this conflicting environment, all citizens, then, must at least be guaranteed the possibility of participating in political, economic and social life of their respective country, as a vital aspect of personal compromise like it is civil security.

Canada, like all of the countries of the hemisphere, has included the remains of their indigenous population from the benefits of progress, and the social aspect of the Summit of Santiago adhered to this mandate and for these reason events such as the Declaration of the Rights of Indigenous Peoples that has taken effect and gained acknowledgment, policy that became an aspect of paramount importance for the social development of the region. This aspect is a matter of including the indigenous peoples in the process of social change. In order to fulfill

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[201] See speech by his Excellency the Honorable Lloyd Axworthy, Canadian Minister of Foreign Affairs. Permanent Council of the Organization of American States- OAS. Washington, D.C., 11 February 2000.

this moral obligation, the Interamerican Indigenous Institute was created. The topic of woman was also discussed in Santiago and this aspect then was included on the agenda of the OAS. The crises experienced in Seattle and Davos were deeply rooted in the exclusion of the society as a whole from the process. The Summit and the OAS Agenda have been very careful and attentive to this aspect and have therefore, anticipated the events, by including this social structure in the negotiation process. It has been foreseen that agents from non-governmental organizations express their points of view, and contribute their experiences and resources to accelerate the change in this process. This is one vivid way to guarantee a better functioning of the institutions and bring them closer to the needs of their citizens. Governmental organizations are called to participate in the integration process.

The topic of democracy, which is a very sensitive one for Colombian's, was discussed at a specialized forum on the same date of the Assembly. The Canadian International Center for the Development of Human Rights and Democracy sponsored a conference on "Hemispheric Integration and Democracy in the Americas." Along the same lines, a debate on governability took place, which is nothing other than the promotion of democratic values, tolerance, respect for human rights and the stability of political institutions. Business administrators demonstrated interests on the advances of information technology at this Assembly. Through the OAS the topics of the Summit and the FTAA was carried to all the politicians and businessmen. The links between the various units committed to the development of the entire hemisphere grew dynamically on those days and is a subject that has been incorporated in various international organizations agenda.

In synthesis, the *Plan of action agreed at the Summit of Quebec* is summarized in the following aspects:

- Promote education, as a basis to compete in a global economy, where the commercial framework is determined by the FTAA.
- The proposal should become an axis of integration, because education is the key to the strengthening of democratic institutions, the development of human potential, equality and understanding among peoples.

- Should move forward in terms of promoting access for all to education and also to that of quality and excellence.
- Learning should be promoted permanently students and teachers, as well as the performance review. Connectivity, science and technology are the basis of modernization, growth and the new economy.
- Preserve and strengthen democracy, justice and human rights, as a functioning democracy requires improving electoral processes, increasing the participation of citizens in the electoral process.
- Search for transparency and good governance, continue the fight against corruption and strengthen municipal governments.
- Human rights require universal protection and respect for the principles of international humanitarian law.
- The above purpose must be complemented with compliance with and respect for international obligations, to broaden the scope of human rights to aspects related to the regularization of migration, the rights of women, children and adolescents.
- Health is considered as a crucial element for democratic development resting on the principles of stability and prosperity. That deepens the reform of public health improving quality, equality of access and expansion of their coverage is another purpose of social content development.

Deepening economic integration and free trade, as a priority theme, hosted first as a draft of the integration project, proposed by the tables of negotiation, including its publication for discussion and knowledge on the part of civil society.

- The good operation of this model requires support to economic and financial stability, and stimulus so that the social responsibility of enterprises widespread.
- Hemispheric security is another essential issue to preserve peace and development.
- To undertake a cruel as the drug war is Colombia gets in danger the institutions and threatens to collapse the democratic order if a real peace scheme is not arrived by conflicting parts.
- These aspects demand rely on the legitimacy of the security forces, in order to ensure the permanence of democracy, and its action to

be subordinate to constitutional principles of defending life, honor and property of citizens.

- Counter-terrorism, the fight against drug trafficking, kidnapping, money laundering and arms smuggling are key points of the agenda for peace in the hemisphere.

Eradicate poverty and prevent discrimination, as a strategic point for democracy, was developed based on proposals on advancement in the physical infrastructure that complements the action of the economic integration, setting up a dynamic that promotes the advancement and dissemination of telecommunications, transport and energy. The basis of environmental and natural resources management is an argument to generate prosperity to the people on a sustainable basis and a foundation to carry signs of quality of life and health for generations. The management of agricultural and rural development is the basis of livelihood for millions of families very unprotected and socially a basis of the sustainability of the process of development and democracy.

- Employment and work require greater stability and protection while respecting the basic rights of workers step.
- Not just is important to raise the level of employment if not to protect him.
- Minorities, women and the unemployed are vulnerable groups.
- Growth with equity will constitute on a foundation of new democracy, which, it is necessary to seek supplementary sources to finance development and create a favorable climate for investment.
- Stability and social mobility are ways to bring well-being to the population.
- Gender equality will promote active participation of women in the development of the society. Have equal opportunities are a condition to exercise leadership.
- Therefore the social structure of the Summit intends the orientation of resources to integrate its members within the policies of the democratic project.
- Indigenous peoples were to recognize the unique character of their cultures and capacity to achieve its full human potential.

- Cultural diversity is crucial to the climate of continental democracy to thrive.
- The promotion of governance requires social cohesion, human development and peaceful coexistence.

Within the postmodern social points drawn and finally agreed by the heads of State of the Region, are reminded that they declared that the prevalence of democracy is the source to maintain stability and peace in the region. Its strengthening is essential to prevent the social deterioration and shorten the distance between the situations of the rural-urban, or between the nation and the regions.

To attack such problems, adopted a Plan of action as proposed at the Summit of Quebec which illustrates the following mandates:

Promote education. This proposal is oriented to compete in a global economy where the commercial framework depends on advances in education. Education is the key to the strengthening of democratic institutions, the development of human potential, equality and understanding among peoples. It must move forward in terms of promoting access for all to education and also of quality and excellence. Learning should be promoted permanently students and teachers, as well as the performance review. Connectivity, science and technology programs are the basis of modernization, growth and the new economy.

Preserve and strengthen democracy, justice and human rights. An effective democracy requires improving electoral processes, increasing the participation of citizens in the electoral process. Also look for transparency and good governance, continue the fight against corruption and strengthen municipal governments. Human rights require universal protection and respect for the principles of international humanitarian law. This must be complemented with compliance with and respect for international obligations, to broaden the scope of human rights to aspects related to the regularization of migration, the rights of women, children and the teenager. Health is considered as a crucial element for democratic development resting on the principles of stability and prosperity. Will deepen the reform of the sector of public health improving quality, equal access and increasing its coverage

Deepen economic integration and achieving economic stability. At this point we welcomed the draft of the project of integration including discussions on the

spread of specialized knowledge and the participation of civil society on productive activities. Achieve economic stability in the region and achieving the hemispheric security is essential to preserve peace. Finance the fight against drugs, it is essential to defend the democratic order of the continent. It should support the legitimacy of forces it on the agenda, in order to ensure the presence of the democracy, and its action to be subordinate to the constitutional principles of defending life honor and goods of care for them. Counter-terrorism, the fight against drug trafficking, kidnapping, money laundering and arms smuggling are key points of the agenda for peace in the hemisphere.

Eradicate poverty and prevent discrimination. This point was developed based on proposals on development of physical infrastructure as a complement to economic integration, setting up a dynamic that fosters the advancement and diffusion of the telecommunications, transport and energy. As soon as the vulnerability of populations and economies against the disasters of natural origin intends to develop capacities at all levels to reduce risks. The basis of environmental and natural resource management is critical goals to generate prosperity and improve the quality of life. The management of agricultural and rural development is the basis of livelihood for millions of families, very rare and basis of the sustainability of the process of development and democracy. Employment and work requires greater stability and protection step respecting the basic rights of workers. Minorities, women and the unemployed are vulnerable groups, therefore growth with equity is a foundation of democracy, for which it is necessary to seek complementary sources for financing solutions. Gender equality will promote active participation of women in the development of the society. Indigenous peoples recognize the uniqueness of their culture and that they reach their full human potential special measures must be taken. Cultural diversity is crucial to the climate of continental democracy to thrive.

7.3.2. Ministerial Conference of the Seattle-WTO and other talks. Year 2000.

The lessons learned from the Millennium Round begun in Seattle. The mandate consisted to expanding and free trade and intending to improve equality in the

world with respect to flows of foreign investment.[202] Singapore, to cite one good example, receives more capital resources than all of Africa. The world will have to house one billion additional inhabitants within the next thirty years, and a new central point is how in the midst of this disconcerting panorama, trade can help to mitigate the problems of underdevelopment and inequality. Services and agriculture are topics of vital importance on the international agenda and deserve much attention, in spite of the dissident voices in Seattle and Davos. To improve access to markets in the advanced countries thanks to the elimination of subsidies is crucial for the developing countries. To raise levels of agricultural production is as important for Africa as it is for Colombia. The topic of displaced persons, deterioration of the agricultural sector, guerrilla forces, drugs and substitution of illicit crops figures on this strategic studied agenda. To raise agricultural production means to mitigate the problem of rural poverty. Of similar importance for developing countries is the topic of services. Many countries have balanced the level of income by relying on tourism, financial services and telecommunications, as well as computer based services. To the extent that reforms can be made in these areas, more benefits will be generated in the economy, in sectors where the country can be competitive, and thus become a part of the world market. The code or agreement on the General Agreement on Trade in Services-GATS can be broadened to the degree that financial services and telecommunications networks become integrated. Of primary interest within the sphere of business is the fact that it is necessary to adjust and finance programs of Technical Assistance and Cooperation. All of this must be accompanied by aspects related to the implementation of the codes agreed upon at the WTO and with the consultation procedures and decision-making process.

These crucial topics that enlarged the international agenda must be complemented by the addition of new contracting parties in the process. Currently there are 131 countries that belong to the Organization, including China, which raises the number of people covered, by the organization to 1.5 billion. The central point of the agenda is how to ensure that trade and exchange work to the benefit of the poorest sectors as agreed upon in Copenhagen in 1995.

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[202] See Mike Moore. 2000. *Back on Track for Trade and Development.* Speech given by the Director General of the WTO at the X Meeting of UNCTAD held in Bangkok on 16 February 2000.

The best example of the benefits of trade can be illustrated by the four countries affected by the Asian crisis: Korea, Philippines, Malaysia and Singapore which will report growth in their economies this year thanks to the growth of their trade by more than 9% annually. The ridiculousness in Seattle of attacking globalization stems from the fact that this is not a choice, or a theory or a conspiracy. The challenge to globalization consists of trying to deal with the historical phenomenon realistically, trying to take advantage of the positive aspects, such as how to achieve greater insertion into the international economy. Industrialized countries with 15% of the world population have 88% of Internet users, while the Southeast Asian countries have only 1% of the Internet users. Also a challenge is how to cope with problems derived from globalization like migrations, pandemics, cybercrime, and diffusion of technology.

7.3.3. FTAA and Ministerial Meetings.

Democracy and the preservation of the Nation-State in the Hemisphere was a ruling principle during FTAA negotiations. In the IV Ministerial Meeting held on March 19, 1998, initial condition referred to the liberalization of hemispheric trade, highlighting the process of sub-regional integration, bilateral trade agreements and free trade as well as to encourage citizen participation in lateral tables of issues discussions. The new political factor to be considered in this complex emerging international environment was the inclusion the principle of "Single Undertaking" converted in the general rule for accordance and the guiding principle that lends transparency to the process and guarantees application of WTO clauses and commitments, which it is believed, will lead to the formation of a "Single world-Single market."

A crucial point in the institutional atmosphere to facilitate negotiation responded to the formation of the Committee for Trade Negotiation-CTN, a body oriented to guide the work of the negotiating groups and contribute to decisions on the architecture of the agreement, as well as negotiable topics. The II Summit of the Americas proposed to continue dialogue and strengthen hemispheric cooperation, reconfirming the urgency of strengthening democracy on the continent as we said, political dialogue, economic stability, progress toward social justice and to agree on trade liberalization policies and hemispheric integration. Along these general geopolitical lines it was agreed that negotiations would

commence on the main concrete topics to be developed and negotiated by the nine working groups and that initial conditions would be defined, perhaps meaning the existence of a space for "Path Dependence" analysis.

Initial conditions proclaimed by FTAA, such as the following can be highlighted for further implications for future development like access to markets, customs procedures and rules of origin, investment, standards and technical barriers to trade, sanitary and phytosanitary measures, subsidies, anti-dumping rights and compensations, small economies, purchases by the public sector, intellectual property rights, competition policy, services. There has been progress in each one of the FTAA topics described and they can be considered to be initial stages of the model. This resulted from the meetings in Denver, Cartagena and Bello Horizonte. The following meetings of what was denominated the working groups nourished the bank of ideas and statements made on the objectives and general principles that provided the framework for said institutional elements that might be old when compared to the events of 1875-1914.

If we carefully study the strategic map of the continent on the new topics of trade, we will understand that negotiations will be more complex and demanding, since new power factors will be involved, such as the United States and Canada as big countries, or Mercosur the Andean Community, or Caricom as regional trading blocs. Each of these is committed to certain defined and particular interests. For these reasons, the topic of hemispheric integration, analyzed from the geopolitical and international relations perspective will not only be conceptually more complex, but will involve important commitments and power sharing considerations. This negotiation then will necessitate a high dose of responsibility and prior preparation by the government and the future negotiating team as well as by the civil society. In order to fully understand the message behind this proposal we need to briefly look at the among of detail and requirements needed only to sign the Nafta agreement and why Mexico had to form a high powered group in Washington for a long time prior to beginning formal negotiations with the United States and Canada.

A posteriori, we can easily see these factors, given that the NAFTA Treaty includes 25 sections that commit the economic activity of six specific sectors, such as textiles and garments, automobiles and parts, energy and petrochemicals, agriculture, land transport and telecommunications. There are two sections on commercial regulations for cross-border goods and services, six on technical standards and regulations, including new specifications on origin, customs administration, sanitary and phytosanitary measures, technical standards, emergency measures, anti-dumping regulations and compensatory quotas; one section on intellectual property; one on investment; one on financial services; two on special commitments in the field of state purchasing, competition policies, monopolies and state enterprises; six on legal stipulations and special topics such as business trips, institutional regulations, solution of controversy and environmental measures. This Agreement was complemented with an agenda that agreed on 17 dates for tariff reduction eliminating or reducing thus the tariffs over a period of time between 5 and 15 years. Further regulations were adopted to eliminate the triangulation of trade, establish measures for technology transfer, local content and improvement of productivity, as well as procedures for conflict resolution.

A careful review of the Action Plan approved at the Summit of the Americas, ratified by the Denver Forum and the business encounter in Cartagena in 15 April 2012 and related not to political elements but commercial shows that this commitment will be as big if not bigger than NAFTA. This means that the work to be followed in trade and related matters will be extensive and exhausting. The Summit that ratified the commitment to preserve democracy on the Continent, a formula intended to guarantee human rights and safeguard cultural diversity and pluralism also extended to trade. Returning for a while to the points put forth by Huntington, we can see that this is a path toward the modernization of the state. And it is also a political mechanism designed mainly to lend impetus to integration and free trade, as well as investment through all means available. The current task to follow is to work toward the creation of mechanisms that promote and protect the flow of productive investment in the hemisphere, and encourage the development and progressive integration of capital markets. In order to achieve these goals, the creation of hemispheric infrastructure is also being

promoted, with the cooperation of the private sector and financial institutions, in order to achieve the development of other fronts, such as telecommunications, energy and transportation, information and technology.

The IV Ministerial Meeting in San Jose held on March 19, 1998 reviewed the results leading to preparatory work for FTAA negotiations. Progress in the liberalization of hemispheric trade was noted as a result of obligations assumed by the WTO. The process of sub-regional integration, bilateral agreements and free trade was highlighted. The economic context of the process was a reduction in inflation, greater rhythm of growth and growing trade opportunities to participate in the global market. Liberalization and integration seem to be the by-word of the hemisphere, as is the broad social and economic agenda adopted in the Miami Declaration of Principles. A goal accepted by all was preservation of the environment and support for small economies within the process. The main political point of the ministerial meeting was to recommend that presidents initiate FTAA negotiations during the II Summit held in Santiago in April, 1998.

The principle of Single Undertaking would be the general rule of negotiations, a principle that will be accompanied by the transparency and respect for WTO commitments. Colombia, an enthusiastic proponent of sub-regional agreements, will be pleased to find that FTAA will respect and heed this type of existing agreement, as long as they do not go beyond it in rights and obligations. A commitment to conclude negotiations by the year 2005 at the latest was accepted.

One crucial point that has to do with the mechanics of negotiations is the formation of the Committee for Commercial Negotiations-CCN. Its function is to guide the work of the negotiating groups and to contribute to decisions on the architecture of the agreement, as well as the institutional topics. Nine working groups were established with a President and Vice-President each that should reflect regional balance and avoid re-elections, having chosen Miami, then Panama and lastly Mexico City as seats. Colombia will act as President of the Market Access Group and the United States of the State Purchasing Group or Government Procurement. Some of the groups can interact, as in the case of agriculture and access to markets, or competitive policies and subsidies. A mandate may be given so the respective groups may study those topics that are interrelated. For example, trade and access policy could include anti-dumping measures.

The creation of a negotiating team and a better civil society knowledge both on FTAA and the relationship existing between the United States and the FTAA, may help offering logistical and general support for negotiations, documentary material, safekeeping of official negotiation documents and publication and distribution of these. However, the CCN that appointed a director of the Secretariat is using some appointed resources provided by the IDB for those purposes.

The tri-partite Committee, ECLA, OAS and IDB is offering technical support for matters related to the negotiations and contributions from other multilateral, regional and sub-regional institutions will be accepted. The participation of the public is hailed as a facilitating principle that lends transparency to the negotiation. Trade and production sectors such as academic groups that are particularly active in this field are also welcomed to befriend FTAA. A committee of government representatives in charge of receiving input, analyzing it and presenting a set of opinions for consideration was established.

Considering the enormous amount of work already carried out in preparatory sessions for FTAA, it has been agreed that some of the facilitating measures can take effect before the year 2005. Let's not forget that this negotiation then required a high degree of responsibility and prior preparation on the part of the government, and its future negotiating team. For the analysis prior to signing of the NAFTA treaty, Mexico and Canada formed a high level negotiating team [203] in charge of exploring alternatives before beginning formal negotiations with the United States and Canada.

General Principles of Hemispheric Negotiation.

Negotiation of the FTAA was supposed to be done by consensus and conducted with absolute transparency, respecting WTO discipline, particularly Article XXIV of GATT on coexistence with regional integration systems in effect, both bilateral and sub-regional and Article V of GATS. There would be facilitation mechanisms for small economies, and signatory countries will synchronize their economies with FTAA mandates. Countries may express acceptance of FTAA negotiations on an individual or collective basis.

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[203] Robert, Maryse.1994. *Resources and Tactics as Determinants of Negotiation Outcome: Canada's Performance in Nafta*. Ph.D. Thesis. Fletcher.

The prosperity of the hemisphere was said depend on free trade and integration, labor conditions and preservation of the environment. The objectives may be summarized as the adoption of measures to ensure *access to markets*, including the agreements of Article XXIV of GATT/94, aimed at progressively eliminating tariffs and non-tariff barriers. All reductions and elimination of customs tariffs would be subject to negotiation. Similar to other regional integration schemes, tax reduction schemes will be adopted according to a timetable where the agricultural sector would have specific objectives in order to progress toward the market access goal that will be complemented with procedures adopted for the rules of origin, customs procedures and elimination of technical barriers to trade.

In order to ensure that sanitary and phytosanitary measures (SPS Agreement) are not applied according to discriminatory criteria, arbitrary or unjustifiable practices applied for protectionist purposes would be avoided. Human and animal life will be protected and covered by scientific principles. Subsidies and other practices distorting trade will be avoided. In reference to rules on origin, a transparent system of rules including nomenclature and certificates will be developed. The topic that will be most discussed is the levels agreed upon for national content. Customs procedures will be oriented at facilitating trade and reducing administrative costs. Systems will be designed to combat fraud and other illicit activities. In order to protect investment a stable and reliable legal framework will be designed. The working group on technical barriers to trade will put the document on Common Objectives into effect upon approval. The topic of subsidies and compensatory rights will be coordinated with WTO commitments.

These will aim state purchases at facilitating access to FTAA member countries. Procedures will be transparent and open according to the regulations of each country, avoiding discrimination. Intellectual property rights will be subject to the adoption of rules to avoid distortions. Changes occurring in technology will be included. With respect to competition policies, disloyal trade practices will be avoided or prohibited, extending this initiative to a legal framework to be adopted nationally, sub-regionally and regionally. This policy will facilitate and promote hemispheric trade. The solution of controversies will

be based on WTO procedural frameworks, particularly arbitration as a widely used private mechanism.

Topics about Globalization of Commercial Relations.

Trade and commerce topics were organized after the San José Declaration in March 1998, and were previously approved in the Summit in Santiago, Chile in the same year (Schott, 2001: 9-11). Topics of globalization is supported in this Summit, and agreed as a general principle, to promote education in different levels, put science and technology at the service of the improvement of the production and innovation, fight against corruption and drugs, eradicating poverty, bring the culture of democracy to the entire population. Respect for human rights, efficiently administer justice, overcoming poverty and combating social exclusion. Also combating discrimination both to women and to men in the working place, other social issues that were considered at the Summit were the fight against the corruption, money laundering, terrorism, arms trafficking and the problem of trafficking drugs[204].

This renewed continental political project, endured an institutional architecture appointed by twenty-three pillars or policy initiatives that are closely interlinked. Most public actions that have come remembering in various tables of negotiation since then, have an important reference political and economic, whose purpose is to generate a new democratic order in the continent. They represent an ideal embedded in the welfare of partners, which justifies the promotion of social achievements of long term and support for a commercial policy of hemispheric range.

This proposal arose in the first place, on the establishment of the free trade Area of the Americas-FTAA and secondly, fulfilling the objectives social and

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[204] http://www.summit-americas.org/ii_summit.html

The Declaration of the Presidents stated the need to seek: ."..the strengthening of democracy, political dialogue, economic stability, progress towards social justice, the degree of coincidence in our policies of trade liberalization and the will to promote a process of permanent hemispheric integration, what they have done to our relations to reach higher maturity." We will redouble our efforts to continue reforms designed to improve the living conditions of the peoples of the Americas and to achieve a supportive community. For that reason, we have decided that the education is a subject of particular importance in our deliberations and central. We adopt the attached Plan of action, committing our efforts to carry out the initiatives in it contained... ."""

political Summit.[205] The main innovation in this hemispheric integration model associated with the Summit, consisted of the recognition of representative democracy as a source inspiring of the agreement to say by member countries, is the source that allows preserving "stability, peace and development in the region." It was given at that time to the principle of democracy the ascending to become the "source of the social system that guarantees respect for human rights, the rule of law and in the opportunity to become the factor that safeguarding cultural diversity, pluralism, respect for the rights of minorities and peace among the Nations." Since the first Summit in Miami (1994), the Declaration of principles was recognized, it would be the central element in achieving development by relying on the modernization of the State, as a source to speed up the operation, simplification of the rules, and expedited procedure to achieve governance.

7.4. The Third Attempt to Integration. Miami and the First Summit of the Americas (December 9–11, 1994)..

A short backward review about the democratic spirit of the Americas Summit starts with a reminder of those policies adopted by President Roosevelt in his "Good Neighbor" program and above all those of his successor, Harry Truman in 1949, who established the Point IV program, a measure of enormous benefit to the continent and peace-loving nations, associated the doctrine of democracy with the emerging concept of economic development[206].

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[205] Initially the FTAA covering eleven work tables, themes which were reached after an intense joint work between members of civil society, businessmen and trade ministers gathered on Denver, Cartagena, Belo Horizonte and San Jose. After the presidential meeting or Summit in Santiago in 1998 when the FTAA negotiations were formally launched the trade negotiation to nine tables were reduced. The controversy will be intense to emerging new issues in general areas such as: definition of strategies to improve access to markets. Customs procedures. Rules of origin. Investment policy. Elimination of technical barriers to trade. Adoption of sanitary and phytosanitary measures. Subsidies. Anti-dumping measures. Countervailing duties. Government procurement. Rights to intellectual property. Services. Competitiveness policy. Treatment of small economies. Both business meetings and ministerial in Buenos Aires in April 2001 as presidential in Quebec is already had an advanced draft agreement on the FTAA.

[206] December 9–11, 1994 -1st Summit of the Americas at Miami in the United States.

December 7–8, 1996 - Summit of the Americas on Sustainable Development at Santa Cruz de la Sierra in Bolivia.

April 18–19, 1998 - 2nd Summit of the Americas at Santiago in Chile.

Thanks to his theoretical and political efforts, geopolitical attempts have been made since then to propagate democracy by many diverse means, but always with the understanding that it is necessary to guarantee better levels of welfare for the population. Fifteen years later, Kennedy's Alliance for Progress emphasized even more the concept of democracy which was then linked to international aid. The AID carried out programs of land distribution and strengthening of the economy with which they guaranteed a better political climate in the hemisphere. To continue along this political path of spreading democracy has been a challenge expressed to the heads of state, where a happy coincidence observed during the 1990's that a historical landmark coincided inasmuch as thirty-four nations on the continent enjoyed popularly elected governments. At this point the slogan seems to have changed. Democracy and trade were the same word with identically global beneficial effects on the long-range of political balance within the region. Before trade agreements were formalized, structural changes suggested in advance of the so called Washington Consensus to pursue the stabilization of the hemispheric economy affected by inflation, skewed tax base and government revenues spilled over.

Macroeconomic stability required thus reforms in areas such as:

- Free trade
- Foreign exchange
- Free rates of interest
- Free mobilization of capital
- Labor reform
- Freer policies to attract foreign capital
- Tax reform
- Privatization of state firms.

April 20–22, 2001-3rd Summit of the Americas, in Quebec City, Canada.

January 12–13, 2004 - Monterrey Special Summit of the Americas at Monterrey in Mexico.

November 4–5, 2005 - 4th Summit of the Americas at Mar del Plata in Argentina.

April 17–19, 2009 - 5th Summit of the Americas at Port-of-Spain in Trinidad and Tobago.

April 14–15, 2012 -6th Summit of the Americas at Cartagena in Colombia.

2015 - 7th Summit of the Americas in Panama.

2018 - 8th Summit of the Americas in Suriname.

On the other hand and at the mean time the Summit of the Americas lied upon three additional fundamental assumptions leading to promote:

- An Action Plan to preserve and include communities to assume democratic postulates.
- Promotion of prosperity through economic integration.
- Eradication of poverty
- Sustainable development.

The new so to say global or liberal project inspired by the initiatives of Presidents Bush and Clinton group together with twenty-three policy initiatives one of that the FTAA, were conceived of as an enormously important political plan to rule the whole hemisphere.

The agreements of Santiago at the Second Summit 1998 provided eleven new important social initiatives to the hemispheric agenda. These statements comprise an attempt to organize an order or new "World System" to preserve democracy, improve equality, eradicate poverty, provide facilities for education to a majority of citizens and encourage increases in hemispheric trade. In the area of trade, it was agreed to form nine working groups among which the Agreement would be negotiated in equality of conditions, with thirty four countries participating in discussions on the future of the continent, exploring the topics of trade within this atmosphere.

The main topics for discussion within the hemispheric agenda that need to be identified and compared are related to the following aspects: freeing of trade, exchange freedom, interest rate free movement along cost of capital criteria, free capital movements, labor reform, free foreign investment, tax reform, privatization of state enterprises. As can be seen, these are sets of measures that fit within the defined standards associated with a new "Path Dependence Trend" made of small initial conditions for a large democratic or liberal reform in the Hemisphere that would bring substantial structural change as successive reforms advanced. Here the above referred and proposed as initial conditions for a process to be self-reinforcing may in some particular cases associate and involve as institutional elements of the economic history of the 19th century, worth to be considered for seeing twenty first century.[207] We here in the forthcoming sections

[207] Selective Literature on Path Dependence.

Internet Links for Path Dependence:

http//:wwwpub.utdallas.edu/~liebwit/magazine.html.

David, Paul.1997. Path Dependence and the Quest for Historical Economics: One More Chorus of the Ballad of QWERY. *University of Oxford. Discussion Papers in Economic and Social History*.

Liebowitz, S. J.Stephen E. Margolis. Network Externalities (Effects)

Liebowitz S. J.and Stephen E. Margolis. "Network Externality: An Uncommon Tragedy." *Journal of Economic Perspectives*, Volume 8, Number 2, Spring 1994.

S. J. Liebowitz And Stephen E. Margolis. "The Fable Of The Keys." *Journal of Law & Economics vol*.. XXXIII .April 1990.

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Arthur, W. B. 1994. *Increasing Returns and Path Dependence in the Economy*. Ann Arbor: University of Michigan Press.

Calaebresi, VG. 1968. "Transactions costs, resource allocation and liability rules: A comment." *Journal of Law and Economics* 11: 67-74.

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Katz, M. and Shapiro, C. 1986. "Technology adoption in the presence of network externalities." *Journal of Political Economy* 94: 822-841.

Katzner, D. 1993. "Some notes on the role of history and the definition of hysteresis and related concepts in economic analysis." *Journal of Post Keynesian Economics*, 15: 323-45

Kobayashi, B. and Ribstein, L. 1996. "Evolutions of spontaneous uniformity: Evidence from the evolution of the limited liability company." *Economic Inquiry* 34: 464-83.

Krugman, P. 1994 *Peddling prosperity*. New York: Norton.

we examine some further details about the political perspective launched by the Summit meetings including the 2012 Sixth Cartagena's Summit observed in full after the Head of States meeting in that Colombian city.

7.4.1. Santiago de Chile and the Second Summit of the Americas (April 1998).

The Second Summit of the Americas proposed the continuation of dialogue and strengthening of hemispheric cooperation. The urgent need to *strengthen democracy in the continent,* political dialogue, economic stability, and progress toward social justice and to establish open trade and hemispheric integration policies was reconfirmed. Interest in overcoming economic difficulties and return to the path of economic growth was restated. Likewise, emphasis was placed on the way in which globalization offers opportunities for progress and how convenient it is to support regional integration schemes. The novelty of the meeting was a commitment to stimulate education as a factor in support of

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Lardner, J. 1987 *Fast Forward*, New York: W. W. Norton,.

Liebowitz, S. J. and Margolis, S. E. 1990. "The fable of the keys." *Journal of Law and Economics* 22: 1-26.

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Van Vleck, V. N. 1997. "Delivering coal by road and by rail in Great Britian: The efficiency of the 'Silly Little Bobtailed Coal Wagons." *Journal of Economic History* 57: 139-60.

Williamson, O. E. 1993a. Contested exchange versus the governance of contractual relations. *Journal of Economic Perspectives* 7: 103-108.

Williamson, O. E. 1993b. "Transaction cost economics and organization theory." Industrial and Corporate Change, 2: 107-56.

political, economic, social and cultural development. Science and technology are called to play an important role in the preparation of educators.

The mandate to initiate FTAA negotiations, according to the 1998 Declaration of San Jose is the preamble to a broad balanced negotiation that is congruent with the mandates of the WTO. In the WTO negotiations the society was encouraged to participate and contribute to the process via dialogue and consultation mechanisms allowing the presentation of their points of view. The topic of education for democracy will be further studied promoting actions that will lead governmental institutions to become participatory structures. One starting point is respect for human rights and fundamental liberties.

This social avenue of development proposed that:

- Institutionally the region be strengthened.
- Equality be guaranteed.
- Contributions be made to economic development
- Policies for justice and judicial cooperation be reinforced.
- Equality for women be sought.
- Indigenous populations be integrated.
- The migrant worker and his family be supported.
- Poverty be overcome.
- Health conditions be improved.
- Peace be promoted through measures of trust and security.
- A struggle be fought against corruption, money laundering, drugs and terrorism.
- Work be done to fulfill the principles adopted in Kyoto on the environment and sustainable development.
- Work be done in the direction of energy integration.

In general the Miami and Santiago Summits commitments place democracy within the framework of priorities as a very dear supranational goal. Arguments over correspondence between democracy and growth seem to be complemented by discussions that link democracy to free trade and investment as conditions for progress.

Commitments acquired in Santiago, connected with Miami political and trade events are:

- Execution of a general Action Plan that attempts to preserve and strengthen communities.
- Reaching of macroeconomic equilibrium.
- Encouragement to trade, exchange and investment.
- Promotion of prosperity by means of economic integration.
- Eradication of poverty.
- Guarantee of sustainable development.
- Support to educational programs and publicizing of programs to improve health.

Along with the other general objectives for preserving democracy such as:

- Achieving a consensus as to liberal policies.
- Maintaining harmony within stability and efficiency.
- Improving the quality of democracy, preserving the basic principles of liberty, justice, equality, representation and participation.
- Propitiating accountability in elections and increasing participation and representativeness.
- Guaranteeing equality of citizens before the law and respect for their individual rights.

Other topics such as guerrillas, drugs and violation of human rights have implied an extension of the agenda, to include aspects related to security; thereby avoiding Colombia's becoming a non-conventional war zone. The latent danger lies in the internationalization of the conflict as a way to jeopardize democracy and hinder trade currents.

The global political and commercial principles are clearly seen in the analysis of the Miami Summit. The political statement points out the priority represented by the topic of democracy for the agreement signatory countries. The election of leaders is a requirement of democracy reached by the majority of the thirty-four FTAA member countries at least until "Socialismo del Siglo XXI" changed election rules and even electoral practices. The political acts that guarantee the survival of democracy are complex. The balance of forces, the mechanics of checks and balances, the equal participation between economic and political development, the development of regions within each country are just some of the elements that contribute to the preservation of the democratic system. One of

the mandates of the Summit is preserve democracy under current conditions and has been generally accepted by American heads of state. Fortunately, the decade of the nineties has been favored with the greatest number ever of nations on the continent, thirty-four, with popularly elected governments. This time the slogan seems to have changed from Democracy and Development to Democracy and Trade, the latter two having merged into a single voice with identical benefits on political equilibrium in the region in the long run.

With a return to democracy and its new forms like the Sao Paulo Group or "Socialismo del Siglo XXI," emerge some new trends that intend changing the political and economic structures.

Conventional proposals for democracy during the Summits negotiation responded to:

- A general action plan aimed at preserving and strengthening communities.
- Guaranteeing sustainable development.
- Promoting educational programs and disseminating programs to improve health

To reach these general goals, an ambitious and complex political action plan was negotiated and would be put into practice in each of the countries. This means that at the Summit, political guidelines were agreed upon to promote political and economic convergence. It was agreed that progress had to be made on other important fronts for the purpose of strengthening democracy through:

- Promoting human rights
- Community participation
- Promotion of culture and its values
- Struggle against corruption, drug trafficking and laundering of money
- Prevention of terrorism
- Free trade and support for the World Trade Organization
- Support for social and economic convergence programs
- Development of capital markets
- Orientation of private credit to stimulate investment in physical infrastructure
- Development of telecommunications networks

- Cooperation in science and technology
- Access to education and health services
- Fostering of micro-enterprises
- Sustainable use of energy
- Alliance for biodiversity and prevention of contamination.

7.4.2. The Third Summit of Quebec, April 20–22, 2001 and the Fourth Summit of Mar del Plata, November 4–5, 2005.

This Summit admitted stability in the region promoting changes in the power structure to improve institutional organizations and modernization. The major themes treated in the context of the Summits of the Americas since its inception, proposed major political changes trying to change the course of events in particular by:

1. Preserving and strengthening democracy, justice and human rights.
2. Deepen economic integration and free trade.
3. Promoting education.
4. Eradicating poverty and preventing discrimination.
5. Preserving an institutional track of the Summits of the Americas.

After a little more than one decade and then hold new heights as that of the Third Mar del Plata (2005) Fourth Trinidad and Tobago (2009) and Fifth Cartagena's Summit (2012) was in the road of Hemispheric international relations that oriented citizen's participation in the region, basing this purpose on the strategies that gradually would expand the democratic base and encourage the process of economic and social development in many regions and towns. This topic, social progress, political and economic advance would be observed closely, as suggested by the document OAS/Ser.E of Summit Group (SIRG).

The launch of a Plan of action for preserving democracy is a geopolitical and Hemispheric project which consists in supporting various proposed points to strengthen the process of development and social inclusion. In this new geopolitical plan, countries that today are part of the Summit Accord a total of thirty-four sovereign States, thirteen of them represent the British Commonwealth group. They are called to play a participatory and equilibrating game in the geopolitical map of the Hemisphere, where some other continental

nations adopted populist's views about running the state[208]. Reviewing the contents of this and other previous Summits gives the impression that the purpose of preserving a democratic hemispheric consists of stirring up a historic change by improving people participation of the benefits of growth, and the other philosophical goal mostly criticism confined to a traditional expressions of the few participating of the gains of growth and the rest remaining as mere passive spectators. Authors like Buzzan and Little proposed a strategic view of international relations where States cooperate in matters of defense, and the power systems respond to the swaying of the ideas filter by diplomacy, and convey the manifestation of auto-regulated state (2000: 239).

7.4.3. Fifth Summit of Trinidad-2009.

This Summit dealt with various social issues within which stand out:

- Human prosperity,
- Energy and environmental sustainability.
- Strengthening:

a- the public, security

b- democratic governance

- The global economic crisis.

For this Summit are expected to take concrete steps in the direction of building regional solutions to the global challenges.[209] Some of the issues or challenges that worried member countries and which were collected by the multilateral agencies were at that time:

- Growth.
- Inequality.
- Organized crime.

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[208] The Commonwealth of Nations or "Commonwealth" is an association composed of fifty-four independent States or semi-independent states, of which thirteen of them are in the American continent. Its main objective is the international cooperation in the political and economic. Some loyal to the United Kingdom colonies are governed under the Statute of Westminster as Canada. The head of the Commonwealth is her Majesty the Queen Isabel II, and symbolizes the free association of its members.

[209] Brookings Institution. April 2009. *The Fifth Summit Of The Americas*. Various authors: Mauricio Cardenas, editor. Kevin Casas-Zamora. John Deutch. Vanda Felbab-Brown. Carol Graham. Vicki Huddleston and Carlos Pascual. Abraham Lowenthal. Leonardo Martinez-Diaz. Diana Negroponte. Theodore Piccone. Ernesto Talvi and Alejandro Izquierdo.

- Good governance or "Governance."

To highlight the political and economic developments that have occurred in the region between December 2005 and 2006, the document says that there were thirteen presidential elections and 12 elections for Parliament. During those years of uncertainty in the markets and in the international economy, the market dynamic affects the emergence of China and India in the world economy. The progress of these indicators as it is the 5% increase of the GDP and the reductions in the levels of poverty that declined from 4.2 per cent between 2002 and 2005 is a good trade signal.

Emerging Points.

At the 2009 Summit whose title was "Security for citizens, future for prosperity human, hemispheric security and environmental sustainability" sought by all the institutional means at its disposal to the scope of cooperation. Sought to improve the energy climate, creating a group to warn the middle of the debate on hemispheric challenges and facilitator to advance negotiations on climate change policy.

In the Declaration of Nuevo León at the Special Summit of the 2004 Monterrey, powers were granted to deliver 600,000 vaccines anti - retrovirals to treat AIDS[210].

ECLAC insisted that there were several social issues that hung from the social peace within which excels the armament ranging from nuclear to the sale and distribution of all kinds of legal and illegal weapons. Situations as extreme poverty, which excludes from the basic needs of water, education and food to many people, can anger accompanied by situations more determinants such as the enlargement of income distribution gap. One of the major social problems that still persist in the regional environment is the degradation of the environment, situation that occurs to increase pollution in the water and in the air, and squander the infrastructure while the company made less use or waste of the combustible materials that affect the environment.

Another of the serious problems that still exist in the region in accordance with the vision of ECLAC is a change of sign in the economic cycle. It happens that in general and historically looking at the facts, Latin America has been a region

[210] Johnson, Stephen. "Sixth Summit of the Americas-A Primer." *Center for Strategic And International Studies-CSI*. American Program. Hemispheric Focus. April 6, 2012

dependent on what happens in the international environment in terms of the demand for their commodity for industry use and consumption in other latitudes. In the era of globalization the international demand for commodities has changed, demanding improvements in the competitiveness of these products and innovation of our countries in order to improve the performance of such activities.

Improve the policies of access to markets and above all the strategies so that companies remain in them is another problem that militates against the survival of enterprises. For this reason, business complains that their businesses do not move due to excess of stationery that builds up to create a company, and for which there are local companies with regional and international. At the macroeconomic level theme as generate savings and build them up as anti-cyclical mechanisms is linked with the lack of an overall tax policy that is progressive, equitable and universal, and that front in favor of equity fight against evasion in the payment of taxes.

Inequality in the distribution of income is manifested as a latent in Latin America differences, since 20% poorest of the population, only sees 2.2% of income as in the case of Bolivia and the 8.8% of income in Uruguay. Inequality and exclusion are two reasons to pursue policies against maldistribution of income.

Among the topics of the social agenda of the countries of the hemisphere excels that of energy self-sufficiency. The OAS proposes to advance in terms of investment in projects of generation of electricity and promote regional integration in this matter that Colombia is one of the leading countries exporting to neighboring countries that product through the network of electricity transmission. In the field of energy production the regional proposal focuses on the rational use of energy, in the use of alternative sources such as solar sources, the wind energy, the geothermal, the employment of the tides, etc. Adhering to the principles of the Kyoto Convention is to participate in the creation of factories free of emission of CO_2.

Not it can disregard the social component of the summits is accompanied by business proposals as determinants of growth. Small, medium and large enterprises are responsible for becoming a source of employment, reduction of poverty and social inclusion factor. Consistent with the commitments of Monterrey, agreed again that each country is responsible for its own

development, promote sound policies, and coordinate efforts to achieve sustainable development.

7.4.4. Exclusion of Cuba From The Inter-American System and Emerging Possibilities.

With the passage of the years, has been ratified the OAS Charter in which all members have hosted democratic as is the case with the Summit of the Americas initiatives. Referring to the case of Cuba, June 3, 2009, the Ministers of Foreign Affairs of the Americas adopted resolution AG/RES. 2438 (XXXIX-O/09), which resolves that the resolution of 1962, which excluded the Government of Cuba to participate in the Inter-American system, is without effect. However, in the year 2009 is declared expressly that the participation of the Republic of Cuba at the OAS will be mandated by the signatories of the letter, and that its inclusion will be the result of a process of dialogue that was initiated at the request of the Government of the Republic of Cuba but that must move forward in accordance with practices the purposes and principles of the OAS.

It was precisely at the third Summit in Quebec in 2001, when he emphasized the democratic nature of the agreement as a requirement to participate in its deliberations and where was made a review on the needs of the Summit on technical aspects. It was there where, was proposed to advance the collective action on issues of regional interest, but since the year 1996, when prepared the Summit of Santa Cruz de la Sierra, the issue of sustainable development, was legitimized and became a priority concern in the Region. It was in the second 1998 Summit in Santiago, when the Organization of American States helped with his work structuring schools on various topics such as education, science and technology, public participation and drugs, also and very importantly, compliance and follow-up of the mandates from the summits, which created the group for review the implementation of the Summit and created the Office of follow-up established to keep the institutional memory.

This third Summit acknowledged the important role of the OAS in the democratic process and economic development, and agreed that in the process be given a special role to civil society, so that it helped to strengthen the democratic process. To oversee this process, was entrusted to the multilateral hemispheric organization, coordination of work with international agencies, and through

Executive Order No. 02-03 of 31 May 2002, which is to change the name of the Office of follow-up by the of Secretariat for the Summit process[211].

Executive Order No 05-13 Rev. 3 on March 30, 2007, restructured the Secretariat and pointed out its function, against the Government, social, academic and institutional actors. At the Monterrey Summit of 2004, is thanked the Secretariat the task of monitoring and implementation of the mandates. One of the roles was to organize the fourth Summit in Mar del Plata in November 2005, which discussed the theme of creating jobs to confront poverty and strengthen democratic governance. The Action Plan proposed the Organization of civil society to ensure the dissemination of mandates undertaken by the States. Its diffusion is guaranteed by means of the information system of the Summit stated on the website and continue follow-up memory and support the SIRG and the participation of Civil society in the activities of the OAS[212].

The Summit discussed the importance of generating work to eliminate poverty and strengthen democratic governance.[213] Gathered countries whose Governments were democratically elected in Mar del Plata said the urgency of "combating poverty, inequality, hunger and social exclusion to raise the living

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[211] The Secretariat coordinates the activities of the civil society in the Summit process and chairs the working group formed by the General Secretariat of the OAS, the Inter-American Institute for cooperation on Agriculture (IICA), the Inter-American Bank of development (IDB), the Economic Commission of United Nations for Latin America and the Caribbean (ECLAC), the Pan American Health Organization (PAHO)the World Bank, the Corporación Andina de Fomento (CAF), of the Caribbean Development Bank (CDB), the Central American Bank for economic integration (CABEI), the world Organization for Migration (IOM), the International Labour Organization (ILO) and the Institute for connectivity in the Americas (ICA).See: http://www.summit-americas.org/AboutUs-esp.htm

[212] See: http://www.summit-americas.org/AboutUs-esp.htm

"Currently, the summits of the Americas Secretariat continues its work of monitoring, institutional memory and to the SIRG, to the Committee on inter-American summits management participation of Civil society in the activities of the OAS (CISC) and support to the Chair of the process, which has been complemented by outreach, creating incentives for the participation of civil society," collaboration in the presentation of reports, research and other events related to the commitments made in the statements and questions proposed for future summits, ministerial meetings."

[213] Fourth Summit of the Americas Declaration of Mar del Plata. "Creating work to fight poverty and strengthen democratic governance." Silver sea, Argentina - November 5, 2005. The Charter of the Organization of American States and the Inter-American Democratic Charter govern the order among the Member States.

conditions of our peoples and strengthen democratic governance in the Americas." The social content of this hemispheric statement reveals the need to preserve the conditions of work. In the Declaration it is promote social well-being, equitably distribute the benefits of growth, eliminate hunger and seek food security[214]. The macroeconomic environment held that the management of the exchange rate, stability of interest rates, the international mobility of capital, and fiscal balance among other elements, are guarantee of growth, and sustainability of employment. This Summit was the institutional Summit working groups support.[215] Within the social achievements has insisted that Haiti be banned the employment of children, and more than four million voters registered in the democratic electoral system. Several organizations were created with the purpose of reviewing compliance with the mandates of the Summit. The Group of review and implementation of the Summit-SIRG, the group set of work of the Summit-JSWG, the Group's follow-up of the Summit of the Americas.

The presidential declaration of Mar del Plata (5 November 2005) is quite ambitious and is summarized in seventy-two guidelines. Some of the listed aspects are: combating poverty, inequality, hunger and social exclusion to raise

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[214] It is believed that the legitimacy of the Summit comes from the power of the United States. However, the mandates and commitments were taken at the summits of the Americas; the World Summit for Social Development (Copenhagen, 1995); the Summit of the of the UN Millennium of 2000; the International Conference on financing for development from Monterrey 2002; the World Summit on sustainable development in Johannesburg 2002 and the plenary high-level meeting of the sixtieth session of the UN General Assembly of 2005.

[215] The joint working group of the Summit is made up of:

1. OAS Organization of American States
2. IDB Inter-American Development Bank
3. ECLAC Economic Commission for Latin America and the Caribbean
4. PAHO Pan American Health Organization
5. World Bank and World Bank Group
6. IICA Inter-American Institute for Cooperation on Agriculture
7. CABEI Central American Bank for Economic Integration
8. CAF Andean Development Corporation
9. CDB Caribbean Development Bank
10. IOM International Organization for Migration
11. ILO International Labor Organization
12. ICA Institute for Connectivity in the Americas

the living conditions of our peoples and strengthen democratic governance. It seeks also to distribute the benefits of growth in an equitable manner. The growth model must be accompanied by macroeconomic control policies of the interest rates, balance of payments equilibrium, and management of the public debt, competitiveness and full employment. The business sector should collaborate in growth and in the support to micro-enterprises as a source of growth and employment generation. It is against the background of ninety-six million people on the continent who recorded extreme poverty. It seeks cooperation for middle-income countries.

Measures pro-cyclical, looking for equity and social inclusion are looking to deal with economic cycles. With regard to the situation of disaster management programs aims to improve early warning systems, mitigate risks and reconstruction. Comprehensive programs are proposed to fight against poverty and inequality. Alternative crop programs are proposed to fight against drug trafficking. Proposed programs were coordinated along the lines of the financial sector to assign long-term resources to support the process of development and poverty eradication.

In order to facilitate trade seeks to support the negotiations of the Doha round. The Organization is responsible for the FTAA as a source for the equitable exchange where trade is free of subsidies and practices that distort the Exchange, at the same time that other countries consider that free trade will not cater their sensibilities (Art 19). Regarding the foresight of the FTAA, it is textually warned that:

"Some members argue that we take into account the difficulties that have bedeviled the process of negotiations in the Area of free trade of the Americas (FTAA), and recognize the significant contribution that economic integration processes and the liberalization of trade in the Americas can and should contribute to the achievement of the objectives of the Summit of creating jobs to confront poverty and strengthen democratic governance".

For this reason, we maintain our commitment to the achievement of an FTAA agreement balanced and comprehensive, led to the expansion of trade flows... We will actively participate to ensure a meaningful outcome of the Doha round... We also instruct our representatives in the institutions of the Tripartite Committee to

continue to allocate the resources necessary to support the operation of the administrative secretariat of the FTAA.

However warns: that other members argue that are not given the necessary conditions to achieve a free trade agreement balanced and equitable, with effective access to markets free of subsidies and distortional trade practices and to take into account the needs and sensitivities of all partners, as well as differences in levels of development and size of economies... According to what we have agreed to explore both positions in the light of the results of the next ministerial meeting of the World Trade Organization (WTO). For this purpose the Government of Colombia carried out consultations with a view to a meeting of managers of trade negotiations." However, ending President Kirchnner mandate in favor of Macri in Argentina and Cuba-US opening relations after:

"On April 11, 2015, Presidents Barack Obama and Raul Castro shook hands at the Summit of the Americas in Panama, marking the first meeting between a U.S. and Cuban head of state since the two countries severed their ties in 1961. The meeting came four months after the presidents announced their countries would restore ties. Successive U.S. administrations have maintained a policy of economic sanctions and diplomatic isolation. The change in the countries' relations, initially marked by a prisoner swap and Havana's release of a jailed U.S. contractor, prompted some experts to point to better prospects for Cuba's economy and U.S. relations more broadly in Latin America. But the U.S. trade embargo, which requires congressional approval to be rescinded, is unlikely to be lifted any time soon" as suggested by the Council on Foreign Relations-CFR opens interesting avenues to US-Latin American Relations[216].

7.4.5. Multilateral Scope of the Summit of the Americas. The Last Hemispheric Integration Effort.[217]

The Summit of the Americas, which takes place every three years, is the highest political expression in the Hemisphere geopolitical Forum to say by the

[216] http://www.cfr.org/cuba/us-cuba-relations/p11113

[217] Review of the Summit implementation (SIRG group.OAS / be. REUNION AT THE MINISTERIAL LEVEL). 2011 GRIC/M.1/doc.2/11. June 2, 2011. San Salvador, El Salvador. Original: Spanish/English.

1-Declaration policy.

Ambassador Jaime Girón.[218] Its objective as seen from the agreed agenda at the first Summit in Miami in 1994 is to discuss with the governments elected democratically, the region's most pressing problems and find practical solutions to these problems. Joint development projects initiative corresponds to the Organization of American States-OAS the task of acting as secretariat for the purposes of technical support to the Organization of the main themes of the Summit. In the second Debate of Context Road to Cartagena-Sixth Summit of the Americas. (Thursday, March 22, 2012 Universidad Sergio Arboleda) an official of the Ministry of Foreign Affairs Dr. Alejandro Borda illustrated the Auditorium composed of members of civil society the importance to learn about the scope of this and other Summits, which is the result of an active process in the geopolitical milieu of the Western Hemisphere. This initiative is oriented to respond to the problems of economic development and a mechanism to distribute social welfare

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Negotiation Tables:

1. Integration of physical infrastructure in the Americas
2. Poverty, inequality and inequity
3. Reduction and disaster risk management
4. Access to and use of information technologies and communications
5. Safety citizen and transnational organized crime

2-Statements outside of the agenda:

Presidents Rounds.

1. The issue of Cuba.
2. The issue of drugs.
3. The Falklands issue.
3. Table of foreign investors.

Civil Society Four Round.

1. The experience of young people
2. Indigenous participation
3. The achievements of Afro-descendant organizations
4. The proposals of the workers
5. Business results
6. The gaze of social networks
7. The Summit of the people
8. The conclusions of the parliamentary
9. Synthesis of the coordination of the preparation and participation of the stakeholders

[218] Program the evening NTN-24 25 March 2012.

gains. The government officer informed that the thirty-four Presidents faced a thematic proposal known as "Mandates derivatives of the sixth Summit of the Americas." It is proposed that the pronouncement to recognize the importance of measurable realistic mandates obtain sufficient financing funds to advance regional development.

The thematic proposal in this last occasion was submitted to central Governments through the good offices of Foreign Ministers and mandates were adopted by consensus. For knowledge and discussion topics regional leaders discussed in plenum aspects that generated difficulties in the application of the proposed subjects and presented political alternatives to the achievement of their solutions. The Member countries of the Summit finally adopted an *Agenda* of the Summit on this formal basis. The main reason why these officials did not discuss the desirability of inviting Cuba to the deliberations was due to what was agreed in the "Inter-American Democratic Charter" approved at the first plenary meeting, on 11 September 2001. The democracy clause claims "…in which States if any alteration or break of constitutional order of the hemisphere constitutes an insurmountable obstacle…" to the participation of the State Government in the Summits of the Americas process. This clause was finally approved by all the heads of State and Government of the Americas in the Third Summit held in Quebec City in 2001.

It became clear to the attendees of the meeting of the *Road to Cartagena,* is different from the OAS project institutional framework, and that the Organization single function in this meeting consist to provide countries members of Summit technical support. It became clear that the Presidents exclusively decide issuing a message of unity and existence of opportunities which will be expressed through a political declaration with consensus, and based on the document prepared for that purpose which was part of the approved agenda.

The *political declaration*, which would be part of another element of the Summit negotiation, and framed in the terms in which the host country organized the meeting, would be the result of a succinct and substantive document that is conveyed to the international community, and which would only pick up the proposals put forward by Government members of the Summit. These manifestations were discussed and would approve at a meeting of leaders in

private. They entirely would decide on other subjects if it opened other topics to add to the political declaration.

For the negotiation of the chapters of the themes, the negotiation timetable would ensure the inclusive nature of the VI Summit, reflecting the democratic spirit of the "policy dialogues" which would agree with what has been agreed at previous meetings of the SIRG, respecting a protocol of agenda that included a:[219]

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[219] Sixth Summit of the AMERICAS. OAS/Ser.E. 14 and 15 April 2012 CA-VI/doc.6/12. Cartagena de Indias, Colombia April 15, 2012. Original: Spanish. The summary of the five points referred were taken verbatim from Johnson, Stephen."Sixth Summit of the Americas-A first." Center for Strategic and International Studies-CSI. American Program. Hemispheric Focus. April 6, 2012. See the following references for ECLAC for technical details on the five points referred to:

◦ ECLAC. "Latin America and the Caribbean Will Grow by 3.7% in 2012 Amid Global Uncertainty and Volatility," press release, Santiago, December 21, 2011,

http://www.eclac.org/cgi-bin/getProd.asp?xml=/prensa/noticias/comunicados/9/45479/P45479.xml & xsl=/prensa/tpl-i/p6f.xsl & base=/prensa/tpl-i/top-bottom.xsl.

◦ ECLAC. "Poverty and Indigence Levels Are the Lowest in 20 Years in Latin America," press release, Santiago, November 29, 2011. http://www.eclac.org/cgi-bin/getProd.asp?xml=/prensa/noticias/ comunicados/9/45169/P45169.xml & xsl=/prensa/tpl-i/p6f.xsl & base=/tpl-i/top-bottom.xsl.

◦ ECLAC. Broadband for development and Inclusion, Santiago, July 2011, 5-6. http://www.summit-americas.org/SIRG/2011/120711/ cepal_desarrollo_es.pdf.

◦ ECLAC. Economic Commission for Latin America and the Caribbean (ECLAC), "Latin America and the Caribbean Will Grow by 3.7% in 2012 Amid Global Uncertainty and Volatility," press release, Santiago, December 21, 2011. http://www.eclac.org/cgi-bin/getProd.asp?xml=/ prensa/noticias/comunicados/9/45479/P45479.xml & xsl=/prensa/tpl-i/p6f.xsl & base=/prensa/tpl-i/top-bottom.xsl

◦ ECLAC. Natural Disaster Prevention and Response in the Americas and Financing Proposals, Santiago, July 2011, 1-4, http://www.summit-americas.org/SIRG/2011/101111/eclac_en.pdf.

◦ ECLAC. Social Panorama of Latin America, 2011, Briefing Paper, Santiago, 13-15, 2011. http://www.eclac.org/publicaciones/xml/5/45175/2011-819_PSI-Summary-WEB.pdf.

◦ ECLAC. Social Panorama of Latin America, 2011, Briefing Paper, Santiago, 13-15, 2011. http://www.eclac.org/publicaciones/xml/5/45175/2011

◦ ECLAC. Technologies of the communication and the information (ICT) for education in rural areas in Latin America and the Caribbean: closing gaps, Santiago, July 2011, 12, http://www.summit-americas.org/SIRG/2011/120711/cepal_tec_ed_es.pdf .

◦ ECLAC, towards a Regional strategy for integrated and sustainable infrastructure, logistics and mobility policies, Santiago, July 2011,

a. Negotiation timetable, previously accepted.

b. Transmitted the recommendations of stakeholders.

c. Recognize the contributions that social actors bring to the Summit and would be presented not later than Friday, April 13 to the Foreign Ministers of the countries present at the meeting plenary meeting of the SIRG.

d. Of great interest is the discussion held in an organized meeting of the Group of businessmen of the region attending the Summit.

The Colombian Foreign Minister Maria Angela Holguin, explained to the public by various means of the press, which the central themes of the Cartagena Summit VI summarized the aspects of poverty, inequality, safety and other provisions to be included in the Declaration. The subject of the drug consumption regulation as it was reported in the newspaper in Bogota did not make part of the official declaration.[220]

The major themes discussed at the Summit were poverty, inequality, and inequity, since participants believed that the indices of poverty and inequality on the continent, showed negative marks both in the physical and social aspects. Aside from the gap between rich and poor that divide the continent, suggested that the agenda could include other topics outside of agenda as they were the social issues of the drug problem topic of continental scope which warranted at least one regulation on market and consumption.

A novelty of the Summit to say by Holguin is that parallel to the deliberations of the Summit would be the one representing the civil society, which would present its results after the joint actions that followed after the organizers of the meeting proclaim to become leaders of regional recognition. Previous to the Summit Colombia held 25 meetings with civil society, to know about thematic like the social issues elevated by indigenous forums in subjects like

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http://svc.summit-americas.org/sites/default/files/CEPAL%20-%20Hacia%20una%20estrategia%20regional%20de%20politicas%20integradas%20y%20sostenibles%20de%20infraestructura.pdf .

Sixth Summit of the AMERICAS OEA/Ser.E.14-April 15, 2012 CA-VI/DP-1/12.Cartagena de Indias, Colombia April 15, 2012. Original: Spanish. Statement by the president of the republic, Juan Manuel Santos Calderon, after the closure of the Sixth Summit of the Americas. Cartagena de Indias, on April 15, 2012.

[220] Maria Angela Holguin. "De Cartagena will be a Summit with results." El Tiempo. April 4, 2012. You should read. PAG 3.

impoverishment, sovereignty and food security issues. Countries of diverse cultural background as are the thirteen States that are part of the British community, to avoiding their isolation in the region pronounced to avoid the proliferation of mandates or decisions, inconvenient to the success of the Summit. Thus, for example, the issue of the drugs distribution and consumption regulation be an element that generates a climate of political and social discomfort in some countries, as the multinational crime attempts in terms of safety and the well-being of society.

Finally, President Obama's visit to the host country coincided with the signing of the free trade agreement FTA-Colombia-USA, Treaty that come into force on May 15th, 2012. Reach this point of the negotiation is the fruit of previous and longer discussions held in various Hemispheric regions by visible leaders, where relevant aspects are discussed below.

Table No. 4.

Declaration of President Santos on the Technical Agenda Issues and Progress-15th May 2012.

First: the natural disasters.	**We agreed to mitigate its social, economic and environmental impact through the allocation of resources and the design of strategies aimed at the creation of mechanisms of prevention and reaction.**
Second: citizen security.	It is important to ensure the quality of life. The leaders agreed to strengthen cooperation and coordination to combat violence, corruption and transnational organized crime.
Third: the integration infrastructure.	This is a priority for further development and well-being. The implementation of projects with a vision of hemispheric networks in roads, railways, electrical interconnections will be an axis of development and global growth.
Fourth: the use of information and communications technologies.	We agree to promote education, the dissemination of content and empower students in their learning. In terms of public policies allow applying ICTs to education, health, innovation, entrepreneurship, productivity and competitiveness.
Fifth: the eradication of poverty, inequality and equity.	This is important and what we do to improve the infrastructure, the education, and safety and disaster prevention supports the policies of poverty eradication.

Source: Sixth Summit of the AMERICAS OEA/Ser.E.14 and April 15th CA-VI/DP-1/12.Cartagena de Indias, Colombia April 15, 2012. Original: Spanish. STATEMENT BY THE PRESIDENT OF THE REPUBLIC, JUAN MANUEL SANTOS CALDERON, AFTER THE CLOSURE OF THE SIXTH SUMMIT OF THE AMERICAS. Cartagena de Indias, on April 15, 2012.

7.4.6. New US Vision towards Latin America-Sixth Summit of the Americas held in Cartagena.

The author Sabatini (2012) considers that the foreign policy of the United States has changed its vision toward Latin America as suggested by the adopted agenda of the Sixth Summit in Cartagena -15 April, 2012. For several years the interest of the United States to Latin America focused on supporting the consolidation of democratic institutions and the improvement of social opportunities. However over the past few decades Latin America's foreign policy concerns evolved to tackle in the direction of responding to social movements, economic development policy, orient the behavior of electoral politics, and include mandates of the civil society.

Except in the cases of Colombia and Guatemala the issue of the violation of the rights of workers and trade unions, are subjects of concern of traditional patterns and require drastic policy measures. The subject of Zelaya-Micheletti in Honduras triggered a delay in the appointment of Arturo Valenzuela as the Assistant Secretary of the Western Hemisphere. This delay shows that the themes of democracy and trade in most of the cases, and in some the drug issue and safety reveal an oversight in this matter.

And the postulates of the FTAA launched by Clinton in 1994 were left behind with the changing realities of the continent. An example of the loss of objectivity towards the Latin America's region is the proliferation of regional, political and commercial agreements. Only the list of case of MERCOSUL, projecting bilateral trade agreements signed with India, Mexico, Peru and partial scope with Colombia, Ecuador and Venezuela, while the United States was distracted negotiating bilateral agreements with countries some small and marginal in trade figures. In Latin America UNASUR-CELALC and ALBA are distractors of American interests and an illusion for regional reach oil producers intending global or rather ideological influence with the extension of aid via "unlimited" disposal of public saving resources and oil revenues to a political cause. The

problem that has arisen with the issue of the defense of democracy has become an elusive word since some Latin American governments diplomatically supported Presidents Chávez-Maduro, Correa, Evo Morales, Ortega, Bachelett, Fernández and Rouseff, governors that developed particular view about freer elections, democracy and the bias movements of free trade. The traditional parties in many of these States have been overcome by an anti-market and anti-American presence where populism alternative is praised by "Socialismo del Siglo XXI" followers as an independent solution to Latin American freedom. Independent BRIC's as supported by Brazil are developing a particular globalizing geopolitical disposition to put into practices a rather ideological agenda for world matters. Presidents Lula and Rouseff intended labor class capitalism trough syndicalism takeover about social welfare organizations.

The themes to be highlighted below were agreed by the heads of State and Government of the Americas Nations' arguing that they would undertake to comply with the following purposes.

1. Reduction of poverty and inequality:

Some economies in the region showed signs of growth, although indicative indexes show a recession in the years 2008 and 2009 that were worrisome, while the indexes of inequality although dropped from 48.4% to 30.4% from the year of 1990 to the year of 2011, continue to be high for world OECD standards. Something similar happens with the indicators on poverty that declined in the identical period of 22.6% to 12.8%. The Gini coefficient has also declined during those same years. However, more than two-thirds of the region experience signs of poverty, making parts of the region poorest of the world, where life expectancy is low; the education coverage is limited and social mobility very slow.

2. Natural disasters:

After the frightening experience of Haiti and Chile that reported losses of more than $38 billion, it is observed that often in the region of natural disaster situations. Since 1970, there have been more than five hundred thousand dead, affecting the population of the countries. Floods caused by climate change that affects rainfall have also resulted in loss of lives and destruction of properties. In the last decade intensified the frequency and repairing the damage cost more than $446 billion. Due to the vulnerability of the region, it is necessary to have seismic codes and best practices for the construction of housing and public works. United

Nations estimates suggest that savings of four dollars in damages which avoided can be obtained for every dollar invested in prevention. However, in the region this type of codes and legislation to prevent and mitigate disasters has not received the support of the Congress.

3. Access and use of technologies:

The evidence shows that they are poor and rural communities where fewer people benefiting from the use of computers and the ease of the internet network. This assistance can contribute to improving the quality of life in rural communities through improvements and more effective ways of educating, of the distance education, of access to data and virtual libraries. Some countries have developed policies to facilitate each child a computer. Regarding the use of mobile phones, its use has spread but the number of subscribers is just 25% compared with 50% in the OECD countries, and the cost of the call is twenty-five times more expensive than in the region.

4.Citizen security:

Public safety is affected by organized crime, which has proliferated with the resources of the drug and extortion. The Office on drugs and crime estimated that in Latin America is the second highest rate of homicides, which are 15.5 per 100,000 inhabitants. Honduras is the most affected country with a rate of 82 per 100,000, and 32 cities most violent are found in the Americas. The indirect costs of fighting this scourge are very high, reason why it is necessary to provide the police with a better institutional framework, advance programs to educate youth, and advance crime prevention programs. Due to the trans-nationalization of crime requires the competition of all countries in this purpose. Security in the Americas program is supported by the administration of safety, prevention of crime, violence and insecurity, participation to denounce the criminals and international cooperation. The meeting of the MISPA in Puerto Spain in 2012, agreed to improve conditions for the police officers and offer educational programs for its members.

5. Physical integration.

Programs of physical infrastructure are keys to physical integration and development, needs investment in this sector that has been very poor, since about 31 million people in the region lack access to electricity. In the cities have improved indicators. In the field about 25% of the rural population does not have

access to this service. There are no priorities in the selection of projects, and quality control is poor. State purchases and tenders of projects require transparency and supervision. The road network in many countries is very poor and inadequate for the transport of goods and services traded internationally. The road density in Latin America is only 18 kilometers per hundred square kilometers and only 33% of the routes feature pavement.

Final Statements out of the VI Cartagena Summit Agenda.

The President considered that the VI Summit produced a greater space for participation and dialogue with stakeholders. He argued that *"Cartagena hosted forums for young entrepreneurs, workers, civil society and indigenous peoples, and raised the level of the dialogue with the Governments with the participation of two Presidents and a number of Foreign Ministers."* The first Summit Business Americas, initiative of the Colombian private sector, which had the backing of the national Government and technical support from the Inter-American Development Bank, was held in Cartagena. This Forum promoted constructive dialogue between some heads of State and Government and a group of business people from the Americas. The interest aroused by this initiative allows us to consider the relevance of repeating this exercise regularly.[221]

Other subjects like drugs trafficking, Cuba and the return to the OAS, or the appearance of the Malvinas' issue, were very outstanding media contributions of communication. Despite their interest, welcomed by some States was not for agreed by other members of the sixth Summit. Caballero Argáez (2012: p. 29) unveiled the proposals contained in a book published by the Universidad de los Andes titled *"Anti-drug policies in Colombia; Successes, failures and losses."* Several Presidents of Latin America demonstrated last year in favor of a change in policy on illicit drugs production and trafficking. President Santos has raised the need to include the item in the agenda of the Summit knowing that this is an aspect which for Colombia has affected it very much and that the tentacles of this illicit phenomenon extends in many other countries in the region. The issue of the return of Cuba to the democratic community in America is an item on which the

[221] Sixth Summit of the AMERICAS OEA/Ser.E.14-April 15, 2012 CA-VI/DP-1/12.Cartagena de Indias, Colombia April 15, 2012. Original: Spanish. STATEMENT BY THE PRESIDENT OF THE REPUBLIC, JUAN MANUEL SANTOS CALDERON, AFTER THE CLOSURE OF THE SIXTH SUMMIT OF THE AMERICAS. Cartagena de Indias, on April 15, 2012.

Pope invited their leaders to think about a change in the political model, to make a political element model more in keeping with the aspirations of the democratic world. The Panama Summit in 2015 perhaps will embrace this subject in its forthcoming agenda. The issue of the Malvinas Islands represented a problem that surpassed the diplomatic Summit agenda's since this decision affected 54 Commonwealth Nations, 14 of them in as members of the Summit.

The table below in a condensed form shows the main institutional elements that explains the scope of the policy proposals of the Summit of the Americas in the six rounds[222]:

Table No. 4.

Mandates of the Summit of the Americas.

Table No. 4. **Mandates of the Summit of the Americas.**	
1.Democracy	
	• **Processes and electoral procedures**
	• **Transparency and good governance media.**
	• **The fight against corruption**
	• **Strengthening of local governments**
2.Human rights	
	• **Compliance with international obligations and respect for international standards**
	• **Strengthening systems of human rights**
	• **Migration**
	• **Human rights of women**
	• **Rights human childhood and adolescence**
3.Justice	
	• **Access to justice**

[222] http://www.sela.org/view/index.asp?ms=258 & pageMs = 78245

	• Independence of the judiciary
	• Hemispheric meetings of Ministers of Justice
	• Fighting the drug problem
	• Transnational organized crime
	• Prevention of violence
4.Hemispheric security	
	• Strengthening of mutual trust
	• The fight against terrorism
5.Civil society	
	• Strengthening participation in hemispheric and national processes
6.Trade and finance	
	• Trade and investment
	• Economic and financial stability
	• Social responsibility of enterprises
7.Infrastructure	
	• Telecommunications
	• Transport
	• Energy
8.Disaster management	
9.Sustainable development	
	• Environment and natural resource management
10.Agriculture	
11.Work	
12.Growth with equity	

	• Financing for development
	• Favorable economic environment
	• Migration
	• Improvement of stability and social mobility
13.Education	
	• Science and technology
14.Health	
	• Reform of the health sector
	• Communicable diseases
	• Non-communicable diseases
	• Connectivity
15.Gender equality	
16.Indigenous peoples	
17.Cultural diversity	
18.Youth and childhood	
19.Monitoring of summits	
	• Management of the Summit
	• Implementation and funding
20.Connectivity	

Source: http://www.sela.org/view/index.asp?ms=258 & pageMs = 78245

PART VIII.

REACHING BILATERAL FREE TRADE AGREEMENTS—FTA'S.

8.1. Facing the Discouragement of the Free Trade of the Americas.

Despite the success of this diplomatic approach to social and economic advance a missing link characterized Latin American Development. This was the lack of an articulated policy to become a global player in the world economy, and basing the permanence of the Region in this world political environment was determined by the lack of an institutional approach to global politics. This continent did not adhere to a "Balance of Power" approach to global politics, or a Realist Defensive view on periods of deep conflict as occurred during three times during the 20th century affected by two World Wars and a Great Depression. A strategic alliance with Europe or the United States was associated with Industrial Powers Imperialism opportunity where the region advanced via a "dependent" model of growth, nor as a possibility to become a powerful political actor in the international arena to modernize its structures. Some others few argued that this is an ideological determinant of history against our future while others proclaim that integrating the economy of Latin America into a powerful, modern and innovative piece of the puzzle in the global market should be a first best alternative to influence and take advantage for its development in the global governance process.

The failing process of forming a hemispheric free trade zone after several American Summits and Ministerial Meetings deceived many of the Latin American citizens, except perhaps the "Sao Paolo XXIst Century Socialist Countries" that embraced a radical view about trade, development and free elections, considered these three political elements as fragile arguments for growth, regional competitiveness or even a better opportunity for the region to become an economic and political global player.

Thirty four "democratic" nations intended that the FTAA would finish trade negotiation before the year 2005, in particular before the expiring date of the Fast-Track that allowed ATPA-DEA benefits to be unilaterally extended to Andean Countries and other developing nations inspired by the General System of

Preferences-GSP that liberated unilaterally tariff allowances to more than 6,500 products both to enter free of tariffs charges into the United States and Europe.

However, for some less radical Latin American Countries an alternative approach to a Hemispheric Free Trade Zone-FTAA was the signature of a Bilateral FTA with the United Sates. The Colombia Free Trade Agreement was signed on November 22, 2006, by Deputy U.S. Trade Representative John Veroneau and Colombian Minister of Trade, Industry, and Tourism Jorge Humberto Botero. The Trade promotion is a comprehensive agreement that will eliminate tariffs and other barriers to trade in goods and services between the United States and Colombia, and many of the terms accorded were based on what was negotiated in the long discussions celebrated in different national capitals during a whole decade.

Colombia's Congress finally approved the agreement and a protocol of amendment in 2007. Colombia's Constitutional Court completed its review in July 2008, and concluded that the Agreement conforms to Colombia's Constitution. President Obama tasked the Office of the U.S. Trade Representative with seeking a path to address outstanding issues surrounding the Colombia FTA, and the United States Congress then took on the agreement and passed it on October 12, 2011. The agreement went into effect on May 15, 2012, perhaps a good date to remind now that the country realizes that substantial oil and mineral rents is not any more the engine of growth and again Colombia will be highly dependent on foreign trade diversification for sustained long term growth.[223]

Following the First Miami Summit, we remember that political and commercial objectives were settled by democratically elected presidents, many companies, workers, political parties, academic institutions and non-governmental organizations that were called to cooperate with the national and regional institutions to diffuse democratic practices. In June, 1995, after the Denver Ministerial Meeting, the existence of seven working groups was approved together with their study of topics and schedules to identify basic negotiation points. In Belo Horizonte, in May, 1997, the third Ministerial Meeting was held, and the Ministers of Trade approved the initiation of FTAA negotiations for April 1998 in Santiago de Chile during the Second Summit of Presidents. At the

[223] http://en.wikipedia.org/wiki/United_States%E2%80%93Colombia_Free_Trade_Agreement

Preparatory Committee Meeting in October, 1997, the Vice Ministers analyzed the formation of the Working Groups and recommended that the objectives of the negotiation and its principles be discussed at the Ministerial encounter. These discussions were the basis for the beginning of the San Jose Act signed at the Fourth Meeting of Ministers of Foreign Trade in March, 1998.

The proposal to continue negotiating by blocs was accepted for the cases of Mercosur, Can, Caricom or Central America, supported on the principles of the GATT and its most favored nation clause and Article XXIV on negotiating with regional preference zones. Negotiations intended to take place up until 2005, when the FTAA would take effect. Finally twelve negotiation groups intended through single undertaking negotiation to reach an agreement[224]. Some Latin American leaders observed that the long term trend of the regional development depended exclusively of its capacity to growth by its own resources, factors of production and managerial capacity. Some historical schools considered that exporting commodities and raw materials was the key to have access to world markets and articulate the growth process to the dynamism of world markets.

Table 4.

FTAA-Ministerial Meeting.

The eighth Ministerial meeting trade Miami	EE.UU. November 2003
Seventh Quito Trade Ministerial meeting	Ecuador November 2002

[224]Let us remember that during the year of 2004, the Congress of the United States issued Trade preferential Act-TPA, which empowered the Executive to negotiate trade agreements bilaterally. On August 8, 2003, USTR Robert Zoellick announced the disposition of the American Government to start trade negotiations with Colombia, and on 18 November 2003 in the 8th Ministerial meeting of the FTAA in Miami, officially launched the negotiation of an FTA for countries benefiting from the ATPA-DEA. Colombia country that had expressed interest in negotiating an FTA with the United States by different ducts and channels found in this standard of temporary unavailable a new opportunity to improve relations with the North Country and leverage as a political tool in negotiation its relentless fight against terrorism, drugs and illicit business practices as the smuggling and money laundering.

See: Office of the United States Trade Representative. *Trade Policy Staff Committee*. Andean FTA Public Hearing. Wednesday March 17, 2004. The Public Hearing Convened In Conference Rooms 1 & 2 In The USTR Annex At 1724 F Street, N.W., Washington, D.C., At 10:00 A.M., Carmen Suro-Bredie, Chair, Presiding. Present: Office Of The U.S. Trade Representative: Carmen Suro-Bredie, Chair Don Eiss,Chair William Clatanoff Bennett, Harman Mary Lattimer, Stefan Osborne, Gloria Blue, Executive Secretary.

Sixth Ministerial meeting of trade Buenos Aires	Argentina April 2001
Fifth Ministerial meeting trade Toronto	Canada November 1999
Fourth Trade Ministerial meeting San José	Costa Rica March 1998
Third Trade Ministerial meeting Belo Horizonte	Brazil May 1997
Second Trade Ministerial Meeting Cartagena	Colombia March 1996
First trade Ministerial meeting Denver	EE.UU. June 1995

Source: Office of the United States Trade Representative. Trade Policy Staff Committee. Andean FTA Public Hearing.

8.2. Learning from Working Groups on the FTAA.

The gradual construction of a Hemispheric Block of nations intending to become a global player in the world market was affected by some ideological interpretation about this alliance by some Latin American Leaders not well judged or evaluated by history. Although the FTAA negotiations did not come into effect after Mar del Plata Meeting in 2005, still some of the economic terms partially negotiated in this failing geopolitical attempt were fundamental elements for the advancement of the bilateral negotiations that still characterizes the relationship of some Latin American countries with the United States. The fundamental elements considered in these persisting negotiations were:

1-Access to markets. On this topic, the work of information gathering on tariff and non-tariff barriers and preferential access conditions was very valuable. It is essential to have an inventory of the customs classifications including phyto and zoo- sanitary measures, as well as the health measures that are applied by the countries in the hemisphere. Likewise, this information is needed with respect to barriers and technical standards on trade. Although it is expected that coordination of this type of instrument would be studied in the respective technical groups, it is necessary that the information be registered according to the customs sub-classifications which how the goods would finally be registered upon entering the countries. The definitions with respect to the tax reduction program inasmuch as initial tariff and coverage of the program are concerned should be given once the treatment to be granted small economies is clear.

2-Customs Procedures and Origin Regulations. The work being done in this group in an attempt to synchronize and simplify customs procedures is vital, as is the search for a transparent scheme to establish origin and an agile administration. However, the most important thing to achieve these objectives is technical cooperation in the customs area and an analysis of the possibility that the rules on origin be simultaneously studied together with the tax reduction program. The Preparatory Committee proposed a progressive elimination of tariffs and non-tariff barriers and negotiation of all tariffs. With respect to principles, compatibility with GATT Article XXI is sought. In general the aim was to preserve the coexistence of bilateral and sub-regional agreements, as well as pursuing gradualism, equilibrium and simultaneity in partial agreements.

3-Investment. Progress recorded in this area in the Hemisphere, as a result of the liberalization process and structural reform of the economies has allowed this working group to advance in a search for formulas that will favor investment. It was suggested that areas of convergence be explored to allow progress toward the synchronization of legislation and adoption of mechanisms that will lead to the adoption of conflict resolution schemes that are agile and transparent. The foreign investor finds it important to eliminate double taxation of his profits. The Preparatory Committee's objective was to find a fair and transparent legal framework to protect investment, and with respect to principles to avoid discrimination, preserving a fair and equitable treatment of countries.

4-Technical Regulations and Barriers to Trade. The mandate this group received was to attempt to propitiate progress in the compilation of national regulations. The importance of these lies principally in the degree to which such technical regulations can become barriers to trade. For businessmen it is extremely important that progress be made in the use of internationally accepted criteria and the synchronization of regulations and their application be promoted among the countries of the hemisphere. Additionally, it is necessary that the customs be technically linked to the authorities in charge of these matters from one country to another, since they are the ones to apply the rules when merchandise enters the country. The Preparatory Committee set the goal of preventing technical barriers in the hemisphere, preserving congruence with WTO provisions. With respect to principles the idea is not to create barriers.

5-Sanitary and Phytosanitary Measures. As regards sanitary and phytosanitary measures, the job of compiling regulations is fundamental to the synchronization of the various schemes provided for not only in national legislations, but in regional agreements. It would be ideal for the progress of this group to aim at achieving greater transparency and synchronization in this type of measure.

6-Subsidies, Anti-dumping and Compensatory Rights. Advancement in the compilation of the status of national legislation and the extent of their commitments to the WTO, in addition to being useful is a condition for advancement in negotiations. In particular, it was necessary to define whether commitment will go beyond the WTO in some aspects. The topic of treatment of internal support for production is a matter of vital importance to the private sector. Analysis of subsidies must be detailed to guarantee competitive conditions that are suitable for the productive sectors. In the Preparatory Committee, the objectives were to eliminate subsidies, identify practices that distort trade, such as subsidies, apply anti-dumping legislation and allowances. Inasmuch as principles were concerned, it was recommended that negotiations be transparent and consistent with WTO obligations and allow the coexistence of bilateral and sub-regional agreements in the hemisphere.

7-Small Economies. Although this group has advanced in the technical analysis of treatment of small economies within regional agreements already signed, it was agreed to include it in each specific aspect with the negotiation groups. The definition of treatment to be given the small economies is needed to determine the starting point for commitments on topics of such importance as access to markets and subsidies.

Additional Groups.

In Cartagena's Summit, four additional working groups were established. These groups are in charge of the fundamental areas for consolidation of the integration process.

8-Intellectual Property Rights. As regards intellectual property, it is important that a diagnosis of the status of commitments in this area be done by the countries in the hemisphere. It must be kept in mind that progress in this area is vital for the consolidation of foreign investment. In Costa Rica, the objectives propose an agreement of mutual understanding that will reduce the distortions in hemispheric trade. In relation to principles, they identified those of national

treatment and the most favored nation clause, avoiding any decrease in the level of protection of the countries during the negotiations. As intellectual property is not adequately protected in the hemisphere, we must revise national legislation, taking into account the objectives provided for in the ADPIC on effective protection, reduction of distortions and hindrances to international trade. Likewise, it was recommended that measures be adopted and implemented to:

- Guarantee compliance with outside legislation
- Combat pirating and falsification
- Reinforce the judicial and police systems to guarantee the application of rights in effect
- Foster the establishment in each country of an industrial property office
- Encourage member countries to adhere to the principal multilateral agreements dealing with intellectual property.
- Urge countries to ratify WIPO treaties on Copyrights and the Production and Reproduction of Sound Tracks
- Promote prompt adoption among governments of the obligations and terms established in ADPIC.

9-Public Sector Purchasing. Given the lack of transparency and the existence of rules and practices that favor national enterprise over trade and the productivity of economies, the establishment of a regime of equal opportunity is sought for the companies in the FTAA countries with respect to supply of goods and services for government projects.

This group consensually recommends that:

- Transparency be guaranteed in government purchasing
- Mechanisms be established for contesting and solving controversy
- Incorporation of the FTAA topic be gradual, with periods of transition and asymmetrical treatment for small economies
- Discriminatory treatment be eliminated, giving national and most favored nation treatment to all suppliers in the hemisphere
- Anti-bribery laws be adopted and applied
- A database with legislation, rules and procedures of the public sector be created, as well as a registry of goods and services generally requisitioned by the governments of the region

10-Competition Policies. In the area of competition, it is important to establish the criteria on which private agents and state monopolies will acquire commitments. National legislation should be evaluated to create harmony among processes and the authorities that judge cases. In the Preparatory Committee the objectives aimed at avoiding anti-competitive practices and advancing in the legal and institutional coverage to guarantee regulations on free competition. With respect to principles, strict adherence to the Declaration of Belo Horizonte was agreed upon, as well as consideration of the differences among systems and legal traditions, varying degrees of development and application of competition policies.

11-Services. On this topic, it is essential to simultaneously negotiate both the principles countries are committed to in this area and the coverage of sectors these principles are to be applied to. The experience in cases such as GATT and TLC of the Group of Three, has shown that separate negotiation of these two topics has limited progress in the integration process. In the Preparatory Committee, the objectives were directed toward an agreement on disciplines for trade in services within a free trade area. This agenda was shared by the remainder of the private sector. The real environment must have evolved toward a scheme for the consolidation of this process. Governments must advance so that when the hemispheric integration process begins there is some convergence. Some of the topics on this agenda relate with the need to move ahead in a process that leans toward the coordination of macroeconomic policies. The problem of macroeconomic instability has not been overcome in Latin America. This is the case of exchange instability.

In the particular trading areas of customs, legislation should improve to contribute to facilitating trade without abandoning the work of supervision and control. In the case of land borders around Andean Group countries businessmen have identified the problem of a lack of equivalency in the fees for services as an overhead cost on the import process from neighbor countries. In the area of transportation the main bottlenecks to increasing trade are evident by lack of modern infrastructure like roads and bridges to attend heavy trafficking and celebrate improvements in the opportunities of the various types of transportation. With respect to human capital, it is essential that the integration process allow the free circulation of this factor. In addition to promoting

technology transfer, this is an elemental factor in the regionalization process. In the field of telecommunications and connectivity, it is necessary to analyze the possibilities of the region inasmuch as availability of services and costs are concerned.

8.3. The FTA's Bilateral Discussion between Colombia and the United States—New Wisdom.

The ratification of the FTA between Colombia and the United States is in a window of opportunities, business investment and transfer of knowledge to Colombia. This Bilateral Trade Agreement was approved on 10 October 2011 by the Congress of the United States and entered in effect since 15th May 2012. Several public announcements about the scope of the agreement, its contents and obligations acquired by the parties were herd during several discussions held in the United States and other regional capitals and was an adjusted interpretation of some of the terms of the FTAA so far accorded and in others a mirror of what was accorded in some of the FTA's negotiation. The date needed by sign three agreements with Colombia, coincided with Panama's and South Korea FTA's although they made part of a total of other fourteen bilateral US-FTA's[225].

The Colombian National Congress has approved the contents of the draft of the trade agreement and the Constitutional Court at the beginning of the year 2008 studying the constitutionality of the Treaty. On March 18, 2008, President Bush referred to the port authority of Jacksonville on the Treaty to be signed with the three countries concerned, and catalogued to Colombia as an agreement with significance for national security. We can say that in that respect the principle of the "pipe-line" the American Government now headed by President Obama and his Secretary Hillary Clinton found the support required in the American Congress allowing this Treaty to enter into force.

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[225] http://www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta/final-text.

USA-Free Trade Agreements: Australian FTA, Bahrain FTA, CAFTA-DR (Dominican Republic-Central America FTA), Chile FTA, Colombia FTA and Advisory Group Reports on U.S.-Colombia FTA, Israel FTA, Jordan FTA, South Korea FTA, Morocco FTA, North American Free Trade Agreement (NAFTA), Oman FTA, Panama TPA, Peru TPA, Singapore FTA, Trans-Pacific Partnership, Transatlantic Trade and Investment Partnership (TTIP).

June 29, 2009, President Uribe held a meeting at the White House with the President of the United States Barack Obama, where they talked about the interest of the two countries by direct commercial interests towards the freedom of markets and the search for a free trade agreement. President Obama referred to the instructions which gave Ambassador Kirk, representative of the outside-USTR trade so that he worked closely with the team of President Uribe, to reach some formulas to address a few terms to finally sign the agreement on the referred date. On the occasion of the inauguration of President Santos on August 7, 2010, members of the Congress of the United States who came to the ceremony of possession suggested that before the Congressional elections, the legislature approved the Treaty.[226]

The understanding between these two Nations marked a milestone in the hemispheric integration and democracy, while some of the commitments and benefits expected from this agreement are that:

1. Colombia must advance an important institutional reform to adapt their production and trade structures to adapt the national economy to this commitment to trade and investment.

2. To compete in a context of free trade, it will not solve all the problems of a country this which will be a tool to increase the exchange and take advantage of the degree of national expertise in interchange of new products with higher added value.

3. Can occur in a first phase of market opening, trade decrease, but long-term losses are offset with the emergence of higher degrees of production specialization.

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[226] See: http://www.elespectador.com/articulo-217954-dan-senales-santos-de-querer-aprobar-el-tlc date on August 9, 2010. The bipartisan Commission of the Congress of United States, who met on Monday, August 7 in Bogota with President Juan Manuel Santos, declared about the early adoption of the Treaty of free trade agreement (FTA) with Colombia. The head of State Press Conference, Senator George Lemieux said that the purpose is to work to prevent the ratification of the agreement between December and the spring in the United States. He said that the American legislative intends to approve the text of the Treaty in its entirety. He stressed that another objective is to continue to strengthen the good relations that have traditionally kept Colombia and United States. "We believe that there is no better friend or ally of the United States that the people of Colombia, the Government of Colombia and the Colombian people," said the head of the delegation of Congress members from United States, Eliot Engel.

4. To reduce import taxes, many companies become more competitive by having access to new technology. These companies will be more competitive access to the market American, to sign agreements of economic as in the case of maquiladoras.

5. The success of the economy will depend on the deepening of the model for the promotion of trade, against the substitution of import or association between domestic enterprises and those of the world.

6. It is believed that the flow of foreign investment would increase as it did with Mexico, sector which grew 14% a year between 1993 and 2002, which reported the economy product to grow from 1.5% to 3%, after signing NAFTA.

7. Specialization in the production at the regional level will enable the country break away from the situation of dependency that earned as in the cases of Venezuela and Ecuador that intervene to direct trade in opposition to the Andean Community free trade rules.

8. Key agriculture products, will have protection for some years, allowing them to improve their competitiveness.

9. FTA's as this require changes in the educational system at all levels, in order to access more advanced levels of innovation.

Colombia invited the members of the civil society in order to inform them about the scope of holding bilateral negotiations with the United States in development of the negotiating framework of the Free Trade Agreement-FTA. Cleared the doubt about the scope of the free trade agreement Colombia-USA, and warned the civil society that it would be negotiated under the standard of the "Single Undertaking" to provide confidence to the parties. The Government noted that the FTA guarantees the access of a product to another market easily and without barriers, allows the marketing of national products, helps raise the level of employment, and contributes to modernize the production system. Other goals attributed to this bilateral treaty are to: raise welfare, facilitate the movement of people between countries, promote the creation of new companies, disseminate and explain norms, share an institutional and search legal convergence trade practices with the country with which it is negotiated.

Let us remember that during the year of 2004, the Congress of the United States issued Trade preferential Act-TPA, which empowered the Executive to negotiate trade agreements bilaterally. August 8, 2003, USTR Robert Zoellick announced

the disposition of the American Government to start trade negotiations with Colombia, and on 18th November 2003 in the 8th Ministerial meeting of the FTAA in Miami, officially launched the negotiation of an FTA for countries benefiting from the ATPA-DEA. Colombia country that had expressed interest in negotiating a FTA with the United States by different ducts and channels found in this temporary rule a new opportunity to improve its relations with the North Country and leverage as a political tool in negotiation its relentless fight against terrorism, drugs and illicit business practices as the smuggling and money laundering[227].

When we analyze the document *"Office of the United States Trade Representative-Trade Policy Staff Committee,"* Andean FTA Public Hearing, March 17, 2004, shows that Colombia had begun a "lobbying" action by firms representing the Colombian interests in Washington from long ago. In this Hearing before the USTR, Mrs Mariana Pacheco, Director of international trade at the firm Sander American, Travis, and Rosenberg. (Page 126, line 10) make public the fact that she as representative of Andi, and in his capacity as a spokeswoman for the Chamber of the cotton fiber, Textiles and clothing, shares some key aim of American industry that affect an eventual bilateral negotiations with Colombia. She explains that for the country this vertically integrated industry deserves to know the size of this industry in the two countries and considered that in this manufacturing business and the culture of fiber, it is important to ensure that the level of global competitiveness is preserved without injury to the parties. Tariff reduction contemplated in the ATPA-DEA Colombia helped to increase by 2003 exports of apparel by 20% and that of textiles by 50%. Suggests that in the two-way market, imports from the United States increased a 33.8%, and to harmonize tariffs as a result of the agreements reached in the WTO and eliminate quotas, Colombia would have to improve their competitiveness to cope with wider markets.

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[227] Office of the United States Trade Representative. *Trade Policy Staff Committee. Andean FTA Public Hearing.* Wednesday March 17, 2004. The Public Hearing convener In Conference Rooms 1 & 2 In The Ustr Annex At 1724 F Street, N.W., Washington, D.C., At 10:00 A.M., Carmen Suro-Bredie, Chair, Presiding. Present: Office Of The U.S. Trade Representative: Carmen Suro-Bredie, Chair Don Eiss, Chair William Clatanoff Bennett, Harman, Mary Lattimer, Stefan Osborne, Gloria Blue, Executive Secretary

This private spokesperson, remember the signing of an FTA, Colombia would benefit of tariff freedom and of the amendments agreed in the management of the rules of origin to third countries. Thanks to the entry of Colombian goods to the market of the United States by virtue of the ATPA-DEA tariff benefits, 60,000 new jobs were generated in the country, improving security conditions in cities of high level of unemployment. Employment expectations regarding commerce in Rich Stetson (page 131) highlighted in this public debate to the American Government, that exports from Colombia to the United States will anticipate broad benefits to exporters and local producers, once these are tax free and come the from the wide network made out of apparel producers in Andean countries benefited of the origin rule.

Andi representative emphasizes to this concern stating that the benefits for the country were notable since in various inputs products including woolen apparel for men and women, dresses for kids, cotton fabrics and stockings were considered as good quality products making good commercial possibilities for these products. She is cautioned in this hearing that as regards the regulation of workers, there are more than 100 makers companies that have adhered to the World Wide responsible Apparel Production-WWRAP, which means that Colombia can ensure very high levels on labor requirements and show in production line high environmental standards, which ensures its competitiveness in the American market.

Statements as described until the launch of negotiations on an FTA with the United States, was made public are reflecting the interest and concern of Colombia to achieve a position in the American market for their products, development and extension of the ATPA-DEA and a possible FTA bilateral agreement.

8.3.1. Usefulness of the export model.

The first models of integration defined as areas of free trade and then as customs unions, were designed to combine exchange schemes that expose their economies to the productive specialization, thanks to the change in the relative prices between goods produced domestically and imported when they are freed from the effect of the tariff. Some authors as Bhagwati underline that international trade is based on the theories of value and the welfare and differentiates between

static proposals that describe situations of equilibrium, or those of comparative static that distinguishes between values of equilibrium at different points of time. The first models refer to patterns of trade derived from the theory of comparative advantage, the formation of prices, production functions and factors of supply and demand.[228]

Robson an academically distinguished author explores the peculiarities of the trade, such as the formation of the areas of free trade, common market customs unions and formation of customs unions. This theory of customs unions, suggests that part of the implementation of the conditions that highlights the concept of the second best second-best" is a good try. The proposal for the integration of markets is related to increases in production by way of specialization, the exploitation of economies of scale, terms of trade gains, and improvements in efficiency, as well as situations of change in the proportion of production factors[229].

In the aforementioned work, the current explored by Meade says the convenience of establishing in that sense these customs agreements generate benefits to help the economy enter into a virtuous circle, and the author Johnson, raised as a distinctive customs trade agreements, the effect that raises in welfare, making them a source to reduce the costs of industrial inputs. Other non-economic currents see tariff a transient proposal to defend the agriculture or industry while rising to acquire international efficiency levels. There are other schools of economic integration where more policies and the moves from the static considerations, appreciate the dynamic motivations of the trade, and the generation of external economies of production, with its effect on economic growth.

The recognized author Bela Balassa develop political proposals for integration and encourage a social integration long term process encouraged by cooperation between national economies, where formerly protected by tariff and non-tariff formulas depend more on the institutional process. [230] This last aspect of public cooperation is today very much taken into account in the various successful

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[228] J. Bhagwati, 1969, "The Pure Theory of International Trade: A Survey." In *Surveys of Economic Theory. Growth and Development.* Mac Millan. London. 1925-155.

[229] P. Robson. 1972 *International Economic Integration*.Penguin Books.

[230] Bela Balassa. 1973 *The Theory of Economic Integration.*Unwin University Books. London.

integration processes, as in the case of models of the European Union, which achieved greater political and social cohesion, developing agreements between the Member States, or with other countries and blocs of Nations. Within this environment of integrationists' cases experiences like Mercosur and the Andean Community first negotiated agreements among themselves helped to improve exchange of goods, and secondly as group of democratic countries precede the integration negotiations with other similar trading blocs in the world. Moving forward on this issue, schemes for economic integration at the regional level have produced effects in the mobility of factors of production including people, stimulated regional specialization and sought new ways to direct investment support.

We can say that the world, in terms of makes to the understanding of the commercial theme, moves on a new model that institutionalizes the common interests of trade, with new investment. Specific institutional mechanisms help to increase production through specialization, exploitation of economies of scale and agglomeration, as Krugman suggests, and to generate efficiency chains, and finally to support the proposals of innovation as suggested by the authors Romer and Lucas[231].

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[231] Some authors that discuss the endogenous growth theory are: Lucas, Robert E. "On the Mechanics of Economic Development." *Journal of Monetary Economics*. 1988. 22: 3-42. Romer, Paul M. 1990. "Endogenous Technological Change." *Journal of Political Economy*. No 98. October. S.71-S.102. Barro, Robert J y Xavier Sala- i-Martín. "Convergence."Journal of Political Economy. Vol 100, No 2. 1992. Barro, Robert y Xavier Sala-i- Martín. *Economic Growth*. Mc Graw-Hill International Editions. 1995.Barro, Robert J. 1999. *Determinants of Economic Growth. A Cross-Cuntry Empirical Study*. MIT Press. Cambridge. Barro, Robert. J. "Economic Growth in a Cross Section of Countries."*Quarterly Journal of Economics*. 1991. Pp.407-443. Sala-i-Martin, Xavier. "The Clasical Approach to Convergence Analysis." *The Economic Journal*. No 106. 1966. Romer, Paul M. 1993. "Idea Gaps and Object Gaps In Economic Development." *Journal of Monetary Economics*. Vol. 32. NBER. Pp, 543-573. Romer, Paul M. 1990. "Endogenous Technological Change." *Journal of Political Economy*. No 98. October. S.71-S.102. van Marrewijk, Charles. 1999. "Capital Accumulation, Learning, and Endogenous Growth." *Oxford Economic Papers*. Vol 51. Pp. 453-475. P.453. Crafts, N.F.R. "Exogenous or Endogenous Growth? The Industrial Revolution Reconsidered." *The Journal of Economic History*. Vol 55. December 1995. No 4. P.746. Chandra, Ramesh y Roger J. Sandilands. "Does modern endogenous growth theory adequately represent Allyn Young?" *Cambridge Journal of Economics*. 2005. Vol 29. Pag 463-473. Aghion, Philippe and Peter Howitt. 1998. *Endogenous Growth Theory*. MIT Press. Cambridge.

These dynamic cut agreements were added peculiar manner in the Region, such as those who are inspired by the terms "Open-Regionalism" solution proposed by ECLAC, which in its most recent expressions explained the problems to access new markets with goods manufactured with high technologic content[232].The Mexican economist René Villarreal has a proposal to justify economic integration as suggested by the NAFTA experience about industry protection, export promotion and a social shift of production passing national manufacture form the reveled comparative advantage into the systemic competitive advantage[233]:

The Basic Competitive Advantage model guarantees entry into the international market considering there is an ability to achieve productive improvements – in costs, quality of production and establishing a comprehensive service to the customer. This foreign trade mode does not guarantee the permanence of exports in the foreign market. The model of the Reveled Competitive Advantage means a position in the international market, matching the competition with other similar products in the international market via tactical operational techniques of competition. This is a good technique to have prompt market access however it does not guarantee the permanence in it during the medium and long term.

The Sustainable Competitive Advantage ensures the long-term sustainability to market access and is achieved through the continuous improvement of production techniques and product innovation. Development and strengthening of competitive enterprises depended on a production system that is intelligent, flexible and agile. Innovation, higher productivity of labor and the escalation in value added after introducing products with higher technological improvements helps the sustainable competitive advantage. It is the speed of learning and

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[232] The open regionalism in Latin America and the Caribbean. Economic integration at the service of the productive transformation with equity. ECLAC. Santiago of Chile. 1994. In addition the productive transformation 20 years later. Old problems, new opportunities. ECLAC. May 2008. Santiago of Chile.

[233] Villarreal, René. "México Avanza hacia una Economía Avanzada en el Siglo XXI: Las Condiciones Para El Desarrollo De Sus Empresas. La Competitividad Sistémica De México y El Desarrollo Sustentable De Sus Pymes." Agosto 17, 2004.Villarreal, René. *Diez Años Después. Experiencia de México y Lecciones Para América Latina*. Grupo Editorial Norma. Bogotá. 2004.

innovating in new products and introducing processes along the value chain a source of adding more value into the entire line of production and therefore here is where the company continuously and faster remains in competition. Generating economies of agglomeration in clusters is a final structural procedure to gain competitiveness in the relative speed of the international competitors.

Villarreal resumes his proposal stating that SCA are:

"Strategies that allow the competitive development of their productive sectors, supported by competitive enterprises in domestic market as in the outer, with growing productive linkages and greater added value, where the articulation of the actions of the public, private and social sectors allows to carry out an active inclusion of national companies to globalization are required…" to achieve this sustainable advantage.

8.4. Persuading Colombia to open its Economy.

For more than forty years, Colombia has insisted on the goodness of the exporter model as source to achieve economic growth, based on the dynamic that generates the foreign trade activity in an emerging economy. In this medium of Exchange, strategies that allow the country, becoming a player in the global exchange system was trading and its institutional structure is associated with the style of diplomacy followed.

Since the expedition of the 444 Decree-Law of 1967, it was institutionalized in the middle of national public policy, a political and economic agenda which changed the role of the State, to transfer some of their powers to multilateral agencies and areas of negotiation. The legal scope of this standard was intended to bring commercially to the country to markets that opened up their economies to Exchange, through a series of treaties and norms of obligatory compliance for parties. Some theorists suggested that the important trade policy open to trade bases in creating new trends and not properly diverted it to less competitive markets.

Multilateral agencies proposed within their regulations legal schemes ordained free trade, on the basis of incremental schemes of tariff liberalization and institutional arrangements to facilitate the Exchange. In exceptional cases, formulas were accepted to promote regional exchanges, or respect bilateral trade formulas, when it tried to create trade between the neighboring Nations, whose

Exchange was very low, due to the application of tariff rules and other restrictive practices of trade between the neighboring Nations.

The change in the way of doing commerce in Colombia deepened with the issuance of a Trade and Exchange Mechanism status and foreign trade in 1967 when it was proposed the issuance of long-term commercial proposals. Recognized the scope of diplomatic initiatives in the framework of the Conference of UNCTAD, which provided theoretical solutions to the fundamental problems of development, as the case of instability in income from sales abroad, was to overcome unstable situations of employment in the agricultural sector, overcome insecurity facing access to sources of foreign exchange, and in general counteract the effect of the instability in the Exchange to create specialization for commodities funds.

General trade proposals were agreed in the emerging multilateral negotiating environment, offering developing countries the benefit of trade agreements on the basis of a set more comprehensive and concrete easier access to the markets of the industrialized countries, in support of the production of domestic products under competitive conditions. Since it was signed the General Agreement on Tariffs and Trade-Gatt during the 1940s to the 1990s, when it was agreed his transformation in the Organization World Trade-WTO, the signatory countries of these treaties, were part of a market more and more large, specialized, interactive and institutionalized.

The new global trade system that was conceived as a mechanism through which economic integration schemes they had different versions and advancing within a framework of "Building Blocks" supporting different forms of customs unions and the signing of other conventions which were part of a global market more integrated and interactive, scheme of which Colombia approached by different routes. Thus, the ideal of proposals such as the subscribed by Professor Baghwati, consisted of search with the help of the trade, to compete in an open world, where you create new trade flows, idea that differed from that aimed to strengthen competitive between blocs of countries, as in the case of the so-called NAFTA positions, where although deviating trade for some time the political benefit was to achieve competitive positions based on the help of the Government.

To reach situations of integrated world trade, the first scheme of integration by economic blocs, termed it the of tariff common areas, in which the signatories committed themselves to participate in a tariff elimination process among the members, respecting the differential tariff system entered into with third countries. With the creation of the Latin American Association of integration-Lafta was thought in advance a process of tariff elimination more widespread among the Member countries, without stopping to think too much, in that of subscribe a common external tariff that prevented integration with other trade blocs. United States as a large market and the absence of response from some multilateral models, found in the bilateral formula for approaching to market friendly Nations a possibility of a common development formula.

The author Buzan (2004) in his work *From International to World Society* suggests that there are new mechanisms for integrating thinking in the creation of a global system. The first refers to the model of the international system that grants a broad political power the world trade institutions, when Member States seek common ways of relating. The second is defined as international society, proposed the institutionalization of common interests among States. The third is that refers to the support of organizations societal or non-governmental, to which the aspect that is referred to the creation of a mechanisms that generates the forms of identification through common values.

By the year 2015, it is believed that if the multilateral trade constraints are overcome, it will be a new Agenda of integration, which adjoins the proposals of models of globalization, where the world will become a big market. The author Robert Gilpin in his work *The Challenge of Global Capitalism* (2000, p. 53) insisted that from the termination of the World War II, was a growing delocalization of Nations that practice capitalism creed as a form of production, which came from the breakthrough on the issues of trade, of the organization around the dollar coin and a big rise of the foreign investment currents.

8.4.1. The new commercial spirit of the FTA.

By virtue of the serious delays that registered in last years the signing of the Free Trade Area of the Americas-FTAA under the appearance of other political and social projects, and currently lacking the constitutional system for the ratification of the Congress of Nations of these initiatives after Doha's long delays, that

situation detained before the logic of initiatives of continental or global scope, Colombia started approaches with other economic blocs in order to diversify their exchange disposals and continue in the line of advocating for world freer trade practice. Its sign reveled in second best trade treaties negotiated bilaterally with countries such as the United States, Canada, Panama and Korea. However, at the multilateral level the country has seized the opportunity offered by the European Union to sign agreements between economic blocs, as in the case of the Andean-European Union members where Peru and Colombia reiterated this will.

There are other negotiating initiatives block by block, as it is that of the Andean Community and the Common Market of the South-Mercosur, which records some obstacles to receive the unanimous approval of members for the purpose of accepting to Venezuela as a country with full rights in this Commercial Community agreement of the South.

Meanwhile and waiting for winds more auspicious, Colombia has advanced negotiations with the United States, that developing country of its Trade Act, it has been found suitable identify which are friendly countries with which it would be willing to sign bilateral trade agreements, generating a huge and transformative business alliance. Development of the law of Commerce of the United States, this nation has signed TLC's with countries so distant and different in the economic as Australia, Morocco, Malaysia, Bahrain, and mainland Chile, Central America, and in accordance with the provisions of the legal scheme of the "Pipe-Line" lacks in the Congress of the Union to ratify treated bilateral with Colombia, Panama and South Korea in their order.

To get to the signing of a free trade agreement with the United States, it is necessary to understand that this process of international diplomacy, is conditioned by the historical fact that the world moves along a route, in which phenomena are expressed as the globalization of markets, historical trend which determines the choice of policies and the tempering of political interests in many countries. The emerging signing of a trade agreement on the bilateral agenda with Colombia, then responded to a strategy of private negotiations, followed by the United States with some friendly Nations, but also implied on those days the search for consensus as in the case of trade unions and groups that defend human rights.

These groups entered in the middle of the diplomatic negotiations settling their interests some complex issues such as the "security" aspects and other questions related with the unilateral proposals such as the ATPA and the Andean Trade Preference Act and Drug Enforcement Authority ATPA-DEA, granted under the relentless fight against terrorism, growing hallucinogenic drugs and other illegal ways to make money.

The National Congress has approved the contents of the draft of the trade agreement and that the Constitutional Court in 2008 studied the constitutionality of the Treaty. On March 18, 2008, President Bush referred to the Jacksonville port authority about the Treaty to be signed with the three countries concerned, and above all Colombia listed as an agreement with significance for national security. Bush proposed that political differences are not lodged in the signing of the agreement, which is urgent and priority to the interests of the nation. In his speech, the strategic priority based it on findings about the political content of the computer of the FARC guerrilla, Raul Reyes in Ecuador, which put on alert to Americans and the democratic community on the perils of international terrorism. President Bush warned the port community that on several occasions the Secretary of State, the USTR and members of Congress traveled to Colombia in order to come into contact with the authorities and business leaders to learn about the efforts of the country to achieve peace.

29 June 2009, and on the occasion of the change of Government in the United States, President Uribe held a meeting at the White House with the President of the United States Barack Obama, where he talked about the interest of the two countries by direct commercial interests towards the freedom of markets and the search for a free trade agreement. President Obama referred to the instructions imparted to the Ambassador Kirk, representative of the trade Exterior-USTR that collaborate closely with his team thinking about subscribe a free trade agreement. With the rise to power of President Santos, it is expected that the trade issue between the two countries will be partly priority of the bilateral agenda.

The United States considered its preference and priority approach with regions or Nations that strengthen trade links as a recognized alternative for world development. They stand out within these friendly countries for subscribing FTA, ASEAN Nations in Asia such as Australia, Singapore and Thailand. In the Near East, Jordan, Morocco and Bahrain, in Africa the SACU and Nations in the

Americas, part of the Common Market of Central America-Cafta and countries like Chile and the Andean Nations excluding Venezuela. It is also advancing negotiations with Panama, a country that has earned special treatment for geopolitical reasons.

There are different modalities of FTA involving really groups of countries, which means that the United States can advance negotiations with other Nations at the same time, as it is the case of the North American Free Trade Area-NAFTA signed with Canada and Mexico, and the FTAA referred previously. The term of the FTA has important commercial and political meanings refers specifically to relations regulated between blocs of countries, in which the parties are committed to undertake tariff reductions and other agreements in the field of services and investment protection. It is considered a significant increase in the level of the Exchange, which has an impact on the degree of development of the Contracting Parties arising from the opening of markets. It is considered that such agreements but as exceptional cases within the general rules of trade, activity that guides the Organization World Trade-WTO, and for the country be admitted as a "second-best proposal happening benefits attributed to this mandate, and for the benefit of development and welfare as an uncontroversial form of outset.

The United States retains a principle of economic policy of exclusive spring of the Congress, which is the preserve for him the possibility of modifying the level and progressivity of taxes charged to its citizens. Only in exceptional cases, the Congress may grant temporary powers to the Executive so he concluded trade agreements with other countries, negotiating reductions or elimination of the tax derived from foreign trade operations. In cases in which the Executive has sufficient political force, the Congress requests a law of exception in the "Fast-Track" practice which aims to negotiate agreements on trade and investment with other countries.

At the end of the year 2003, the American Congress issued a commercial standard of Expressway and is known as the "Trade Preference Authority-TPA" or trade preference Act, whose purpose is the permit to the Government of President G. W. Bush, the celebration of international conventions of trade until the year of 2005, and following other political procedures more delicate, you can extend this ability or attribution for two years more. Colombia and some Andean countries have benefited from this type of initiative of the Executive as well as its

extension rules for more or less long periods. In the past the ATPA model meant the extension of an aggressive policy of support for the control of drug production in the country, and stimulus to exports to the United States – helping with this grant proposal more than six thousand products, excluding, clothing, parts for watch and some products and leather parts.

Since the year of 2000 the financial assistance for the fight against drugs, first known as "Plan Colombia" and "Plan Patriota," mobilized close to $3.3 billion, making this country the fifth largest foreign aid recipient countries. Oriented toward programs to encourage alternative crops to poppy and coca leaf, assist vulnerable economic groups as they are displaced persons, and strengthen democratic institutions, legal frameworks, and support with military and tactical equipment to the country's armed institutions.

Justify the approach to the trade flows with the largest country in the world, under the added Exchange is important and relevant at the same time as the region increased its exchange with United States in nearly 170% between 1987 and 1999. In virtue of the profits derived from specialization, the intra-regional exchange increased 250% during the same period, what it means for our countries, that we can take advantage of the effect of the positive correlation between the growing exports and the performance of the product.

Analyzed evidence, suggests that the impact sustained these improvements, the support of the financial sector and the best rhythm which flows into the region the component of technology do foresee that growth can be sustained for a long period of time of agreement do the view expressed by Ocampo and Martin[234].

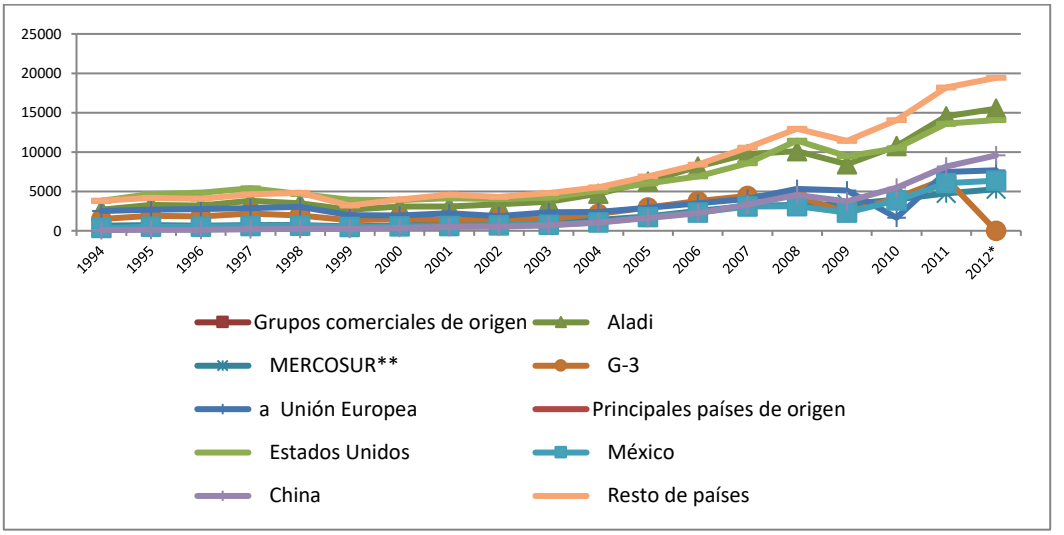
The issue of the free trade treaty acquires interest when shown that the productive structure of the region is subject to strong change conditions under the different forms in which the demand for goods and services is manifested. With five regional integration agreements such as those of the Andean-CAN community, CARICOM, the Central American common market, CAN-MERCOSUR and G-3, over the FTA, is not strange to understand that global exchange recorded a sharp rise in the Exchange and in the productive structure.

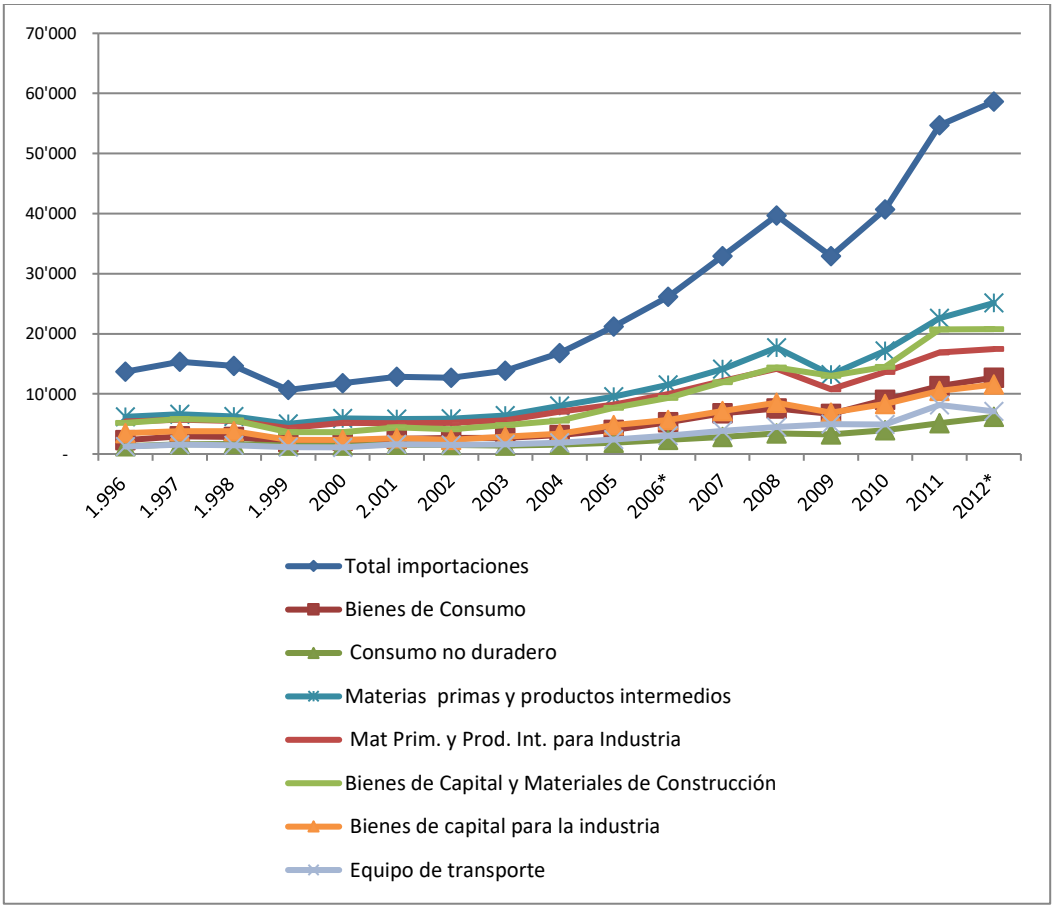
[234] José Antonio Ocampo and John Martin. 2003 *Globalization and development. A reflection from Latin America and the Caribbean*. ECLAC and IWMI. Bogotá, p. 5.

We note below some estimates of what it means to open trade with the United States.

Graphic No 4

Imports Composition and Origen 1994-2012. Million US$.





Source: DIAN-DANE.

Experience of the FTA USA–CHILE and with Central America.

Chile forward negotiations with the United States for more than one decade before this nation agreed to start this type of bilateral agreements, especially when moved first in the NAFTA negotiations and second after nearly a decade in the negotiations of the Summit of the Americas, finally arrived to the bilateral US-Chile FTA and received the agreement. Chile adopted as an offensive negotiation formula the Elimination of trade barriers, providing access to important agricultural products and other goods and services, with which it is estimated there will be an important improvement in the competitive position of the two countries. It was agreed from the outset that bargaining would begin once the terrain of tariffs and preferences. [235]

[235] Sice. Foreign trade information system. Free trade agreement between the Government of the Republic of Chile and the Government of the United States of America. on June 6, 2003.

Since the beginning of the negotiations, it was established that this agreement would be a new element that would help to advance the process of economic convergence as a result of the principles agreed upon in the framework of the WTO. So with the tariff reductions would benefit in a way meaningful to the business sector, both American and Chilean. For American businessmen dedicated to livestock and agriculture, free trade to four years from the signing of the Treaty would open important opportunities to equal exchange. For more sensitive products and whose full access to the market, determined by the reduction of tariffs to 8, 10 and 12 years, the effect on trade is important, especially when defensive measures represented by the system of quotas and safeguards would mean protection to the producer in case of fluctuations of prices or unexpected exchange rate measures. It was agreed that the restrictive measures would apply to only a few products Chileans, within which are canned fruits, concentrated fruit ice cream, tomatoes, and avocados. These safeguards would apply automatically when there is apparent danger for the stability of the market both in moments of strong price fluctuations or in cases of proven overproduction.

On very sensitive issues for agriculture as it is that of the price band, agreed the FTA with the United States, reduce it gradually over a period of twelve years to remove it. Chile pledged to modify the bands in products such as the wheat, flour and vegetable oils, and this would respect the rules agreed within the WTO. Such modification would be based on a reduction of the tariff ceiling of 31.5%, to ensure that those American exporters were not to experience differential treatment. It was agreed that the band should register a non-linear decline as United States applies it in some products. During the transition period, the tariff agreed in the Treaty would be higher than the price agreed in the agreements of the bands.

With respect to the export subsidies, in some cases would be a suitable application, but responding accordance with third countries, when their intention was the move production to a third country. Regarding rules of origin would be applied according to the methodology of the NAFTA to calculate the extent of local content, either using the tariff jump system or the percentage of national content. Regarding phytosanitary standards, it was agreed to use the control mechanisms of inspections of products such as meat and dairy products, but

using criteria of simplified procedure. It proposed the creation of a Committee similar to the one implemented by the WTO to develop an understanding regulatory SPS.

For specific cases agreed to eliminate restrictive tariffs, and agreed to exclude from the agreement the tariff protection as soon the Treaty entered into force. Tariffs for other competitive products such as pork, beef meat, wheat, barley malt, sorghum, soybeans, pasta, cereals and flour, have effect these levels of protection for a few years. The market access would be free in both directions before four years for many products, starting with a fee that could grow at a rate of ten per cent per annum.

- Respect of wines agreed to harmonize tariffs.
- Access to the market of birds and chickens are tariffs free within ten years, beginning with a quota of eight thousand metric tons, with a 5% annual increase factor.
- Taxes on dairy products would be eliminated over eight years.

For Colombia, it is important to keep track of the negotiations between the United States and Central America under the similarities which have the agreement and that this region will compete with the country in various aspects. The importance of this Convention lies in Central America has been for years an attractive pole for the Colombian capital investment, and that with the Treaty provisions run the danger that Colombian entrepreneurs will find a great competitor in the sectors where investments have been made in the United States.

To get an idea of what it means to Colombia face the problems and the challenges of globalization, it is enough to understand that the exports of the United States towards this market are identified with the exchange of goods related to information technology, equipment and agricultural construction, paper products, chemical products and medical and scientific equipment. In terms of the opportunities for access to markets for the livestock sector is determined by the fact that more than half of those coming from the United States are already exempt from the restrictive effect of tariffs, and that will be very soon some very sensitive such as: cuts of high quality beef, cotton, wheat, soybean fruits and vegetables, processed food and wine

Other labor intensive products such as textiles and garments will be free from the effect of the tariff and quantitative restriction quotas immediately and the only

restriction on free trade is to meet the conditions imposed in article of the agreement on rules of origin. These measures put in competitive position Colombian products which enjoy the advantages granted in the ATPA-DEA market. The agreement with Central America favors U.S. and Central American manufacturers of fibers, yarns, fabrics and clothing, which achieves a greater vertical integration in the industry. Those confections containing certain fabrics and materials 'scarce' in the United States and Central America may also qualify for the exemption of tariffs. A "minimum" clause will allow limited amounts of content of third countries in CAFTA members from clothing.

With respect to customs procedures and its relationship with the national content, rules of origin guarantee only the assets of United States and Central America to benefit from the tariff benefits of the agreement. Compliance requires transparency and efficiency in the implementation of customs clearance, including the rules of origin of national content and tariff jump. For purposes of transparency, the Central Americans pledged to publish laws and regulations on the Internet and ensure a safe and fair to the award procedure. The parties agreed to exchange information to combat the transshipment of goods. In terms of labor rights, the CAFTA meets the business objectives set by Congress in the 2002 trade promotion Act, and offers workers better access to procedures that protect their rights. This Treaty goes beyond the agreements signed with Chile and Singapore, since which adopts a tripartite co-operation approach:

- Ensures the effective implementation of existing labor laws.
- Writes new laws and regulations and increase the funding of their ministries of labor.
- Strengthens local capacity to promote labor rights.
- Assigned to the Department of labor $6.7 million to inform the Central American labor standards.

8.5. Agreeing on Successive Stages the USA–Colombia's FTA Negotiation.

The negotiation of the FTA, in which Colombia, Peru and Ecuador is made present as countries interested in negotiation and Bolivia as an observer was launched in Cartagena during the **First round.**

During the **second round** were 12 working groups, which included 23 issues related to trade. It discussed sensitive aspects in agriculture, intellectual property-related aspects, cross-cutting issues of SMEs in many of the tables, and other aspects related to the negotiation in the sectors of telecommunications, investment, and the safeguard clauses.

The **Third round** of negotiations held in Lima, expanded the spectrum of negotiations, and was considered the scope of the texts presented by the parties, establishing priorities and flexibilities were that every country. The technical secretariat was established and reported on the views of the private sector and the concerns of the Congress on these issues. In the so-called "side room," the National Department of planning national-DNP presented a paper on the internal Agenda that the country would continue to take on the implications of the Treaty-FTA. During the negotiation, they exchanged lists of non-conforming measures in the services and investment issues. Offers service on tariffs and elimination in the aspects of market access of industrial goods, textiles, agriculture, and public procurement. On this occasion was adopted the principle of lists of requests vs. list of offers, and it was considered that the tariff was not the determining factor in the negotiations, in virtue that consolidated at a level of zero tariff was about forty per cent of the tariff. The issue of non-tariff barriers than the tariff issue as a concern of the negotiation. The negotiations sought to define a B basket to match the requirements of sanitary and phytosanitary character for agricultural products entry to the United States. 3.976 Tariff items in the nomenclature of the United States, reviewed what amounts to 38% of the tariff universe in that country.

Table Textiles, a final text was revised and Colombia presented its own text on regulatory aspects relevant for access to markets. It tried to present an integral proposal, specific origin requirements and was suggested the Elimination of "draw-back" and tariff exemptions. As for the table of services, parties agreed to exclude from the Treaty the issue of social security because of the interventionist connotations of the Colombian system. A topic of interest was the defining when an investor is in the process of *seeking to establish,* in order to conform to the standard of local production to define who can or does not supply at the end of the day financial services. Proposed in this table was the removal of the issue of

prevention of money laundering and the handling of money for the fight against terrorism.

Respect of the State buying, the United States made a detailed presentation on the system of existing public procurement in that country, and reference was made to the Legal framework - which contains laws and regulations and the principles of procurement. As for the enforcement of the commercial capacity, it advanced in the design of strategies, programs and projects aimed at facilitating the integration of the productive sector in free trade. The *Business Coalition for Capacity Building-BCCB*, was represented by an official of Procter and Gamble and its purpose was to promote before the business community capacity building in developing countries and involve the private sector in the transition to free trade.

The **Fourth round** held in San Juan, Puerto Rico in September 2004, organized the discussion tables, achieving significant progress on several of them.

- Telecommunications. At this negotiation table a first text was consolidated and the Andean proposals were completed. An agreement for access of enterprises to the public telecommunications network is to protect its integrity.
- Environmental Affairs. The Exchange process was completed and began the construction of the first text and progress was made in the discussion on cooperation.
- Settlement of disputes. Dealt with topics related to temporary measures to be applied after issued the decision of the arbitration panel.
- Rules of origin. The Andean presented a proposal of text making precision in topics such as requirements of origin, mechanisms of consultations and amendments of deadlines, scope in the implementation of the Regional content index.
- Investment: Continued on the preparation of the text and dealt with issues such as movements of people, management and operation of investments. Delegates from the United States provided the information requested by the Andean countries.
- Market access: the Andean incorporates proposals for revisions in the tariff system and the national tariff nomenclature, incorporating the concept of recovered goods.

- Cross-border services: negotiations revolved around the discussion of the text on the internal regulation of U.S. as for air and maritime transport.
- Cooperation: Continued in the definition of strategies for the inclusion of the productive sector in free trade, including the issues of science and technology, labor and agriculture.
- Customs procedures. A proposal related to the facilitation of trade to provide certainty in the conduct of its operations.
- Intellectual property. Texts of enforcement and technology transfer were presented and swapped information on patents and test data.
- Financial services. It was not reached any agreement on the issue of disciplines, and the United States presented a proposal on cross-border trade.
- Competition policy. USA started the round without having the competition chapter. The Andean people expressed their concern over the limited progress and reiterated the importance of counteracting the anti-competitive practices.
- Public procurement: the greatest advances occurred in the issue of access. No new proposals to the text were made.

The following progress in the main tables was observed in the **Fifth round** in Guayaquil between 25 and 29 October 2004.

- Telecommunications. Arguments of legitimacy arose and a text with the possible alternatives was established.
- Environmental Affairs. Concentrated on two fields: end the Andean proposals and receive comments and the U.S. Second, the negotiations of the agreement of cooperation (ACA).
- Dispute resolution: a transparency debate occurred in the settlement of disputes and was a revision to the first 10 articles of the text of the chapter.
- Rules of origin: discussed topics as the role of the decisions early in the process verification source. With the rules of origin related to automotive sector, issues of waste and scrap, specific requirements of origin for the sectors of leather, wood, paper and printing, footwear.
- Investment: Some proposals of the Andean were modified or removed from the text and it was determined that the best delve into articles on scope and field of application was denial of benefits.

- On market access, three issues were highlighted in this round. The offers of tariff reduction for industrial goods, with the rules contained in the draft chapter and the caveats contained in the annex.
- Cross-border services: a revision of the text was made and presented a new Andean proposal relating to subsidies.
- Customs procedures: progress in terms of publication of customs procedures and the automation thereof was made.
- Intellectual property: an Andean proposal on tests conducted abroad in the enforcement section and another in collective copyright management.
- Financial services: Dealt with issues of branches, the cross-border insurance trade and consumption abroad of insurance.
- Competition policy: USA reacted favorably to the changes introduced by the Andean countries and expressed the need to have a text which reflects the interests of both parties.
- Government procurement: dealt with the topics of selective tendering and the Andean countries submitted their revised bids.
- Textiles: Dealt with issues related to safeguards, specific requirements of origin and verification of origin from the concurrence of interests between each of the countries.
- Technical barriers to trade: achieved agreements face some disciplines related to the technical standards, technical regulations and conformity assessment procedures.
- Labor issues: gave answer to the inquiries made by the Andean people.
- E-commerce: accepted the adoption of commitments of protection to consumers against fraudulent practices of e-commerce and paperless trade administration, authentication and digital certificates.
- Agriculture: plenary and bilateral meetings went ahead. The first addressed the issue of texts and general comments about improved offerings and the second examined offers their sensitivity to imports and exports of each country priorities.

During the **Sixth round**, held in the city of Tucson, Arizona between November 30 and December 4, 2004, they came to some agreements. With regard to the tables on telecommunication and electronic commerce is held between 6 and December 8, 2004, in Washington, D.C.

- Telecommunications: texts were agreed on definitions of information services, public telecom and leased circuit services. USA agreed to include conditions so that companies can have access to the public networks and public telecommunications services.
- Environmental issues: advances occurred in the lifting brackets for those topics that were adequately satisfy the interests of the parties.
- Dispute resolution: on participation of the public and biodiversity issues continue to be reviewed to achieve balance in the positions of the Andean countries and the USA. Discussed issues related to lists of arbitrators and the selection of the Arbitration Panel, the purpose of having a list of quota in the case in which the arbitrator or arbitration panel corresponding have not been set. In addition there were possible exchanges for Affairs of the U.S. review and chapter to be discussed in the next round.
- Rules of origin: the Andean countries and the USA discussed topics related to originating goods, origin and exceptions to the certificate of origin application. Achieved a consensus of 54 per cent of the tariff universe with us and at the Andean level is reached an agreement that covers 80% of the same scope.
- Investment: U.S. presented counter-proposals to the Andean countries. The Bureau worked in proposals submitted in previous rounds on articles related to scope, conditions and limitations to the consent of the parties.
- Market access: United States moved his proposal for relief immediately to 98.6% of the tariff. While the Colombian offer stands at a 64.2%.
- Cross-border services: the discussion focused on non-conforming measures. A tour of the articles of the text was made in order to strengthen the legitimacy of the Andean arguments.
- Customs procedures: the U.S. comments against the Andean proposals have been reviewed and adjustments in terms of technical assistance were made to improve risk assessment.
- Intellectual property: the Andean countries presented general provisions on the issues of copyright, related rights, patents, technology transfer and enforcement. The Andean countries agreed to discuss the accession treaties signed within the framework of the World Intellectual Property Organization (WIPO).

- Financial services: Colombia presented the additional agreement on the subjects of specific commitments concerning border trade and financial services and collective portfolio management.
- Textiles: The discussion focused on issues such as textile safeguard, origin requirements and aspects related to customs cooperation. The Andean countries insisted on the need to clarify the applicability for the textile sector of mechanisms of return or exemption from import taxes. In terms of content such as used clothing, the Andean countries explained internal regulations to prevent the marketing of this type of goods. Therefore, they propose exempting such goods of the preferential trade arising from the FTA.
- Agriculture: dealt with topics related to liberalization and sensitivities of agricultural products. With Colombia agreed to work the dairy sector and determine a list of products that will liberalize immediately,
- Sanitary and phytosanitary measures: the Andean countries submitted a proposal of text and then took into account the Andean interests.

The limitation of civil rights of foreigners (Art. 100 CNC), invoke the term "public order," and the justification for expropriation (Art. 58 CNC), is to know the concept and implementation concerning the terms of public utility and social interest.

A reviewed issue such as compensation, which is in the Text Treaty, appears as it is contained in their constitutions. In the Colombian case, indicates that it should be equitable, prompt, and in the case of United States it must be adequate, timely and equitable.

With regard to the **Seventh round** of negotiations of the FTA which was held in Cartagena de Indias, between 7 and 12 February 2005 were agreed upon several provisions that have to do with the monopoly of liquor and gambling as ranking discretion (Art. 336). In this regard, local incomes are safeguarded because they have a constitutional character.

During this round the Andean countries discussed only 6 of 18 tables of negotiation: agriculture, intellectual property, origin, services (non-conforming measures), investments and Chief negotiators

It redefined the functions of the Bank of the Republic, especially concerning capital controls, those of a speculative nature, known as "capital swallow," accorded must be preserved. On the following the following was agreed:

- Telecommunications: Remains the issue of the possible inclusion of commercial mobile services within the obligations of the chapter.
- Environmental issues: the negotiation of this table focused on satisfying the themes of the treatment to be given to the issue of biodiversity.
- Achieved full consensus on the implementation and enforcement of the domestic laws. Accepted the issue of biodiversity within the chapter and the commitment of the United States of front to the new Andean to consolidate a joint text.
- Dispute resolution: the texts were revised to reflect the interests of the parties. In the initial report the Andean countries have the possibility of requesting clarification, which will be resolved by the panel in its final report.
- Rules of origin: consolidated the articulated that regulate the procedures to verify whether or not the goods are originating. The text allows for adjustment of the national regulations on this issue. In addition agreed obligations regarding imports and exports and presented and discussed with United States requirements of origin for the 82 chapters 97, agreeing them by 84% to this universe of tariff items.
- Colombia ended submits all proposals for Exchange.Arise a mechanism of Investor-State dispute resolution for disputes that arise subsequent to the entry into force of the agreement. The reactions of the countries against exchange proposals are expected for the next round.
- Market access: it was agreed to continue with the Plan Vallejo. In addition the procedure was concluded when initiatives are presented to accelerate the Elimination of tariffs and information exchange program to develop technical regulations.
- Cross-border services: the discussion focused on 3 key issues: concerning the text, Colombia stressed the importance of including footnotes of page as an integral part of this. For non-conforming measures, discussed measures of Colombia in the telecommunications sector and in the field of

commercial agency, explained the document sent by Colombia to the United States with some questions of the private sector.

The **eighth round** was held in Washington from 14 to 18 March 2005.

1. **Access to markets.** In this table the subject of agriculture development after receiving requests for us in terms of preferences for wheat; barley; corn and other cereals and derivatives. United States filed applications in several products of interest, hoping to achieve a position in the Andean market. He suggested the Elimination of the products in the basket (high priorities of USA) and few products in the basket B (production levels). The Elimination of the Andean price band system from the first day of the agreement. Adopt a base tariff and an external tariff common and in some cases by product differentiation depending on whether or not it is for seed. Chain products that refer to the chapters of the proposal of the zero-for-zero from the USA, are kept in this application. On corn, it was suggested a quota of 400,000 MT with a tariff of 0% and 10% compound growth rate.
   - About corn oils proposed by U.S. corn chain, indicated that these are directly related to the string of oilseeds.
   - As for pig meat, proposed a reduction in years of tariff reduction to 20 years as maximum, levels of year grace period of 6 and 10 years, and introduction of quotas, based on trade of imports in the last three years from the U.S. with a tariff of 0%. Prices strip products relief shall only on the fixed tariff, the Strip is kept (variable tariff) and applies a safeguard outside the quota for a reasonable period of time that goes beyond the program of tariff reduction, which will be designed at the multilateral level.
   - Chicken: the proposal in whole chickens, geese, Guinea fowl and turkeys, contemplates an easing in the years of relief to a maximum 20 years, maintaining the years of grace and is given a quota of 75% of the currently issued in WTO.
   - On the chains of vegetables and fruits, the prioritized list of products is based on discard highly sensitive products. Several countries delivered proposals on sensitive products such as potatoes, sweet corn, beans, onion and tomato prepared in the chain of vegetables and fruits such as citrus fruit, apples and pears.

2. **Origin.** Made advances in text and much less on the specific requirements of origin (REOs). On the origin of tuna continued without consensus. US maintain his thesis of closed requirement i.e. that does not accept tuna caught by vessels that are not of national flag. The Andean defend open requirement. United States aims to recognize as originating all discards and waste. It became clear that remanufacturing can make both the country in which the parts and pieces are retrieved in the country that imports them. The advance in the automotive sector consists in accepting the special arrangements proposed by United States to this sector, to change that accepted inmates for certain glass products to the sector such as windshields, mirrors, side glasses. The acceptance of the scheme involves the use of an only method - the net cost - for calculating the value of vehicles and auto parts Regional content (VCR).
3. **Trade in services.** On cross-border services, in the Mesa joint investments and services were reviewed related to non-conforming measures. The United States is invited to write the measurement as described in the law, to then add a description or descriptive summary. Multilateral or bilateral application of the annexes on non-conforming measures had been addressed during the discussion, on the basis of the fact that in the investment chapter applies multilateral. USA indicated that they considered that the annexes should be a multilateral application. Investors State; there was an exchange of views and positions, especially on issues such as debt, definitive and exclusive forum in the dispute settlement mechanism agreements and authorizations of investment and expropriation. With respect to the issue of public debt, there was no resolution, even though USA indicated that private debt is excluded from the definition of investment, as well as bilateral debt. Concerning the issue of expropriation Colombia said that in accordance with what is expressed by the U.S. in previous rounds, it seeks to be interpreted it with customary international law and Colombia that this principle is reflected in the wording of annex.
4. **Regarding the issue of investment agreements,** USA said that it would be difficult for Congress to approve an FTA excluding agreements, and investment authorizations. It was considered to accept the proposal of the United States there is a definitive and inclusive forum. This theme would be linked to the acceptance of an investor - State dispute settlement mechanism.

Colombia, considered the definitive selection of topics contained in the annex of the U.S.-Chile FTA, such as the period of transition; investment agreements which would include within the chapter and finally, that claims apply only to violations of an obligation.

5. **On the national treatment**: U.S. will provide Andean investment and investors the most favorable treatment that a State in this country, investments or investors of the region. This is what is called State most favored under the rules of national treatment. In the article relating to realization of the arbitration, without prejudice to the powers of the Arbitral Tribunal to meet objections as preliminary issues, the Andean countries managed to specifically introduce the objection that the dispute is not within the competence of the tribunal.
6. **On the future of the agreement on the promotion and reciprocal protection of investments** (BIT) once to become effective the FTA, it is expected that several of the benefits achieved previously were not lost. In the case of the issue of entry and sojourn of nationals in the territory of the other party, suggested by encouraging or administer an investment given the E-2 investor Visa.

The **ninth round** was held in Lima from 18 to 22 April 2005.

Issues related to the trade capacity building (cooperation) and e-commerce subjects that were negotiated in the aforementioned table. Progress was made in the chapters referred to competition policy, Public Sector purchases and services.

The **tenth round** was held in Guayaquil from 6 to 10 June 2005.

The round closed these round tables of e-commerce and cooperation. Tables of technical barriers to trade, competition policy, and customs were virtually closed. It is advanced in the tables of services will, financial services, telecommunications, government procurement, and trade defense. Progress was made in the tables of investment, market access for industrial goods, rules of origin, labor market, environment, dispute resolution and institutional affairs. Agreement on the textile Bureau, intellectual property enforcement issues, copyrights, and trademarks. Delays arose the tables of sanitary and phytosanitary measures, agriculture, intellectual property including patents and biodiversity.

On the issue of market access, the chains of poultry meat, oilseeds, corn, sorghum and derivatives, beef, rice, wheat, barley, other cereals, pork progress

was made on issues such as tariff quotas, elimination of tariff on some sensitive products, reducing years of relief at less sensitive goods, and tools in other purely sensitive concentration. United States proposed opening the topics in meat, oilseeds, rice, beef and veal, wheat, barley, other cereals, maize, sorghum and derivatives. Here the negotiation contemplated in the proposal the removing of strips of prices on the first day of entry into force of the agreement, preferential clause, non-utilization of requirements of domestic content, and tariff most-favored-nation (MFN) but preferred to 2007. In terms of the safeguards set out to protect domestic production of products more sensitive face substantial increases of imports or decreases of prices in the international market. The three Andean countries requested to define indicators to safeguard such as triggers, and tariff refunds.

Round Eleventh-Washington. 2005. In this round, held in the month of July 2005, here we summarize some of its main achievements below.

- Market access: crossing of offers which consolidate offer in a basket for nearly all Colombian products with trade to the United States; a broad discussion will be the subject of remanufactured.
- Rules of origin: completed according the rules applicable to the industrial sector and initiate negotiations relating to agricultural and agro-industrial issues.
- Textiles: a discussion of specific origin requirements presented by Colombia in the round of Guayaquil.
- Intellectual property: concrete agreements on trademarks, enforcement, technology transfer and copyright issues. Also expected to receive a response to the Andean proposal on patents and test data.
- Sanitary and phytosanitary measures: development of the Andean proposal in response that presents us. This issue is of great importance to achieve real access to the largest and most dynamic of the hemisphere market.
- Other tables who gathered were cross-border services and non-conforming measures; investment; financial services; public procurement; dispute resolution and institutional affairs.

The agricultural Bureau continued to work under the scheme of bilateral meetings. Colombia is waiting for a response from us that will set a date for the

next bilateral meeting. This topic is of the greatest importance for the country, therefore handled with care, avoiding decisions and movements hurried at the table, in order to ensure that the sector will be a net winner in the negotiation. Continuing with the transparent and participatory dynamic that the negotiation of the FTA has been conducted, again highlight the accompaniment of representatives of afro-Colombian communities and indigenous peoples as participants of the "room of the next." DNP head reported that the country is a process of analysis and reflection to determine in each one of the regions which are productive bets, and seeks to clearly identify the strengths that should be developed to take advantage of the FTA. The results will be presented to the country soon. Negotiations style is particularly tight even for attendees to call the side table.

Foresight of the Colombia–United States FTA.

From the frame of the *geopolitics and the interdependence*, sign a Bilateral Treaty of trade with the United States has several meanings. Implies for the country to take on the challenge of engaging in a correlation of forces supporting a social order conducive to the modernization and fairness as Huntington, in the "*Clash of civilizations*," he suggested. Theoretical reflection, the University and the Enterprise Academy, will find this process adequate space for discussion and the formulation of new policies.

With the adoption of international treaties, improve the chances of other countries carry the principles of democracy, and extend the opportunities of social responsibility. Deepen the political commitments to restore peace in the interior of the country and borders, will be one of the commitments arising from the signing of the trade agreement policies.

With this type of political strategy, expected national security deepens and the political presence of the manifest itself in the international context. Be expected that national actors take advantage of a realignment of the forces of power in the hemisphere, and that they understand the meaning of the increased interdependence among States to take advantage of globalization trade and

business proposals as proposed by the author of the Reinicke.[236] [9] In this bilateral means, the State has new features such as the principles of participation, transparency in decision-making, ensure respect for human rights, and promote the ideological pluralism. O'Donnell in his work *"Another institutionalization"* (1996, p, 7) relates the steps leading to the modernization that is given with the deepening of participatory processes. Suggests as a plan of action, to preserve the ideals of coexistence[237], and considers that by signing a Treaty of this nature, we entered a "institutionalized economic society with clear rules and... where... democracy and free trade are forces that work in an interacting system." [238]

In a similar political environment, Held cares about other topics such as the preserve the stability of democracy in the long term when accepted admission to the phases that give rise to the stages of globalization, claiming the fact that national events relate to the external facts, as they would have ever happened. It suggests as a line of analysis that deepens the knowledge of at least four sensitive forces that threaten the stability of the democratic system [239]

The first refers to the policy when it can be affected by diverse interests opposed to the stability of the Nation-States. It suggests as a second fracture, the fact that the sovereign State against the global system, it cannot reconcile timely interest arising between international regimes and interests that are responsible for the permanence of a traditional system of trade. The third force refers to the aspect that affects the future of the stability of the nation, when it is neglected the role of the State as a military strategic actor and social cohesion. The fourth split, manifests itself with the deterioration of the authority of the Nation-State and loss of credibility of the hemispheric institutional system.

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[236] Teng, J. "An Economic Theory of World History: Military Revolution, Political Competition and the Course of Civilization." Institute of Political Science. Academia Sinica. Taipei, Taiwan.

[237] O'Donnell, William." "Another Institutionalization: Latin America and Elsewhere." *Working Paper #222* - March 1996 p.7. The author is concerned about the lack of institutionalization that suffer from many of the new democracies. Argues that democracies have two important institutions, elections and particularism/cronyism.

[238] O´Donnell. http://plaza.ufl.edu/gseri/comparativesguides.htm

[239] Held, David.1995. *Democracy and the Global Order* Stanford University *Press* . Stanford University Press. Stanford. 1995.

From the perspective of the *Market economy*, it is considered that the signing of an FTA, has the peculiarity of proclaiming standards governing the Exchange and traded between national services, directs the movements of capital and investment, and establishes mechanisms to resolve conflicts of trade in goods, services and investments. In accordance with the requirements of the State, moving from the protectionist vision imposed by an old order of decision-making decentralized to a political system that proposes the improvement of competencies in education, science and technology and social proposals to combat poverty[240].

In the business field of the market experienced a major theoretical revolution, offering better opportunities to spend the comparative advantage of a product model to the competitive advantage that seeks the competitiveness of business chains.[241] In this micro-economic environment, companies that sign an FTA, are governed by practices that have an impact on the improvement of competitiveness, inside which are the specialized education, research, development and innovation to say by authors such as Porter (1999) and Sala-I-Martin (2001).

In a report published by Sachs and Porter titled *Global Competitiveness Report*, established that economic policy can help the functioning of the institutions, policies, and structures. They considered, that in the macroeconomic environment, when the market forces are involved, there can be no informed decisions, does not work the credit system, the Government cannot provide services adequately, and companies experience difficulties in their business development. In the new language of competitiveness, market entry conditions, followed by companies competing for the markets, looking for sustainability in the imperfections of the market that determine the generation of quasi-monopolistic rents. Tactics such as the company's entry into the market as proposed by Ester (1999), increase the level of profits thanks to the design of

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[240] CLAD completo DOCUMENT. *A New Public Management for Latin America. Latin American Centre for Development Administration CLAD*. This document was written by CLAD. Scientific Council and approved by CLAD. Directive Council in its October 14th 1998 meeting.

[241] Porter, Michael e., and C Roland Christensen. "Microeconomic competitiveness: findings." From the 1999 Executive Survey. Sala-I - Martin, Xavier. Executive Summary. "*The Global Competitiveness Report 2001-2002.*"

strategies that determine the appearance of competitive advantages. It is sought with this formula to obtain leadership positions by according *product differentiation.* [242]

8.5.3. Improvements Around the FTA, Colombia-United States Accord.

Made this historical introduction on the subject, let's see what the scope of the proposal of the FTA, for major sectors and themes including negotiation, and as he has been stated to keep correspondence with proposals of bilateral agreements signed by the United States with Chile and the Cafta countries.

Access to markets.

The central point of these negotiating tables is to convey aspects of the program of liberalization of the market, involving the immediate elimination of the effect of the cost of the tariff on imports, or by gradual reductions of the same according to certain limits. Adopt a regime of origin to establish the degree of national content of the product, or by setting the tariff jump which points the degree of processing of the product. Customs procedures, technical barriers to trade, institutional arrangements and implementation of the safeguards, as in the case of textiles. The liberalization imposed by the Treaty seeks tariff liberalization in industrial products by the United States, and to provide national treatment and the current favorable conditions for some products. In conventions such as the ATPA important benefits have been achieved. More technical aspects such as the tariff classifications will be maintained as far as possible. Colombia has supported the thesis of real access to the market of the United States through the Elimination of unjustified non-tariff restrictions. Pursues the country take advantage of the release program through provision of inputs according to the needs of the Colombian production structure. In terms of the rule of origin, aspiration is geared to meet the demands in the field of textiles and clothing and seeks to establish consistent levels with the real possibilities of added value in the country for the whole of the tariff universe.

United States because of the tremendous impact of imports of these products from third countries has insisted in the negotiations to establish a regime separate from rules of origin for textiles and clothing. She has also insisted on approving

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[242] Jarillo, Jose Carlos. 1996. *Strategic management.* Mc Graw Hill. Madrid.

procedures on accumulation of origin with other partners of the United States and Colombia. This circumstance means that the certification is carried out by the producer, exporter and importer. In customs procedures, the proposal of the FTA aims adopts prudent deadlines for the adequacy of systems that facilitate the administration of the rules of the Treaty, and ensure its operation. The insistence of the United States has been the adopted mechanisms that facilitate trade.

The Agriculture Activity within the Framework of the FTA.

Colombia as a developing country has well-founded reasons to believe that agriculture can provide significant contributions in the process of economic development. It is a sector that contributes to increase the growth rate of the gross domestic product with its production, is an important generator of foreign exchange, and an important part of productive employment is generated in this activity. It is considered as productive action, and agriculture contributes to reduce the signs of poverty of the population. Reasons like this indicate the importance that has for Colombia to deepen these commercial negotiations of the FTA with the United States. The FTA negotiations, as already stated, are handled through twenty-three tables, one of which is agriculture which includes topics that are related such as phyto and zoo-sanitary measures. In this table are negotiated aspects related to access to markets, and refers to the process of elimination of tariffs which is product by product or by product group. In this context, other aspects are negotiated such as domestic supports farmers harvest their products or not, abolish subsidies to exports, receiving address sanitary and phytosanitary measures, and agree other institutional measures such as the creation of an agricultural Committee. As soon as it makes the issue of access to markets, Colombia aims search earliest liberalization of markets, as such, the elimination of specific tariffs in the United States market, and suppress the practice of quantitative restrictions imposed on products that enter the American market. Timely liberalization of the domestic market is suitable for the United States while Colombia considers that some products should receive the treatment of sensitive in order to protect the domestic market for a while. It is preventing the import of surplus from the United States, and avoid that it destabilize domestic production.

Other provisions subject of dispute is safeguards, and the aim is to achieve a special protection to the production, such that we can count on automatic mechanisms of commercial defense. United States insists on the special safeguard to respond to strong international prices reductions when this circumstance threatens the domestic market. To correct the distortions in trade caused by the internal support of the United States, Colombia aspires to that special mechanisms are applied and that extend for a prudent period enabling the sector adapt to changes in the market conditions, and be trace to strengthen institutions on fronts such as the health and the plant protection. Also adopt effective and binding mechanisms for the settlement of disputes.

Environmental issues.

The interest of this matter has been to reconciling interests through the selection of standards not exceeding the national environmental regulations. Those mechanisms are defined to resolve issues of non-compliance through cooperation and preserve the autonomy to apply the environmental regulations of the country. Reconciliation of interests is identified with the implementation of multilateral environmental agreements, internal regulations and cooperation agreement to promote the transfer of technology on a commercial basis in the business benefits. Colombia has insisted that predictable, equitable and flexible consultation mechanisms that reduce the effect of sanctions should be taken and winning the support of priority activities for the management of the environment.

Dumping.

The issue of rights antidumping and compensatory mechanisms clauses seek to autonomy to modify the rules in this area, thinking of agreed standards that facilitate the exercise of the right of defense exporters to explain their production costs in relation to the prices of sale and above all agree on mechanisms and institutions that facilitate the application in aspects related to the settlement of disputes.

Intellectual property.

Within the main interests of Colombia in this table, stands out the registration of marks Colombian abroad, while maintaining autonomy in the administration of the domain regulation country and on the subject of pharmaceutical, maintain the

right of approving the marketing of pharmaceutical and agrochemical products with proven safety and efficacy, unconditionally by stock of patents. In addition, you want to maintain the duration of protection of international standards and avoid the barriers to the trade of certain products such as optical discs.

Competition.

In the Bureau of competition policy, it tends to establish a mechanism to prohibit or to counteract practices that affect competition and trade in goods and services between countries. In this table teams have insisted on having confidential information of the other party to improve the implementation of the policy, ensuring that improve the capabilities and technical infrastructure of the authorities responsible for applying these rules.

Cooperation.

The issue of cooperation and strengthening commercial capacity is reach maximize awareness of thematic teams to get the best result from the negotiations, supporting the strengthening of public institutions. It proposes the improvement of the quality of officials in compliance with domestic labor legislation. Also the rules derived from the Treaty and implementation of the issuance of resolutions in an efficient way in advance. United States seeks stability in the rules negotiations, ensure efficient procedures for the clearance of their goods and obtain legal certainty in their customs operations.

Government procurement.

This is a topic of interest for the Colombian companies to participate in tenders and Government projects on equal basis with international companies. The country seeks national treatment in the United States, thinking that it not discriminate against producers and national consultants. There are expectations for access to some bids in federal levels sub-federal and reassure citizens who know the substantive rules and procedures for trading in the United States.

Services.

Mode IV cross-border services.

It has raised the possibility of creating a Committee on the recognition of professional qualifications at the State level, although progress has been slow in

this area. This is a topic that interests to Colombia in the area of services, under that in several States of the United States there are objections to accept the work of the Colombian people.

Mode IV cross-border services in the telecom industry - references with Central America and Chile.

One of the aspects that offer commercial interest in negotiation is for the telecommunications sector. Its importance lies in that in this activity use and businesses access to the utilities of telecommunications, the obligations of providers and aspects are developed such as the obligations of providers, aspects of interconnection, resale of products, number portability and parity in the dialing. As for telecommunications, are negotiated aspects about the obligations of the dominant supplier, competitive safeguards, cross-subsidy and access to information technolgy. In agreements with Chile and Cafta, clauses on the dismantling of networks, resale, interconnection, placement and access to rights of way is welcomed. The theme of telecommunications includes other aspects such as related to submarine cables, modern information services, the independence of the regulator and its public property. The independence of the regulator and public ownership of services should be noted, while in other chapters of this negotiating table remembers that the service provided should be universal, and licensing should be a transparent process. This table is based on appointing definitions in some topics such as information services, meaning the offer of a capacity to generate, acquire, store, transform, process, retrieve, use or making available information via telecommunications, and includes electronic advertising, but does not include any use of these capabilities for the management, control or operation of a telecommunications system or the administration of a telecommunications service.

Table No. 4.

COLOMBIA-U.S. FTA FINAL TEXT.

Preamble	**1. Chapter one: initial provisions and definitions initials**
2. Chapter two: national treatment and market access of goods	**Tariff of the Republic of Colombia list General notes**
Appendix 1 of Colombia	**General notes tariff list USA**

Appendix 1 U.S.	**ITA enclosed letter.**
3. Chapter three: Textiles and clothing	**4. Chapter four: rules of origin and origin procedures**
Annex 4.1 – rules.	**5. Chapter five: customs procedure and trade facilitation**
6. Chapter 6: sanitary and phytosanitary measures	**Letter attached on additional obligations of SPS.**
7. Chapter seven: Technical barriers to trade	**8. Chapter eight: TDI**
9. Chapter nine: procurement	**Annex 9.1**
Letter attached 9.11	**Letter attached electronic tenders.**
10. Chapter ten: investment	**11. Chapter Eleven: cross-border services trade**
Letter attached on State measures.	**12. Chapter Twelve: financial services**
Understanding of financial services and services	**13. Chapter thirteen: Competition policy**
14. Chapter fourteen: telecommunications	**15. Chapter fifteen: E-Commerce**
16. Chapter sixteen: intellectual property rights	**Letter attached on certain regulated products**
Deputy letter patent and certain regulated products	**Letter attached ISP**
Letter attached on retransmissions	**Understanding on public health**
Understanding of biodiversity and traditional knowledge	**17. Chapter Seventeen: Labor Affairs**
18. Chapter eighteen: environment	**19. Chapter nineteen: transparency**
20. Chapter twenty: Administration of the agreement and trade capacity-building	**21. Chapter twenty-one: Dispute**
22. Chapter twenty-two: General exceptions	**23. Chapter twenty-three: final provisions**
Annex I: explanatory notes	**Annex I: non-conforming measures for services and investment - Colombia**

Annex I USA	**Annex II: explanatory notes**
Annex II: non-conforming measures for services and investment - Colombia	**Annex II USA**
Annex III: Non-conforming measures for financial services - Colombia	**Annex III United States**
Tariff reduction lists	**Agricultural goods Colombia**
U.S. agricultural goods of Colombia (industry and textiles) with categories	**Of United States (industry and textiles) with categories**

Source: http://www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta/final-text

PART IX.

REGIONAL DEVELOPMENT: A ROUTE TO GLOBALIZATION.

9.1. Cities and Regions: Links to the Global Economy.

Colombia gradually enters into the Global Market, after historically finding the way to successfully linking its staple products with the international economy. This was the result of strong efforts made during the nineteen century to exporting tobacco, indigo and quinine and later on experience with mild coffees. Nearly two centuries of republican and constitutional history, allowed some national political stability and social credibility to consolidate national union. During the first half of the 20th century it was possible to allocate a stable stream of savings generated by the export products to diversify the productive activity. New products like coffee, bananas oil production and with the help of direct foreign investment modern sector associated with industrial production gradually flourished thanks also to the creation of the stock exchange modern banking, allowing for regional markets to be competitive and integrated into a single national unity. First, by protectionist policies and later on by export promoting policies that translate in more competitiveness abroad. Industrial transforming activity spread among Colombian regions where various degrees of specialization allowed for geographical development of the country. The advance of this economic model that was complemented with an international policy based on the creation of economic and commercial associations celebrated with a group of countries with similar degree of development, helped to diversify the economy and sustain novel phases of high economic growth and "interdependence." Reaching international markets and supporting a competitive position of the national industry required the achievement of high quality standard of production and greater regional degrees of specialization[243].

[243]Se the best work written on Colombian development of the Industrial Sector. Ospina Vásquez, Luis. *Industria y Protección en Colombia.* Editorial Santa Fe, Bogotá. 1955. Several pages.

9.2.1. Colombia faces Regional and Urban Development.

A brief note on the history of Colombian regional development trend that deepens the introductory section is useful to understand changes in economic development. This change has been the consequence of a process of political confrontation, economic policy experiments, and demographic transition and of emerging infrastructure conditions among others that make Colombia development so unique. The economic conditions imposed by the outside world and by a growing interdependence among local markets facilitated increased trade flows and productive investment on a national level. This long and complicated process was possible thanks to historical factors that allowed regional specialization and the learning of new activities as explained by authors such as Ospina Vásquez (1955), Parsons (1997), López Toro (1976) and Sáenz Rovner (1995).[244] Departmental capitals, in the case at hand, are a good example of regional development in which mining, coffee and industry led to acceleration in the process of capital accumulation.

The dimension of the process required a formidable pace of private and public investment and wise allocation of profits in productive activities and deepening of investment in public infrastructure works, a venture that had always been accompanied by private initiative. This strong productive effort helped bring the department or regional communities into a closer commercial relationship with other markets. This process was like a virtuous cycle or self-sufficient and happily complemented on a reinvestment of the economic surplus generated by trade and industry in which associative investment policies helped increase production with the thought in mind of reaching an extended national market. Since the decade of the 30s, more dynamics was impressed on 19th century's regional development, so government economic policy oriented its activity toward supporting social and productive development in the principal urban centers and regional capitals through the use of economic surplus generated in the countryside. This transfer of surplus took place through the tributary route, but also through readjustment of relative prices with which the real income of coffee

[244]López Toro, Alvaro. 1976. *Migración y Cambio Social en Antioquia Durante el siglo XIX.* Bogotá. Cede.Ospina Vásquez, Luis.1974. *Industria y Protección en Colombia*. Medellín. Oveja Negra. Parsons, James.1976. La Colonización Antioqueña en el Occidente de Colombia. Bogotá. Ancora Ediciones.

farmers and other crops was more or less sustained. Since then, the transfer of part of national savings generated in farm and livestock activity and from foreign trade business became a source of financing and the development of the urban sector in which productive activities associated with the modern sector of the economy prospered. This act imposed by policy gradually favored the modern sectors to the detriment of traditional agricultural activity in the countryside, with which the performance of many townships was retarded, delaying the process of productive incorporation of many agricultural zones and bordering zones into the national productive process. Many regions, cities, small communities and vicinities experienced since the 30s crisis a slow growth rhythms and social progress, there being a higher degree of welfare in the large cities and rich departments, which thereby emphasized the social dualism that today concerns and astounds so many people.

Let us not forget that Colombia, like many other countries particularly in Latin America, opened in the decade of the 90s its economy to trade and foreign investment and made institutional reforms for the purpose of competing in foreign markets. The 1991 Colombian Constitutional Reform allowed for the development of an extensive political program of economic liberalization, the orientation of which is well known to all. The prevailing concept with respect to regional policy was to stimulate economic, administrative and political decentralization inspired by the strengthening of a territorial development process. Since then, regional autonomy has been conceived of in terms of granting greater "independence" to regional and municipal governments in their decision-making process for budget allocation, and later establishing that institutionalization of investment would promote municipal and regional development. This modern view of Regional Development was taken from three different lines of argumentation the aim of which was to suggest new policy alternatives in the area of regional investment, supported by new constitutional mandates[245].

First, it was taken into account that the Political Constitution granted powers to foster new social investment that would stimulate regional development and

[245]Correa, Nestor Raúl. *De la Organización Territorial*. Comisión Colombiana de Juristas. 1996. Ver los Artículos 285 a 331 sobre disposiciones generales, régimen departamental, municipal y especial.

welfare, based on fulfillment of some proposals, scopes and limits. Secondly, powers were granted to the private sector so that, based on its entrepreneurial capacity, it would undertake investment that would be complementary to that made by the policy prevailing prior to liberalization of regional entities, so as to stimulate the development of peripheral regional economies. The idea was to accelerate the rhythm of growth in the poorest regions of the country, reaching rates of growth higher than those achieved in developed regions during periods of prosperity. The third line of argumentation suggests that according to new trends in investment policy in social sectors, regional growth indices could be increased-with which poor regions could soon catch up to the rich ones-thereby validating assumptions of convergent growth on both a worldwide and regional level.

From an institutional point of view, government policies proposes to link the different sources of public and private savings to the regional and urban capitalization process, in an attempt to promote activities related to an improvement in competitiveness. In this area research points toward policy guidelines, such as establishing financial mechanisms, like the creation of the Regional and Urban Development Bank (*Financiera de Desarrollo Teritorial-Findeter*), institution that attempted broadening its functions of credit bank into an investment bank and opening of new credit lines to regional development through Law 141 and 142 of 1991. Its purpose and further institutional developments would be associated to foster the sustainability of regional capitalization, supporting risk capital investment into public utilities. However, despite those government efforts, regions lacked a similar kind of institution specialized in encouraging productive activities that associate new technologies, stimulate exchange and raise levels of education in the regions.

National economic growth, therefore, must in the era of globalization come from the impetus and expansion of the domestic market as well as access to other overseas and distant markets and the linking of regional investment that generates externalities, economies of scale and closer ties to the international economy.

9.1.1. Theoretical Framework to Regional Development.

Some useful theoretical approaches have being written to explain the contribution of geographical developmentto economic growth, complementing the historical view point just exposed and how these geographical entities helped countries to integrate with stronger links into a world large market. Andre Layshon and other authors in the work *"Economic Geography"* observe that some historical schools concentrated on comparative studies and specificity about geography economics to show how and why cities and regions developed along the modern urbanization process in the same we know today as happened to many cities. This process occurred in different parts of the world, being Colombian in some extent a particular case of city modernization due to its heterogeneous and complex geography.

The author Roscher in the same book "…rejected universal theories in favor of particular theories based on simple description on specific phenomena…" and supported the idea that "…by induction we could establish general regularities and laws…about city formation and regional development"… and phrases ahead supported the idea that "…comparative methods are means of theoretical study of the phenomena that helps understanding how a country urbanization proceeds…" by other type of incentives. In the same written work other theoretical views like the one written one century ago, like Johann Heinrich von Thünen's recognized as the precursor idea of the advancement of a new notion of the location theory, or a proposed a historical-evolutionary approach to explain why particular location of towns in strategic spots of the geography develop.

This theory relates distance from complementary markets and the area of influence of the town as the reason for development, focusing on new aspects where the specialization of the so called productive investments activity define the "space-economy" structure that leads to growth. Here, von Thünen's model expects the emergence of a differentiated concentric rings or belts around an existing town, where a staple product develops. From ring to ring the staple product and with it the opening of farms to production will bring specialization of towns, encouraging via the various concentric rings different patterns of production and regional development.

Abstract and formal analysis alongside historical case studies are not easily placed on either side of the formal or deductive approach at one extreme of the

analysis procedure, while at the other flank the purely contingent and inductive view ordered to identify causal forces such as transport facilities and location patterns that brings dynamism, competitiveness and increases in productivity (Essletzbichler, 2011, pp 24-25). Complementary to previous arguments, the city-region theoreticians and economic geographers consider that convergent growth depends on the interlocking of factors along chains of production.[246]

The author Saskia Sassen reminds about the proliferation of specialized global circuits for economic activities and the new institutional architecture provides for cross-border flows where national states, firms and markets enjoy global operations facilitated by policies and cross-border standards. The growing number of cross-border mergers and acquisitions and the expanding networks of foreign affiliates and diverse financial centers are becoming incorporated into global financial markets. And non-governmental organizations, government's regulators and professional associations operate transnational and constitute cross-border network. Here is where a growing numbers of cities play an important role linking their national economies with global circuits through these modern technologically oriented organizations.[247]

Fujita, Krugman and Venables stress different other provocative city models responding questions like "when there is a spatial concentration of sustainable economic activities" or "when is a symmetric equilibrium, without spatial concentration and where differences over time do occur…" this situation when breaks spontaneously symmetry between identical locations thus encourages growth."[248] Fujita explores conditions where forces tend to promote special concentration of economic activity or where forces oppose such concentration as a condition to sustainable growth.

Connecting these stated theoretical proposals with the act crating synergies to stimulate globalization advance, recent empirical developments obtained from different countries with statistics about GDP and per-capita income suggests that both growth and spread of globalization are variable series that correlate when

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[246]Essletzbichler, Jurgen. "Location Models" in Andre Layshon, Roger Lee, Linda Mc Dowell and Peter Sunley. 2011. *Economic Geography*. London, Sage Publications. P. 27.

[247]Sasen, Saskia. 2002. *Global Networks Linked Cities.* New York. Routledge. Págs 1-2.

[248] Fujita, Masahisa, Paul Krugman and Anthony J. Venables. 2000. *"The Spatial Economy. Cities, Regions, and International Trade.* Cambridge. The MIT Press.

opening the economy or local economies, to world competition.[249] The "Convergence of Growth" theory considers that in specific cases growth might be faster in less advanced regions. In rapid stages of globalization, labor and transport costs reduction occurs after liberated its exchange indexes that tend to decline as a consequence of the liberation of market to demand forces. Free combination of factors stimulates growth of emerging regional economies. Thus, in some cases, growth in backward economies might be faster than gross domestic product rate in advanced or industrialized places.

According to concentric circles theory, in an open economy factors of production migration helps regions and sector to diversify its production function. These events lead to rapid economic growth in developing economies even at rates faster than in richer emerging regional economies. This situation might also occur within regions when they diversify its economy as they become more competitive.

With the help of this assumption, the so defined theory of convergence, let's remember that it proclaims that *sigma-convergence* test relates standard deviation of per-capita income dispersion of economic regions with time, while *beta-convergence* shows the speed of convergence of poor countries, or a country's economic regions. This pair of indexes contrasts with the same index of richer ones. So when the economy openness as empirically can be proved convergence occurs as growth in per-capita indexes is faster in poorer economies than in more advanced. The theory of convergent growth proclaims that poorer regions must grow faster than the richer in terms of real per capita income if some liberal or open conditions to world trade are fulfilled aspect that we develop in section 9.4.

Of paramount importance for an emerging country's development is this consideration as suggested also by Paul Krugman's theory, where shortened of distance to access to factors of production for complementary firms lead to increases of productivity and competitiveness. These two variables are

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[249]Williamson, Jeffrey G. "Globalization, Convergence, and History."*The Journal of Economic History.* Vol 56. June 1996. No 2. Pp. 277-306. Navarrete, Juán. *Convergencia: Un Estudio Para los Estados de la República Mexicana.* Centro de Investigación y Docencia Económica. No 42. México D.F. 1995. Sala-i-Martin, Xavier. "The Clasical Approach to Convergence Analisis." *The Economic Journal*. No 106. 1996. Barro, Robert y Xavier Sala- i-Martín. "Convergence." *Journal of Political Economy*. Vol 100, No 2. 1992. Barro, Robert y Xavier Sala-i- Martín. *Economic Growth*. Mc Graw-Hill International Editions. 1995.

considered as important factors to sustain for permanent economic growth, where imperfect competition, scale economies and a rational location of firms within regions help a significance of transport costs reductions leading to increasing firm's activity and "increasing economic returns."[250] The transition towards this stage of development may take years to be achieved and rational public and private investment has to be substantially increased, although it might be considered as a prerequisite to successfully link backward economies to globalizing competitive markets.

Other type of advanced theoretical proofs for regional development are those to determine permanent changes or not reversible or "path-ependent" as suggested by Douglas North in his notation about lock-in effects of institutional changes. Depends on the methodological device call the co-integration tests, that leads to fix those stochastic-convergence situations, and measures its effect by statistical unitary roots of discrete series variables. In cases as this involved by a complex way of reasoning, as income per capita shocks affect the sustainability of the growth rate, lead also to the production function to register permanent and not reversible changes. A historical national example well documented is the one case of coffee producing regions where constant immigrations of factors encouraged the expansion of aggregate demand inducing structural change and helped catching-up of producing local regions.

9.2.2. Gravity Analysis and Regional Development.

Economic history shows many examples of successful regional development experiences. Deeper theoretical research approaches to regional development adapt macroeconomic models used in aggregate growth theory and on interpretation of a region's growth in terms of the dynamics of industrial structure tending to formalize regional development. A larger and appreciable set of theoretical approximations tend to explain and link the problem of regional and urban development, a framework within which certain determinants are established that condition the event of growth and development as an economic phenomenon within which geography and history intervene. Regional

[250] Martin Ron and Peter Sunley. 1996. "Paul Krugman´s Geographical Economics and Its Implications for Regional Development Theory: A Critical Assessment." Economic Geography. Vol. 72, No 3, July, pp. 259-292. P.263

development, as a theoretical conception, has acquired several supports from physics in order to clarify or relate forces of attraction and repulsion among factors and places even extend this view to international trade relations searching for virtuous growth circles among interacting poles.

The most notable of those theories deal with *gravity analysis-where time-space and market size are leading variables.* This is an approach based on what we said an analogy with physics models. Here the movement of people and factors is positively correlated to the mass of two urban points that are separated from each other, and inversely proportional to the degree of friction to movement of particles between the two points. This friction is understood or measured according to the distance that separates the population centers, time and the cost consumed in this movement. The effective existing demand among regions and urban centers behave as "attractors" relates to stratified purchasing power, effective demand and commercial and industrial influence of these poles on the rest of the population mass. The interest concentrated on this approach derives from some type of correspondence between international trade theory and regional development. Linking this apparent different view shows that the greatest exchange exerts a multiplier effect that improves living standards in cities and rich regions that undertake commercial exchange operations amongst themselves (Meyer J.R. 1965, pp. 247-248). These structural elements used by many regional and urban development analysts, establish how attraction between population groups takes place from the regional periphery toward the urban centers and explain causes about excessive and rapid growth of urban centers.

The general model based on classical criteria of trade theory suggests that in the face of a lack of duties placing limits on goods and services traded among producing regions, the comparative analysis of factor costs as well as the effect of a reduction in costs of inputs and even transportation, simplifies the basic concept of the traditional trade model. With this, it is possible to undertake certain empirical verifications, that tend to determine if there is or not a multiplier effect associated with the larger degree of trade of factors among cities and regions in a market that we could call or define as broad.Models such as this have been taken into account by authors such as Gouëset (1998, p. 13) in order to analyze the origin and expansion of trading cities. Furthermore, to determine why different size cities develop in a country according regional development factor endowments,

finds its answer in a quadri-cephalic development of Colombian interacting or dependent cities as announced and registered as so closely tied to the evolution of the very particularities of economies of the different Colombian regions. Perhaps one of the reasons that explain this autonomous growth of city-regions derives from the need to satisfy, on the one hand, the minimum requirements of self-consumption in each of them. Then, this growth on attributed to the need to overcome obstacles ascribed to the demands of outside or foreign markets. The attraction or economic complementation that is generated between city-regions that are distant and geographically isolated from each other is considered as another model driver. The current regional model in Colombia apparently seeks to cause the propagating effect that technology has on productivity in modern production schemes to increase substantially of the volume of trade exchanged among regions that are or were historically separated by distance, culture and institutions.

9.2. Theoretical Developments on Regional and Urban Economics.

Some of the most widespread traditional or conventional theories on regional and urban development that have attempted to make progressive approximations or explanations to actual situation, and which at their time were very complete, now appear to be partial are:

- Localization theory.
- Economic Geography.
- The approach of Cumulative Causes and Location for growth.
- Regional Development and Global Markets.

9.3.1. Localization Theory.

A brief review of this first theoretical initiative seeking answers to the theme of regional development, attempts to clarify why specialized and conglomerate economies that locate themselves only in some geographical areas in each country have progressively arisen within the economic activity of regional and urban development. From a collection of experiences, this model interestingly proposes to study the reason production and labor cluster together or agglutinate in certain regions of the economy more than in others that are apparently well equipped or endowed with productive factors. We may also ask ourselves why in larger urban

centers, when there are special conditions, the companies or economic sectors progressively specialize, particularly in certain very characteristic parts of each one of the cities[251].In these models, like North's the topic of investment location has been one case of study and interest, particularly for the observers that appreciate the occurrence of decaying activity in city centers[252]. Other analysts join the theory of localization with competitive advantage criteria, a notion particularly useful to connect our initial conditions for success in linking the economy into a world-system. From these extended criteria, they justify how accumulated investment in cities and metropolitan areas becomes a motor of its development and how on occasions the profit derived from them becomes an important element that promotes the creation of new investment for world competitiveness. With this incentive, an ideal element to attempt in-extenso sustained competitiveness of the regions is recovery of city centers, maintenance of the rhythm of expansion of the cities and impetus to other urban segments seeking for knowledge economy signals. The pertinence of this model to test our essay hypothesis that links free trade to globalization and strengths states interaction among economic centers is essence of the whole exercise.

9.3.2. Economic Geography.

The theory of localization has been subject to emerging theoretical inputs since its formulation by authors such as von Thünen, Weber, Christaller and Lösch, that were concerned with establishing the reason for a consistent type of relationship between location theories and investment. In the first case the town is the only market for sale and there is a uniform system of transport over a flat surface. The second has a uniform culture, climate and area in the same area, perfect competition exists and there is a uniform system of transport. The third model, suppose that there is plain homogeneous unbounded and limitless surface and

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[251] See work of Michael Porter who has been developing new criteria that attempt to explain the nature of the causes of cities' internal development in diverse contexts.Among his works the following are pertinent: Porter, Michael, "New Strategies for Inner-City Economic Development." *Economic Development Quarterly*. Vol 11 No 1. February 1997. pp.11-27.

[252] It is interesting to take into account the work of Douglas C. North. 1955. "Location Theory and Regional Economic Change." *Journal of Political Economy*. Vol. 63. pp.243-58. It aids in understanding the development of this scheme of thought and points out the origins of the role of institutions in this new approach.

consumers have a similar purchasing power and there is a uniform system of transport over a flat surface. The third is similar in the subject of surface and transport possibilities but technical knowledge is disseminated throughout the plain and production opportunities are available to all of them (Essletzbichler in Leyshon et. all. 2011, p.31).

Von Thünen deduce the results of historical-evolutionary approach to location theory noting a sharply differentiated concentric rings or belts around the towns exists, and each ring with its own particular staple product, and with it the entire farming system. The various rings are completely different from farming systems (Essletzbichler in Leyshon et all. 2011, p.25).

Years later on a different theoretical approach that includes conditions of optimization in the production function as proposed by Krugman (1993, 1995 and 1996) he concludes advancing a rigorous mathematical theory in these topics and in his survey on economic geography by finding that this location and distance becomes an important factor explaining regions and finally countries economic growth. In his work "*Increasing Returns and Economic Geography*," proposes a revised view on Thünen and Albert Hirschmnan theoretician interpreters of economic development, after considering that when transportation costs are minimized, it is possible for firms to reconsider their decisions to locate investments, thinking in the possibility to change sites, especially if a sufficiently large demand for goods and services can be identified to justify these changes in their investment structure.

In his exploratory analysis, Krugman suggests that the criteria pointed out by Marshall on external and agglomeration economies is the fundamental reason that determine the reason for relocation of firms in the geography. First, because the location of a firm in a developed region obeys to the fact that there is an abundant pool of trained labor there and that this reason is what determines change in investment. Second, the industries located in a particular region, are supported by the production of specialized inputs that are not found outside. Third, spill-over effects increase the formation of a niche where the production of other goods is more favorable than when they are located in an isolated place[253].

[253] For the origin of this concept see Krugman, Paul. "Increasing Returns and Economic Geography."*Journal of Political Economy*. Vol 99. No 3. University of Chicago. 1991. p.485.

He suggests that under certain circumstances, income distribution objectives and geography's own objectives combine better in particular regions of a country, which acts as a factor that helps sustain the development and capital accumulation process. Commerce and trade depend, therefore, on the level of industrialization, specialization and support among regions or city-regions (Martin, Ron. 1996, p.1).

One apparent consequence of this scheme is that in the long run, sustained development in large urban centers, such as the cases of Bogotá or Medellín and its relation with the Caribbean Colombian capitals have depended on continuous improvements in the internal and external transportation system, having connected them to the outside and with important regions within the country. This theoretical approach indicates that hinterland cities may conserve its growth rhythm none withstanding that they tend to specialize production to compete abroad. When transportation costs are reduced in a city, among cities or among city-regions, it is possible to generate economies of scale in production and trade costs. Based on these cost reductions, economic agents will invest more in those city-regions where they can attend to a greater demand and where the supply and access to inputs they need are lower priced and therefore their accumulation is justified and their acquisition facilitated. The creation of this or these new conditions is propitious to investment in the regions which will reinforce the development of new productive activities that consolidate the specialization of regions (Martin, Ron 1996 p. 5).

Krugman considers that in order to sustain uniform growth of one or several cities, the regional economies must form interlocking poles of growth, so that productive investment can reach higher levels of efficiency. The generation of chain effects or as it is called "backward and forward linkages" as in earlier theoretical development periods as suggested by Hirschman, or the time of "value chains" as proposed by Porter means that the advantages being generated in a specific region will produce cumulative effects that sustain the development process. The authors named argue that investment in social sectors, such as water systems or schools, improves social welfare. But that it does not in and of itself, contribute to raising and sustaining the rhythm of growth in the long run, nor the accumulation of capital in a city-region. They conclude by stating that it is

necessary to complement these investments with commercial and productive initiatives that promote trade with other regions or abroad.[254]

The authors Michael Porter, has gone even further on the topic of chain effects, sustaining that region and city-region development is associated with the formation of clusters or conglomerations of companies thinking more on generating scale economies and take advantage of transport cost reductions. In these cases, the function of governing powers is related to determining, establishing and promoting new investment opportunities while the entrepreneur is the agent that takes the business risks. In the new business theory proposed by Krugman, specialization of economies depends on particular historical circumstances or accidental factors, but also rescues the fact that when there is imperfect competition and growing yield, policies can be adopted to promote regional trade and production of goods that will generate economies of scale that favor the appearance of externalities. It is in this way that technology, which does not always act as a public good, but rather a tradable one, can become concentrated to induce greater endogenous growth of urban centers by generating high added value.

9.3.3. Cumulative Causation and Investment Location for Growth.

Krugman's works on economic geography, *Development, Geography and Economic Theory* (1995, p.88) and *The Self-Organizing Economy* (1996) offer a better view of previously presented works and are rather suggestive as to inquiring into the relations that may exist between economic development and economic geography. These works discuss the innovative role of Albert Hirschman's theories of linkages and unbalanced growth.This theory relates the aspects of growth via circular and cumulative causation, old view on economic development, which has theoretical weaknesses in that its mathematical focus is

[254] Traditional regional development theory attempts to explain some elements that define regional trade, particularly taking into account the causes that explain the level of exports or trade in goods and services. Growth in trade flows is associated with higher levels of growth and improvement in local employment levels. The theory of decentralization and regional development incorporates criteria such as comparative advantage and factor endowment into its analysis, as factors that explain the causes associated with growth.Analysis is more complicated when criteria of geographic and spatial distribution are included to confirm the causes of urban growth.

not sufficiently rigorous, and for that reason it has not gained the credibility that such an approach would deserve within the guild of formal economists. He connects these ideas with what he knows about economic geography, such as the spatial relationship between cities. The author mentioned considers that this link is a starting point that has no turning back for the development of empirical work by formalizing it through the development of a mathematical theoretical framework in which integration functions are established between two theories rich in discussion, but for the moment poor in predictive power.In these works criticism is based on the fact that it does not appeal to suppositions derived from the growing profits of competitive monopolistic industries that manufacture non-tradable inputs.

The point here is that there is an attempt to explain the principle of agglomeration as a consequence of the interaction between growing profits at the level of individual production plants, decreasing transportation costs and the influence of factor mobility on the model.For this reason, the analysis is complemented with the following reasoning on backward and forward linkages that join traders and suppliers, making them more efficient with respect to the process of resource allocation in order to promote transportation and to stimulate the administrative process toward a reduction in the costs of production and transactions. The model referred do suggests that the market potential acts as an incentive to the installation of new factories in urban centers or peripheral regions, the dynamism of which comes from the weighted sum of purchasing power in all locations, involving relative weight of these, and making it depend inversely on the distance that separates them (Krugman, 1995, p. 89). Its relationship established with the traditional development model of cumulative causation depends on the fact that the initial advantages come from historical accidents. Such is the case of the location of Bogota, as capital of the Viceroyalty, and Medellin as the capital of the province in a specific strategic location at different moments in historical time, with which we attempt to explain the origin of their locations.

Another interesting aspect of Krugman's model is that it proposes a solution to the absence of microeconomic bases for the traditional geographic theory. To this end, it first suggests that the model's externalities come from market interactions in which economies of scale play a role in the area of individual

companies. Second, with respect to the effect of wages on the cost structure, it accepts as a normal occurrence that on the average, the labor force linked to modern sector has higher salaries. Thus, he builds and integrates a dynamic model that incorporates parameters, such as the following in his analysis:

- Proportion of expenditure dedicated to the production of industrial goods.
- Transportation cost of each good from one point to another.
- Substitution elasticity between agricultural and industrial products.

This scheme integrates the labor force in a matrix of distances, and proposes a proportional allocation of workers in each sector. The construction of the model is complemented with the articulation of a set of relations that incorporate short and long-term equilibrium. The model ends, by drafting the existence of scenarios in which it warns that when the proportion of expenditure dedicated to industrial goods in any economy is large, industrial concentration becomes accentuated, such that it can grow in a self-sustaining way due to the strengthening of backward and forward linkages suggested by Hirschman. We can expect the concentration of companies to be greater when the proportion of expenditure is devoted to the generation of industrial goods. The decisive factor that introduces instability into the model is the cost of transportation. This is needed for movement of agents and for economies of scale through the effects of agglomeration and for labor costs to remain lower than transportation costs. In no other way will the virtuous effects of concentration remain over time.

For our dissertation work, these principles are very important, since they are an invitation to think about the content of the city-region as the basis of a process in which factors and markets are integrated, transportation costs reduced and synergies generated from the agglomeration of companies that export or sell outside the city-region.As soon as this process comes to a halt, the crisis of the colonial and industrial substitution models affects the future of urban development.

The foregoing considerations are important in order to find some transcendental meaning to the future development of cities and strategic regions and especially linking their economies to foreign trade activities and world investment currents as claimed by globalization principles. Possibly not as an unlimited process of growth of urban centers or city regions, but rather in terms

of finding new and appropriate economic functions for these cities and regions reorganize its development process. That is, it is necessary to think in terms of a new regional and world division of labor and specialization in the productive activity. To exploit these points, it is necessary to first take off from notions such as that part of the trade between countries and regions is due to specialization, which is promoted by generation of growing profit scales, even when there is an scarcity of endowment of factors. Second, when specialization induces growing profit and economies of scale, the profits from trade originate from the reduction of costs and the increase of the production level. Third, specialization is originally the fruit of an historical accident that can generate cumulative gains from exchange and yields from scale. Fourth, retribution of factors in imperfect competition conditions is a function of technological change to guarantee self-perpetuating growth. Fifth, the existence of imperfect competition and growing profits from scale becomes the new stimulus to designing strategies aimed at promoting regional and international trade through activities that generate economies of scale.

Once these basic principles we can reach preliminary conclusions about policies susceptible to investment promotion for exporting and competing in a global market. We can see that in various cases, the State is the agent that can play a decisive role in the sustainability of growth of the economy of an urban center or a city region, such as it is doing in China, or in the process of promoting the development of the technopolis, an idea to compete in and with global markets through connectivity. In these cases, political action is aimed at promoting a change in the pattern of specialization, seeking with this to generate competitive advantage. By limiting public investment to the rendering of basic public services, its action is reduced to granting economic stimuli, which in any other case would serve to lend impetus to specialization and improvement in the level of trade between regions and the outside, forgetting that businessmen need a renewed atmosphere to compete in faraway markets that are infinitely more demanding.

In conclusion, in the new trade theory proposed by Krugman and other economic geographers, although the emergence of the city regions it may be the result of accidental factors it is no less true that conglomeration of complementary investment activities it induces growth of those previous backward economies on a new pattern of cumulative causation profits. The new theory vindicates the fact

that when there is imperfect competition and growing profit, policies can be adopted that promote investment and complementarities and regional trade and the production of goods that now generate economies of scale and externalities. With respect to the topic of free mobility of productive factors, in the case of technology, it does not always act as a public good, but rather as a tradable one. This means that postulates of the theory of convergence do not always occur in all cases, showing the divergence of the model although this trend might introduce changes after government pronounces infrastructure investments more investment and innovation is required to attain increasing returns. According to these general criteria, it can be concluded that the new theory of trade establishes: first, part of the trade between countries and regions is due to specialization which promotes the generation of a growing scale of profit, even when there is an abundant endowment of factors. Second, when specialization induces growing profits and economies of scale, the profit of trade originates in the sustained reduction of costs and increase in the level of production. Third, specialization is the fruit of an historical accident. This accident generated cumulative profits from trade and profits of scale. Fourth, compensation of factors under conditions of imperfect competition is the function of technological change. Fifth, the existence of imperfect competition and growing profits of scale becomes the new reason to stimulate the design of strategies aimed at promoting regional and international trade, particularly in those activities that generate economies of scale or technological breakthroughs, or profit income that helps to sustain a high rhythm of regional development.

Therefore, the State can play a decisive role in the sustainability of growth of regional economies by promoting a change in the pattern of specialization, seeking with this to generate competitive advantages. Thus, in regional economies, just as in the theory of international trade, the fact that trade and integration are beneficial to strengthening the degree of development, increasing trade and mobility of capital and labor is an attractive alternative to improve regional competitiveness. For this reason, specialization in regional production for trade and commerce, promotes economies of scale and externalities (Martin, Ron. 1998, p. 10).

9.3.4. Regional Development leads to Integration to Global Markets.

There are many conceptual reference frameworks that try to elaborate theories that can explain regional development and its connection to urban development, or the opposite to global markets. The importance of these considerations link to fact that the expansion of the world-system open opportunities to globalization. Deeper insight is required to understand how develops the linking conditions of local markets to access to world trade. Each one of them offers a part of the explanation of the origin of our principal problems and policy developments in the globalization era. For example, the theoretical approach of unbalanced development proposed to seek an explanation for the fact that there are many regions in a country that grow under adverse economic conditions and others that are unable to take off, even with a good factor endowment and even less able to accelerate and uninterruptedly continue their process of capital accumulation, or develop and modernize their agricultural activity or lend dynamism and innovation to the industrialization or mining process with transforming complementary activities. This retardation may even be greater under favorable conditions of world trade rules where exchange occurs among modern sector activity. The unbalanced growth and development model proposes, for example, the promotion of activities that pull other sectors along, sometimes being the government one of the principal promoters, introducing policies that artificially unbalance relative prices by means of subsidies and reference prices or induced investment[255]. On this topic, the literature warns about the existence of obstacles that must be removed first in order to grow or strength links to world markets, one of them being "economic and social dualism among regions."It may be considered that this factor, so wide spread in many regions, retards investment activity (Meyer. J.R. 1965. p. 247).

The obstacles approach coincides with modern discussion which advances to the point where it suggests that with regard to the importance of rescuing proposals and investment criteria to progress in the selection of regional development projects that facilitate the accumulation process. This in order to overcome problems related to poverty and the low level of regional and urban

[255] See the work of J.R. Meyer, 1965. Regional Economics: "A Survey,"," in *Surveys of Economic Theory*. Growth and Development. Volume II. MacMillan. London. P.241

capital accumulation and even lack of real possibilities to compete in the world market. There are other economic trends that suggest that the State can contribute to solving poverty by mobilizing savings resources toward regions by appealing to social investment criteria.[256] Under this assumption, it is extremely difficult to identify the exact causes and remedies of poverty and of lack of world competitiveness. Therefore, fitting regional and urban development policies to considerations of equality and distribution of benefits requires a very deep institutional analysis. When the analysis involves factors such as the growth of population, nutrition, development of the work force, mitigation of poverty groups, elimination of depressed regions, measurement of development or the selection of appropriate policies, what is needed for conclusive analysis and structuring of policies is something more than the participation of the private sector.

More precisely an enormous concentration of combined forces is needed so that civil society and government action can be turned into signs of progress. To make the right policy decisions when there is such heterogeneity and a dispersion of the factors of poverty requires a broad institutional commitment. The World Bank and other philanthropic organizations promote growth through the adoption of structural reforms. It is hoped that these measures by increasing the speed of economic convergence will mitigate the signs of poverty in regions or in the long run faster or sustained growth. In the case of Lewis' model on the mobility of excess labor in the countryside, suggests that during some of its early phases the symptoms of poverty in the rural zones became more pronounced, until the best skilled workers were lost and the process of regional investment did continue. [257]

One interesting example of the continuity of the poverty problem and unequal development in the country as happened in Brazil, a nation where 19% of the country's area experiences levels of poverty and 30% of the population spread out through such a large country, adds up to as many as 140 million people. Twelve

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[256] See also the work of Johan Van Zyl, Tulio Barbosa, Andrew N. Parker and Loretta Sonn.1995.*Decentralized Rural Development and Enhanced community Participation*.A case Study from Northeast Brazil.Washington. World Bank.

[257] Lipton, Michael and Martin Ravallion. 1995. *Poverty and Policy*. Handbook of Development Economics. Vol IIIB. North Holland. Holland. P. 2560.

million rural inhabitants in Northeastern Brazil live in conditions of absolute poverty, where the level of their income is less than US$214 per capita[258]. Evidence there indicates that the poverty problem and backwardness require a reformulation of institutions and policies that are more elaborated, so that more direct action by the State is justified in order to accelerate growth and compensate for the signs of inequality. A good set of stimuli and of institutional reforms that bring the State closer to the process of decentralization and investment help balance growth. Infrastructure projects, water, electricity, health and telephone and telecommunications projects help accelerate growth and capitalize poorer or lagging regions. The nature of the problem gains increasing degrees of complexity when considerations regarding trade and the possibility to integrate Brazil to global markets stimulus are considered.

For Colombia, which is a country of very diverse regions, to design a set of productive investment strategies at the municipal level or even wider departmental and regional level requires a timely response by governmental institutions, the governing class and the investment sector, particularly if deep economic activity is to follow to have access to global markets. New investment policies help stimulate regional development, making it an interesting and timely priority objective. But for this to happen, policies that promote long-term growth, ensure regional competitiveness with respect to economic centers and allow wealthy regions to help others become integrated into the national market must be identified first (Ramos. 1995, pp. 13-19). This simple criterion is urgent, serious and interesting, since the analysis of data by the Departamento Nacional de Estadistica- DANE, has warned that regional development in Colombia is still unbalanced and unequal. Between 1980 and 1994, years of freer trade and open market the twenty four departments economy grew at a numerical average rate 3.18%, while fifteen departments grew at averages lower than the national and

[258] See the work of Johan van Zyl, and Tulio Barbosa, et al. 1995. *Decentralized Rural Development and Enhanced Community Participation. A case study from Northeast Brazil*. World Bank (RPO 679-68). P2.Poverty indicators alone are eloquent. Life expectancy is 58.8 years vs. 64.9 as the national average. 34.5 percent of the population under 10 is illiterate. Work productivity is 50% of the national average. Infant mortality is growing and 19% of the children suffer problems of malnutrition.57.9% of poor housing as no running water vs. 27.9% for the national average. 84% of the housing in poor zones has no access to minimal sanitation facilities.

among the regions there are still some that are not even reaching rates anywhere near the rate of population making it very difficult to attain objectives of convergence or benefit from the impetus of globalization. During the period 2000-2011, thirty two regions grew at a rate of 3.862% while departments like Meta grew at a rate of 11,45% per annum others did less well like Arauca that did grow at an average annual rate of 0,229% despite oil findings and increase in royalties.

Other empirical results come from the fact that economic growth and convergence as doctrine suggests that growth between countries differs and depends on the level of production of each. It establishes that if growth is below the "Steady State" on a country as given a range of "Catching Up" is a process or phenomenon that occurs if is accelerated under the transfer of technologies in the production process. In theory, there may be a rapprochement or closing gap of 2.5%, phenomenon subject to developing countries to eliminate some obstacles that slow development. Other empirical surveys to explore the behavior of the factors that determine economic growth among countries over time corresponds to the case of China, which grew at average rates of 9.5% during the past decade, while advanced countries such as the United States and the United Kingdom grew around 3.5%. This behavior although predicted by convergence theory still generates concern for introducing corrective measures in policy guidelines[259].

Endogenous Growth Theory.

Ron Martin and Peter Sunley study cases of slow convergence on regional Development as we observed occurred in Mexico, India and Colombia particularly in isolated regions. They start the discussion arguing that Marxist models of uneven regional development and regional cumulative causation determine long-term trajectories. In the 1980s long term growth has reappeared back to economists' research agenda. In regions within a nation are much more likely to share similar structural characteristics. However, "in firms of different regions within a single country they tend to have access to dissimilar technologies

[259] Barro, Robert y Xavier Sala-i- Martín. *Economic Growth*. Mc Graw-Hill International Editions. 1995. Sala-i-Martin, Xavier X.. 1996. "The Classical Approach to Convergence Analysis" *The Economic Journal.* Vol 106. July. Pp, 1019-1036. Pág. 1020. Xavier Sala-i-Martin. "The Clasical Approach to Convergence Analysis." *The Economic Journal*. No 106. 1996. Barro, Robert y Xavier Sala- i-Martín. "Convergence."*Journal of Political Economy*. Vol 100, No 2. 1992. Navarrete, Juan. *Convergence: A study for the States of the Mexican Republic*. Center for investigation and economic teaching. No 42. Mexico D.F. 1995.

although might share common central government and institutional set up." While a cause of slow growth of regions is …"that they tend to be geographically dispersed." On the other hand "new endogenous growth shows to different sorts of increasing returns defined as endogenous broad capital and endogenous innovation may be a virtuous condition for growth" pattern that should be more homogeneous in all country regions to sustain even development.

The first endogenous model refers to "capital investment as generating externalities and emphasize human capital and relate technological change to learning by doing and endogenous innovation." The second type "develops endogenous innovation growth theory and is labeled Schumpeterian because it emphasizes the returns to technological improvements arising from intentional innovation by producers." The endogenous model modifies the conventional neoclassical production function to include externalities to investment, learning by doing effects and spillovers of knowledge as knowledge becomes a public good with cero cost. Martin considers that the endogenous model portrays technological progress as a result of international research and education. Investment in human capital generates spillovers which increases productivity of physical capital and labor force (Martin, 1998, pp. 208-209).

New Growth Theories are defined finally as:

- Augmented neoclassical- with human capital and exogenous technical progress available.
- Endogenous broad capital- with capital investment and knowledge spill overs.
- Intentional human capital- where convergence is dependent on returns to investment.
- Schumpeterian endogenous innovation-produced by oligopolistic producers with technological diffusion an imitation. (Martin, 1998, p. 209).

Other models of geographical economics proclaim for regional development the avenue of emerging firms to undertake research and development as new products to earn monopoly profits and when these firms cluster around complementary and competitive activities of other firms, international competitiveness arises. Imperfect competitionallows firms to capture larger profits to cover costs of R&D. Innovations become the intermediate inputs to other firms as proclaimed by Hirschman (1957). Opening the regional markets to

global competition helps to improve specialization in industries and sectors where there is scope for technology spillovers and specialization of labor intensive industries. These returns are based geographically on localization and in scale economies as predicted by neoclassical models.

The author Clay found in a sample of one hundred countries from the year of 1965, identifying elements that influence the development, the adoption of:

- Public policies that promote capital formation.
- Orient the Human Capital production in the modern sector
- Spread the advances of technology between companies. Endogenous growth theories propose that based on the discovery of new ideas and methods of production is the economy's long-run growth.

Krugman in his extended works on trade seen in the foot note, we see he has developed the economic geography theory that analyzed his based concepts specifically on the theory of the location, and that related productivity gains to the regional growth with the reduction of transportation costs. The purpose of the work of Krugman "Increasing Returns and Economic Geography," inquires about the reasons that generate increasing yields, which arise in the economy and the externalities generated by the agglomeration of investments. In Krugman (1993,1995 and 1996) is structured this material and their concepts of economic geography, enabling it to propose formulas to minimize transportation costs and relate them to the location of enterprises, with the places where they had more demand, better infrastructure and mobilization of the abundance of skilled labor.

The idea of location as a business decision that depends on availability of specialized inputs and the effects of irrigation "spill-over" is an inspirational condition to form niches of production to derive gains of trade and increasing returns of capital.The theory suggests that under particular conditions combine situations of distribution of income and regional comparative advantage that has a direct impact on capital accumulation. Trade and distribution depend on the level of industrialization, specialization, and support among regions and cities, which leads to further degrees of competitive specialization.

9.3. Regional Specialization and Convergent Growth.

In a discussion of economic liberalization and the behavior of economic growth, the topic of convergence acquires renewed interest given that we suppose under

conditions of economic liberalization, the least developed regions even in a developing country like Colombia with regional institutional disparities and differences in factor endowments tend to have higher growth rates than the wealthy economies in some particular cases. The validity and universality of the model must be proved both at the international level when comparing country experiences and at a local level where regions should show signs of convergent growth. In order to delve deeper into the criteria of convergence, three principle concepts must be described in reference to the topic. A more detailed analysis of these theoretical developments goes beyond the scope of this exploratory research work and it is suggested that the pertinent bibliography including recent cases be analyzed[260].The *first* case refers to the concept of *Sigma Convergence* that considers the dispersion in a transversal cut across per capita incomes. It is said that *Sigma Convergence* occurs if the dispersion in per capita income, expressed in terms of the per capita income variation coefficient declines over time. The numerical analysis takes into consideration the standard deviation of regional populations expressed in terms of the logarithm of per capita income in the different time units. The *second*, refers to *Beta Convergence*, which occurs when per capita income of poor regions within a universe of countries or regions of a nation grows more quickly than the group of wealthy countries or regions, such that the poorer regions catch-up to the wealthy ones in terms of per capita income over time.

Empirically this convergence is portrayed as the set of points representing the annual average real income rates at each point in time during a particular period. The line of regression, thus obtained, of the sample population must be negative in order to establish the degree or speed of convergence. Otherwise, there is divergence. It is said that Beta convergence usually behaves in the same manner as Sigma Convergence, but said behavior can be affected by disruptions that tend to increase the dispersion of the transversal cross sample[261].

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[260] Navarrete, Juan, 1995.*Convergencia: Un Estudio Para los Estados de la República Mexicana*.Centro de Investigación y docencia Económica. No.42. México D.F. Sala-i-Martin, Xavier. "The Classical Approach to Convergence Análisis." *The Economic Journal*. No.106. 1996. Barro, Robert and Xavier Sala-i-Martin. "Convergence." *Journal of Political Economy*. Vol 100, No.2, 1992. Barro, Robert and Xavier Sala-I-Martin. Economic Growth. Mc Graw-Hill International Editions. 1995.

[261]Sala-i-Martin, Xavier X. (1996). "The Classical Approach to Convergence Analysis" *The Economic Journal.* Vol 106. July. Pp, 1019-1036. Pág. 1020.

The third case refers to *Stochastic Convergence* the definition for which uses notions of single root and co-integration. In this model convergence in per capita income has as a condition that the permanent shocks in the economy be associated with the permanent change of the regional economies. The convergence condition of this model is that deviation in regional per capita income relative to national per capita income, and shows a stochastic process where the mean of which is not zero[262].

The work of the authors Barro and Sala-i-Martin called *"Determinants of Economic Growth, at Cross-Cuntry Empirical Study"* slogan reads "Lionel Robbins Memorial" at the London School of Economics, and exposed aspects of economic growth and convergence. They offer explanations about the interrelationship between economic and political development, and finally consider the effects of inflation on growth.[263]

To define these concepts various authors makes the following distinctions first between the two major definitions:

1. The known as *sigma convergence* or **Convergence σ** relates to standard deviation of income per-capita and deviation standard of the rich countries along time line.

2. The change in the *beta convergence* or **Convergence β** refers to the index that shows the speed to which poor or failing countries converge along other richer regions or countries, argument measures by the reduction of the standard deviation between them.

   a. One of the conditions of this model is that economies are open to trade and investment.

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[262] In analysis of convergence it is indicated that the evidence of time series along, is insufficient to explain the concept of convergence, even if the hypothesis of unit root of regions within a country is rejected.There may be dynamic externalities that influence regional growth.Regions with abundant human capital can act as agents that lend incentive to innovation with which the rate of regional growth is raised in relative terms to a greater proportion than those regions with less human capital endowment. One cause of divergence that may appear stems from the fact that agglomeration economies are positively associated with per capita income and growth of regional income. When growth has exogenous causes Beta convergence is not necessarily guaranteed.

[263] Barro, Robert J. (1999). *Determinants of Economic Growth. A Cross-Country Empirical Study*. The M.I.T. Press. Cambridge.

b. Convergence believes that in a State of globalization and open trade, markets international, prices of factors like capital, labor and transportation costs decline over time, and tend to balance out.
c. In an open economy, the migration of the factors of production forces lead to a rapid process of economic growth, even greater than that of the industrialized countries[264].

3. It is said that there is **Convergence β** when a group of countries or regional economies converge, that is, experience a long-term trend to decrease the dispersion of the per-capita income, until match point. **β** measures the speed of convergence that is the time in which the dispersion of capita real income reaches its long-term trend. The rate of GDP annual growth rate vs. the logarithm of the per-capita real income[265].

Thirdly, important distinction is the observed in the relationship between σ and β as suggests by the theory. If the **convergence beta β** tends to be a declining index respect to the **convergence range of the** dispersion **σ** important thing is to say that occurs only if the variance of the error declines since:

$\sigma^2 = \sigma^2\varepsilon / (1-(1-\beta^2))$.

Insofar as the variance of the error comes up, decrease **σ** and **β** may occur and at the mean time it can increase a variance of the disturbance term, where the sign problems in **β**, may lead to convergence **β,** although in this particular case there might be a *necessary but not sufficient condition* for the convergence of **σ**.

9.4.1. Evidences of Divergent Growth in some Countries.

As stated the model of economic convergence has the following purposes to measure and compare the development and speed of growth per-capita. First, it allows determine under free market conditions, income real capita of countries in

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[264]See the methodology of Ron Martin and Peter Sunley."Do Solow Convergence? "The New Endogenous Growth Theory and Regional Development." *Economic Geography*, Vol. 74, No 3. July 1998. pp. 2001-227 Page 205. The calculation of the Betas is carried out based on the regressor:

$(1/T)\ln(y_{t,t+1}/ y_t) = \alpha - \beta\ln(y_{it,}) + \varepsilon_t$

[265]Sala-i-Martin, Xavier X. (1996). "The Classical Approach to Convergence Analysis" *The Economic Journal.* Vol 106. July. Pp, 1019-1036. Pág. 1020.

the process of development-or regions of a country, stating that tend to grow faster in terms of real income against the economies of advanced countries-or regions within the same country upon stated conditions. Under free market circumstances, countries with lower degree of development have a speed of convergence greater than the developed countries.

In the *Mexican* case, there is no full consensus with respect to the convergence hypothesis among researchers (Navarrete, 1996, p. 26). The first conclusion of this work indicates that there is no clear evidence of convergence conditioned on the specified variables, and that the speed of convergence is slow. In the model when budget transfers and federal public investment are included as variables the results show negative convergence and some speed. Upon separating the information on poor and wealthy states, the results are significant for the variables and the participation of physical and human capital as would be expected. However, the increase in the convergence coefficient showed no significant change. The speed of convergence was about thirty years for the two cases. There is some evidence that the State is in the process of convergence toward greater levels of welfare, but this is a slow process for 32 states.

It also concluded that wealthier economies converge among themselves over a period of thirty years. Poorer economies adjust to the model, but nothing conclusive can be said about convergence within a specific time period. The distance between rich and poor can remain indefinitely. The difference between states is lessened, but only where the levels of product per capita are similar. The fact that allocation of public resources toward different economies does not propitiate convergence remains a concern. Unequal treatment by the State has generated unequal development in the country. Krugman's contribution in terms of economic geography tends to offer a clear explanation of the divergent behavior among regions, worthy of more careful study.

Italy's case as an industrialized country shows that after World War II author Paul Rosenstain-Rodan in his famous article on the problems of industrialization in southern Europe caused the academic community to realize that market stimuli alone were insufficient to spur the growth of poor regions. A "big push" was needed to spur growth. Recent studies (see Leonardi. 1997) suggest that in a considerable number of macroeconomic variables such as per capita gross product, levels of personal consumption, capacity to export locally generated

products or to attract sources of foreign investment and capital continue to be greater in the regions of central and northern Italy, in fact the most dynamic in all of Europe. In southern Italy, economic growth occurs but is slow and this is not a phenomenon affecting the entire country. The evidence suggests that regional development still depend on local factors such as the community values and standards. There tends to be a correlation among the effect of policies promoted by local economic and political institutions and economic growth. The local factors promoting productive investment exert an influence on sustained rhythm of regional growth in a more emphatic manner than the effect of policies and programs adopted by the central government. In spite of the fact that between 1994 and 1999 the European Community will allocate about 144 billion ECUs to regional development, there is a general consensus that this investment will lose its chance to accelerate and sustain the growth process if it does not involve the local communities, attract risk capital, promote the presence of social capital, emphasize civic culture, induce political agreement and support an institutional response.

Institutionally, the presence of the House for the Development of the Italian Mezzogiorno a type of regional development Bank rationalizaed and selected investment priorities for regional level projects. In this sense, this is where it is important to introduce changes into Territorial Development policy, in order to make the institution into a project bank, aimed at managing, promoting, selecting projects, associated investors, marketing the actions of the companies, financing projects thus making these initiatives profitable and sustainable. Investment in water systems, sanitation and education are one of the priorities that must be complemented with other investment possibilities. The sole identification of projects is not enough to promote sustained development of regions, unless other managerial components become involved in order to accelerate growth and adapt regions to policy changes.

In the *India* case and as a consequence of regional diversity, they have tried to establish the causes of poverty and regional inequality. From the viewpoint of consumption patterns, the degree of inequality has diminished and in some cases is above the poverty level.However, recent evidence shows that at the regional level, disparity between regions has increased. In terms of consumption per capita, neither does evidence allow us to confirm tendencies that mean

improvement, but rather what have been noticed are sharp fluctuations in the convergence indicator (Kumar Das. 1996, p. 365).[266] Within the context of economies open to international trade, it is argued that external competition eliminates national competition in production centers, which weakens backward and forward linkages. This is reason enough to justify emphasis on political support in a search for better distribution and promotion of commercial and entrepreneurial activity among regions (Kumar Das; p. 366).

Pioneer authors such as Nurkse, known for his argument about the cumulative causes in development processes, argues with good reason, that in under developed countries, the role of the State as an agent that promotes a decrease in regional inequalities is very weak.He insists that its participation can help the poorest regions to accelerate their growth, to the degree that the effects of a diffusion or spread of knowledge for these cases can be definitive in accelerating the accumulation process. The effect of this participation is particularly disturbing when the degree of regional inequality is accentuated.

In this case, the Kuznetz effect must be taken in to account in the analysis of regional development, especially in the first stages of growth, when regional inequality increases. Later in the process and when certain conditions are fulfilled this phenomenon tends to reverse itself and the trend. The change only occurs when the poorest regions accelerate their growth rhythm. And, as a consequence of the capital formation and the accumulation process springs from better operation of the price setting mechanism more stable growth (Kumar Das. 1996; pp. 366-8). This theoretical argument requires a rigorous empirical proof, since it is not easy to determine the causes that relate national economic growth and a decrease in inequality in the distribution of income among regions.Kumar Das concludes in his argument stating that evidence on regional disparity in growth in India, generates disturbing expectations, precisely because there was cyclical behavior from 1970 to 1992.The experience there suggests that the variation or rather the decrease in the inequality indicators both for income and consumption is accentuated over the duration of the period studied.

[266] In India, the political cost of decentralization has been identified with the confrontation among rich and depressed regions. Nevertheless, they invest as much there as here in unproductive current expenses, coming from government transfers.

In terms of sustainability, the regional growth model is more interesting, because it allows us to closely observe some elements that damage the soundness of the hypothesis of convergence, such as the transfer of tax resources collected in poor regions and channeled into the government treasury in amounts that exceed the sum of transfers. It frequently occurs that part of private savings generated by the financial sector is transferred to other markets outside the region. Situations often arise in which social investment in education and health in poor regions is unjust in terms of per capita with respect to the wealthier regions. Altogether, it must be warned that situations such as this justify the presence of the state apparatus in order to correct distortions. The State as a vehicle can correct defects in the market, which makes their participation worthy in order to promote the transfer and permanent participation of sufficient savings resources, contributing to setting criteria of fairness that will favor the poorer regions. It is interesting to note in terms of equality or fairness that in other cases the State, without trying to, can contribute to fostering inequality by urging the transfer of taxes toward regions with intermediate development, neglecting thus the urgent needs of the poorer regions.

Since the process of economic liberalization and openness to world markets began in India in the 80s, economic liberalism has not eliminated regional disparity in income mal distribution. Among regions and between non-organized sectors, disparity has grown, especially in terms of product and employment. Traditional agriculture due to its loss of dynamism in the sphere of liberalization has been the sector that has most greatly increased the level of regional inequality. It is also worth clarifying that the effect of reduction in inequality has not been accentuated or evenly distributed among some regions, due to the fact that the more organized and productive industries locate themselves as usually occurs in the wealthier regions. Much has been written on the topic of convergence in growth, and India as one case is not the exception.

One of the *conclusions* that Paul Cashin[267] reaches about these damage about the soundness of the hypothesis is that raising income in some regions was a consequence of the occasional aid that was granted by government to the poor to

[267] See the work of Paul Cashin and Ratna Sahay. "Regional Economic Growth and Convergence in India." *Finance and Development*. March, 1996. v33. No.1 p.49-

undertake projects or the effect of findings of oil and mineral resources that increases tax transfers to the center or lack of investments that associates the creation of activities producing positive externalities. The author Talles suggests that this was the case in some countries with initially low ratio of capital to labor, or those regions that progressively declined productivity due to rapid migration of productive age workers to cities or wealthier areas demanding cheap labor.

Recent Colombian Convergence Experience

At the end, it is argued that poor countries should grow faster than rich countries economy, measured in terms of real income per capita income, proposition that not always occurs as observed with data we collected for periods 1980-1994 and 2000-20122 in Colombia. First, because to the **Convergence σ** to occur this phenomena depends on the dispersion of per capita income, and this dispersion must decline with the passage of time proved certain conditions. Divergence is the result by national figures, perhaps because the development conditions of distant Colombian regions from Bogotá, Antioquia or Valle del Cauca to mention the riches in Central Colombia is due to the fact that they enjoy difference in factor endowments like those provided by the provinces of Llanos Orientales or the Amazonian region. The empirical analyses provided by the DANE figures shows that the standard deviation of small regional population located in big geographical areas shows that in terms of the natural logarithm of income where the index is not very different from that of developed regions is due to the fact that the larger size of peripheral regions contraries the effect on smaller and wealthier ones. Evidence suggests that when we group large, medium and smaller populated areas in Colombia, the slope of the **Convergence β** tends to decline in the less populated areas even faster than in larger regions, where divergence is the constant observed. Therefore the catch-up assumption did not work well during the earlier phase of the globalization process when income per capita of poorer regions grew faster than in more developed Colombia regions. [268]

[268] Solow, R.M.. *Growth Theory. An Exposition*. Clarendom Press. Oxford. 1973. Romer, Paul M. 1990. "Endogenous Tchnological Change." *Journal of Political Economy*. No 98. October. S.71-S.102. Xavier Sala-i-Martin. "The Clasical Approach to Convergence Analysis." *The Economic Journal*. No 106. 1996. Barro, Robert y Xavier Sala- i-Martín. "Convergence."*Journal of Political Economy*. Vol 100, No 2. 1992.

Some years ago the Colombian case has been analyzed by several authors including Mauricio Cardenas. His work offers an empirical explanation of the behavior of determinants of regional growth. He investigated income convergence by region and inhabitant in several regions of the country. His study answers three questions related to the existence of per capita income convergence in the different regions, the role of migration in this behavior and possible causes for more rapid growth in some regions than in others. He analyzed why from 1950 to 1989 production and income grow rapidly in poorer regions with respect to richer ones.[269]Twenty-four territorial units were studied and on the average a negative correlation can be seen between the per capita income logarithm and the average rate of growth in GDP per capita. The Departments of Chocó and Guajira demonstrated a higher rhythm of growth due to exogenous factors such as investment in Cerrejón coal mines, which partially explains why the convergence process was negative. Convergence was also present on an interregional level, so that the gap between per capita incomes in wealthy regions compared to the poor ones decreased. The correlation among average per capita GDP growth rates and per capita income is small, thereby indicating that full assumptions about convergence are weak.

In our empirical research analysis, we study another recent statistical base that gathers evidence published by the DANE for the period 1980-1994, with which comparison is interesting none withstanding the series is somewhat short. Some preliminary conclusions are offered based on these new figures that rather differ from those given by Cárdenas with respect to regional growth.First, it is shown that according to the figures in Graph No. 5, the real rate of average product growth in each of the twenty-four departments is calculated including the sample and this figure is related to the regional GDP for 1980. By associating these variables for the period under analysis and by performing the regression of this sample, it can be shown that the Convergence β test does not explain or conclusively shown if there is convergence. The correlation coefficient is very small and the variable coefficient is almost zero. Hence it may not be concluded that during the period of economic liberalization there was any growth in the per

[269] See the work of Mauricio Cárdenas, 1994. "Crecimiento y Convergencia en Colombia:1950-1990." in Steiner, Roberto. *Estabilización y Crecimiento*. T.M. Fedesarrollo. p. 218.

capita GDP for the departments which would confirm signs of convergence, that is, that departments with a lower per capita income had improved their real income over time, with respect to the more prosperous regions. The figures on Convergence β for the eight wealthiest departments, the middle income ones and the eight poorest ones show a very small correlation coefficient, meaning that it cannot be concluded that there was any strong convergence process during the period mentioned, that is that the poor regions had accelerated their per capita income growth rate in relation to the national average.Inasmuch as the sign of the coefficient is concerned, it is positive, except in the group of the poorest departments, indicating some convergence. However, the correlation coefficient lacks a sound degree of significance. Second, according to Graph No. 5 which lists the logarithm of standard deviation for GDP per inhabitant of each of the twenty four regions studied during the period 1980-1994, the coefficient of the variable for regression is positive. The correlation coefficient of the line showing trend is 0.94.In this case, some divergence can be seen, which would contradict a postulate of the convergence theorem, and therefore it may be concluded that over time dispersion of per capita income increases in poor regions for the period from 1980 to 1994. Third, in order to identify some causes of this behavior, a correlation analysis was done on the annual growth rates of the national economy and that of each of the regions and among the various regions for the period indicated. It can be seen in the matrix of regional growth correlations with respect to annual national average, that out of a total of 378 calculated correlations, there are 120 that are negative and only 26 over 0.5.Greater than zero and less than 0.5 there were 232 of them. Therefore, from the calculations referred to, there is very little correlation in the regional growth process taking into accounts the combinations of pairs of regions and the regions with respect to the national aggregate.

These results may be interpreted to mean that there is a very high degree of disjointedness and little interdependence among the growth rates of the national economy and those of the regional markets within a national environment. This raises the question whether we are becoming ever more distant from the possibility of achieving an integrated national market, one reason which makes it urgent that long term policies be designed to promote regional development. Hence, the effort that the country is still needs to exert in terms of regional investment is quite substantial, before being able to speak of an integrated

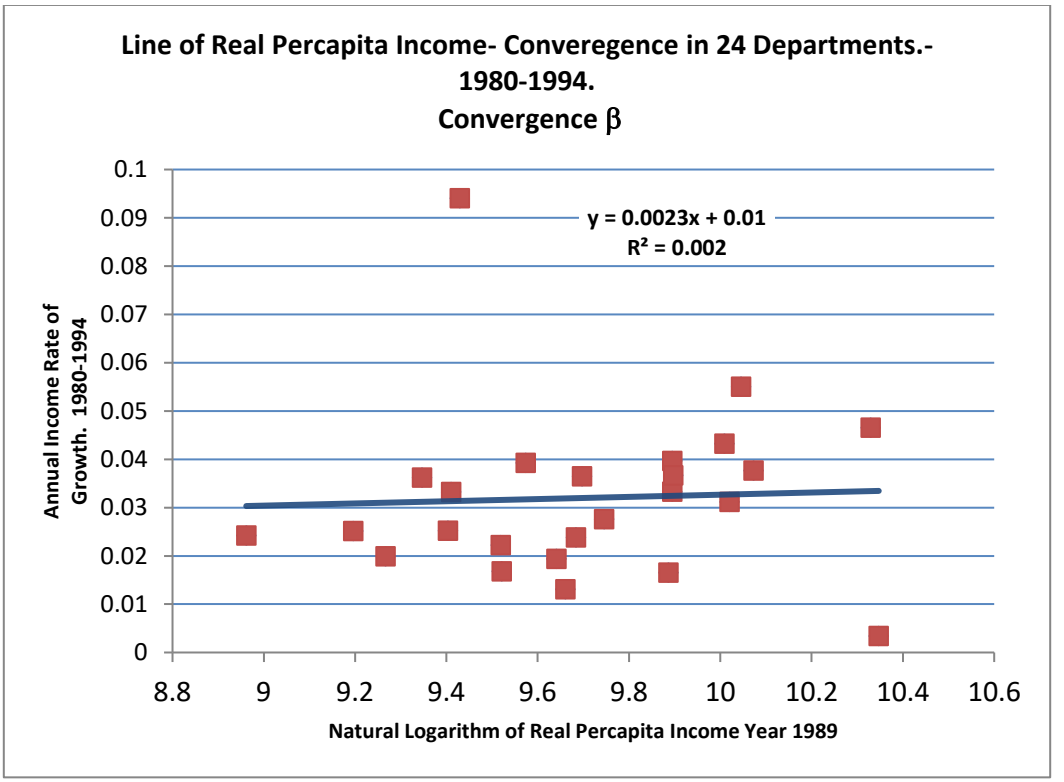
national market. The investment that is made in basic infrastructure must be complemented with the association of private capital in the regions in order to raise the rhythm of regional growth, and to benefit the national economy to the degree that an integrated market is consolidated.

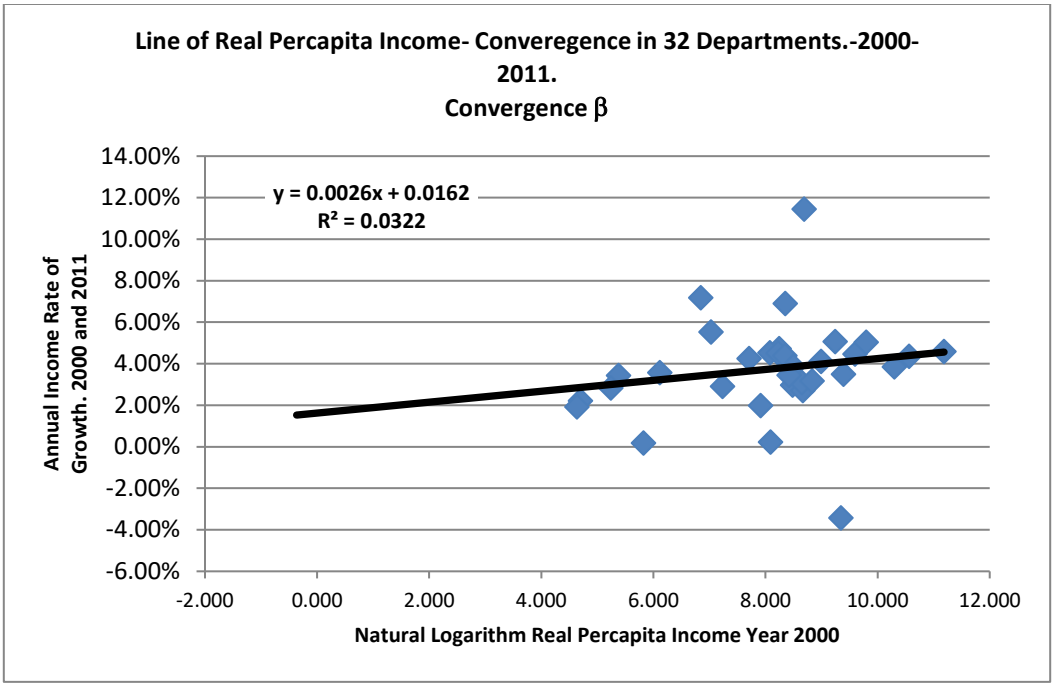
Years 2000-2011 show that Convergence β obtained from a 34 regional sample of Colombian Departamentos has a negative coefficient, meaning that there is a slight convergence tendency. However the correlation index of 0,1072 proves that both variable are poorly correlated, so regional income growth is not much related with per-capita income growth. Convergence σ has a strong correlation coefficient between dispersion of per-capita income with the time variable, however the sigma coefficient has a positive sign proving that divergence tends to occur instead of the expected convergence hypothesis provided by stated theory.

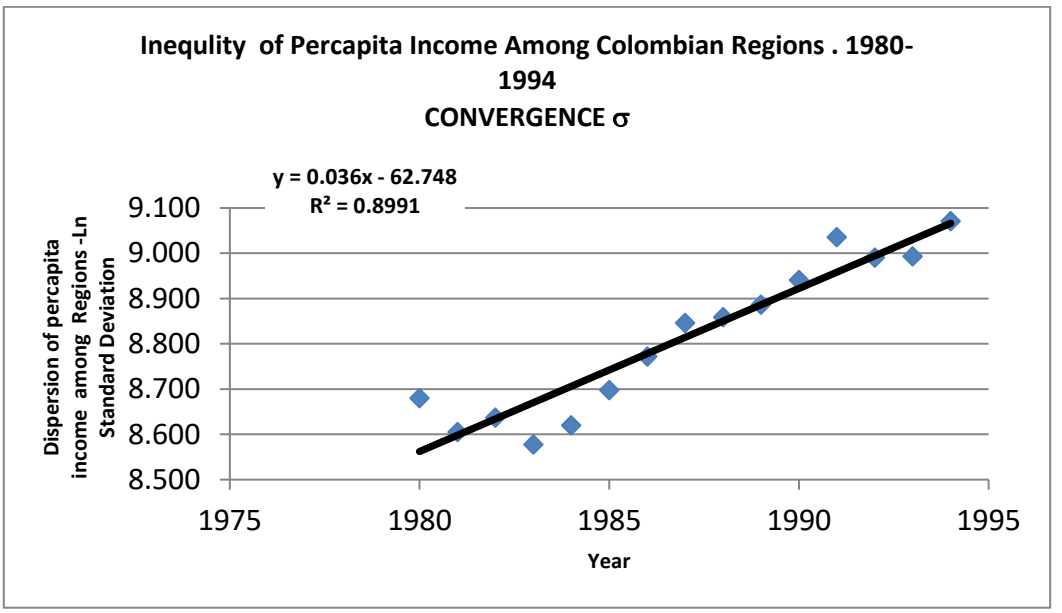
Graph No 5.

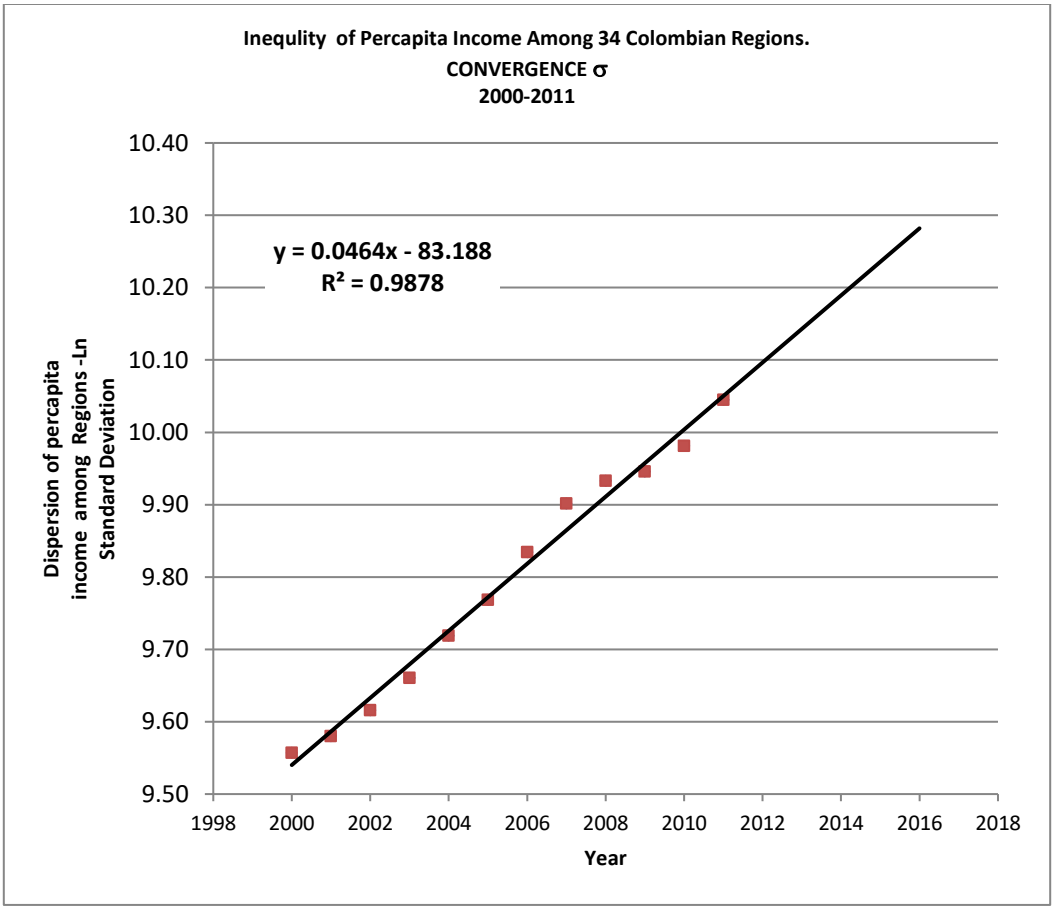
Convergence β and Convergence σ .

Years 1980-1994 and 2000-2011.




Line of Real Percapita Income- Converegence in 32 Departments.-2000-2011.
Convergence β
y = 0.0026x + 0.0162
R² = 0.0322
Annual Income Rate of Growth. 2000 and 2011
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
-2.00%
-4.00%
-6.00%
-2.000
0.000
2.000
4.000
6.000
8.000
10.000
12.000
Natural Logarithm Real Percapita Income Year 2000


Inequlity of Percapita Income Among Colombian Regions . 1980-1994
CONVERGENCE σ
y = 0.036x - 62.748
R² = 0.8991
Dispersion of percapita income among Regions -Ln Standard Deviation
9.100
9.000
8.900
8.800
8.700
8.600
8.500
1975
1980
1985
1990
1995
Year



Source: "Dane-Cuentas Departamentales" and Author Calculations.[270]

[270] Convergence β and Convergence σ

Methodology:

Convergence of Real per-capita income in 24 and 32 departments. 1980-1994

Convergence β

To find out the average growth rate of the departmental product during a period.

Use formula = TASA(14;;)-B5;C5).

That provides the years during which grows the product (14) and

where Bi measures at year one and Ci measures the final year of product of each Department.

Then take the inner product departmental capita of year zero and calculate the Natural logarithm.

Draw the Cartesian map of the Natural Logarithm of the domestic product.

As a diagram of departmental per capita income with the actual growing rate of the departmental internal product correlates during the period analyzed the speed of convergence β.

9.4. Economic Geography and City-Region.

Colombia, like many other countries in the emerging world has made an effort to incorporate itself into the international economic system by means of the expedition of various policy strategies. In the coming years where globalization and multilateral trade agreements enter into effect the result of policies designed to emphasize deeper penetration within the international context might be seen. Many countries intend to generate a supply of goods and services that will modify the productive structure and change the composition of production and employment at a world basis. Along with the development of this new division of labor, the function of production in the cities will be oriented toward producing goods with a higher added value and products highly dependent on knowledge contain. Gradually, the adoption of policies oriented toward competing on global markets will produce changes in the productive structure and improve access to foreign trade markets through higher degrees of specialization. The international division of labor will modify the productive structure of the country and cities and competitive regions will increase their share in this trade increase.

A positive slope of the coefficient measures if there is convergence β or divergence if the coefficient is positive.

A close to one correlation coefficient measures whether there is a close correlation between the variables.

Natural log of per-capita Real Income and the annual departmental product real growth rate.

Convergence σ

Methodology:

Calculating the value of the gross domestic Departmental product per capita, at constant prices of year zero.

Calculate the departmental GDP at constant prices for years to analyze the situation of convergence.

Calculate the standard deviation of the average of the annually departmental GDP in study.

Calculate the Natural logarithm of the average of the departmental GDP of annually points in study

And perform the linear regression of Cartesian points of the Ln of the average of the departmental GDP for every year of study.

The slope of the regression measures the speed of convergence if negative or divergence if positive.

And the R2 measures the dispersion of the average points.

Foreign demand will place technology intensive productive factors and various areas of knowledge in motion to the service of competitiveness improvements. There will be institutional changes that will lead productive centers to modify their allocation of tasks and functions. Regional production centers, with its zones of regional influence will have to accommodate their productive processes to the requirements of foreign demand. Production will be far more specialized in diverse goods that are exchangeable in foreign markets. The changing trend in foreign demand opens opportunities to improve trade currents with countries like the United States. This opportunity derives from changes in political and commercial relations from the standpoint of the new generation of political agreements like those signed by Colombia with the United States or with the Latin American Regional Trade Agreements known as the "Alianza para el Pacífico."

9.5.1. The New International Atmosphere – Global Trade Framework

Latin American Region is experiencing growing competition in the globalized market and a significant change must be adopted to improve access to financial and investment opportunities. This challenge undoubtedly offers possibilities for the national economy as well as for the regions and city-regions; opportunities oriented to tap competitive advantages and adapt the productive activity to emerging market demands. Hopefully, foreign markets prospects will determine the future development of our cities where the role played by modern activities will increase in importance. Clientele's politics, inefficiency in production, corruption and wastage will find out that fierce competition will determined the emergence of modern productive activities. The basic challenge to the development of the city-region is to generate and put into practice a policy that will ensure strategic advantages in order to make these centers truly attractive agents for the development of business and investment. Microeconomic analysis indicates that competitive advantages needed by firms must be achieved by improving their commercial positioning with respect to competitors in outside markets.

One of the reasons that make us believe that we are moving in the direction of a global economy is the progressive elimination of trade barriers, the freer of exchange rate, openness to foreign investment and access to technologies. The

theorems of globalization incorporate new elements that have repercussions on the evolution of trade, to the degree that the dividing line between internal trade and international trade is becoming blurred, subjective and a question of personal opinion. Globalization has become an element of geopolitics that brings about profound changes in our economies. Agents and possibilities come into being that modifies the productive process, making it impossible to escape from the determinants that condition the development of our city-regions. Theses deriving from liberal currents must be added to the idea of negotiations among blocks as put forth in the previous point. Such liberal currents consider the economic blocks when trading among themselves as areas that partially achieve levels of worldwide efficiency as a group.

In order to overcome this problem of deviation of trade, Bhagwati, proposes that the TLCs, which are a sub-optimum initiative to trade since they tend to detour trade rather than generate it, still allows for attracting competitive investment in countries like ours. This author indicates that having to acquire more costly goods from the closest economic block is a direct and deliberate way to deteriorate welfare.[271] And for this reason the defenders of globalization "perse" about this geopolitical phenomenon remains as a firmer path toward modernization and development, as well as toward diffusion and consolidation of capitalism on a regional and world scale.

Globalization becomes a real element of international politics if it responds to social and political goals. Due to its economic manifestations in emerging countries for example, it merits greater study consideration and point of analysis for the purpose bringing development into the country. This historical development is considered a post-industrial phenomenon and brings into society three general spheres of change in power distribution. First, in the economic sphere because it has had repercussions on the structure of agreement in the field of world production, affecting the exchange, distribution and consumption of goods and services. Second, in the political sphere because it affects the way power is distributed among the different agents, establishing new negotiation conditions for decision making and because it introduces unknown patterns of control and coercion by the state. Third, in the cultural sphere, because the

[271] Bhagwati, Jagdish. "Fast Track to Nowhere."*The Economist*. Oct. 18,1997.p22.

structure of production needed to compete in an open environment requiring a new social contract, with differentiated symbols, beliefs, preferences, likes and values.

This line of reasoning is fundamental to defining long run urban development policies. Just as internal migrations as Gouëset (1998) demonstrated obeyed a pattern of industrialization by substitution and deterioration of traditional agriculture it is foreseeable that the economic forces in conflict are now others. For this reason the conditions to increase urban dynamics are different. We can see how in a globalized atmosphere, the large trading blocks are those that indicate the direction of exchange, stimulated by a diversity of agents that modify the social relations between producers and consumers, between regional blocks and alliances of countries, and between geographic zones within the same country. The exchange of goods will therefore take place between blocks and local markets and transportation over distances will fall into the hands of specialized intermediaries, while the cost of mobilizing such production will decrease as Krugman observed (1995). Barriers to trade will be relaxed due to spatial references and the symbols will be reproduced at almost no cost and be transferred with ease in this new environment without borders.[272] Lester Thurow, suggests that "any product can be made in any part of the world and likewise be sold wherever one wishes…and manufacture each component and develop each activity in the part of the planet where its production is the cheapest… and sell it where profits are greater."[273] This conclusion is a way of visualizing the future conditions of demand that have so much effect on the evolution of urban development, given their productive composition. The global strategy will be aimed at production and it's financing, according to managerial concepts based on the application of planning, design, production and planet-scale distribution schemes. Financial transactions will occur in different currencies and types of credit, with which investments and administration of capital will take place in demanding and specialized markets[274].

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[272] Waters, Malcolm. 1996. *Globalization*. Routledge. London. Pp.4-10.s

[273] Thurow, Lester. 1996. *El Futuro del Capitalismo*. Vergara p.129.

[274] Bretherton, Charlotte and Geoffrey Ponton. 1996. *Global Politics*. Blackwell Publisher. P.7. Globalization tends to change the international agenda very quickly and permanently since it incorporates new elements such as the topic of international security for peace, economic

Globalization as a World Political Phenomenon

Globalization is an unequivocal political phenomenon and manifests itself as a transformation of the legal framework for trade and investment in many parts of the world. Some authors, such as Bergsten (1997 Sept. 27; p.23) suggest that the United States, when it initiates the final negotiation for its global insertion, will modify the economic rules of the world market, as it is the principal country leader with the initiative to encourage trade agreements. Due to its power and influence can complement its leadership both in regional negotiations and on those geopolitical scenarios as was announced in 1999 by President Clinton before Congress on the convenience of supporting the Millennium Round[275].

Participation in the globalization process attempts to decrease economic loss by improving levels of competitiveness for enterprise, in more than forty countries. In this way the danger of remaining isolated from the stimuli of world trade are avoided, and opportunities opened for the modern sector to capitalize and take advantage of the opportunities of the level of exchange occurring in the competitive atmosphere of globalization.[276] For this reason, the arguments given above take on unexpected importance, since they point out that the sphere of competitiveness of the new global enterprises is not their own country, but rather the world. The general challenge to economies is to improve investment conditions, research and development, as well as to adapt managerial routines to take strategic benefit of emerging opportunities on the business scene offers. One suggestive aspect to achieve that end is the use made to proposals made by location theory in the new global economy, to improve global city competitiveness.

Urbanization and Services

Authors, such as Cuervo (1997) and Gouëset (1998) try to find the causes that explain in their work that a city such as Lima, Sao Paulo or Bangkok generated

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relations, development of poor countries and poverty, protection of the environment, protection of democracy, defense of human rights, the rights of woman, among others.

[275] Bergsten, Fred. "American Politics, Global Trade." *The Economist*. September 27, 1997. p.23-24.

[276] Iglesias, Enrique. Globalización e Integración Regional:Consecuencias para América Latina. México. November, 1997.p.4.

about 40% of the total national product, due to easier access to services that incorporated modern technologies with which they were able to raise productivity by offering better managerial systems. The lack of equilibrium introduced by governmental policies in relation to the terms of trade between country and city, favored the increase in the rate of accumulation in the cities and this transfer of savings has caused opportunities to increase to the urban economy as modernization policies are claimed to have spill over.

Geographers and economic historians have tried to encounter the general causes that determine the origin and evolution of cities growth after capital has accumulated. There are some rules of behavior that offer explanations and on occasion make some predictions about the impact of emerging policies. For example, with the flow of excess labor from the countryside into urban centers and the introduction of productive activities in the centers, it can be understood how a high percentage of gross domestic product is generated in the cities by means of producing more goods and services like health education and banking. This argument also connects with the question about why the worker that arrives in urban centers from the countryside or other centers helping to develop new activities within the cities. One reason might be that it helps to combine the productive factors of cities as occurred with house construction activity or increase the export services in accounting financial services or research and development.

There are usually numerous new factors that explain the diversification of urban activities and increase in productivity and accumulation in cities. In the era of economic services, the development of certain activities explains part of this increase in the growth rate and generation of employment in different fields. For example, the weekly magazine The Economist (July 29, 1995) indicates that in 1974 the finance industry had capitalized in cities US$900 billion, a figure that rose to US$15 trillion in 1994.It is evident that the appearance of this new element suggests that it is possible to identify certain activities that promote employment and production other than that considered traditional. Many analysts suggest studying concrete policy mechanisms intended to promote strategies to further cities, taking into account for example new endogenous productive factors that involve knowledge creation. Large cities such as Tokyo, New York and London duplicated the number of jobs in the last decade through the development and

growth of the services sector, emphasizing support to the creation of call-centers, hospitals, and diverse university sub-centers.The jobs offered there are growing, they are reiterative and complementary, generating chains of jobs and out-sourcing, by which the services sector begins to occupy a relevant position within the development of new economic activities in the cities.

In general, the development of services activity is changing the environment of urban development, an environment in which the large, extensive areas making up inter-urban circuits of interlocking cities and regions around a large business. Now, prosperous areas of trade or industrial relocation are combined, co-existing with deteriorated zones in the centers and in the peripheral zones. Analysts and policy makers inquire insistently into the ways to reconcile the interests found when the process of reconversion of cities takes place and certain traditional or decaying activities that tend to disappear, or in some cases have to coexist with the advance of various centers, suburbs and areas that must break their accelerated decadence. Recent evidence, principally on North American cities suggests that some centers of urban conglomerations begin to receive new permanent inhabitants and record a rise in employment levels after changing production pattern structure.

Increase of Gross Product and Urbanization

The different levels and stages of development in which the countries and cities are at conditions the urbanization and modernization processes. Just as there are cities and megalopolis in which the center is in the process of recovery, in countries like Colombia the topics of rehabilitation of the center, construction of modern transportation mechanisms, adequate roadway systems or ambitious projects such as the design or creation of technopolis still elements that interest to a growing number of officials and intellectuals.

Generally, these questions still have no formal response in terms of policies. Historical events and happenings advance without they're being any general frameworks of solutions offering an adequate response to these problems. For this reason the lag between the degree of urbanization and the adoption of modern solutions and proposals to transform centers into factors of competitiveness becomes prolonged over time. The problem of the cities is of such urgency that

the problems of the marginal or peripheral areas are forgotten, as if it did not form part of the urban problem.

In 1990 the UN found that there is a direct relation between the level of urbanization in countries and the level of per capita income. And this situation would tend to become modified to the degree that the productive roles of the countries and cities change, and the countryside finds another productive function such as the preservation of the environment.International competition will cause changes in many urban and suburban centers specialized in the production of goods that cannot compete with imported products. There will be many cases in which the appearance of “clusters” will allow some subcenters or regions near cities to find a prosperous function in the new international division of labor.Cities that cannot adapt to the new circumstances will probably become depressed areas.

PART X.

THE CITY-REGION A MODERN ACTOR TO COMPETE IN THE ENVIRONMENT OF GLOBALIZATION.

10.1 The City-Region.

As we advance in the trend of the essay we observe that the theory of sovereignty in International Relations is based in the Nation-State as the center of political power, and we observe that as globalization process advances state sovereignty is transferred to world markets and its governing institutions like the World Trade Organizations-WTO in matters of commerce or the International Monetary Fund-IMF in what concerns to the governance of world financial signals. The subject of territoriality attributed to the state sovereignty, is traditionally shared with different regions and cities, system where last two become new actors in the international competitive sphere. Multinational Corporations and its technological improvement becomes another force that tends to be shared with traditional international political sphere of power with after a network of economic and political forces display around the world. Civil society and non-governmental organizations are also important new actors that determine world agenda along the globalization process, and its interest is mainly oriented toward the defense of civil and human rights. Other derived problems after globalization are those generated by financial crisis and its instability, diffusion of new technologies together with the effect of research and development and the delocalization of innovative practices, pandemics and cybercrimes converted in some of the new problem where the democratic world experiences the effects of globalization.

Referred arguments of previous sections and the globalization phenomena, we consider that its diverse constellation of forces are inter-linked and diffuses at the same rhythm as advances the erosion or dilution of traditional geographical borders. The emergence of the city as a new factor of world power share derives from the great number of political and economic transactions that are taken by referred entities. They among others affect the social construction of interests and

determine new relationship between structures and agents and its logics or anarchy define what we call the constructivist environment. Constructivists proclaim that the world of ideas or values determines how states come to see others being either friends that cooperate or enemies that quarrel for power share[277].

The city regions as systems are common in different countries and group of nations. Cities, like Bogotá, Medellín or Cali in a country like Colombia confront a double characteristic, in the sense those structural changes in the country as well as international ones exert an influence on the exercise of political decisions and affect countries future development. The great opportunity for these cites to become global actors in many cases will depend on the degree to which they become inserted into the international economy[278]. For the moment, three mentioned cities have benefited from the disparities among regions and cities, since they attract a lot of the surplus population, generated a large portion of the industrial product building a new political force in the nation. As they enjoy of the highest income per capita standard in the country in comparison with other regional capitals they transform as a political actor that changes the equilibrium of the share of power both in the country and abroad. The political or state border between cities tend to be an imaginary line just as it is between external markets and so to compete in this open world market.

Today there is much talk about of city-regions as a piece of geography that competes with the bounds of the state, as it is nothing else that the juxtaposition of towns, neighborhoods and cities along an overlapping geographic belt. It is as if we were to speaking of a new city entity that extends for example from San Diego-to-Tijuana corridor, or in another geographic context, forming the Singapore urban triangle. That is, that in many parts of the world there are natural economic zones, where the income per capita is higher than in the rest of the country and so its power share inside the democratic or governing institutions.

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[277] Ian Hurd- "Constructivismm." In Christian Reus-Smith and Duncan Snidal. 2010.*The Oxford Handbook of International Relations*. Oxford. Oxford University Press,p.298. Constructivism emphasizes the social and relational construction of what states as and what they want.

[278] Sassen, Sakia. 2002. *Global Networks Linked Cities*. New York-London. Routledge."A growing number of cities today play an increasingly important role in directly linking their national economies with global circuits." p. 2

Ohmae (1993, p. 77) indicates that in the province of Guandong, the capital of which is Hong Kong there is a population of 65 million that will reach a per capita income of US$5,000 while the rest of China may perhaps reach US$1,000 in the next decade. The largest Latin American cities, very much aware of the opportunities of foreign trade, concretely stimulated by the prospects open by freer regional markets become a sort of international agents with power share similar to that share by independent states. And other integration processes, it seems will aim their efforts at defining their new economic function, in order to reach the thresholds of development within the global context.

China, on the other side of the world, is stimulating 14 new region-states to compete on the global market as in the coming millennium the stripe of Yunnan will become part of a Mediterranean zone that shares borders with Laos and Viet Nam. Along the straits of Malacca, three nations will share a common geographic zone. Between Boston and Washington you could say there is a city-region with good investment "opportunities." Looking at things from this perspective, it is understood that our institutional and legal frameworks need to be modified.

The reference made to the evolution and development of regions-states is pursued in this paper because we understand its geopolitical transcendence. The rules of the game in order to be able to enter the club of rich global market participants is that countries must accommodate themselves to the new mandate in order to find a new role for traditional cities and regions. One enters the global economy because the historical events determine it will be thus and because political organization pursues these goals, as well as a result of economically based reasons originating in a particular process such as the development of an agricultural export industry or manufactures involving technical innovation. But to the extent that cities find new functions in order to insert themselves into the international economy where there is a greater demand than in the internal domestic market, other city-regions will flourish, such as perhaps in Colombia as are the cities of Cartagena-Riohacha region; Medellín-Popayán belt; Honda-Neiva or Girardot-Sogamoso to say the least. We can clearly understand that legal schemes of territorial organization such as that developed by the Colombian Decree 879 of 1998 in its Articles 9 and 10 are still far from the broader visions of territorial organization mentioned above.

As a consequence of globalization and the advancement of science, very modern cities have arisen to manifest a tendency to concentrate on activities associated with technological development.Many companies are grouped together that generate a high added value, with which the degree of industrial concentration is increased, attracting highly skilled labor to the area. When the proportion of expenditure devoted to industrial goods is very high in an economy, it is usually manifested in a rise in industrial concentration that can be self-supported due to the strengthening or linking as an agglomeration of productive activity centers. The concentration or agglomeration occurs when the proportion of expenditure is greater in investment in technologically based industrial goods. The definitive factor supporting expansion of this process is a sustained reduction in labor costs, which in turn must be lower than transportation costs in order to allow the effects of concentration to continue indefinitely.

10.2 Competing Technopolis in the Global Market.

On the road toward a Technopolis, the most notable characteristic of the process is intensive use of the technological component. The productivity factor plays an important role in justifying the concentration factor. And it is in these cases, where the market forces determine how to allocate resources. Castells and Hall (1994, p.20) suggest that planning and political circumstances can constitute elements that will help promote investments in specific geographic places. They agree that government action when there has been subsidized support to drive defense projects and the military industry facilitate the development of technology intensive industrial efforts. These authors suggest that the establishment of university and research centers help generate new knowledge, acting as an endogenous factor within the growth process, thereby stimulating the concentration and location of new entrepreneurial centers associated with knowledge. In these cases, the theory of location of the technopolis takes on interest as a pioneer effort for countries intending to compete in the global market. We can see in certain experiences how the production of software, induced the development of an information economy, which as stated, was generally created in the technopolis. This information constitutes a fundamental input for the development of new products and policies, the endogenous components of which

explain the residual element of a growth function, but also a component to compete in the global system.

Castells indicates that the dynamics of the technopolis originate in tangible facts such as those that gave rise to processes such as the technological revolution, in which information technology is as important as the Industrial Revolution based on the use of energy. The onset of globalization commented on above as the element that accentuated the dynamics of the economic processes, is the seed of a new world fed by international competition and capital mobility. It is also fed by the fact that productivity and competitiveness are based in a decreasing fashion on the generation of new knowledge and in the access to information processing and transmission. Science, technology and information management are new factors, which recombined instead of adding together, multiply the wealth of the economy. The economy in the era of information is global because the capacity generated by the new productive forces needs constant expansion in the world market, dominated by new power forces that depend on information, technology and to a lesser degree on labor and raw materials, which constitute a dynamic element of human activity.

Not everything about the technopolis has been said, but one what is clear is that literature on urban development tends to confirm the fact that by the next century, cities can become important units of production and link to the global market whose social organization will be oriented around knowledge. For this reason, economic policy will be oriented toward planning actions that stimulate the creation of wealth and enlarge the global supply chain.Cities in the context of globalization will compete among themselves; not for primary goods and manufactures produced for the local market, but for standardized products and services for global markets. It is estimated that at least 17 of the 21 megalopolis in the world with more than 10 million inhabitants will be located in the lesser-developed countries. This process will compete with conflicting processes, wherein the centers of the cities will decay and some productive manufacturing industries will disappear or move to other places.

The role of the urban centers onwards will be different from what we know today. We must prepare our cities as of today to confront these changes. One thing is the increase in urban population and another is to avoid an economic decline within them. The Economist (November 7, 1998) comments with respect to these

considerations that Taiwan will essentially recreate another Palo Alto, California, in the sense that it will build modern houses, schools and many enterprises producing semi-conductors, software and attract many risk capital investors. Near Taipei there is a scientific park called Hsinchu, one of the most important in the world that promotes the innovation of the third most modern electronics industry in the world. The huge share of this industry in the world has led to the creation of a second technological park on the island.It is no coincidence that the majority of computer components come from Taiwan.

The success of these advances in the localization of cities that compete is the freedom the government gives this industry and the high concentration of technicians in the innovative area. The success of this experience can be summarized in that there is a close line with North American enterprises, a constant flow of students to the United States and above all to the massive use of the computer leading many firms to specialize in sales and marketing, while anonymous firms produce huge amounts of generic parts for the world market.

10.5.2. Scope of the City-Region in Mexico and North America.

Mexico has modified its policy of regional development for the purpose of confronting the advancement of economic integration with the United States. The advancement of the notion of city-region, in particular and the geography-distance relationship in general and their connection with the economy has been great and definitive in favor of the growth of these urban nuclei. [279] In North America the spatial distribution of economic activity tends to be concentrated in certain strategic regions with an aim to exerting its influence on a national nucleus. Although in these neighbor regions, certain large cities are joined in a city-region development process where their new economic activity is taking into account that they are highly dependent on intercity and global trade. There is strong interaction and dependence among them due to migratory flows of capital and information resulting from the technological changed named above.

[279] See the work of Mario Polese and Salvador Pérez Mendoza. "Integración Económica Norteamericana y Cambio Regional en México." *Revista Comercio Exterior*. México. Vol. 45, No.2. Febrero 1995. pp. 132-139, contains a detailed compendium of bibliography on this topic.

Cities within the continental nucleus in the northern U.S. are intensely orienting their economic activity toward the demands of commercial relations among world economic blocs. Among these we may point out NAFTA, FTAA and as of the year 2015 APEC.In the United States, this nucleus extends from New York to Chicago, and in Europe from Amsterdam to Zurich (Polese, 1995, p. 134).The model used by Polese incorporates several integrating elements. The national nucleus of cities within a country stands out among these, and in this case in the United States it joins with the nucleus of cities forming a progress belt leading cities towards a global competing scope.

In dynamic cities in both countries, the primary characteristic that explains their movement can be found in the relative difference in per capita GDP. The per capita GDP should be greater in them than in other areas and in general than the national average. The political importance of the city-region comes from the fact that it acts as an additional feeder to justify transfers of resources that are larger than the total national expenditure both in absolute and in relative terms. The "spatial" model that uses the criteria of distance between the city and its markets leads us to predict that unless electronic communication policies are adopted to cut down distance with other dynamic regions or markets. Traditional economic activity must be replaced therefore by action that generates a high added value like specialized knowledge. Mexico bases its experience on the support of redistributive fiscal policies, receiving transfers of funds from the State. Urban development policies are divided between sustaining a central city nucleus as in the case of Mexico City and dynamic centers such as Monterrey, which is stimulated by NAFTA. Meanwhile, the poor states in the south exert strong political pressure.

10.5.3. The Future City of China.

With the political liberalization introduced by Deng Xiaoping, we could see in China the fact that a country of such proportions suffered from accentuated regional inequalities. This phenomenon was critical, in spite of the fact that the liberalization model had been initiated in 1978, bringing an end to the agricultural communes, creating special economic zones and privatizing state industries. Since then and thanks to these measures, the growth rate has been 10% annually and the value of exports grew from US$10 billion to US$300 billion. Foreign

investment registered US$30 billion in 1994 and two decades later this figure increased substantially. This evidence of greater investment reinforces the theory of the greater speed of convergence in the Chinese economy, with respect to developed countries. From the point of view of regional development, analysis of the topic tends to be more complex, due to the fact that many regions have not experienced any growth at all, making the convergence postulate less reliable. Growth has been seen principally in the special economic regions such as Zhuhai, Shenzhen, Shantou and Xiamen. Urban salaries still triplicate rural ones, and the flow of migration to the large cities remains accentuated for this reason. Pressure on urban infrastructure has been strong and agricultural production has declined, turning China into a net food importer (Weinstein, B. 1996. p.55).

Therefore, one of the questions that experts ask and still have not solved is how to accelerate the growth in the interior of the country, precisely when industrial development and economic boom in services grows at accelerated rates in the special economic zones.The formulas used in the West to stimulate sectors or microeconomic variables do not have much practical application, given that China is an agglomeration of regional economies. Macroeconomic policies, both in China and in Colombia, have differential effects in each region, province or municipality. It is for these reasons that the pressing problems such as internal migrations and displaced populations become critical, in the face of the impossible task of accommodation, as in the case of China with its 500 million additional inhabitants in the large cities. For this reason, they have had to formulate the alternative of industrializing the interior of the country. Within this new context, industrialization has been assimilated with regional development, which has also been complemented by important infrastructure projects and services in the broad corridors such as Beijing-Tianjin (Weinstein, B. 1996, p.57).

The general objectives of development, such as the creation of employment, rise in income per capita, redistribution of income, elimination of poverty, improvement in life and welfare conditions, and broadening of the economic base have not occurred uniformly throughout the entire length of width of this immense country. It is hoped that by stimulating regional development, poverty can be progressively eliminated and income distribution improved. But the truth is that it is of great concern to the higher echelons of government, that macroeconomic policies have asymmetric impact on regional development, and

for this reason, the government considers it necessary to balance shares in public revenue between the central government and the provinces. Likewise, they also see a pressing need to correct defects in the market, taking advantage of incentives, such as lower taxes, favorable interest rates and promotion policies aimed at stimulating entrepreneurial development.

Industrial promotion policies and technological change through the creation of centers for promotion and improved educational conditions at different levels are factors that can contribute to spurring regional development. The implementation of this set of productive policies requires that the community and private investors improve investment in public goods, including water systems, airports, roads and telecommunications systems in the regions where they attempt to stimulate development. The foregoing reasoning is reflected in the application of general macroeconomic policies that are commonly believed to propitiate the process of convergence. It is believed that with adoption of the model of decentralized decision-making and community participation in decision-making, impetus to productive investment as a condition to guarantee the sustainability of the model, therefore takes on unexpected importance. Let us remember that in the experience of China, the topic of regional development has been an important policy criterion given the dimension of the country, especially during the stages of centralized planning, although criteria such as intra-regional planning[280] and development did not receive all the attention deserved.

For the purpose of increasing the rate of growth in regional economies, China has been discussing the fact that territorial development highly depends on the convenience of capitalizing activities that promote improved technology conditions and above all that orient the location of industrial initiatives (Wang, 1995, p. 565). It is estimated that territorial planning, constitutes an important vehicle to stimulate economic growth. With the development of Economic Geography, as a science with an important economic criterion, subject now covers and incorporated in a set, such important notions as the planning of industrial development as the basis for sustained growth, the identification of the physical conditions of the territory, utilization of agricultural investment, ordering of the

[280] See detailed work of Wang, Ya Ping and Cliff Hague. "Territory Planning in China: A New Regional Approach." *Regional Studies*. London. Vol.27.6,99. 1995. p.561

economic and industrial structure, systems of urban development and human movements, as well as the distribution of water, power, transportation and basic infrastructure facilities.

Broad analysis of this concept will allow the development of policy guidelines that help orient development of the industrial challenge, as a condition to guaranteeing sustainability of the liberalization model. For this reason, it is extremely interesting to notice that the concept of regional development and decentralization is interpreted with very integral criteria. Thus the *Plan for Territorial Development*, prepared with the help of the Japanese government in 1985, attempts to coordinate the country's economic development with the topics of migration and settlement of populations, along with the development of regions and communities, formulate strategies create equilibrium in urbanization and balance financing policy and promotion of projects associated with the activity of transportation and telecommunications (Wang, 1995. p. 566).

In the field of roadway transportation, the sustainability of the model in the long run is conditioned on the plan for 85% of the cities of more than five hundred thousand inhabitants to be interconnected through the national roadway plan. The most interesting fact of the new liberal scheme in China, is the fact that sustainability of the model is based on the contribution of various regions to growth and welfare, incorporating significant amounts of private investment through projects oriented toward technologically modernizing traditional industries, producing high quality consumer goods, and even more ambitiously to modernizing the industrial cities, developing four special economic zones and fourteen international port centers. Of great importance is the adoption of the strategy to maintain sustainability of the model through a stimulus to the productive activities located in the interior parts of the country. Labor intensive industries stand out; agro-industry, mining activity and power generation, all for the purpose of preserving a better regional balance. And in order to rationalize regional development, governmental economic policy attempts to rank cities by categories of extra-large, large, medium and small, in order to understand the problem of reallocation of income and investment on a regional level. China has twenty extra-large cities (more than one million inhabitants), thirty large ones (five hundred thousand to a million), ninety-four medium ones between 200,000

and 500,000, and one hundred seventy eight of less than 200,000 inhabitants (Wang, 1995, pp. 567-68).

Finally, among the concrete proposals to sustain regional economic development that stand out are support for existing manufacturing industries, modernization of agricultural and livestock production, inclusion of tourism plans to attract sources of capital to the regions.In each regional economy stimulus must be given to the creation of their own competitive advantages, which taken together determine the sustainability of growth. Those that stand out here are the coal mining industry, power generation, supply and extraction of water, chemical industry, textile and garment activity, conservation of the environment, mining, intensive crops and the fruit industry among others.

10.5.4. Urban Policy: the Case of Guatemala City.

To raise the levels of competitiveness of the cities is a topic of great political importance, given that participation in international markets is a question of survival for the countries. To find opportunities to diversify exports, incorporate specialized productive processes, incorporate leading technologies and identify standardized products of high added value is a challenge to reach the dynamic trade and investment segments. The exploratory lines referred to allow us to analyze tendencies to help Colombian eventual city-regions to improve its strategic condition as a political, economic, financial and cultural center for the country or pertinent regions, as well as to visualize opportunities to develop strategies aimed at converting the capital cities into an important international center for competitiveness.

Aside from the spatial criteria described by the strategic exploration of Bogota, Medellín, Cali and Barranquilla as a city-region to mention some few, it is worth taking into account the existing and future conditions of infrastructure, as is the case of airports, duty-free zones, manufacturing centers, and hotels installations, prestigious centers of higher learning and research centers. These are interesting factors of attraction that help orient the competitive mission of the city.

Nevertheless, it is interesting to explore some recent tendencies with respect to the discussion of new directions that arose regarding the topic of Urbana.[281]In

[281] See the work presented at the symposium on cities.March 13-15, 1997, held in Barcelona.

the case of Guatemala, the analysis made by Castillo Arroyo (1997, S.p.) focuses on the topic of inadequate soil use, contamination and degradation of the environment, inefficiency in the collective transportation and roadway systems and the housing deficit.We can appreciate the fact that the discourse is similar to ours, in that it does not deal deeply with topics to the future, when making its own diagnosis. During the period 1986-93 the city went through a sector planning process, including a Master Transportation Plan and one for Solid Waste, which became part of the final Master Plan for Metropolitan Development in 1995. The novelty was that it included a participatory scheme for decision making, with consultants that brought models developed in other cities. It started with the supposition that it was necessary to rescue the city, including the application of notions such as mixed soil use and urban activities in small sectors, improvement in the collective transportation system, adjusting routes to new needs in order to avoid congestion, and to extend services to marginal zones and lastly to apply coercive means to enforce laws.With respect to the future it was believed that the discourse should incorporate such aspects as a progressive change to improve the quality of life, modify patterns of production and consumption, respect the ecological equilibrium and seek harmony in cultural development, supporting civic participation. Due to its geographic location, an objective to preserve the environment was incorporated including extensive green zones in the urban landscape, even supporting biodiversity in the surrounding microclimates. Participation by urban actors interested in the execution of projects was stimulated. With respect to policies that deserve integral attention, development and use of the soil, environment, infrastructure, transportation and roads and social, economic and institutional elements were identified. To reach these goals with high levels of works to be executed demands a search for sources of resources and an increase in the efficiency of expenditure. A photo-interpretation of the city was performed for an urbanism and land use analysis.From the point of view of project financing, it was insisted that project by self-financed.As a strategy modernization of the planning and inspecting system was adopted and as policy, it was proposed that the environmental variable be incorporated, supporting the creation of a green belt of ecological protection.

10.5.5. The City in Latin America-A New Set of Problems.

Seventy-one percent of the population of Latin America lives in the cities. The rapid growth of the last fifty years has its origin in the migrations from countryside to city.The crisis in the agricultural sector explains urban development in many countries of the region, a cycle that economic indicators are showing tends to stagnate. This means that the cities that found a market in rural demand to send their supply of goods and services lose their relative importance as a factor that stimulates the growth of the urban product. Latin American cities find a justification for their growth in urban demand, and eventually in production for a global market. As stated before, this market is intelligence, knowledge and innovation intensive, and for productive activity it is technology demanding.This gives its production a high added value. The re-structuring of the cities of the future is based on these new determinants.In Latin America, Richard Batley (1997, p.1) says there are thirty-six cities of more than one million inhabitants, two of the world's five largest and eight of the fifty largest. The appearance of the city-region can be explained by the fact that industrial relocation in many of these centers is concentrated within a radius of some two hundred kilometers. The neo-liberal model and structural adjustment have changed the economic function of these cities by reducing the size of heavy industry and making productive activities associated with globalization a priority.

This does not mean that in traditional cities, traditional economic activities disappear altogether.The important thing is to understand that due to the changes occurring in the international system that promotes a different function for city-regions it forces them to adopt changes in order to adapt and accommodate themselves to this reality.More and more each day there is a calling for them to become specialized global cities, whose activities will be related to finances and the administration of information. The new technologies associated with globalization require a very broad and specialized space, which causes industrial complexes to shift toward zones other than the traditional urban ones, locating themselves on the periphery and forming thus what we have called the city-region. The phenomenon of information technology also requires specialized personnel, while recognizing that only a small part of the population possesses this knowledge, which explains why so few cities in Latin America can effectively

adapt to competing on global markets.Competition in the labor market will become concentrated on a few high paying jobs and the middle class that will depend on this process will be compelled to move toward the urban centers associated with the new global economy (Batley, 1997, p.3).

One evident problem that arises from this tendency toward a global economy is to counteract the decay of intermediate cities and to correct the degree of inequality generated by this process of insertion within the large urban areas.Evidence shows that the domestic market will not be the dynamic factor that will power future development of cities. It will rather be the international demand for goods and services, so that modern urban policy should avoid letting the gap between the poor and the new rich associated with international activity become too wide.In other words, it is important to generate policies to incorporate certain social strata into the dynamics of growth.The State can help correct polarization of the economy, by increasing the investment that generates greater levels of welfare and by accelerating redistribution, through education and access to public works of common benefit, such as roads and utilities.Income redistribution policies help avoid economic imbalance. The presence of multinational companies helps adjust the degrees of redistribution on the national level and to insert the economy into the global structure at the level of the citizen (Batley,1997, p.5).

The industrial and tertiarization crisis announced by Gouëset and Cuervo are added to the problems of another dimension that demand different policies in the urban sphere, such as preservation of the sustainability of urban development, both in the economic and environmental senses.[282] The urban ecological problem can be delegated to the Ministry of the Environment in search of a general policy. But unavoidably certain entities like the District will avoid designing formulas that conceive of a city-region where development is harmonious and balanced in terms of preservation of the environment and generation of economic

[282] With respect to the topic of tertiarization of cities it has been said that it is important to lend impetus to small family type productive units through decentralization, for the purpose of responding flexibly to economic opportunities that arise from technological changes in big companies that replace traditional labor.In certain countries there has been an effort to institutionalize public and private associations to design policies to promote small enterprises.

growth.This thesis coincides with the proposal by Batley that decentralization increases the possibilities of urban development.

One way to reduce the pressure and distance between rich and poor in cities of rapid growth is to promote development of the city-region in terms of the study proposal for the great Aburrá Valley, the Girardot-Bogotá-Sogamoso axis and the Santa Marta-Barranquilla-Cartagena corridor, so that it can integrate a large number of people in a diversified social and productive process that is less costly in social terms. A 21st century city conceived of only in terms of international competitiveness is a solution to the problem of external demand, but incomplete in terms of rescuing the social groups lagging behind or impoverished in the process. The government can contribute to mitigation of the social distances through investment programs and promotion of regional development, avoiding thus the diseconomies of agglomeration.

Bogotá, like other Latin American cities, suffers from problems of social sustainability, in spite of the efforts to make it competitive on an international scale.This concept takes in different entities and groups of society and includes aspects such as economic growth and preservation of the environment. Cities like Calcutta grow, but the levels of misery increase, as can be seen also with the people living in the *favelas* of Rio or in Villamiseria inBuenos Aires, misery amidst prosperous cities.

Involving economic agents in a sustainable development process implies promoting the marketing of policies oriented toward development of the city-region.That is, it implies promoting the change of mentality of governing bodies and businessmen toward competitive development of the city-region, pushing for a change in traditional urban development policies, while stimulating competition in the execution of programs and projects, and being prepared to confront the crisis that will be generated by adoption of new policies for competitiveness.Marketing of policies should be aimed at specific groups within the decision-making networks: the politicians, officials, government agencies, entrepreneurial class, owners and businessmen as well as base communities.

10.5.6. City-Region a Route to World Competition.

Some cities that have understood the scope and meaning of the globalization of markets have taken advantage of this emerging circumstance where they have

improved its strategic position to take gain opportunities from said world sources of trade. In the case of Bogotá, Medellín, Cali or Barranquilla's city-regions, we can identify the principal developments in legislation associated with the signing of international treaties that favor trade, investment, technological research and mobilization of factors to promote sustained growth. Based on a description of these institutional mechanisms that favor competitiveness, possibilities can be explored on forming an institutional architecture that will help promote the incorporation or linking of strategic regions and their cities to compete in world markets. Hereby, we suggest some guidelines to make marketing of the internationalized city a strong alternative to benefit of the enlargement of world demand. A friendly face of the city-region as suggested in previous pages to show the benefits to foreign investor alongside this strategic posture to improve competitiveness.

Regional Development as a Source of Competitiveness.

The topic of Regional Development would be incomplete if we don't advance a brief discussion about the topic of city development, and its effect on the advancements of its immediate development. We refer to opening the economy to promote development around its zones of influence. It must not be forgotten that Colombia is a country of diversely productive regions, but also of reasonably advanced cities with modern infrastructure. For this reason, this work is complemented by including a reference to urban development and its influence on regional competitiveness. As a country of regions and cities, Colombia has some sixty urban centers with more than 100,000 inhabitants and perhaps more than twenty with more than half a million inhabitants. Many of these city-regions have the capacity to act as poles of attraction that stimulate the development of the surrounding economic area of impact. Generally, they channel part of their surplus production toward the natural national markets. However, the behavior of the level of development of these urban centers, conditions the development of its zone of influence to an important degree where they could integrate to attend world demand. Hence, the urgency of promoting sustained development of these urban cores, as an element to aid the sustained in the long run growth of the nation and the regions.Many of these places are located in strategic areas of the country and are able to develop in response to the level of regional colonization,

the degree of insertion within the national market and in some particular case the process of linking productive activity to growth and expansion thanks to the international trade stimulus.[283]

It is good for the cities that act as ports, zones for consumption of imported goods or exportable production. To this economic and geographical reality, authors such as Porter have asked important questions on the topic of urban development, taking into account some theoretical reasoning similar to that heard on regional development as we have formulated it here. Illustration is given about the impact of economies of scale and agglomeration on growth, or the effect that improvement in the education system has on technological change as elements endogenous to the growth model.It has been insisted that it is important to complement the investment process in basic infrastructure in the regions with other initiatives that increase productivity and that modernize regional economic activity. That is, to find new economic proposals in order to face the process of globalization of markets, as an unavoidable determinant in the new international economic and political order.

Porter calls some policy elements that can be assimilated to strategies applicable to many of our main emerging city-regions that have not been able to modernize its new strategies for the development of the interior of the cities or for linking with far way markets. He establishes as priority objective the generation of productive work in these settlements in response to assistance programs or transfer of subsidies to the worker, with a very marked effect in the long run on productivity. He warns that efforts to bring better services, such as

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[283] The literature on the topic of urban development and recovery of cities is abundant.Some recent references can be suggested. See:Porter, Michael E. "The Competitive Advantage of the Inner City."*Harvard Business Review*.May-June, 1995.pp. 55-71. Porter, Michael."New Strategies for Inner-City Economic Development."*Economic Development Quarterly*. Vol. 11. February. 1997. Pp 11-27. Bates, Timothy. "Michael Porter's Conservative Urban Agenda Will not Revitalize Americas's Inner Cities: What Will?." *Economic Development Quarterly*. Vol. 11. February. 1997. Pp 39-44. Harrison, Bennet and Amy K, Glasmeier. "Why Business Alone Won't Redevelop the Inner City: A Friendly Critique of Michael Porter's Approach to Urban Revitalization." *Economic Development Quarterly*. Vol. 11. February 1997. Pp 28-38. Ohmae, Kenichi. "The Nation State is Dysfunctional." *Foreign Affairs*. Spring 1993. Ohmae, Kenichi. "Putting Global Logic First." *Harvard Business Review*. January-February. 1995. Pp. 119-125. Also take into account: *Revista Comercio Exterior*. Vol 45, Num 10. Octubre de 1995. "Economía Urbana." *The Economist*. Julio 29-agosto 4. 1995. "Cities."

water, light, sewers, health and education among others must be complemented with realistic investment strategies in activities that will generate growing profits and stimulate the creation of new employment. For this, alliances must be sought with other productive currents in the market, for example, developing the petrochemical industry near oil exploitation zones (Porter, 1997, p.11).

Both in the larger urban centers and in lesser-developed populations, it is convenient to stimulate improvement in the quality of education, progressively raising standards toward international ones. Otherwise, the centers would not be able to compete with centers or regions abroad. The central question is how they will create new jobs in these poles, so that they can assimilate their development to that of regional capitals. Their degree of response is conditioned to the economic process of generating wealth through investment in activities that mobilize human talent, financial capital and physical resources associated with the production of tradable goods and the offer of services. Regional urban centers require therefore locational improvements in residential units, new and modern health services, schools and investments that revitalize the economic activity of their urban communities. Entrepreneurial initiative must be accompanied by the promotion of productive activities that concentrate investment proposals in sectors in which goods with greater added value are processed, such as foods and basic products produced in the region. Likewise, in the development of light manufacturing industries recycling of finished goods promotes the support services for chained enterprise and tourist activity. The action and participation of governmental agencies in this process is invaluable. The new potential of these urban centers has not been fully taken advantage of as a result of governmental management or incorporated into the legislation. Social investment is given priority and promotion of productive activities is ignored as a requirement for the sustained ability of the social model of decentralization and linking cities to the process of globalization (Porter, 1997, p. 12).

To offer skilled labor as a goal to future regional promotion and of urban centers competitiveness and easy cheap access to lands for its establishment stopped being a sufficient guarantee to ensure competitiveness. Now work needs to be done in the promotion of sectors that will guarantee the sustainability of the growth model and improve global competitiveness. It is necessary to think about aspects, such as the strategic location of production units, impulse to regional

integration with existing clusters of companies in nearby regions, attend to unsatisfied demand in the localities and promote formation of world specialized quality labor. Industries, such as the services that involve added value, recycling of products, manufacturers, food processing, publishing business, product distribution and light industry are some of the new economic activities that contribute to driving urban and regional development. The area surrounding the urban centers or the consumption area helps to promote investment in new competitive business. This stimulus is associated with new opportunities to capitalize groups of companies and businesses in the agricultural, livestock and manufacturing industry and also the adequate location of university and technological education centers.

The sustainability of regional development would definitely be an incomplete political process if it were not for the promotion of the development of clusters in the regions whose level of activity is associated with the generation of external economies characteristic to the information industry, consulting and advising, development of infrastructure and rendering of services to the community. Contrary to popular belief, the markets of capital cities in regions and provinces and their labor are not always well used or able to become an important attraction for businessmen with new initiatives and possibilities to specialize for export markets. However, there are a large number of micro enterprises that can be developed in the centers and regions able to stimulate human talent.

New Vision of Clusters

The city-region of the future cannot be contemplated without the development of economies of scale congregated around the clusters or agglomerations of companies that support and reinforce each other. For cities to be able to compete in a more extensive market that includes both domestic and international segments, it is necessary to have easy access to different sources of capital, information and technology in any part of the world by some electronic means.The agglutinating factor of conglomerates or cloisters is not physical, but subjective, since it involves knowledge, relations between enterprises and motivation to compete.The clusters, as we have said, are an arrangement or ordering of companies and institutions that favors competition. They are entities that offer specialized inputs, components, machinery and services, as well as

service infrastructure such as airports, university research centers and production guilds. They also have distribution and consumption links. This is an advantage that is barely understood in National cities for the purposes of promoting the development of conglomerates, inasmuch as the international factor that involves the exchange of financial goods and services has scarcely been taken into account as an element that helps generate greater aggregate demand.This is a basic economic principle for growth to be self-sustained.

Porter (1998, p. 78) suggests that the wine industry in California brings together 680 specialized companies within the industry.In Italy, the leather and textile industry groups many companies, forming their own cluster that develops many linkages and synergies. The formation of the chain of value is one way to promote competition and cooperation. The problem with modern industries is that their competitiveness does not depend exclusively on access to inputs or the scale they achieve.It depends rather on how the cities compete, which in turn depends on the incorporation of advanced technology with the intensive use of knowledge.Moreover, it depends on the abundance of qualified managers, on an adequate transportation infrastructure and a propitious environment for the development of business, such as the presence of legal consultants, experts in tax matters and in general intensive sources of specialized knowledge.

Condensing a city within a limited space reduces the costs of transportation, but also facilitates the flourishing of many complementary industries and activities that benefit from a fiscal, financial and common services system. It does not then make much sense to waste the opportunity to attract a large or extensive region, diverse sources of technology and specialized knowledge as an alternative way for the city to become competitive in the future.It is not a matter of creating a colonial village, but a global one. Modern techniques for distribution logistics require modern transportation infrastructure. It is necessary therefore, to generate mechanisms to increase company productivity, create conditions for innovation and stimulate the creation of new enterprises. The scale of production must be increased and to set up formal coordination among companies.

Productivity and the Global City

Elaborating somewhat on the work of Cuervo and González (1997, Ch.9 and p.120) on the economic development and urban primacy model, it can be

understood that among the causes the led to the growth of Colombian cites, an outstanding one was import substitution industry.In the era of globalization, it is necessary to make the city's objectives compatible with the requirements and benefits that are associated with an open economy.Otherwise, you run the risk of exhausting the model. One important element for guaranteeing the sustainability of urban growth is to maintain high levels of productivity. The city conceived of in terms of the 21st century, offers possibilities to improve the productivity of enterprise, due to easy access to skilled labor that lowers the costs of transaction, facilitating its relocation, with access to sources of inputs, transformed there, to outsourcing, to informal relations among companies, services and training. There must also be access to specialized sources of information. The city-region offers, as a stimulus, an extensive market with preferential access to competitive information. Among the complementary supports for entrepreneurial activity, we may point out the availability of hotels, restaurants, shopping centers and transportation facilities. Another complement is the coordination of activities among firms to improve the entire set of productivity. Activities such as the leather and garment industry, banking or education can find support among related firms with the activity of others within the same sector. They can also gain support from institutional development such as fairs, exhibits and sales conventions. The proximity of competitors allows them to gain better knowledge of their activities, cost structure and policy with respect to innovation. One advantage of the agglomeration of companies is that it improves their ability to launch innovative programs and to be up to date with technology. The new clusters arise as a consequence of the stimulus offered by innovating enterprises that lend an impulse to the growth of other new ones, as we saw in the examples of the technopolis. It is necessary, under this conception to stimulate the interaction of clusters.

Knowledge as an Endogenous Factor.

The city-region of the future will be competitive to the degree that it develops the endogenous factor, knowledge. The facts, investigation and experiments were the ultimate basis for theoretical development. University knowledge by the end of this century had opted for what was considered useful, a basis for incorporating scientific development in agriculture and in engineering alike. Technological

development and the education of the masses have led the United States to open nearly four thousand universities.For the world, within the context of globalization, the economy of knowledge is the basis of new economic growth. The justification of an economy that favors the development of knowledge comes from the belief that improving civic culture accelerates economic growth. Aside from the fact that the universities are intended to be centers where the process of research and development advances, they constitute a mechanism for competing in the global economy. The world advances toward a society of knowledge, a reality we cannot ignore.Investment in knowledge is investment in growth. Malaysia, in spite of experiencing a grave crisis, is investing in creating its university on the basis of the concept of multimedia, in order to then invest in the creation of a proper Silicone Valley.The existence of other centers of higher education in the city-region that offer vocational opportunities implies a rise in the standard of living, and becomes a source of income redistribution and of opportunities. The discussion today about the mission of universities revolves around the idea of creating some universities aimed at research and others to offer vocational support.

Relationship among Cities and Regions.

Within the literature on Regional and Urban Development, authors such as Ohmae, (1993 and 1995) highlight the role of the city as a factor of regional advance, in the sense that many regions have found a new economic role to play after integrating its productive activity with international markets. Their dependence on the State functioning has diminished in the sense that it gained independence to link its activities with the outside world. This type of situation has occurred in Southeast Asia, with the case of Singapur and its area of influence or in the famous case of San Diego and Tijuana, where, in spite of a the Mexican-U.S. border dividing the two, the productive links and better salaries and complementarities reinforce the region's economic life. This degree of internationalization of economies and regional interdependence has led Asians to think that by the beginning of the next millennium they should have developed at least twenty new region-states similar to Singapore.China as mentioned previously has fourteen special economic regions.One of them is Yuman that involves three nations: Laos, Vietnam and China.In *Cuadernos de Administración*, we proposed the creation of a big permanent commercial park in the Cucuta zone

of bi-national influence, in order to foster bi-national trade and the regional development of this important border (Pérez-Toro. 1995, p.98).The United States can be classified as a country with corridors of regional development, such as the area from Boston to Washington. These macro-regions orient their production toward foreign markets, but they must exist as internal markets that generate their own externalities induced by domestic consumption. The fundamental analytical argument is that when a region prospers, this prosperity spills over into the neighboring regions, even if there is a regional division or country border in the middle.

The City as Product

The blood vessels that join commerce and investment have become the sources that both threaten and offer opportunities for the development of urban centers, as occurs in many countries. The free movement of capital and productive factors among countries defines differing degrees of specialization in productive activity. The possibilities for improving competitiveness are many and demanding, both with respect to transportation infrastructure, communications, access to electronic telecommunications channels, flow of information and people. The development of enterprises and activities in urban centers takes on special transcendence inasmuch as productive processes tend to be more specialized and require more skilled labor with deeper levels of knowledge.Concepts of localization of firms are identified for the development of the city, such as assembly costs, location of raw materials, space cost curves, costs of factors and the influence of technological change, as well as theories on the costs and economies of localization.

New Role of the City

This exploratory study suggests that the conditions that gave rise to the expansion of Bogota or the big ones as grand cities are changing. The loss of dynamism in the expulsion process of the rural population toward the capital, the deterioration of the goods and services production process aimed at attending the country's domestic demand is changing in that demand is now partially satisfied by imported goods when there are deficits or disequilibria in relative prices. This situation brings about a loss of dynamism in the transformation process of goods and services in the city, and as such in its habitual role of transformer of goods. It

is therefore necessary that new productive alternatives be designed that will generate added value. Particularly, activities oriented toward the exportation of goods and services for other regions and countries are identified, an activity that becomes a necessity requiring prompt attention.

While this happens, there are many aspects of civic life that show signs of deterioration, in which the attention of the State is insufficient. We often hear opinions, such as it is necessary to generate new job openings, create wealth and improve the infrastructure of the capital. The local government helps with assistance, subsidized housing for the poor and community programs.But due to the fact that these projects are not sustainable, they soon enter into a process of deterioration.It is necessary to identify programs and projects where the community finds it attractive to invest, and where the city can send its products outside the local market.The question posed by Porter (1995, p. 55) in this respect, is how to develop new activities aimed at creating permanent and productive employment opportunities. Self-financed projects that are mutually complementary that will maintain self-sustained growth in the long run are what is needed.Therefore, the city's productive base must be modified, that is, a new division of labor must be promoted that will coincide with the reality of globalization of markets. This means attending to local demand, but also reaching other markets in the region or abroad. According to the theory of localization, it can be said that it is possible to identify strong reasons such as the generation of competitive advantages that identify new productive activities in regional capitals. As a marketing point to make the city a more attractive center for investment, there is skilled labor, access to services, the possibility of doing outsourcing, or benefiting from the educational system.On this basis it is possible to attract companies with a technological base that are competitive.

As areas of development are identified in the city, new companies with a competitive bent can benefit from the rents or attractive land prices, facility in the usage of services, such as fairs and conventions. These entrepreneurial clusters are an advantage for marketing the city, since it is a way to coordinate new activities with other companies that produce inputs or offer different complementary services, such as customs work, commercialization, financial, accounting or legal support.Universities and research centers offer good support in the area of information, labor relations and infrastructure.Along general lines,

the main advantages that determine whether Bogotá can be marketed as a competitive city are:

- Its strategic location as an economic, political and commercial center.
- The enormous local demand of its inhabitants, who have a high level of acquisitive power and the lowest poverty level in the country.
- The degree of integration between its productive "clusters" and those of neighboring regions.
- The human factor characterized by more skilled workers and a high number of professionals.
- In general terms, these are the advantage the capital has in announcing itself as a product to stimulate the association of capital and investment.

Strategic Localization

Main Colombian regional city-capitals are located in strategic parts of the country due to its access and proximity to other centers and localities where production and consumption is large. Cities are geographic location with a substantial concentration of business centers, as well as transportation and communication networks including international airports. With the necessary investment and risk capital resources, for example Bogotá as a geographic, political and commercial center that offers competitive advantages, such as the business district, communications infrastructure and public utilities, cultural centers and entertainment, etc. There are other areas and zones of the regional capitals such as the downtown or the areas near the airport or access routes that facilitate competitiveness for modern companies with technological bases that generate added value and that are interested in becoming located in this towns or immediate zone of influence.

The technopolis of Tsukuba, Silicon Valley or Boston benefits from the facility and access to transportation networks, airports, freight terminals, etc. which place the city on the threshold of competitiveness with an adequate concentration of production and processing firms, distributors and suppliers of goods and services. There are also storage networks that benefit producers and consumers.

The productive clusters located in the urban center can raise the degree of commercial importance of a product, by taking into account that support can be given through the processes of "just in time" delivery, association among suppliers and producers that depend on the advantages offered by their proximity.Marketing of the product "Bogotá" or "Medellín," as a competitive city depends on the advantages that are offered by its geographic location among industries sensitive to location or relocation of highly technologically based productive activities in area near the access and distribution zones.

Local Demand

If there is any city in the country with greater competitive advantages within the regional framework of the country, these are Colombian capitals. For entrepreneurial activity and business, there are opportunities derived from the commercial network that allows retail activity to develop. The number of supermarkets, department stores and shopping centers is outstanding, along with a broad business network along main streets and in the neighborhoods of the city. Taken as a whole, this network defines a substantially extensive market by international standards. The investment rate may be high and even higher than the city's rhythm of expansion, even with the understanding that the rhythm of growth of the city can drop in the next few years. We can foresee a good opportunity to improve living conditions in the near future. The marketing scheme must then be oriented toward the support and stimulus for interested investors to take advantage of opportunities for profit, yield and expansion. The restructuring of small businesses, ambulatory and street booth sales shows promise of better opportunities for the development of organized business.

10.5.7. City-Region and Global Financial Institutions

The onset of these business events and the signing of different agreements and treaties in the field of services and investment will necessarily lead to a re-accommodation and relocation of investment, which becomes an important factor that facilitates the improvement of the capital as a possible international center to undertake the establishment of industries and businesses with cutting edge technologies and export potential. Based on the guidelines of the exploratory study, it is possible to design an active management of the sale of the city and to

consider this framework as an alternative to justify a better investment and trade climate and to promote research and development.

Global Economy

Ohmae (1993, p. 82) deals with new concepts to market the city according to the new roles it finds in the global context.It is true that the State has returned part of its functions to the private sector, but it is no less true that many of those functions depend on its involvement, in particular the degree to which the future of the city unfolds as a function of its insertion within the global economy. Its political function focuses now on offering ample education opportunities and training the new citizen for the performance and demands made by the new role of competition, called endogenous by the theoreticians.New opportunities in the world of textiles, semiconductors, automobile and automotive parts industries and electronic consumption products are those which require highly specialized personnel with structured knowledge. Mexico with its milling industry made substantial progress in the qualifications of its labor.If we move toward the formation of city-regions aimed at international competition, we must learn that it is essential to concentrate on implementing functions that will drive advancement toward competitiveness.

Involving economic agents in the process of sustainable development implies lending impetus to *policy marketing* aimed at the development of the city-region. This means pushing for changes in the mentality of governors and businessmen to favor the development of the city-region; promoting a change in traditional urban development policies, while stimulating competition through the execution of programs and projects and being prepared to confront the crisis generated by the adoption of new competition policies. Marketing of policies must be directed at satisfying the interests and needs of specific groups, as a particular response to the approach of decentralization.

In order to develop the city-region in accordance with the criteria outlined, politicians, government officials and organizations, the business class, owners, entrepreneurs and community bases must be brought into the decision-making network.Institutional support is needed, stimulating association between government and private sector, extending, for this purpose, financial mechanisms that promote accumulation.The management of agencies such as the Chambers

of Commerce and specialized financial institutions in charge of promoting financing and capitalization of investment projects help improve the global business context.

Meso-Policies

Examining the work of Esser (1996) on systemic competitiveness, it can be seen why innovation will be a source of economic growth and development. The future level of welfare in the city-region will depend on the adoption of new meta- and meso-economic policies and the degree of efficiency of the institutions capable of fostering and multiplying the efforts of the companies.Many enterprises with the competence gained from globalization, confront the dilemma of whether to raise their level of efficiency or confront the reality of having to leave the market. The static advantages of location help competition. Within an effective environment this advantage is determined by competitiveness. For this to happen, an external means is needed in which the initiative of companies and associations coincides in purpose.Within the set of initiatives that need to be stimulated to coordinate the city-region with the global context of the economy, it is necessary to market elements such as the development and management of basic structures for legal, political and economic organization associated with the new institutions. It is necessary therefore, to support economic modernization and to make the basis for mobilizing the creativity of society the marketing of organizational patterns. It is advisable, based on the complexity of the problem of competitiveness described, that the State, private sector and civic organizations distinguish and separate their roles, but also to develop independent learning processes.

Institutions

The orientation of urban development policy toward the indicated objectives requires institutional design through a new combination of policies, in which state action is of great help for the development of the city-region. The decisions must come from the dynamics associated with socio-cultural elements, so that the scale of values coincides with the establishment of a hierarchy of new patterns that structure and condition political, legal and administrative organization. Taking this step is important for the development of new strategic and political capacity, which will be seen in the various plan, programs and projects that must

be undertaken to develop the city-region. The community must be organized toward the achievement of those goals, wherein the suppositions of the new economy required progress in learning processes that are identified with high levels of efficiency and competition.According to these ideas, it is necessary to continue inculcating the principles of competitiveness at the various levels of the decision-making process. It must even lead toward greater community interaction within what will be the new city-region.They should even program strategic initiatives. It is fundamental that this level of organization be developed so that productive agents can then take initiatives to compete in the global market, or at least the regional market.

The participation of the government in this process is essential in order to improve the level of competitiveness, especially when it stimulates the appearance of linkages which are the bases for promoting a reduction in transportation costs. This reduction also leads to improvements and adaptation of the basic infrastructure, which should be built up keeping in mind the articulation of the city-region. The thesis that competitiveness depends on the intensity and depth with which higher education is imparted is a commonly accepted one.This is one way to incorporate progress made in the area of technological change into the productive process. To raise the level of investment in processes that involve high level technology becomes the basic objective for expanding the industrial base and in this way linking the economy of the city-region to the dynamics of the global economy. The level of competence in this new atmosphere is demanding due to the structure of the new international agreements. Within this discussion, we can highlight the development of topics such as ecological conservation, narrowing and coordination of activities in the regions and better decision making that are identified with the linkages deriving from import and export flows.

Active community participation is needed to be able to deepen the systemic process. It must be understood how incorporation of local governments in this process, seconded by producer and guild associations, research centers and universities bring these activities jointly developed by universities and business into closer articulation. Extending this general process demands the mobilization of substantial resources that generally come from public savings. There is some

amount that comes from private savings that requires the association of capital through institutions like investment banks and capital markets.

Micro Policies

The dynamics of the process creating the city-region must work at various levels of abstraction, involving the formation of the city-region with different productive agents in the process. At the micro level, development must gain impetus from the incorporation of different production units, above all, supporting itself on policies that improve entrepreneurial efficiency through the participation of technological management programs, innovation, product cycles, technological networks, entrepreneurial logistics, and coordination among suppliers, producers and users.This development is complemented with the development of consumer units, joining them to producers that are distributed in the process of marketing goods and distributing services.

Financial Mechanisms for Innovation

The marketing of a city-region is associated with the mobilization of important resources into productive activities over a prolonged period of time. This difficult task is identified with the continuous investment of company profits, the channeling of budget resources and the participation of risk capital from the private sector. A basic question is to determine the channeling of said resources. Generally, state savings are devoted to attending to unsatisfied public needs and a large number of the funds earmarked for that purpose are rerouted to operational expenses. Their effect, therefore, on growth is quite limited, resulting in nothing more than delaying the possibilities of inserting the city-region's economy within the competitive international environment. Hence two institutional elements that deserve greater marketing emphasis and that can foster technological change, innovation, global competitiveness and ultimately endogenous growth are explored.

Global Resources for Technological Change

This paragraph attempts to indicate the mechanisms and sources of financing used by several governments and private entities in order to stimulate

technological development and innovation.[284] *Chile* has a Science and Technology Program aimed at motivating innovation and research and development capacity. Furthermore, it intends to provide coordination between the productive sector and the scientific and technological community.For this purpose, it has financial instruments for basic scientific research, technological development and production research in companies. Between 1992 and 1995, Chile invested US$152 million. The Science and Technology Program 1996-2000 sets up a continuous program for the creation of a National Innovation System within which state institutions cooperate. It attempts to strengthen the national technological infrastructure, support institutional modernization and promote the formation of human resources. The government appropriated in the amount of US$355 million in hopes of progressively reaching 1.2% of the GDP for research and development.In sectored terms, the program attempts to support technological innovation projects in productive enterprises, generate processes in areas with strategic impact, technological infrastructure projects at universities and technological centers, transformation of agriculture and research in the copper industry.

The allocation of these resources was based on the principle that demand would come from production enterprise.In order to meet international competition requirements, it is hoped that companies will develop their own quality control and research and development infrastructure. Companies in the same sector are also expected to promote technology transfer among themselves and, in general, to project their production toward the international market by means of the acceptance that a country-trademark generates.The *marketing* of this

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[284] See the work presented at the Seminario Internacional sobre Fuentes de Financiamiento de la Innovación. Colciencias, December, 1998.Santafé de Bogotá.Campos Ortega, Sylvio. *Mecanismos y Fuentes de Financiamiento de la Innovación y Desarrollo Tecnológico en Chile*. Galante, Oscar. *Financiamiento de la InnovaciónCaso Argentino*. Fondo Tecnológico Argentino. Líneas de Fomento a la Innovación Tecnológica. Agencia Nacional de Promoción Científica y Tecnológica. Ramírez, Juan Antonio. *Instrumentos de Fomento para el Desarrollo Tecnológico en Méjico*. Rezende de Carvalho, Paulo Cesar. *La Experiencia Brasileña de Apoyo a la Innovación Tecnológica*. Naranjo, Adolfo José. *Capital de Riesgo para Empresas de Base Tecnológica en Colombia*. Reyes Posada, Gabriel. Mecanismos financieros para el fomento de la Innovación y el Desarrollo Tecnológico.Rivera, Carlos Fernando. *Los Modelos de Financiación Pública del Sistema de Ciencia y Tecnología Agropecuario*. Giraldo, Carlos Mario. *La Empresa Innovadora del siglo XXI- Noel*. Dian. Incentivos Tributarios a las Actividades de Ciencia y Tecnología.

product depends on the knowledge of market niches that the individual producer has.

The overall problem for private capital to join this process is that they assume the inherent risk in the projects, as in investment banking, and that they find support from joint State guarantees with private banking. Taking up projects for international competitiveness requires a change of mentality in banking and risk investors, in that they must join in the spirit of evaluating and financing technological innovation projects.Among the credit lines granted by the Fondo de Desarrollo Tecnológico y Productivo- CORFO, projects in the following areas may be highlighted: technological innovation, infrastructure, technology transfer, technological missions, technology transfer centers and pre-investment studies in innovation projects.From 1991 to 1997, Fontec financed 865 projects at a cost of US$123 million.The 336 cases for the manufacturing industry at a cost of US$50.8 million stand out.Projects involving production links have gained growing importance among the total.

In the case of *Argentina*, liberalization has promoted a selective mechanism in which some economic, entrepreneurial and regional agents have reacted more quickly than others to the topic of competition. Progress has been made during this process in harmonizing the work of technology providers, granting of technology licenses, association of foreign partners and the pedagogical reorientation of universities and research centers.In order to stimulate the collective learning process, a network or National Innovation System was created for competitiveness. Within this model, science and technology are considered exogenous determinants of the growth model. The National Agency for Promotion and Technology has the mission of promoting scientific and technological research, innovation and improvement in productive systems. The Agency has two funds: the Fondo Científico y Tecnológico-Foncyt and the Fondo Tecnológico Argentino- Fontar.In general, Fontar finances Research and Development, Technological Development, Modernization, Training and Technical Assistance projects.In order to achieve the objectives of competitiveness and innovation, it has special credit lines for Modernization, Technology Services and Innovation.

These instruments finance the use of local scientific capacity, association of research and development centers and agreements for co-financing of projects.

The modernization project has resources in the amount of US$59 million, 50% of which come from IDB.Since its creation, projects for a value of US$77 million have been financed, of which US$57 million were provided by the private sector and US$20 from the Fund. The Technology Services project attempts to improve infrastructure and company equipment by offering them various services. Total amount of resources contributed for this line equals US$21 million. A similar amount was assigned to the line of projects for Technological Innovation that promotes the production of new goods, processes and services.Small and medium sized industry has received support and subsidies for 23 projects.Law 23877 gives the Executive power to channel funds for projects in Technological Modernization, Development, Contingency Development, Training, Project Formulation, Consulting and Fiscal Credit. Its functions are somewhat similar to those of the Investment Bank analyzed below.

The *Mexican* experience is framed within the development of their National Development Plan as far as modernization and entrepreneurial competition is concerned. The Development Bank or second floor supports target sectors, financial innovation characteristic of investment banking, funding and specialized intermediation. This banking system has resources for stock investment, risk capital and guarantees or endorsements, and in general the products analyzed in the investment banking section.Mexico is one of the most developed countries with respect to science and technology programs.Among its lines we should mention, programs for Training and Technical Assistance, Development of Suppliers and Guarantees Programs.

10.2. Investment Banking and Risk Capital.

Another general alternative is to propose the development of a legal regulation that will expand the functions and powers of the Regional Development Bank, orienting it toward the functions of a Universal or Investment Bank that will complement the work promoted through application of the budget.We refer to the promotion and operation of projects for competitiveness, work contracts and the engagement of shareholders, supervision and design of projects, sales and monitoring. This is an important decision if we take into account that in the world of today the cycle of technological innovation is becoming shorter and shorter.

This Bank would head the process of promoting projects from the initial stages, including the financing of pre-feasibility studies, feasibility, execution of works, inspection, start up and follow up of the project. Financial support and intensification of private capital in this type of initiative generate new products and financial services. The identification of projects, knowledge of the environmental surroundings, technical and financial viability of them are factors that help innovation and competitiveness. Legally, steps have been taken in this direction in Colombia that would facilitate the process. In 1980, with Decree 2461, the government foresaw the role of financial corporations in development or investment banking, allowing them to finance the acquisition of shares in projects.Later, decree 2041 of 1987 expanded the set of operations, allowing them to form investment establishments and to promote the merger and transformation of companies.This regulation expanded the functions to:

- Granting of credit
- Investment of capital in companies
- Granting of guarantees or endorsements
- Subscribing underwriting and factoring operations
- Creation, merger and transformation of companies
- Subscription and acquisition of shares or bonds convertible in shares
- Placement of company securities
- Granting of securities for periods over one year.

In addition they were allowed to:

- Carry out exchange operations
- Serve as financial intermediaries in foreign exchange operations
- Negotiate securities representative of corporate capital or shares
- Finance and lend consulting services
- Finance individual parties for the purpose of acquiring shares or corporate quotas in projects

The foregoing functions are useful as financial instruments, but they still need to become institutions specialized in promoting projects. For this reason, the spirit that moves investment banks is a spirit that promotes the creation and management of projects.One obstacle to the development of projects is financing of operations that involve contracts requiring risks to be covered.

Other service activities that the Investment Bank facilitates and constitute a source of resources are:

Financial consulting

- Entrepreneurial reorganization
- Mergers and privatization
- Acquisition of companies
- Investment management
- Issuance of stocks and bonds
- Purchase and acquisition of shares
- Operations underwriting

10.6.1. New Products.

As a consequence of intensification of financing and its level of specialization in offering new and modern services, the Investment Bank offers remunerated products for finance institutions, such as the design and formation of corporate finances, applicable to groups of townships that want to join together to render services.

- Offering of financial consulting
- Risk investment portfolio administration
- Financial intermediation in the money and capital markets
- Operations in derivative products
- Marketing and issuance of debt securities, such as bonds, Eurobonds, shares and commercial instruments
- Underwriting operations, purchase and placement of issues
- Repurchase and structuring of debts
- Conversion of debt into capital
- Public debt and refinancing placement
- Mobilization of assets that are unproductive or differed due to their title holding

As a consequence of the growth and increased participation of share capital in the financial market, operations such as the following can be pointed out: administration of fixed earnings funds, common funds, securities funds, mutual funds and retirement funds.

There are also variable earnings funds such as shares and convertible bonds, country funds, such as the Fondo Colombia that associates foreign capital as partners, foreign currency funds, administration of private portfolios, such as trustee funds and mandates.Due to the freeing of interest rates and the increase in operations in which risk capital identified with the development of new projects is identified, we can underline the importance of undertaking intermediation operations, such as stock brokering in fixed and variable income operations, underwriting operations in fixed earnings securities and purchase of portfolios, fund brokering and inter-banking operations.

10.6.2. Guarantees and Risk Assets.

To the degree that the entity finds it viable to fulfill roles other than the conventional intermediation of rediscounting and commercially projects itself, generating additional resources, it must explore the offer of other modern financial products.A good example is the subscription and negotiation in the secondary market of risk coverage assets, such as guarantees and debentures. This would cut the financing costs of projects by covering risks that the market cannot assume or that would raise the financial cost of the project.

The process of privatization of public utilities companies, as well as their development might not be viable unless the contingency factor is minimized, for example, through the subscription of partial guarantees of risk. This is the case of projects, building- possession-operation-transfer, and building-possession-operation, or as known in technical language of structural risks associated with a project. [285]

These are classified as non-commercial and oriented particularly to cushioning the terms of reference once:

- Financial terms are set out
- Co-financing is facilitated
- Sale of corporate share capital is promoted in capital markets

Allocation of credit resources can be extended to finance coverage or hedging operations tending to mitigate the effect of the:

- Country risk

[285] Traverso, Victor. *Facilidades del Sector Privado*. Banco Inter-Americano de Desarrollo. 1995

- Exchange rate risk
- Work culmination risk
- Insufficient income risk
- Financial leverage risk
- Gestation period risk
- Asset risk
- Sponsorship risk

Normally, guarantees and counter-guarantees for projects that third parties promote or endorse are granted and negotiated.[286]

10.6.3. Assigning Asset Titles.

Growing participation of risk capital in the financial market and the need to free resources in companies has led investment banking and other financial intermediaries to bring in fresh resources for projects from the capital markets. This title granting is done in order to use the flow of income from the assets set up for this purpose. They are backed by their transfer and isolation in a vehicle created for this purpose. The income from the rates paid for services charged in the rendering of utility service, such as water, sewers, telephones, school registration, road tolls, rentals or use of market places or slaughterhouses taken together may become subject to this title granting. The Title granting is issued as a paper or security representing an asset.For example, the water system and its domiciliary network, a highway toll, the phone rates and transmission of electronic data. The advantage for a town or a company in the process of privatization, or a similar company is that from the accounting point of view, liabilities are not increased upon subscribing these titles, since this way of obtaining fresh resources from the capital market does not imply indebtedness for the company looking to acquire leverage in this way. The titles issued are documents that contain participatory or mandate rights in specially constituted goods for the welfare of the community or they are rights with a credit content backed by the assets named.

The title granting can be structured through two mechanisms:

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[286] World Bank. See La Garantía del Banco Mundial. *Catalizador para los Flujos de Capital Privado*. Septiembre 1995. p 2. Turbay Marulanda, Gabriel. *Participación Privada en Infraestructura Física*. Mecanografiado. 1997.

- Subscription of autonomous property
- Formation of a special common fund

Autonomous property is formed by means of a mercantile trust contract with the goods that are to be signed over, or with funds earmarked for the acquisition of those goods.Following the formation of the patrimony, the trust will request permits from the authorities to issue titles or securities and collect the revenue derived from their placement. The goods that make up the autonomous property, in the case it is formed, provide backing for the liabilities that are acquired with the holders of these titles. A special common fund that is formed like a trust is aimed at offering certifications of participation in it on the securities market.[287]

As a concluding remark, to make regional capitals some economic global unit to orient production and endowing activities to compete in the world economy requires the formulation of a set of measures, projects and linking development programs to attend world market needs. This pursue requires a complex, interdisciplinary and highly political planning and institutional improvement. It is a task with deep geo-political repercussions and must be undertaken by minds with a visionary and foresighting understanding of run of the State. Its political and economic dividends might have an immense projection for a country like Colombia. It requires the understanding, participation and action of many elements around the political equation and call for the active presence of international organizations and civil actors. To allocate greater economic surplus for the capitalization of the production apparatus in a city with global projection is an unquestionably demanding goal. In a globalizing market the exchange of goods is a condition for growth while the well-functioning of global markets requires a unified payments, credit and fiscal system as to support stability in the world financial market. The 1929 world credit crisis almost destroyed the world free trade market after protectionism became a constant to trade, while the euro and the dollar crisis in 2007 and 2008, were attributed to problems derived from

[287] In this respect the following legislation should be reviewed. Ley 35 de 1993. Decreto 663 de 1993. "Estatuto Orgánico del Sistema Financiero" Resolución Número 1394 de 1993. Requirements to subscribe new securities in the "Registro Nacional de Valores" in the Stock Exchange. Resolución Número 1032 de 1994. Reforms to Securitization. Circular Externa 091 de 1995. Superintendencia Bancaria. Accountig disposals towards Securitization. Cicular Externa 092 de 1995. Securitization's Risk Levels.

the high rate of interest, the lack of capacity of the fiscal system to intervene opportunely in the financial system and due to the loos of confidence observed in the credit and investment organizations reveled after insolvency, while sound banking polices committed to Glass Steagel Act that conciliated opposite interests between depository banks and investment banks repealed since 1999.

PART XI.

THE CRISIS OF THE DOLLAR AND THE EURO, EFFECTS ON THE INTERNATIONAL ECONOMY.

"GLOBAL FINANCIAL CRISIS."

The work of James M. Lindsay suggests a breakdown in the correlation of forces governing the middle of international politics. Bush was optimistic against the deterrent power of the United States to keep the world order, and Obama was confident in its ability to restructure the international order. The latter proposed to make to retirement worthy of the troops quartered in Iraq and eliminate the Taliban in Afghanistan. The cost of this policy and the distortion generated in the financial market overall suggested that to sponsor these war efforts, and to meet other excesses both had a high political and economic cost. The mortgage house market generated a financial crisis of the so called sub-prime market precipitated the closure of some specialized investment banks at great loss for capital investors. For this reason, Congress had to authorize and support the Government to cover the fiscal gap amounting to US $11.9 trillion. This estimated amount is the minimum requirement to fix the cost of the war and to heal the effect of the disarray introduced by the irregular operations introduced by the "subprime" mortgage market and the mismanagement of "assets managers." In the Eurozone contagion effect, are revealed based on financial recklessness by Ireland and Iceland banks and those of southern Europe, whose economies faced with fraudulent transactions, that were weakened by uncovered credit excess, and ultimately refinanced by the giant rescue package of €750 billion euros achieved by Germany and France-rich banks, the International Monetary Fund and several European agencies who gathered around the Pact of stability and growth-PEC, and the Fund's stability financial-FEEC created with €440 billion euros.Recovery of the dollar and the euro depends on forward to overcome the "global financial crisis" recessive effect.

11.1. Introduction.

The work of James M. Lindsay *George W. Bush, Barack Obama and the Future of US Global Leadership* shows the change in the international policy of the United States

of September 11 of 2001, when the President of this great nation declared Global War on terrorism, and arguing against the past the referred author in his essay stated that "Bush was optimistic about the capacity of American Power to reshape the world." [288]

This statement about the geopolitical and economic limitation that had struck the American Empire, is the justification that invites us to move along a different path in the analysis of its might, initiative which aims to explore the nature of the changes taking place in the foreign policy of that great nation, and that has led this country to the loss of political influence in the world. Bush is branded the President's optimistic, by virtue that relied on the deterrent "power-politics" international relations strategy followed by the United States in order to avoid undesirable war. He had faith in his country's ability to hold a peace reign as preached it the tenets of a liberal order. Obama as a successor to the Presidency, proposed in response to keep the climate of peace in the world, ahead of the withdrawal of the invading troops in Iraq and closing Guantanamo prison, with the understanding that there already he had recovered sustainable peace, and that the global problem that remained was worth the find of the world terrorist fugitive, Osama Bin Laden, who was believed at that time he was hiding in Afghanistan.[289]

Emerging world events that occurred after the 11th of September 2001, when the Taliban and Al-Qaeda were the focus of the Islamic terrorist organization, evidenced a change on the world power geopolitical correlation forces. This unwritten political event demanded to create new strategic mechanisms to preserve the political and financial stability in the world as the globalization process was jeopardized. The new pursue developed by liberal market economies depended on a democratic condition which was the preservation of peace, element considered as a guarantee to ensure the stability of the markets in a

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[288] Seer: James M. Lindsay. 2011. "George W. Bush, Barack Obama and the Future of US Global Leadership" *International Affairs.* Vol 87. No 4. Pp. 765-779.

[289] LSE: http://www.youtube.com/watch?v=yxDW6CL-Qvw&list=UUK08_B5SZwoEUk2hDPMOijQ

What should economists and policymakers learn from the financial crisis? Published the 27/03/2013. Speaker(s): Dr. Ben S Bernanke, Olivier Blanchard, Professor Lawrence H. Summers, Axel A. Weber. Chair: Professor Sir Mervyn King.

globalized economic environment and easing the causes that created non-systemic risk.[290]

The 2009-2014 global financial crisis endangered by the collapse of some of the leading American and European financial institutions demanded the bailout by central banks of their economies mainly by richer national governments help like surplus Germany. The stock markets experience a crisis of confidence while the debentures and shares prices dropping indexes in most stock exchanges affected business sureness in most industrialized countries. In the United States the housing market suffered when mortgages could not be honor and overpriced houses and offices values declined sharply. The immediate consequence of banks failure was evictions, foreclosures and unemployment reached high figures. Monetary emission representing to finance a fiscal deficit of US $11.9 trillion in the U.S. added a risk component to the loss of value of the monetary sign and increased the destruction of wealth raising in global markets to high figures when the after crisis spread all over the world.

Global recession due to sub-prime crunch and the European sovereign-debt crisis produced a liquidity crisis, when investment banking and other mortgages houses experienced withdrawals from their overvalued hedge funds, propelling a severe crisis in previously easier access to speculative investing. Some economist argue that the crisis was the result of systemic risk attributed to conformation of complex portfolios and hedged funds made of assets that could not protect its value either from systemic risk and less from non-diversifiable risk. Banks deposits were affected by undisclosed conflicts of interest, the failure of regulators, and poor accountability in government taxes revenues also affected bank soundness. Other school of financial analysis proclaimed that excessive borrowing, risky investments, and lack of transparency and inconsistent action by government added to the uncertainty and systemic component a breakdown

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[290] LSE: http://www.youtube.com/watch?v=yxDW6CL-Qvw & list = UUK08_B5SZwoEUk2hDPMOijQ

What should economists and policymakers learn from the financial crisis?

Posted the 27/03/2013

Speaker (s): Dr. Ben S Bernanke, Olivier Blanchard, Professor Lawrence H. Summers, Axel A. Weber

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in accountability and ethical banking practices. Cost of wars and foreign intervention added to government's burden a huge indebtedness level. The Great Depression crack was attribute to opposite interests between depository banks and investment banks, and the 1999 repeal of the Glass-Steagall Act of 1934 probably introduced new non-systemic risk factors to the portfolio's equation in the U.S.A. and in some other advanced like the EU monetary system the non-systemic risk derived from dispersion in the state of development of participatory members, wakened by lack of a proper fiscal reform. Due to the war conflagration, non-systemic or unpredictable historical forces were unchecked, as it was the case with the interventions of the United States troops in Iraq and Afghanistan, whose cost by reason of the conflict were too high for the referred Nation, and so, for the world the attributed higher cost of achieving and supporting stability in the trade and financial markets.

The prominent cost of this World contest assumed largely and financed by the American "tax-payer" and discounting national accounts for its high social cost motivated an inflationary element to the world financial system. This expenditure based on the financial largesse of the United States and the high cost incurred overrun on the component of risk proper of any financial credit endeavor to the money market in particular the so called sub-prime mortgages house markets. The price paid after this political crisis precipitated was to endanger the geopolitical order and affect the stability of the financial world. The cost of this geopolitical and financial adventure, represented first an expensive burden due to the cost of exercising the military power of the United States in such remote area of the Near East, and second signified the market loss of confidence associated by the largesse stretched to the dollar as a world financial means and store of value. By extension, in Europe after the Treaty of Maastricht the complementary currency in this world financial equation was the Euro that took part in the risks introduced of the new world financial order also harassed by other kinds of excesses and recklessness in the member's treasury.

This situation of change has an impact on the stability of the foreign policy of the United States as a world power, since its credibility as an agent who organizes the economic forces, affects the stability of other currencies such as the Euro, which is an important subsidiary currency in the world. The delay in the economic recovery of the United States in recent years and the emergence of

recessive symptoms in the Eurozone in particular, affect the performance of the global financial system, which fight for power still in the middle of international diplomacy, and intrigue based on declarations of intent about the importance of sustaining the democratic system, which tends, as we all know, by the prevalence of freedoms, respect for human rights, and social inclusion.

11.2. Global Order and the Crisis of the Dollar and the Euro.

In the field of international economic policy, we bring to the fore the theoretical look provided by the works of Barry Eichengreen *What to do with the Financial Crisis* (2009, p. 81) and Randall D. Germain in *The International organization of Credit* (1997, p.19) who first show the role of the discipline of the market and secondly the importance of monitoring financial facts based on reliable sources of information. And in the case of the second author, appreciate the interesting fact represented by the political significance of spreading world financial service of credit to countries with different degrees of country-risk. From the perspective of these two works, it is estimated that there is a rivalry between financial centers, especially when guide the credit facility and the issuance of financial debentures. These and other organizational elements, explain the role of the State in these processes and how affect it decisions like the one followed by the United States when it faces fiscal responsibilities on the order of US $11.9 trillion, to address the cost of the crisis generated by the war and domestic speculation.

This vast sum put into circulation, affect and will affect not only the American economy, if not that of the competing Nations as in the Eurozone, and the rest of the world, stunned to see how their dollar reserves are depreciated and their currencies without knowing to what hours are appreciated. Overall, the crisis in its origin is banking regulatory, exacerbated by:

- The losses in the value of the securities offered in the capital market,
- The loss widespread in the sub-prime mortgage market occurred pursuant to the fall of the price of housing and,
- The crisis spread by the effect of sovereignty debt exacerbated by the recession that prevented the payment of interest and the payment to capital account and by,
- The fraudulent handling of fiscal accounts and the excessive spending generating a crisis that exacerbated by public borrowing.

Dollar crisis.

Analysts of the international economic order had a good time pointing to the world that the repeated dominance of the United States in the international environment required the balanced management of their finances, to guide the effect of the "irreversible or lock in" process of financial globalization. Avoid this dependent path or "path-dependence" which means not to return to the initial stage of things, to make progress in the global analysis, first demanded that all find out which was the effect on the state of the art after entering a financial danger zone to the stability of the market, and from there spread a new historical crisis in the banking system of world proportions. The danger of a crisis of confidence in the system may be of global reach why the need to keep active alarms to conjure its effects. The danger of entering a State of "global financial crisis" is foreshadowed in the year of the 2008, when manifested strong imbalances of the global financial market, by virtue of which the dollar and the euro lost value on international exchanges, at a huge cost to investors in the capital market. This non-systemic risk proper and visible of the financial sector crisis, was the signal that something was wrong in the economies of these two major economic zones, as it was that of the dollar and of the euro, that together covered more than 80% of the transactions in the capital market, and a large portion of the credit needs in the money market. In the Exchange environment, the confident crisis endangered the value of foreign reserves accumulated in the international financial system.

One of the first decisions aimed at restoring the balance of the economies, was the recognition of the market crisis "sub-prime" of the mortgages in the United States, a situation that forced that country to adopt a new economic policy aimed to avoid the overflowing private credit growth, in virtue of this policy had altered the relative prices in the real sector. The crisis was felt in market of financial assets with coverage of risk, within which are composed of portfolio mutual funds, several public titles discounted, as the case of mortgages and securitized assets sold or discounted in the secondary money market, as well as by speculative operations of astonishing effect. This situation of fraudulent irruption of the diversifiable financial-risk as it is financial slang, arose by virtue of which were made by financial intermediaries, countless transactions that hid the intention of committing a crime known as fraud. This irregular practice was made under

cover or backed by assets, whose market values were inflated. Known to this operation as the mortgages "subprime" or overvalued operation which was put in a high risk investment portfolio managed by expensive and unscrupulous "assets managers," form of financial irregular practice spread in the swift and vast world of global electronic transactions.

Operatives of the facts revealing the saturation of speculative investments, and the bankruptcy of many banks, affected by imprudence or practice of doing business with high "Moral Hazard," drove on the other hand, the monetary system that would be affected on the balance of bank deposits of the public that did not have a proper and well protected security or moral hazard or because banks not kept the proper relationship between capital and liabilities, situation that together led to the banks to turn to the instance of last resort that was the Federal Reserve Bank and the Treasury Department. In Europe the European Central Bank (ECB) had no powers to protect strong financial runs. Emissions adopted by the rules of Congress, resulted in the adoption of bold steps at high social cost, because some transactions as they were the offer billions of dollars of credit to real interest rates negative or close to zero, thus determining them.

Only in this way could counteract for a time, the effect which produced the fall and loss of trust in the world market for the dollar, with the aggravating circumstance that were sent wrong signals to the markets that her catching the stability of the global financial market. This operation, conceived as a means to save open, and risky operations that initially helped to integrate the markets, in the second phase degenerated into a practice of mistrust that encouraged an inflationary spiral of truly global reach. This event, which still has not been recognized fully by the structure of global market makers, warrant detailed analysis on its effects.

The "Special Provision Act" of 2008 was voted to face this situation of insecurity institutional risk and illiquidity and loss of capital in the banking system of the United States, and then the emerging Banking Act. Organizations specializing in the topics of finance, currency and Treasury, agreed to enact this measure of urgent rescue in the monetary, credit and exchange rate, sector affecting sensitive sectors of institutional savings, as the stock market, it was still necessary to contribute with their presence at the opening of a special window, in which being distributed resources issued by the Government and supported under the

emerging Laws Acts it warned in the recurrent session of Congress, which gave authority to President Obama to support the issuance of bonds and discounted. I was expected as well as mortgages and shares traded in the secondary market return to be made only under the legal cover of a "Temporary Liquidity Guarantee Program" that ignited the national credit system, and also the global financial system. Growth was restored but the inflationary price to assets holders in the world deserves a careful measurement.

These and other reforms of the financial and tax agenda, led to the economy of the United States to enter into a process of moderate recovery, and after six years, the memory of the crisis still generates uncertainty to sustain the stability of the global economy.

The Euro crisis.

In Europe things were not good, especially during the next three years that followed 2008 events, by virtue that in some of the smaller countries of the North Europe and the Mediterranean, responded with extreme nervousness that consumers favored by a climate of credit arms in the international financial system, and covered in low-cost loans where thousands of unprotected property users did have access to cheap credit. As a measure of last resort the poor nations of the Euro Zone, still not out of the danger zone, suffering from very high rates in the previous decade, it was necessary to use a financial rescue operation to stabilize their credit system. It was as one of the facets of the "global financial crisis" characterized by the failure of several banks that led to the Eurozone world to register a decrease in economic activity, situation that stood at a level of unemployment where several countries formerly prosperous and with very high GDP growth rates, exceeded historical limits in particular in Portugal, Spain and Greece, and suddenly entering into a phase of decay.

The statistics available to date show a worrying and slow pace of economic growth, a critical elevation of the level of unemployment and a fall in the level of investment, which sought to correct through the adoption of the "bankruptcy law." Through the adoption of this regulation, the European Central Bank attempted to rescue countries such as England and Iceland. In a second stage, this organism planned the rescue to the countries of southern Europe such as Portugal, Greece and Crete, and then Spain and Italy.

This phenomenon of the "global financial crisis" stoked by symptoms of very particular bank insolvency in several European countries, affected the important institutions of the financial and banking sector, having to extend to the less advanced countries several lines of fresh credit, to finance so expensive plans to rescue the banking sector. Cases of financial weakening experienced in critical economies of the Eurozone, such as the cases of Spain and Italy, to demand very expensive programs of bailing out their banks, raised the level of exposure that bankers were faced with their portfolios diversified now with assets of very high risk country.

The financial and monetary crisis, producing macroeconomic effects, such as the of the slow growth rates, and unemployment levels above 25% in several countries, unexpected event that hindered the trade with the rest of the world, as we have seen in Colombia with the case of trade with this area of the world.

Author Barry Eichengreen (2011) and other analysts came to propose that to avoid widespread unemployment, banks and control entities should regulate the system of lending directed to users characterized by having insufficient equity. The worst news of the current event was that the most indebted countries had a very poor system of tax revenue and from the ethical point of view they were characterized as having low escalation in the level of tax rates. Control the depressive effect of the crisis, was dependent on the adoption of measures targeted to bail out Greece and other markets in danger of "default." The author was proposed to seek fresh funds in larger countries, such as Germany, its purpose being the supplement with these funds from contingent credits of International Monetary Fund-IMF contributions. Also came from these fresh funds of the 'Loan Guarantee Fund' and the 'European Financial Stability Fund," being its technical purpose to mitigate the effect of the non-diversifiable risk that incurred numerous portfolios rammed through the Euro area capital markets and that now the unexpected global crisis affected them also.

The Crisis of sovereign debt.

The historical facts reveals that there have been several recent situations in which countries have faced critical moments of insolvency, or inability to meet bank debt, including overduepayment of capital and attention of the periodic interest payments. The causes of these crises of debt have been diverse, and attack first in

a place of origin both big countries and small, and it has its raison d'être of this phenomenon in the intensity with which manifests the economic cycle, excessive indebtedness of the State, and the temporary departure from international lenders nestled within the local financial system. Also in the intensity in which financial speculation in the private sector, occurrence which leads to situations of insolvency and default in payments and obviously of penalties and interest occurs. Some notorious cases of sovereign crisis are identified with what happened with the problem of the Latin American external debt in the 1980s, and others that occurred in the next 2008's years, raised by the effect of the "global financial crisis."

The most notable cases of these global crises are:

- The banking crisis referred to by Kindleberger in his book "Manias, Panics and Crashes" (1996) that discussed the psychological origin of these down swings leading to the financial crisis and the presence of financial panic.
- Other authors find that in 65 developing countries the capital of banks may disappear during the sovereign crisis, as occurred in the years 1980-95 when many financial institutions failed in Latin America, as it was necessary to introduce the Austral in Argentina and the Real in Brazil to change the course of the shattered financial system[291].
- In the year of 1997 when the Asian Crisis occurred, the over-indebted banks had to recapitalize. Its exposure level reached 58% of the product only in Indonesia, 30% in South Korea, and was 10% in Malaysia.
- According to Reinhart and Rogoff (2009) the causes of the crisis are diverse and can attack countries large and small. They found 126 crises between the years 1800-2008. About 60 crisis attacked countries with high income and 58 occurred after 1970, when comes the globalization of markets.

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[291] Pérez Toro, José Alberto. *"Globalization and Financial Crisis on Mercosur."* Essay prepared in the Forum: the Andean Community and MERCOSUR in the perspective of the FTAA. September 12, 2002. Andean Observatory. Universidad Javeriana. Konrad Adenauer Stifug. Institute des Hautes Etudes de Lamerique Latine. Published also in: Consuelo Ahumada and Arturo Cancino. *The Andean Community and MERCOSUR in the perspective of FTAA* . Memories of the Andean Observatory editors. Publishing Center Javeriana, EYEBROW. May 2003.

- Speculative capital sources since 1970 has increased[292].

Other structural causes that explain the crisis include:

- The excess of assets invested abroad, and that are revealed from the amount of the obligations assumed by the reciprocal payments Bank of Basel-BIS.
- The growth of financial assets abroad far greater than the obligations covered in the interior.
- The effect of financial globalization that disperses the diversifiable risk but not the non-systemic.
- This global imbalance pronounced increase international liquidity, and unbalanced the real value of the asset in many portfolios.
- The flight of capital to financial and tax sanctuaries affected the stability of emerging countries (Singala, 2012, p.24).

11.3. United States and its international economic policy strategy.

As we said one of the causes of this loss of prominence of the U.S. in the geopolitical and financial spheres associated with distant wars and the sub-prime mortgage market, comes from management that has been given to its international economic policy, which by the erratic form that has been handled, tends to generate worldwide economic instability, since its currency is an important source of Exchange and depository of value to financial assets, as well as support of international reserves of many countries. This loss of credibility affects not only the formation of international financial system, if that does not channel the flows of investment and trade in goods and services in an efficient manner. This situation of change has an impact on the stability of the foreign policy of the United States as a world power, since its credibility as an agent who organizes the economic forces, affects the stability of other currencies such as the Euro, which is an important subsidiary currency in the world.

The delay in the economic recovery of the United States in recent years and the emergence of recessive symptoms in the Eurozone in particular, affect the performance of the global system, which fight for economic and political power

[292] Singala, SubbaiahAndN. R. V. V. M. K. Rajendra Kumar. 2012. "The Global Financial Crises with a focus on the European Sovereign Debt Crisis." ASCI *Journal Of Management* . Vol.42, No. 1. pp.20-36. Administrative Staff College Of India.

still in the middle of international diplomacy, and intrigue based on declarations of intent about the importance of sustaining the democratic system, which tends, as we all know, by the prevalence of freedoms, respect for human rights, and social inclusion. In the area of the course that follows the world market, the process of globalization is the factor that facilitates the mobility of the direct investment flows of capital and transfer of technology, as leverage to the expansion of the world market and growth. Its split, so partial, affects the development of many countries that are a source of growth in trade.

Recalling that the dollar crisis in America began in the year of 2008, precipitating the bankruptcy of the Lehman Brothers Bank and recognized the effect of toxic assets in the formation of venture capital investment portfolios on other investment and mortgage banks represented in many cases by risky debentures represented by assets unduly overvalued, sparked a huge crisis of confidence in the financial and mortgage banks of the United States as suggested by the viewpoints of recognized publications.[293] This crisis which had historical roots originated in many banks and lending institutions mismanagement, as were faking their balance sheets fraud that happened with the deceitful case of the Enron company, one of the world's largest energy companies, or banks like Lehman Brothers and Fannie-Mae, who contributed with their recklessness to precipitate a crisis that had repercussions not only in the United States, if not in the world, generated a strong effect of "no confidence" in the global economy.

This crisis, more than anything, has been a loss of confidence in global transactions. Its effect was transmitted through various channels and at different speeds in all the spaces of global, and enabling economic activity in some cases undesirable situations as the economic contraction, or produce the contagion of the recessive and unsecure financial climate effect.[294]

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[293] Value at risk in a portfolio:

Definition ofVaR = $\sqrt{VarR^2_1 + VarR^2_2 + 2\sigma_{12}VarR_1VarR_2}$

Where Var R1 = Value at Risk of the instrument 1.

Var R2 = Value at Risk of the instrument 2.

σ_{12} = Correlation between the movement of prices of 1 and 2 instruments.

[294] Deregulation has brought to the financial markets prices volatility. Volatility in the short-term of interest and exchange rates is the consequence of non-systemic cycles. Rise or fall of prices translate in high volatility and contagion effect. This last one comes from the breaking of the barriers between financial markets, under the privatization of risk hedging and the

This situation of uncertainty and lack of confidence in the "international financial system," shake different markets of the world, since the crisis of the dollar affected the stability of the mechanism of payments worldwide, and under that the dollar and the Euro lost value in markets, where central banks faced situations of uncertainty since it was observed that currencies which supported their international reserves deteriorated quickly to unsafe levels and in terms of assets value and as a proportion of annual imports. The international currency was affected by the loss of support in metal and other risk-free assets, since in the financial market of the United States has lost confidence in its economy.

This situation of loss of confidence in government treasury bills also arose in some countries of Europe, meaning loose of trustworthiness of Banking and Financial institutions and on these currencies and investments with government bonds and other treasuries. As a result of this reality of lack of trust in the currency value, a climate of credit instability drove in the financial markets, affecting the formation of the savings in financial assets and in the middle of the new "risk-free" assets such as derivative instruments and coverage, many of them loosing face value, revealing the systemic value of the 'risk' component.

For this reason, people and companies financial savings, ceased to be a reliable source for capital investors, who saw as its shares and derivatives financial became unsafe and a very risky business.

United States as world financial and political center.

Colombia and other developing country are heavily dependent on preserving the United States money and financial market stability. Most free exchange countries seek to adapt institutional mechanisms to articulate their economies to the United States order, making of the good performance of the American economy a goal to be transmitted to complementary markets. The concept of *political* interdependence reveals as an important determinant for States security and cooperation on political aspects encourage the preserving of level of mobility of

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massive privatizations of company's world-wide. Due to the globalization of financial markets segments of the global system become interdependent. The phenomenon of Moral Hazard comes from the decreases in financial prudence. The sum of the risks that private agents handle is usually inferred to country risk or the community. The risk can be reduced but not eliminated. Management of Central Banking is the controlling systemic risk, but reducing the systemic risk is associated with increased moral hazard.

productive factors within the global market. This condition helps to achieve the goal of states interdependence and of the well-functioning of markets. A first subject of academics interest to preserve political stability comes from the support of democratic political processes where peoples participation helps modernization of friendly countries as recently happened in North Africa with the avenue of the Arab spring. In the past, Huntington in his works the "Democratic Wave" and "The Clash of Civilizations" highlighted the interest in recovering the democracy in Latin America and other countries with different cultures and religions in order to build a larger world.

The allocation of *economic* resources in the second case, is a guarantee for the stability of the markets and is a way to protect the balance of monetary signs such as the dollar and the euro, since the confidence in regional markets, is a vital medium that allows flowing investment currents, and preserving the stability of interest rates condition identified as a guarantee for operating the law of comparative advantage and the emergence of other competitive processes, such as innovation and technological change.

These trends in the political and economic world are those that allow to keep the long-term investments current flowing from industrialized countries into emerging markets. The change in relative prices and people's tastes are factors that make the behavior of the markets in the short and medium term, while events such as the maintenance of low interest rates, guarantees the mobility of capital within Nations.

In terms of reliability that offers to markets foreign policy followed by the United States, some analysts recognized as it is the case of Lawrence Whitehead, estimates that the foreign policy of the United States, is designed on the basis of balance of the global system. The referred author suggests that since the completion of the Bush doctrine that sought containment, tries now to follow the foreign policy of President Barak Obama, that intends to achieve a:

- Balance of security to restore confidence to prevent nuclear proliferation.
- Define what is in their interest to procure access to strategic resources such as oil, water, and control of still unexploited agricultural land in the world, and

- Respond institutionally to the situation of financial instability, both in the United States and the Euro area.[295]

This last point interests us a lot, since the management of the currency is a source of stability in the global financial system. In order to understand this international situation, Whitehead (2011, pp. 47-64) sets out a theoretical framework that supports the attitude of this nation on the world order and that sums up in three thematic areas namely:

1. **Temporality**, that defines it as a concept that allows to estimate how long can the country referred to exercise hegemonic worldwide authority, this being a condition to be able to accumulate power and control sufficient resources in order to exert the dominance during the time needed to consolidate the expectations and agree rules enabling it to generate sufficient credibility and political capital. The effect of the high post of military spending has put this nation on the edge of a fiscal abyss and damage the international financial system.
2. **Rights of hegemony.** The constructivist gaze of the security of a hegemonic State depends on his power of conviction, its ability to control material resources and assertions of legitimacy on its presence in various parts of the world.
3. **Academic selectivity.** The size of the literature on international relations is written overwhelmingly in English, hence his bias by the interests of the United States as hegemonic nation.

On these theoretical postulates, the now reelected President of the United States Barack Obama, has argued that in his first Government, was achieved in Afghanistan insist in the capture of Al-Qaeda and especially to Osama Bin Laden who was killed by the U.S. Navy SEALs on May 2, 2011 in Pakistan to restore peace in the world. With regard to the religious factor, meant the prevalence of these fans a danger for the stability of the global system to which the author referred Barry Buzan (2000 and 2004) in his work *International Systems in World History* and *From International to World Society*. For its part the author James Lindsay, said that only "break the ligature between terrorism, tyrants and

[295] Lawrence Whitehead. 2011 "“Una Mirada Actualizada sobre la Hegemonía de Estados Unidos a Cincuenta Años de la Fundación del Centro de Estudios Internacionales y a Veinte Años del Fin de la Historia." *Foro Internacional.* No 203. LI. (1), 41-67. Pp. 41-42.

technology of mass destruction" was the perfect way to finally rid of this enemy and restore peace in the region. However, how this longing not could be reached only by diplomatic means available at that time, the political tactic suggested, by Republican Bush, was to remember the invasion of the country, and unfortunately Obama, when he proposed moving its troops from Iraq to Afghanistan which left alive was a political problem unresolved and began another lock politician's draft deep and uncertain.

The international problem of peace then began to escalate before the dissatisfaction that generated the Bush policy to grow the economy, based on the tenets of the model of the "globalization" which was a geopolitical project conceived as a "final" formula to reassemble and reorder the world political and economic, to the urge of the dominant nation. The problem with this model of globalization and the porosity of the borders is that it caused global problems, like terrorism, money laundering, smuggling of weapons and people. There were also financial crises whose effects multiplied by the global environment and were transferred without feeling the borders of Nation-States like in Europe and some countries in the Mediterranean with the critical implications of currencies that come and go. So it happened with the drug cases and drug trafficking in Mexico and in Colombia, and with the situation of the inconclusive trial of political prisoners at Guantánamo Bay with its effect over the credibility of the American criminal justice system.

11.4. Globalization, Dollar and the Crisis of the World Economic System.

The Crisis in the United States did not begin with the success of the September 11, 2011, since it originated in several previous events. So presaged it the internationalist Susan Strange (1997 and 1998) who in her books "*Casino Capitalism" and "Mad Money"* describes the peculiarities of the world monetary system, which gradually weakens and is in the medium in which the United States, as a predominant nation that lost shared world economic power endangering stability in some emerging States. Amidst the competitive and shared with other economic blocs, it is observed that global pattern of Exchange and store of value, or its currency depreciation is the result of inorganic monetary emissions that occurred in the United States, after the World War II. The

depreciation of gold as a benchmark for the value of the currency in the year of 1971 with the respective non-transferability, and fluctuations in the interest rate and recurrence of competitive devaluations between "friendly" States, led to the world financial market to experience the "contagion" outcome or even to the insolvency of financial intermediates in a few cases, and because of the deterioration of the currency value in others affected the credibility and confidence among depositors in current account.[296] This asymmetry in the financial markets is attributed to the lack of banking discipline as observed in Russia at the end of the 1980s, and a few years later in Latin America and Asia when largesse deepen the effect of the "Lost Decade" and the "Asian Crisis."

The World after September 11, 2001.

Obama was who insisted that the best alternative for the world after the happening of the twin towers airplane crash, was supporting humanitarianism at the danger of armed intervention, and proceed to withdraw the troops in Iraq and elsewhere to situations of proven genocide. He shunned this measure justified their action on the evil understood the thesis of realism, characterizing the interventions of the Presidents Kennedy and Reagan, armed when they justified it on the principle of defending American interests high and now humanitarian expectations (Lindsay, 2011, pp. 771-773).

The exchange between Bush and the democratic principles inspired by Obama were based on:

- Rejecting the global domain and presence of military at all sites as a way to fight abroad.
- Decrease the number of military responses to the terrorist attacks and depart from wavering and weak positions.
- Admit that the doctrines of the Cold War have lost force against terrorism, but that what was missing was a more humanitarian sense in the American presence in these places in conflict.
- Admit that terrorists are organized and attack when they have friendly States that support them.

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[296] Pérez-Toro, José Alberto. *The American Dollar and the International Financial Crisis: 1970-1980*. Available at SSRN: http://ssrn.com/abstract=187473 or http://dx.doi.org/10.2139/ssrn.187473

- Note that only occasionally multilateral support to United States when later anti-terrorist wars.

In the exercise of his Office Obama exalted its novelty to advance the withdrawal from Iraq and send more 17,000 additional troops to Afghanistan, totaling 36,000 troops there. The new diplomacy was revealed with the dispatch of a mission of negotiators to Iran in order to initiate talks to balance the nuclear program, initiative culminating with sanctions to that country. On the other hand, he invited the world to rely on the new truth of commitment for peace. His message and actions made creditor of the prize Nobel for peace. Immediate action in international affairs to abandon Iraq policy was to continue in the pursuit of the Taliban head Osama Bin Laden eliminated by the Seals in Pakistan.

So well that while the world was confused with the effect of the fireworks of the war, the economy of the United States, which is a pillar of the global financial system, debated politically to a new historical situation. The loss of credibility in the dollar, a currency that troubled by a turbulent global financial crisis produced by the international liquidity generated in America was generated, after the war in the Near East. Undermined the process of the globalization of markets, and affected the capacity of global exchange. So the first measures taken by the Government of Obama, supported by the coalition of Republican and democratic parties, was raised in terms of a new international economic policy tending to avert the Global Crisis.

The policy adopted after settling a tax limit to cover the debt amounted to US $11.9 trillion dollars, repayment which began with the initiative of the Bank of the Federal Reserve and the Treasury Department, to overcome the effects of the deepening crisis, has a tremendous negative externality what is affecting the stability of the dollar noticeable effect since 2008 when inflation deteriorated dollar purchasing power in goods services and money savings. The “Global Financial Crisis” was first understood as monetary issue where money lost purchasing power equivalent to the “Value at Risk” or amount of depreciated currency, and speculative sectors revealed the fact that the securities market was undermined by the effect of the perverse practice of the sub-prime market and War ends over-spending.

Because President Obama decreed a kind of "Economic emergency" monetary authorities proceeded to promote the "Special Provision Act" of 2008 and then the

Banking Act passed by the Congress of the Union. The Treasury Department ordered as a wishful thinking, to save the international financial system, which opens a window to receive bonuses and discounted obligations, as well as negotiable mortgages in the secondary market affected by deep discounting, and support operations of sale of shares issued and offered generously in the secondary market, relayed on credit arms of the "Temporary Liquidity Guarantee Program."

These and other financial reforms allowed the economy of the United States to record up to our days, at least one slow recovery, situation that still shows signs of resentment in the global environment and affecting the political and economic activity in many countries, such which occurred on the other side of the Atlantic, geographical location, where another twin violent crisis which affected the very existence of the Eurozone institution created after the Maastricht agreement. This historic event stimulated the dynamics of the Global Financial Crisis, with effects on both sides of the Atlantic. The crisis manifested through the slow economic growth that it ensued, once evidenced with the ruin of many savers of the banking system in the United States and in several countries of the European Union.

Countries like England and Iceland demanded the immediate adoption of a bank bankruptcy law. This phenomenon of the global financial crisis induced by excessive leveraged loans manifested itself with the recreation of the effect passed in different countries of the European system.

The majority of registered financial institutions depositors distressed by poor surveillance and high moral hazard incurred upon Central Banks the burden of expensive rescue plans in each of the European economies affected by the crisis. First, took place in Iceland and then the Scottish banks rescue. Subsequent events of bankruptcy and insolvency occurred in Ireland, Portugal and Greece, event that demanded the mobilization of important external sources of funds to bail out these banks insolvency. The immediate consequence was the decrease of the economy and raising the level of unemployment, in such economies, since it could not attend record Keynesian issue money to increase the level of credit. Therefore, unemployment level rose to 25% in countries like Spain and Greece.

Barry Eichengreen and other prestigious economists have proposed to banks and the banking regulators the convenience of governing credit granting and guaranteeing the political solution to the euro crisis, adopting off fiscal reforms to

conjure up the effect of the crisis and recover in a reasonable level of confidence. To eliminate the structural causes that originated the global financial crisis, politics required the adoption of measures of fund management. The rescue of Greece implied supporting in the competition for loans from the IMF, the "Loan Guarantee Fund" and the "European Financial Stability Fund."

The works of Paul David and Liebowitz to theorize about the concept of "Path Dependence" allow us to build strategic historical financial scenarios, where the initial conditions that characterize a process political or economic, transformed into a historical scenario, transiting one decadent to other more prosperous, or at least return to the initial conditions. This characterization of historical processes, helps to visualize and describe the nature of the changes in the historical field, that is to say for example, that in situations that presents an external shock, such as the loss of confidence in the institution of the currency, changed the dynamics registered by the market requiring a clever selection of appropriate measures to face the danger of a continue and indefinite crisis.

Pattern of global change.

To understand the reasons that led to the recurrence of these global crises, the author Susan Strange, proposed to advance a detailed study on the theoretical content of International Political Economy-IPE, being its object the identify factors that historically developed primarily in financial instability and to know then which was the effect of the volatility of interest rates and speculative determinants of mobility of capital. She demonstrated how the situations of financial vulnerability that produced damage in public savings and culminate with the "speculative malpractice" obeyed among other causes to flagrant fraud in financial accounts (1998, p. 127).

Proposed internationalist such theoretical constructions as the of the International Political Economy-IPE they would help to understand the scope of the policies taken as effective to sort the situation of foreign exchange markets, and as it could mitigate the disruptive effect generated by excessive uncertainty in the market, as a result of the instability that introduced the dollar in volatile international financial system. To the extent that increased the participation of a nation in the total value of the Exchange on another markets, or increased flow and exchange of capital amount, changed this economic event the correlation of

forces between States. These circumstances led to the model of the diachronic World-System, underwent structural changes and fix some other viable investment alternatives safer to accumulate and transform the saved liquid capital into a reliable asset as explained by Shannon (1996, p. 25).

For example, it was argued that the International Monetary System-IMS was determined by the interaction of a set of rules or laws that affect the behavior of the economic model of a country, which was organized to stabilize trade and investment flows, generating confidence in payment instruments. It was also argued that higher degree of interdependence between States they improved the opportunities for access to markets and for multinational companies, this security meant to remain in the newly conquered global markets.

The monetary order required to preserve the understanding between States, which will harmonize the relations of power, as happened after the World War II, when the international payment system was improved and rules safe to secure the repayment of the debt, agreed between and with the great financial powers, as happened with the famous case of Latin America "lost decade" of the 1980s, requiring countries indebted, a strong conditioning in terms of balance of payments and conditionality rules established by the International Monetary Fund and the World Bank, to get back to their lines of credit.

During specific times when currency crises, such as the convertibility of the currencies rallied, Robert Triffin's dilemma put into short-term domestic and long-term international objectives, lead to propose that short-term or current account global financial currency market reserves be used in long term foreign markets purpose to restore the deficit of the balance of payments between countries, facilitating again access to the fresh credit, required by those economies temporarily in a situation of illiquidity in other ways. This proposal was put in a position most advantageous to Europe, at least when the war ended since this region lacked adequate cash to cover its day-to-day operations, or maintain a high level of international reserves essential to achieve levels of economic security.

During the 1950s, the great problem of International Monetary Economics, was settling on the ability to generate liquidity in the global economy, not affecting fixed exchange rate regime. The great power of the United States, at the end of the war, for example came from the prerogative of increasing international liquidity through its ability to issue dollars, and to change the availability of credit

in the international economy. This situation of the unlimited use of the "Seignorage" compared to other countries, allowed United States have greater freedoms that the proposals by the Maastricth model in the year of 2001 when it was agreed to ensure a common currency for that geographical area rival, although limited to issue money or back this creation through fiscal measures.[297]

According to author Robert Cox in the work titled *"The Political Economy of a Plural World"* change in societal relations marked the postwar structural change, since from Bretton Woods, global finance, demonstrated how the new force that it determined the position of the capitalist state and the liberal State in the world, tended to order the financial architecture much more than the proposals suggested by the International Monetary Fund-IMF. This is advocated first, by a political balance of payments equilibrium, and second, with the adoption of the International Monetary System-IMS, that warned that the world would define a clear monetary order rules, stronger than those conceived by national policies that the world needed to impose on a stable exchange rate, and establish clear rules to enable the international capital mobility financial to operate. Under the logic of this model of capital market allocation of savings, expected that currency traders in times of crisis could protect their investments through the help of prudential banking rules and respect the principles of the diversifiable risk of investment to avoid moral hazard-crisis situations.[298]

The public power and the monetary authority required to extend reliable world rules to cope with excess liquidity situation from some countries, and in the case of the management of Treasury surplus, order accounting of the "banking

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[297] Maastricht Treaty. 1999. Creates a legal framework to establish a single market of capital goods and services in fifteen countries, introduce a single currency in the Eurozone, creates the structures for cooperation proposes a single market and encourages full employment and growth. Reduces transaction cost in currencies and proposes monetary sovereignty, and establishes criteria of economic convergence. The most important are: avoid the annual public deficit above 3% of GDP, to avoid a deficit consolidated of 60% of GDP for public debt. Inflation must not exceed at more than 1.5% that of the three EU countries with best figures. The currency must respect the ceilings of the EMS fluctuation. Long-term interest rate must not exceed 2% of the three countries with more price stability.

[298] A detailed description of the global factors that enter the international financial practice, appears on Cox, Robert W. et all, 1995. *International Political Economy. Understanding Global Disorder.* Fernwood Publishing. SAPES. Cape Town. Cox, Robert W. and Michael G. Schechter. 2002 *The Political Economy of Plural World. Critical Reflections on Power, Morals and Civilization.* Routledege. London

clearance" practices among private banks, in order to avoid risks to affect the liabilities/assets ratio of banks or the stability of the capital market exchange rate or "temporary" situations of illiquidity. Fundamentals, such as the management of the exchange rate, would be settings the short-term capital movements, and related to the granting of credit in the guarantees loan market that would be made with resources sterilized by the system, to advance new investments, production, access to services, technology and knowledge, in addition, required a rigorous observation of the quality of the protecting investment guarantees.

To the broader concept of the "global economy" as a space in which are carried out exchanges in the world and reveal structures to exercise political power, Cox (1987) examines it from the focus point where occurred events that deepen the internationalization of production and stimulate the global mobility of resources and factors. The author Susan Strange in her works of international economic policy in particular *"States and Markets. An Introduction to International Political Economy"* (1988) appreciates that the international economy as a social and economic system, is the place where to meet the interests of various national societies which are integrated in a competitive world. In the historical context, is Braudel who defines otherwise the "conjunture" or short span and the "longue durée cicle" to make his view abut "Total History" defines an academic place where running economic relations and social practices might be united as a whole processes where the mechanics of wealth creation determines worldstability.

And it is broadly explained that the concerned authors suggests all of them that the monetary means now convert into the source of the emerging global-power. Since with a quick glance, it can be seen that several institutions act together with various historical political forces that are correlated to finance various transactions, some productive but others very speculative. Its stability depends on making a final forces vector that converges into a final line of power, which ensures the flow of transactions. Here is where the level of change in the economy originates and where global finance is organized. We refer to institutions like the International Monetary Fund, the Federal Reserve Bank and the European Central Bank, that focus the interests of rulers, merchants and intellectuals, and each one becoming a determinant actor that mobilize resources, open new lines of credit, carry out exchanges of goods and produce big economic

ideas that reveal the huge sources of world power lunched by these global institutional agents (Germain, 1997, pp. 10-14).

In this context of sum of forces, manifests itself fully the effect of the monetary and financial market in the process of growth. Its power expanded there departing first by the ease of trading operations for dealing in currency and foreign exchange, and second in the ability to create the conditions to grant fresh credit to facilitate exchange of securities values and organize stable flows of trade (Strange, 1991:40). This distinction is important to take into account because only thus is understood of how is exercised or affected the political power represented by manipulations of the money by the great economic powers.

Also in this context, the concept of credit, serves to find out what is the actual value of the financial assets circulating in the market, since from this moment determines the value of money, according to the variable time, and in order to calculate the future value of the promissory notes or promises to pay, that can be seen as risk built into the interest rate level. Here associates the risk function that links with that political hedge that agents pursue to cover up and calculate the stability component in the rate of interest that characterizes or associates to each country risk factor of which every asset has an interest rate component. Virtue which offers a system of global credit, then consists of the sentiment of the market, to capture the degree of risk confidence by the market, and it is with which are traded in a way or another exchange of assets, first by establishing that there is a discounted cost of money, depending on the political risk, and the other, where the market risk and government agents guarantee its obligations, thus covering total risk to comply with their future financial debts.[299]

Effect of the Global Financial Crisis, 2008-2014.

Depending on the above considerations, it is said that the Global Financial Crisis of 2008-2014, is similar in some aspects to other financial crisis where did stop of convertibility, as occurred earlier during the Crisis of 1930 with the decline of gold reserves extending, reduction of fresh loans and star protectionism. In the recent cases of the Russian Ruble, the Mexican Peso and the Tequila effect in México, and the 1980's crisis of the Southern Latin American Countries with its effect

[299] Randall Germain. 2009 "Financial Order and World Politics: Crisis, Change and Continuity." 2009. *International Affairs.* Vol 85. No 2. PAGs, 669-687.

captured by the Tango effect in Argentina peril of a situation of insolvency was observed everywhere and in particular in the Argentinian Corralito, or within the crisis of the Real in Brazil, in which always failed the subject of public support for covering the currency due to bank savings "corridas."

As for the dollar, it is said that at the current time, only partially meet the origin of the financial crisis that emerged in 2008, and who don't know, for certain, what is the origin of this new crisis because it is not known whether its origin is monetary or financial, or if it comes rather from the effect of the economic crisis originated in the United States with the effect added by the problems of indebtedness of banking institutions in the countries of southern Europe. The truth of all this mess is that the effect of this "global financial crisis" has been critical in slowing economic growth and employment not only in the United States but in the world.

The sector most affected during this financial crisis, 2008-2014 has been on the market for housing mortgages due to the excessive leverage and unreality commercial sub-prime bank loan came to be worth much at the time of high speculation and then much, much, less, and as assets representing real warranties covering debts granted on this collateral, had a value say fictional. The debt that sheltering these mortgages was significantly higher than its real value, which meant a financial recklessness. A considerable part of the Bank loans and mortgages were unprotected or uncovered.

As a result of this financial impasse or "Moral Hazard" the international system was affected much more when the dollar suffered a loss in its support for fixed assets and in the poor level of confidence required for the investing public not tallied with the coefficient of risk showing the securities market values, thus precipitating a global crisis that affected the level of food prices, the "commodities," and the energy, whose price is destabilized in the world market, given its character of an essential asset. The impact of this imbalance between the value of the dollar and the real price of the commodities, was the produce a global financial crisis, which shrank the market for luxury goods, and led with this distortion to a bankruptcy of some of most reputable mortgage banks, as happened in the case of Lehman Brothers, one of the oldest organizations in the United States and of other disreputable financial intermediaries covered with

excessive leveraged loans which hazardously invested in very productive and risky assets with inflated prices.

The known Professor Kenneth Rogoff of Harvard University argued that the crisis of the American currency could reach a level close to the US $1 trillion and even to reach the roof of the US $2 trillion. The danger of reaching this ceiling was that it would produce a high impact on the level of confidence in the dollar market, and this risky situation would multiply the effect contagion, which would compromise the saving public resources in the world for a 10-fold greater amount. Author Randall D. Germain, argues that this kind of effects that are systemic, or transmitting it to the world-system, can introduce a general depressive effect, since it affects the entire credit system[300]. Economic analysts remind us that in September 2011, the total debt of the American Government intended to cover the cost of the global meltdown, amounted to the not inconsiderable figure of US $11.9 trillion, and amounted to about 32% of gross national product.

The positive signal with regard to the State of the American economy that has taken place in the forthcoming months is that still retains a great strength for its expertise in sectors of high competitiveness. This strength is reflected in:

- Its high level of income per capita amounting to $37,800.
- To that decisions of individuals in terms of consumption and investment will stimulate the activity of a huge number of small businesses.
- To the State sector is one of the major buyers of goods and services that provide stimulation and activity to the private sector.
- To the flexibility of its companies, gives a huge global competitiveness, allowing savers to invest in plant improvements and the introduction of new products that cover a huge domestic market.
- To the global political power of the United States, reflected in the competitive world of technological advances, particularly in products such as computers, new medicines, components for the Aero-space industry, sophisticated military equipment and a number of

[300] Randall D. Germain. *The International Organization of Credit. States and Global Finance in the World Economy*. Cambridge: Cambridge University Press. P. 13.

agricultural products arriving through distribution channels to more different niches in the world market.

Many analysts have argued that the competitiveness of the United States has been unreachable from the completion of the World War II. It is said that this gap has been reduced, in virtue of which Nations such as China have made considerable progress in the field of the growth of its economy, which is reflected in the rise of manufacturing exports. Also to other facts such as the improvement of the mechanisms of political Union, economic and commercial of Europe economic, an area where reigns a single currency such as the Euro, monetary sign competing with the dollar as a source of exchange and store of value in the world which has made with its presence of this a very competitive emerging market.

However, to maintain adequate levels of competitiveness, it has meant for the United States having to segment their labor economics. On one hand, emerges a sector with highly-skilled workers and rising levels of income, with very professional work techniques, and a segment of workers poorer and lagging, formed by an increasingly broad-based and with low degrees of qualification. A negative point of structural character of the economy of the United States, is that despite its dynamism, in some sectors there are still signs of inequality in the distribution of income, what worries many ordinary men, since 1975, 20% of rich households are those who have absorbed the improvements in earnings.

The subject of the internal Deficit 1971-2014.

A central theme that determines the stability of the economy of the United States is the internal fiscal deficit financing. Its presence became visible with the crises of convertibility in 1971, when was interrupted when converting the dollar for gold under the real depreciation of the currency by effects of global inflation. Today this tendency to finance the deficit by diverse monetary emission processes, still recorded high levels going from $412.6 billion in the fiscal year of 2004, and representing in 2011 in terms of percentage of gross national product more than 25%[301].

The fiscal deficit as a problem of public finances is manifested as a burden that is transferred to future generations. Its nature has changed with globalization,

[301] Campbell, Andrea Luise. 2012 "America Undertaxed-U.S. Fiscal Policy in Perspective." *Foreign Affairs,* September / October 2012. Vol 91. No 5. Pp. 99-112. P.101.

since their asymmetries affect the credibility of the American economy and is transferred to the central banking from friendly countries. Titles values that account for this value of deficit are recorded in the account of international reserves, which depreciated with the advance of the monetary depreciation, sharpening tensions between economic blocs, since countries like China recorded a very high surplus in its current account.

An important academic work, prepared by the Brookings Institute authored by William Gale and Peter Orszag, consider that this factor of destabilization from the deficit, estimated that if it is reduced by one percentage point in the current-account deficit, the product can grow from 0.5% to a 0.8%. Then the economy's long-run performance consists of controlling the fiscal deficit, and avoid that does not decay rate of private investment. The referred document suggests that if the need to continue to provide resources of third countries savings and deposit excess dollars in quality of reserves in central banks abroad, as it has happened with the Japanese and Asian banks would lead to a situation the world's accumulation of reserves that lost value in the global financial market. Balancing investment with declining levels of savings, it would unbalance the rates of interest and change, which may decrease in some points the national savings. Some writers recommend accepting the theoretical principle expressed by Milton Friedman of ."..leave monetary policy in *neutral,* and macroeconomic stabilization would be successfully achieved...." However, with the crisis that began in the year of 2008, the goodness of these theorems can be useful to correct the effect of the global financial crisis.

The dollar's depreciation.

Even though the U.S. economy always shows signs of strength by virtue of their wealth and accumulated capital, the only growth trend tends to be defined if the effect of the deterioration of global finance is exceeded and the cost of the wars is diminished. The seminar The Economist of December 4, 2004 entitled *"The future of the dollar. Would the passing of the buck?"* It was established that the dollar had lost value against hard currencies of the world. In October this currency lost 7% reaching the lowest level against the Euro, which added a 35 percent drop from the year of 2002. Against the yen, has been the point of further decline in relative prices over the past five years. Against a basket of other currencies, including the

Chinese Yuan the deterioration of the American currency is equal to 17%, which explains why in Colombia refers to the revaluation.

The issue has not gone unnoticed to the director of the Federal Reserve Bank, agency that exalts the danger that poses for foreign investors, direct your savings to the American nation against the fact that there is a decrease in returns on your investment in dollar-denominated assets. With the advent of the Crisis of 2008, the trend of the Federal Reserve Bank has been the reduced to zero interest rate, limited this variable to represent the interbank rate and thus preserve a fall in the return on the investments in securities values.

This circumstance of the depreciation of the dollar and interest rates decline has motivated many bankers to reconstitute their portfolios of international reserves, putting for sale financial assets in dollars in Exchange for the purchase of other currencies, whose volatility may be less scattered or opposite to the medium of Exchange. In terms of portfolio theory, this means a less exposure to risk in the basket of currencies and a prudent expectation for better returns. With the advent of the Euro crisis, this currency has lost appeal for investors of portfolio in general affecting this type of investment.

Before this persistent deterioration of the exchange rate, is heard much dollar question of whether to lose its status as a reserve currency deposited in several central banks in the world, and in front of the value of an ounce of gold, which it had lost in value by 80% in the 1970s and 65% in the last decade in high grade. It is expected that the value of the dollar in the world continue depreciating, with which the portfolios and private savings will continue losing value worldwide with emission representing to finance a deficit of US $11.9 trillion.

For the United States the claim to preserve its currency as medium of Exchange universal demands meet still very difficult conditions such as:

- Compete with other coins, which are still strong, as it is the case with the Euro or the Yen.
- Recognize that the Federal Government may not issue a devaluation to cover a part of the fiscal deficit.
- Financing of the fiscal deficit based on the help of the central banks of strategic allies such as Japan, and other Asian countries is an issue that has political and economic constraints.

- Repurchase part of currency deposited in central banks, taking advantage of the interest rate is reduced as it implies that creditor countries will buy fewer American products on the market.

In conclusion, keep the binomial internal hold low interest rates and bear the cost of a high fiscal deficit, is an element that affects the acquisition of manufactured goods produced in the United States so they have signed several free trade agreements. When Susan Strange says in his book "Casino capitalism" that when Asian countries accumulate large dollar reserves levels, they do so knowing that it is an unsustainable game for the future stability of the dollar, event that has actually happened since the opportunity cost of this alternative of long-term leave a reserves invested at lower interest is a ruinous idea.

Solve the problem of Fiscal abyss.

To confirm the previous postulate, author Freed Zakaria who explored the nature of the events that led to the United States to face the fiscal abyss of 2013 inquires about the causes of not taking timely precautions to prevent the fall of the dollar. Critics like him, looked with skepticism the eventual recovery of the economy American, occurred after the financial crisis of 2008, by the tax effect that represents entering finance crisis with contributions from the "tax payer" which can represent up to $13.9 trillion. For this reason, the issue that is discussed more in Washington after taking the standard that allows to raise taxes and cut public spending, implies a major change, not just fiscal scenario, if not in the infrastructure policy, the titling of assets, the prerogative or "entitlement" to fund an improvement in the infrastructure network, and extend educational services to a part of the young population and immigrant. It is said that if only with costly steps are re-finance a debt so large, and the United States might align itself towards a "new manifest destiny," opposite the expansive pace of the global economy.

In this regard, analyst Fred Zakaria argues that to avert the crisis should recognize that:

…the global economy remains very dynamic under the participation of new actors and to recover its position as development agent must anticipate virtuous

paths in order to succeed *between global competition and technological change that is now a very dynamic factor...*[302]

Another author as Norman Birnbaum (2013) suggests that the foreign policy pursued by Obama persist on the defense of human rights, and arms control, respect international law, support agreements on the environment, and finance the strategic cost that represent to "pacify" Iraq and Afghanistan, measures that involve a lot of effort for the American taxpayer, that its successes rewarded with sustaining democracy in the world although its cost is still difficult to estimate.[303]

On the future of Latin America political stability, considers the referred author the fact of recognizing governments elected in each of the countries, it is the result of having invested in security, and that something similar happens with the results of the Arab spring. However to minimize the cost of incurring a new commitment in this area, as it is the search for the establishment of Governments truly democratic in these countries is a matter well evaluated by the international community, while the permanence by so many years of populist or even dictatorial regimes in Latin America has a high social cost as ruinous investments are identified within the region, or having supported the dictatorial governments of Egypt, Libya, Tunisia, and responding with eagerness to the civil wars in Syria and Yemen, States very targeted by religious and political interests far from the true principles of democracy and the participation of civil society has a social cost still indeterminate.

Bernanke, who used the term "Fiscal Cliff" suggests that not adopted restrictive measures, the country could fall into a chasm that would lead to a recession, and "would be a single fiscal Cliff avoidable through big cuts in spending and increases in taxes." The discussion now focuses on ending fiscal privileges approved by the "Tax Relief Reconciliation Act" of 2001 and renewed in 2003 at the end of his term George W. Bush, by proposing tax cuts. The new problem as we have seen is that Obama extended his effects for two years until 2012, through the Budget Control Act, and if it had not reached an agreement, taxes would have risen to levels that were when William Clinton was President.

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[302] Zakaria, Freed. 2013 "can America Be Fixed?" *Foreign Affairs.* Vol. 92, No1.Pp. 22-33.

[303] Norman Birnbaum, 2013. "The legacy of Obama on foreign policy." *Foreign policy.* Vol. XXVI. November/December. Not 150. Pp78-90.

From the year 2012, the deficit situation is been staking on US $1.2 trillion, and the long run debt accumulated in US $16.4 trillion, historical figure that has no history, but that can be even though larger.

Andrea Campbell said that the Republicans proposed since the time of the 2012 presidential campaign, reduce the level of taxes, limit the amount of public spending and reduce the level of debt as a general strategy to recover the economy of the United States. The Democrats however considered that expand public spending was the best way to regain the rhythm of growth. Since World War II, when the volume of tax revenue grew and this amount stood at 2000 in a cap of 18% of GDP, today they reach 30% of GDP, which is 37% in Europe. During the year 2009, in USA the referral rate declined to 24% level while in the OECD countries the quoted level amounted to 35% of GDP. The service tax-IRS estimates that the top 1% of persons who are taxed with a rate of federal income tax of 28% is a proportion to which paid in 1980 to real incomes higher even for privileged groups. Unfortunately, the inequity of the system is attributed to the tax credits that a family of four people is on average 40% lower than that of the year of 2009. The criticism that makes the tax model, why not be covered with the expected speed the fiscal Cliff, the author Andrea Campbell considers it is because at the scale of the income taxes, benefits still go to the more wealthy who are paying paradoxically less direct tax. As it has not implemented the tax to the value added-VAT, in such a way, is not so down with the poor, who spend all in their basic needs. In Europe for example, taxes are progressive and tend to be strongly redistributive regional and personal. With the movement to deal with Wall Street, made evident that those who earn more than US$ 400,000 a year paid in 1970, 28%and in 2007 only 23.5% . In Germany the top 1% is eleven per cent of the population, Japan 9%, and in the Netherlands 5%, being the groups that are proportionally prone to they pay more taxes.

The proportion earning less than 65% of the medium wage in the United Sates is twice as high as in France and Germany and five times as high as in Finland as in Sweden (Campbell, 2012, pp. 99-104).

11.5. The external shock produced by the Euro Crisis.

As puts it Barry Eichengreen in Ireland, the financial crisis was due to the effect of the bubble in the construction activity, event which, due to the excessive

leverage, broke several banks, forcing the Government to back up with its own resources the institutions assets financial affected by this speculative phenomenon. As a measure of shock to overcome the effect of the economic unemployment, was recommended to promote tighter regulation in the financial system. In Portugal, the crisis originated in the rigidity of their productive structures which accused losses in productive capacity, requiring as a measure of recovery, have innovative incentives for production and growth. It was also said that the origin of the Crisis in Greece was due to the effect of the strong fiscal deficit and illegal manipulation of public accounts to undervalue the due amount, unjustified situation which emerged precisely at the time that it required the introduction of strong fiscal measures to balance the deficit, control the level of consumption of the Greeks and to promote the formation of savings.[304]

Loss of credibility in the market.

Registered in Europe in the year 2011 Financial Crisis had effects on the credibility of the market not only the Euro but also the dollar. Says the mentioned author Barry Eichengreen, which this circumstance of the loss of confidence in the currency is attributed to the effect of the volume of the accumulated debt and payments neglected countries sensitive to credit for the operation of the economy, such as it manifested itself in countries with lower monetary control. This situation has been acute in some countries of the European Community, in particular Greece, Portugal and Ireland. From the year 2011 was a situation that was the amount of the debt with the level of risk (Credit-at-Risk) the debt ratio exceeded the ratio of one to one with respect to the value of the annual gross

[304] Eichengreen, Barry. 2011-"The Euro´s Never-Ending Crisis." *Current History* . March 2011. pp. 91-102 Eichengreen criticism since the reform of the Euro was adopted it was thought that capital would flow from countries with abundant resources that have the same shortage. In the periphery, it was believed that investment projects many with which improved the conditions to achieve the rich regions. Another feature of the Euro was that countries entering monetary union could be not used as record issuance to cover the Government's debt, avoiding the occurrence of the grown deficit, has devoid of support represented by fixed assets. Freedom of economic management, has not been translated in compliance with the hypothesis of convergent growth in European, and the productivity gains have not happened how expected in the peripheral regions. The first manifestations of the financial crisis, resulted in dissipation of investment opportunities in least developed countries of the Euro zone (2011, page 92).

domestic product. This situation has been acute in the designated countries, but also in countries such as Italy and Spain, which despite having relatively large economies, the designated index touch levels that they concern investors of capital. In terms of value at risk, this index has stopped growing, after applying strong measures for the sake of the stability of the bonds market, and then initiates the policy of financial rescue in some premises. In Ireland the debtors concerned by the level reached by this index of indebtedness, affected a group of creditors abroad, who proceeded to remove resources from savings in the banking system, in an amount equivalent to 10% of the gross domestic product in that country. Due to drainage of resources that was observed first in Ireland, and then in other countries of the South of the Eurozone, has accelerated the situation of dangerous illiquidity in the financial market, event which subtracted credibility to the market of securities, stocks, which, by the contagion effect, is pronounced in Greece and Crete and then threatened to countries such as Spain and Italy's largest.

The countries most Indebted.

Bernanke and Blanchard (2013) among other economists analyzed the teachings that the financial crisis of the Euro[305] and warned that the most indebted countries, would have to impose as extreme measure in their economies, and a strong policy of raising the level of taxes, since they were cornered by the danger of bank insolvency and was not guaranteed as support them more debt, which led them to streamline lending and restrict the activity of the potential investors. This situation of tight credit, contracted to the financial system in the Euro area, and unable to issue money due to lack of support coming from European Central Bank-ECB Maastricht model showed their limitations to achieve economic and

[305] LSE: http://www.youtube.com/watch?v=yxDW6CL-Qvw & list = UUK08_B5SZwoEUk2hDPMOijQ

What should economists and policymakers learn from the financial crisis?

Posted the 27/03/2013

Speaker (s): Dr Ben S. Bernanke, Olivier Blanchard, Professor Lawrence H. Summers, Axel A. Weber

Chair: Professor Sir Mervyn King.

monetary union and worse to develop an independent monetary policy melted with a fiscal one.

The reluctance by the impossibility of leaning on the seignorage in the central banking in Europe and the illiquidity expressed by others financial intermediations, did fear would arise a crisis of universal scope, as already expressed in Latin America in years past, as it was the case of the "lost decade" that affected Mexico, Brazil and Argentina, and then in similar proportions the payments crisis in Asian countries (Eichegreen, 2011, p. 94).

The political instability in Europe deepened during the years of the crisis of the currency, pursuant to which the fall of gross product, resulted in high rates of unemployment, economic event that led to several countries in the area, to reduce the rate of productive investment and slow down the speed of convergence of the smaller economies. The senses of this theory of convergent growth, consisted of reorienting resources of savings toward an expected but expensive process of technological innovation, event required as an alternative to recover and sustain the pace of output growth. Insisting on convergence was rather difficult for the EU, under which the Treaty of Lisbon establishes that States are sovereign in tax matters, and the limits imposed by the Pact of stability and growth-PEC going in the opposite direction since it levies limits on tax policies. The purpose of the European Stability and Growth Fund, after funding with €440 billion euros to meet proposals for financial rescue, although had some institutional to help all markets in proper proportion (Wyploz, 2011, p. 99).

Stage of the insolvency.

The danger of insolvency was inducing countries of the euro zone, to enter in to the club of those who discontinued their payments to honor the debt service. The mismatch of the credit system, meant to impose urgent measures aimed at restructuring the debt, requiring the extension of deadlines to pay debt, extend grace periods, and exercise a monetary policy aimed at reducing interest rates. To achieve these simple goals, it was necessary to go to the territory's policy of issuing or celebration of new borrowing, as was needed to change the Charter of principles of financial organizations, such as the ECB-European Central Bank and the International Monetary Fund.

External debt as international commitment usually backed up by issuing bonds secured by the fiscal resources in possession of the national treasure. When occur situations of loss of credibility in the markets, the weakness of the Treasure, the high level of discount of the instruments, reveals the degree of uncertainty that captures the feeling of the market. Therefore, a country's finances suffer under lift that can experience the cost of servicing the debt, or the fall manifested in the amount of the discount for government bonds. The English weekly *"The Economist"* to refer to these issues that engender a situation of uncertainty to honor the debt, and that stands out in the article *"Fighting for its life; the euro-zone crisis"* explains the effect of the cost that represents recover in the short term financial stability, in particular when they arise how inconvenient those listed. The English magazine, suggests that one of the most worrying issues arising from the crisis in the Eurozone, is the increasing danger of moving from a situation of illiquidity or "default" by banks, to one of insolvency attributed to the bankruptcy of the National Treasury, to honor the debt service[306].

To investigate what was said by these analyst of *The Economist*, explained that a first symptom that reveals the disturbing effect of the crisis of the euro and its depth, evidenced by the world between the years 2010 to 2014, comes from the fact that the interbank interest rates began to rise in a disproportionate manner, which heralded a situation of uncertainty among many of the Euro area private banks. A scenario of rediscount rates high among banks, suggested the spread of a signal that heralded the effect of a climate of mistrust, which is expressed before the fall of the price of the shares of banks, and the additional event of a crisis of the system of payments. Maintained in this regard that when in Paris the value of the action of the BNP-Paribas fell 12% in a single day of September 13, 2011, manifested the unequivocal signal that private banks, warning the presence of the

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[306] The Economist. September 17, 2011. *"Figthing for its life;" The Euro-zone Crisis.* Pag.74. Sovereign debt default means the failure or inability to attend the service of doubt by the Government of a sovereign State. This situation of illiquidity can be accompanied by a formal statement of the Government in which announces that do not respect the obligation to make payment of the same, and how it was said also refers to the payment of interest or capital shares. Pay only part of the question is equivalent to a default, Act which is one-sided and that comes at the bottom of the insolvency of the economy since it has committed all the assets to be even overcome by liabilities. A resource helpful to liquidity the debt consists of allowing inflation to erode part of the value of the payment of the principal of the debt, an alternative that has a high social cost.

huge risk that meant incurring a debt refinancing to float a Bank affected by the sharp decline in its stock price.

What happened after the loss of the value of the action was the immediate fall of another bank stock price as it was the case of the Bank of Société Générale, situation that has continued in France and other countries of the Eurozone. A national response to this type of situation is that banks seeking recapitalization to get out of the trap of large losses and countries adopt reliable forecast plans and seek regulatory instruments to protect the depositors of banks (Wyplosz, 2011:103).

Regulatory Entities

For regulators of the community order as it is the case of the European Central Bank -ECB, what has happened in the year of 2011 to manage excess liquidity of the rich Northern European banks, redirecting credits to the banks of the peripheral countries of the region, was not anything to an unnecessary level of exposure and risk to the banks of rich countries to the fact that countries of the South, they spent without rate and measure and were reluctant to honor their debts. Uncertainty and mistrust that grew out of this bad practice, which has to do with ignore about the principles of the "Financial Prudence" meant nothing less that force many banks to have to restructure its short-term debt, and pursue political strategies to enable access to longer-term financial flows. This fact, *The Economist* on September 17, 2011, said referring to the fact that the 38 largest banks in Europe required a contribution of capital in the order of US$ 41 billion, to meet its maturities at the imminent danger of illiquidity. Meet this situation of risk exposure, involved for countries such as Greece, Ireland and Portugal, compromising its economic sovereignty with a rescue plan worth amounted to US$ 126 billion. Defray debts of difficult recovery meant to punish past-due portfolio amounting to more than US$ 200 billion. This situation of credit tightness made think some banks on the need to issue shares in order to improve the solvency rate in the system[307].

The difference of the current crisis in 2012, compared with the occurred in 2008 in the United States, when Governments provided private banks capital

[307] The Economist, September. 17, 2011 ""*Fighting for*... "75 Pag.

resources, consists that at that time the sovereign debt situation was better than the current one[308]. So to save the Eurozone of the effect contagion, which revealed based on financial recklessness by Ireland and Iceland banks and those of southern Europe, their economies faced with fraudulent transactions. This were weakened by uncovered credit excess, needing to be refinanced by the giant rescue package of €750 billion euros achieved by Germany and France-rich banks, where the International Monetary Fund and various European agencies gathered around the Pact of stability and growth-PEC. The Stability Financial-FEEC European Fund created with €440 billion euros according to confirm authors Klau et. al. (2011: 108) and Wyplosz also helped to pale the situation (2011: 99).

To September 2011, the cost of the bailout of Greece was worth more than €8 billion Euros, and meet this need through raising the level of taxes demanded to get levy resources worth of €2 trillion around the region, amount raised under the value of the concerned country's GDP that turned out to be less than the estimated by various international analysts or agencies such as the IMF, holding that the real value of debt, is in any case higher than calls for the ability of reliability for a country like Greece subjected to economic conditions as described by several analysts.

Discovered obligations.

At the current time of the crisis of the Euro, the unexpected elevation of discovered obligations in Ireland, Greece, Portugal, Spain and Italy, have forced authorities to having to think strong measures with effect of longer term and structural nature, since as will be seen later, the credit provided by the European Union and the IMF in 2011only had effects to help small banks but with more chance of recovery, leaving the problem to say serious as the Standard and Poors, S & P rating for firms. What remained clear of these analyses is that cover a widespread crisis requires resources of great magnitude to talk about financing the recovery of Europe[309]. The danger with entering in a sick environment is the spread of the contagion effect that characterized operating in the zone euro,

[308] Sovereign debt is the situation in which banks cannot afford at the date of the commitment the interests and the payment to third-party debt capital.

[309] Q & A: Greek debt crisis. 27 July 2011. http://www.bbc.co.uk/news/business-13798000 . Taken on 16 August 2011.

reason that explains the creation of the European Financial Stability Facility-EFSF and the European Stability Mechanism-ESM.

In the Nicholas Stern's work regard to the strategy to counteract the effect of the crisis would be that:

"Aiming to induce national leaders to fundamentally reform the Eurozones's institutions and structurally overhaul their economies, needs the organization of a Central Bank that don't comply with governors its wishes, and respond to bail their countries to respond to structural crisis' pressure" (Stern, 2012, Pág. 19).

In the widely read journal *Foreign Affairs*, author Sebastian Mallaby, brings an assessment on the crisis within the Central Banking System in the article "Europe's Optimal Catastrophe" arguing that some nations like Greece is becoming a possible wasteland. Also suggests that the political problem of the Eurozone comes from the fact that Germany has followed a monetary policy that is restrictive and characterized by the prevalence of high interest, endangering the performance of the smaller economies in the Monetary Union[310]. Some other recognized authors as Fred Bergsten (2012) consider that European monetary policy has been insufficient to deal with a crisis of the Euro. They argue that the origin of the crisis is not monetary in origin but respond to a financial and fiscal situation that is much affecting countries like Greece and Ireland which exceeded the level of spending above the capacity to honor the debt service. The crisis also has a component of competitiveness, by virtue of which trade does not respond to situations of devaluation of their currencies. This structural fact is revealed in the imbalance in the current account of the balance of payments, characterized by a colossal trade deficit, affecting debt service the Bank stability, troubled by a strong illiquidity.

Fred Bergesten and other analysts estimate that there is a structural component in the situation of the crisis in the euro zone that the Monetary Union and economic-EMU was incompletely designed in the 1990s, when the monetary union did not have tools to organize adequate tax structures, deficiency that finally introduce a disequilibrium in the economic union since missing a tax originated lever to control and coordinate economic policy.

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[310] Historias, Sebastian. " 2012 " Europe´s Optimal Ctastrophe " The Fate of the Monetary Union Lies in Germany´s Hands." *Foreign Affairs.*July-August. Vol 91. 4.

Political future of the Euro.

With the crisis situation that afflicts the Monetary Union, one of the questions the community has to respond is what would happen without the Eurozone. The author Habermas in the article "Today more than ever, Europe is a constitutional project" published in *Foreign Policy* appreciates the convenience of a cosmopolitan legal State. That is, that the community in order to build an organized and incorporated monetary Union needs in the field of banking, money crisis and debt payment, mechanisms to respond to the political dimension of the process of advancing in the consolidation of the extended market responsive to price and credit signals. He states in his writing going beyond the economic puzzle to build a few instances that link the geopolitical powers in such a way that the Union could harmonize national economies with the whole of the economic Maastricht Treaty. The emerging visible error attributed to a monetary union is that it demands building institutional political capabilities to regulate transactions not at national but at the European level. This lack of an institutional architecture has prevented to create an economic formula to allow members of the OECD to act together in the absence of a general instrument capable of restarting a process of long-term economic growth after some countries are so near to default.

In Europe as in many capitalist countries, the free exchange rate policy, helped mitigating the inflation at an early stage, but gradually due to the absence of some fiscal tools resulted in producing conditions of high political and social costs not to mention an available mechanisms to mitigate unemployment swings and protect family income when volatility situations presents. The referred author submits also that of entering a world where the norm is insisting on overflow the economy through excessive debt financing policies, leading with this abnormal practice to precipitate financial crisis. Become a recurrent stigma, with what moves lenders to face situations where Governments cannot honor debt. It is said that it is important to ensure or generate confidence for the Social rule of law.

Habermas proposes to advance in the search for new strategies to bring to the European Parliament the big decisions, relating to the general interest, associated with the middle of fiscal policy, and a financial policy that meets the needs of the real economy by means of an optimal allocation of savings among factors. The lack of institutionalization in the field of the transfer of competencies from the

national to the international brings the region's inability to advance public actions worldwide[311].

Fred Bergsten in an article published in several prestigious journals like Foreign Affairs and Foreign Policy entitled *"Why the Euro Will Survive: Completing the Continent's Half-Built House"* suggests that the Eurozone crisis is associated with several political currents that move in cross purposes of the requirements of the times, arguing that one of them is the unfit fiscal management in the resort to weaker and indebted countries. This deficiency contributes to extend the regional crisis to the global scope and to the region. Here is where smaller countries like Greece and Ireland, which with its crisis of competitiveness, pronounced the trade deficit and lead their countries on the path of the banking crisis.[312] According to Bergsten, a political situation which leads to the moratorium in the payment of the debt weakens the euro and turns to its eventual collapse. It is why the response offered by members to this critical situation has been to avoid bailout situations affected by large borrowers. Countries need to progress towards the banking and fiscal union to prevent this anomalous situations. It is believed that a new institutional design, can compact the effect of institutional well-functioning of the monetary union based on the euro and supported by the European Bank Central-ECB, provided a fiscal structure acts as a supporter of the *fiscal* and *monetary union.*[313]

The author Roger C. Altman in his work *"The Fall and Rise of the West"* puts into perspective the financial crisis and the recession affecting West after the

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[311] Habermas, Jürgen . 2012 "today more than ever, Europe is a constitutional project." *Foreign policy.*Vol. XXVI. November/December. Not 150. Pp. 22-27. Habermas develops the idea of "Executive federalism" thinking to overcome fear in the short term the European integration vs. the benefits attributable to the historical meaning of the European project. PAG, 24.

[312] Bergsten, Fred C. 2013. "Why what survived the euro? Finish constructing the House." *Foreign Affairs.*Vol 91. No 5. Pp 115-122. Also published in *Foreign Policy.* Vol. XXVI. November/December 2012. Not 150. Pp. 110-122. Bergsten, C. Fred. "Why the Euro Will Survive." "Completing the Continent´s Half-Built House." *Foreign Affairs.*September/October 2012. 91 Vol. No 5. Pp. 16-22.

[313] Bergsten, Fred C. 2013. "Why what survived the euro? Finish constructing the House." *Foreign Affairs.*Vol 91. No 5. Pp 115-122. Also published in *Foreign Policy.* Vol. XXVI. November/December 2012. Not 150. Pp. 110-122. Bergsten, C. Fred. "Why the Euro Will Survive." "Completing the Continent´s Half-Built House." *Foreign Affairs.*September/October 2012. 91 Vol. No 5. Pp. 16-22.

devastating situation of its coincidental split of the market of the Euro and the Dollar. The financial crisis in the United States was anticipated three years in Europe, but the effects have been devastating in both cases endangering the global financial and economic stability. Some estimates do predict that its consequences can last more than five years, affecting sectors such as the financial, banking and weakening the structure of the industry, thereby affecting the level of employment, which has reached unthinkable roofs of more than twenty-five per cent in countries such as Spain and Greece. The problem that emerges with the financial crisis in two large world power blocs is that the effects of the crisis in the capital market is of the global order under which changes in this structure affects the normal development of the political process. What the world expects is the moment in which referral centers to become again the locomotives of the world economy (2013, p. 8). Industrialized countries are the most affected with the financial crisis under which is destroying jobs that do not create new, with its consequent social cost. The recovery in the United States slowly began the process, but in Europe, the financial crisis had the effect of an implosion, affecting employment, demanding austerity measures and pledging the credit of Government in some countries. These measures mitigate sovereign debt effect upon the banking situation that threatens the Eurozone[314].

Economists like Kenneth Rogoff considered the effect of the financial crisis is stronger than recessions driven by the business cycle. On the experience of the Asia Crisis, steps were taken to strengthen the financial sector, and the financial crisis that affected the Mexican market benefited of the Rescue Plan offered by President Clinton, and in Latin America when countries restructured payment of the debt, new conditioned to place credits and loans and limit imports helped to balance the economy.

The problem with the situation in ***Europe*** to say by Wyploz is that the Maastricht model decentralized fiscal discipline to shift responsibility to each of the 22 countries, and pair the euro zone makes high centralized fiscal discipline as a norm of balanced budget that sets a limit to this indicator as in Germany

[314] Debt sovereign is the situation in which banks cannot afford at the date of the commitment the interests and the payment to third-party debt capital.

which is 0.75 GDP, because the "debt restructuring is a matter that concerns all" (2011, pp.100-101).

In ***United States*** the first thing that was done was to order the housing market and stop the speculation in the market "subprime" housing and ruinous investments carried out by the "assets managers" that collapsed the market portfolio. The banking industry became more efficient, supported the industrial reconversion, and to shift the country from the "fiscal cliff" proposed reducing the public deficit and the problem of debt according to Altman (2013, p. 9).

As the boom of housing between 2000 and 2004, is built around 1.4 million, this amount was reduced to only 500 units per year after 2008, and the amount of household savings resources destined to housing was reduced from 4% to 2.5% from previous year. The cost of this situation stemmed from the inability to pay the mortgages of millions of users of credit. The financial restructuring in this sector meant:

- Improve the structure of the discount (Underwriting) of mortgages.
- Make transparent the market of the securitization of assets.
- Clean up the mortgage market and refinancing of housing price by adjusting them to the new equity (healthier home-equity financing)

Altman observes some recovery in the housing sector in the United States, which attributes to the window of the mortgage, has been reopened, and situation to remodeling of housing programs can generate up to four million jobs in the next few years. Appreciates how in other productive sectors such as the hydrocarbon, the new exploitation techniques such as seismic fracturing and horizontal exploitation of petroleum bitumen, allow exploring new deposits. Gas production increased 25% and those of oil, liquid hydrocarbons and bioenergetics, have grown seven percent, leading to that production has risen in the United States to 10.9 million barrels per day. Its effect will be nearly three million jobs in this phase of recovery. In the United States and Europe where the banking sector was the most affected by the crisis, experiencing a recovery once this restructuring in 2008, so the big banks increased their capital relationship liabilities in accordance with the regulatory framework of Basel III. The medium have been shed from the active overwhelmed such as toxic assets-backed.

They have recovered their function which consists in lending money to depositors and consumers reaching the $1.45 trillion. The manufacturing sector

has become more efficient by raising its rate of innovation by reducing the production costs by more than 11 percent. In three years had been more than half a million places of employment in the manufacturing sector. In the automotive industry the salaries of the three large producers is similar to the big foreign factories (Altman, 2013, page 10).

The referred author Roger C. Altman is less optimistic with the ***recovery in Europe***. First, because the effect of the 2008's sovereign crisis and Bank's runs of 2011 was very deep. The measures imposed to Europe are more difficult to meet, since the Eurozone is comprised of 27 countries several of them linked to the Euro. The more complicated and problematic decisions are to adopt a fiscal instrument unified, followed by the banking reform. The theme of recover the competitive exports is a generally accepted appearance to achieve the recovery of the Eurozone. Historically Sweden marked the guideline of the crisis of the "welfare State" in 1992, when public doubt accounted for 80% of the product, and had to raise taxes to pay debt, deregulate electricity rates and telecommunications, and lower the costs of pensions and unemployment insurance. In addition the central fiscal authority must approve and control the budgets and the level of each country's debt and will have the power to reject the market project. Secondly, has welcomed the idea of Bank Central European-ECB, supervises the largest banks in the region, a modern, transparent and independent manner. There are obvious efforts at Spanish banks to participate in the asset relief program with problems-TARP, the European Union's Rescue Fund, and the European mechanism of stabilization-ESM. Third countries of the European Union are committed to improve the productivity of their companies. It is said that the countries of the South must make substantial improvements in this purpose. With the help of devaluations they have been able to improve competitiveness and also by lowering wage costs when the impossibility of devaluing their currencies. The policy of forced labor removals and retirements joins with the efforts in technological innovation, which put for example Ireland back into a position of an efficient country in Europe. Fourth, countries such as Italy, Portugal and Spain have regained competitiveness compared to the more developed in Europe, balancing the current account deficit. Of the 17 countries of the Eurozone, the collective deficit fell 6.2% of the product in the 20110 to 4.1% in 2011 (Altman, 2013, pp. 12-13).

It happened that at the outbreak of the crisis, once more revealed the effect of the absence of corrective institutions, and evidenced the need for integration to monetary union, economic union. The problem with economic and monetary union is supposed that a decision would follow the other, i.e. that the Euro and the Central Bank mean monetary union and that the union might occur by magic. The problem with this view is that it was associated with a *"fiscal union"* where the organization would be followed and accompanied by a structural policy and a coordination agency. However, the crisis highlighted the lack of tools for the design of public policies and the dilemmas that aroused is that the financial rescue is just one of the possible strategies to follow. It said Bergsten that Germany and the ECB-European Central Bank con not with its efforts prevent and cope with the disaster from the Eurozone. The two entities cannot cover a "Supreme moral hazard" by arranging an unlimited bailout plan (Bergsten, 2013, p.116).

The macroeconomic policy pursued in the Eurozone lacked independent instruments to guide to specialized institutions to strengthen the real economy and return the course of sustained growth. The recognized problem of lack of stability of the markets was that sooner or later they would have to find actors that contribute to the value of the Euro, and they had enough support to cover financial costs attributed to the deficit incurred in each country where the Euro was the currency in course.

Conjuring up the Spain and Greece Crisis.

Averting a financial crisis in light of the mandates of the International Monetary Fund requires some compromises similar to the Washington Consensus which cost Latin America a decade of development. It holds a broad stream of literature, such as:

- Devaluing the currency to preserve the Purchasing Power Parity-PPP.
- Reduce the deficit below 10% a year.
- Reduce the Public debt/GDP ratio accumulated below 100%.
- Reduce the Consolidated deficit/GDP below 60%.
- Free interest rates to achieve positive real levels.
- Limit external indebtedness.
- Adjust the balance of payments and trade.

- Correct the level of taxes to international standards, to prevent tax evasion and increase the progressivity of the rates.

The orthodoxy on free markets management proposed to put online the exchange rate against the value of the national currency, and the most conservative search increased exports by exporting cheaper products and lower labor costs. Other visions that conform more to the prospect of a profound crisis suggested a cut in wages and pensions and an increase in tax rates. In the midst of this discussion the critical cases in Spain and Greece were discussed in other more austere form to solve the problem of sovereign debt and speculative situations that led to the registration of "Moral Hazard" situations to speculative conditions that Europe and other markets became a financial casino.

Spain that adjusted the level of risk of their Government bonds to the schema of the mortgage market German denominated as a low "country risk" with cost active zero resulted in access to very cheap credit to a broad national and international audience. Second home owners, credit of consumption and investment in land-was the change in the land market for producing olives, shrimp and wine menu. This market segment hided the reality observed by Europe's of industrialized North and rich in "favor" of happy and unproductive South and with "high and in-adverted risk." This financial world was a version of magical realism, while facts demonstrated that the crisis of 2010 Greece's characterized and made evident a high public debt, including the financial effect of sweeping contagion affecting Spain and put in danger to financial stability of Italy and France, affected with another type of structural debt. Medicine always applied by the International Monetary Fund, was to impose a monetary policy of restricted credit, that pair Spain since the year 2011 and the international organism put into effect a decree of the European Central Bank, whose effect was the condition to reduce the public deficit, measure not exempt of a high social cost translate in a high level of unemployment. The loans granted by the ECB to Spain were characterized by reducing the interest rate, to mitigate a high cost for the most heavily indebted banks. Speculation had led to an avalanche of speculative

investments concentrated in non-tradable goods as they were the luxury, office buildings and apartments to the unsellable[315].

Spain as other indebted countries that fall into the danger zone of insolvency or "deafult" as it happened to the Argentina's "Corralito," was affected by this dangerous situation in a reason that evades the countries the national credit system lenders, and degenerates into an extension of the "spread" of commissions and fees of banking interest that is charged to the country. The high spread of government bonds from Spain in comparison with countries such as Germany, to say comes from the fact that the climate of recession revolves around the impending need to recapitalize local banks, initiative that lags compared the attitude followed in other countries with less hassle according to Comin (2012, p. 386).

The shadow of the crisis in the Eurozone has not disappeared in countries like Spain where it is possible to get more resources to finance the fiscal abyss. However, the main problem lies in that this initiative is charged to the hollow of the debt, which puts the fiscal deficit at a higher point, and if the Domestic Debt/GDP ratio is increased even more, hardly will the economy survive the high level of unemployment. So that unless they are able to raise significantly the level of competitiveness and return to the path of growth, the Spanish economy may not appreciate any recovery from the crisis as it has in fact happened with processes of Greece, Portugal and Ireland, where the austerity policy, hardly has achieved a clear response to the deep crisis. Prevailing the danger of having to go to the rescue or "bailout" by the European Commission, the European Central Bank and the International Monetary Fund,suggest more and severe austerity measure that at the end of the day will intensify the effect of recessions and may lead countries to get caught by the debt trap (Comin, 2012, p.387).

Authors such as Garcia and Garicano (2011) proposed for the recovery of Spain to achieve sustained growth based on productivity, competitiveness, ability to compete with external demand cycle. They propose to support the engine of tourism and exportable goods to promote product differentiation, technological innovation and competitiveness based on the reduction of costs. The labor market

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[315] Comin, Francisco. 2012 "Default, Rescheduling and Inflation: Public Debt Crisis in Spain during the 19th and 20th Centuries." *Revista de Historia Económica. Journal of Iberian and Latin American Economic History.* December. Vol 30, no. 3, pp 353-390.

must insist on training human capital with international orientation, and support investment in activities that promote more added value[316].

Greece during its fourth review of the debt by the Executive Committee of the IMF, showed that since adopted the credit support out of the window of the Stand-By that was equivalent to €17.4 billion out-of-pocket money for three years, an a first disbursement located in the equivalent to €3.2 billion. The total value of the package of aid for countries affected by the crisis in the Eurozone is €110 billion out-of-pocket money for three years and marked a contribution of the members of the Eurozone, with an equivalent to 2,400 times the share provided to the IMF by Greece only. With this magnitude of borrowing programmed and conditioned, the Greek severe adjustment program includes a component to increases in productivity, contributing to raising the rate of economic growth. In terms of the deficit, the IMF set a proposal so that it would be below 3% of gross domestic product by 2014. The structural measures that included the reduction in tax evasion, closing inefficient companies and to advance the policy of privatization of public enterprises intended to reduce structural unemployment in that country. The sale of State-owned enterprises can be overcome by 2015 to €50 million Euros, for which it was established an independent agency for privatization of State-owned enterprises.

From the financial point of view, the most pressing need is maintain the liquidity provided by the ECB to the credit system, and support the advance of an independent agency that coordinates the process of privatization of State enterprises. A fundamental problem that emerges from this bailout of the Greek economy affected project is the lack of a judicial system that effectively penalizes tax evasion[317].

In the referral letter from Mrs. Lagarde said that:

"Greece's debt sustainability hinges critically on timely and vigorous implementation of the adjustment program, with no margin for slippage, and continued support from European partners and private sector involvement."

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[316] García, Enrique y Luis Garicano. "An agenda for growth in Spain." *Foreign policy.* Vol. XXV . March/April 2011. No. 11. Pp. 122-134.

[317] IMF Executive Board Completes Fourth Review Under Stand-By Arrangement for Greece and Approves €3.2 Billion Disbursement. *Press Release No. 11/273 .* July 8, 2011

The author Vivien A. Schmidt in the document entitled *"The European Union's Eurozone Crisis and what (not) to Do about It,"* analyzes the scope of measures taken in May 2010 to avert the crisis of the Euro, as it was the loan of €110 billion Euros, to avoid that the contagion from the sovereign debt of Greece spread around. It corresponded to European Central Bank-ECB proceed to buy government debt bonds, and to help thereby stabilize markets, after approval of the huge rescue Fund by €750 billion. Eurostat, for his part, reviewed the budgets of the countries to diagnose the nature of the deficit and explain why reason were inflated these financial instruments, and thus proceed to plan reducing the deficit and meet the public debt. This author puts to the test the political cost of integration, at a time of high restriction on spending with high unemployment, and out to suggest alternatives to deepen integration, linking new countries. The problem with the issue of debt is that it is difficult to treat it universally under this indicator dispersion regardless of lot size or regional location. For example, Greece had a level of deficit and debt of 115.1% 13.6% on the product in 2009, and Italy had a debt of 118% product in 2010. To recuperate the economy thus some fundamentals must be achieved first despite the high social cost attributed to achieving these structural goals.[318]

11.6 Conclusion.

In order to analyze the phenomenon of the global financial crisis, we present some notable facts that are part of known theories of international relations and economic theory, including some aspects of the thesis of the interdependence and cooperation among States, situation based on trust among political partners. And in the financial risk management, by the unexpected appearance of the economic case that uses the analytical concept of value at risk (VaR) of portfolios of financial assets, to measure of the risk of loss on a specific portfolio of financial assets when market prices are unavailable, swing in opposite directions or are affected by the loss-bearing institution that breaks up or does not capture the effect of the longer-term consequences of disasters, such as lawsuits, loss of market confidence. [319]

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[318] Schmidt, Vivien a. 2010. "The European Union´s Eurozone Crisis and (not) wht to Do about It."*Brown Journal of World Affairs*. Fall / Winter. Vol XVII, Issue 1. Pp, 199-220.

[319] Portfolio Value at Risk:

1. For these technical reasons, the problem of the Dollar and the Euro in the world financial market seems that ceased to act as **monetary** determinant and becoming instead a **financial and fiscal** issue as attested by various numbers of several academic reviews.

2. Manifested such a change pursuant to that order **money** which is limited to dollars or Euros in local market, became in time without sufficient backing in gold or other international reserve currency, and without a tax base similar to the issuance of money. Facing the obvious fiscal poverty to support such operations, the global crisis depended less on the fluctuations of the rate of interest and mores on the passage of time since these means were factor of international exchange and store of value whose determinants were not responding to political facts but to structural determinants.

This situation of monetary **uncertainty,** overwhelmed the correlation of forces of the might of the world of the dominant nation, affected by the excessive level of international liquidity, unleashing a loss in the value of the dollar, and taking this to countries that recorded a heavy accumulation of currency reserves, as is the case with China, that cannot get rid of their reserves, and becoming more prudent in terms of lending, particularly to high-risk countries, avoiding situations of "Moral Hazard" is not a sufficient conditions to stop loos of value of its international reserves.

a. By problems of **credit generosity** and **commitment overseas**, pledged in an irresponsible manner the level of debt of the United States and several European countries generated overinvestment in risky activities.

b. Portfolios represented by assets exposed to high risk and insufficient liquidity generated disorder first in the **money market**, affecting the flow of credit flows, and secondly increasing instability in the creditors market as porfolios failed to capture risk exposure.

c. And in the **capital market,** portfolio composition increased uncertainty, displacing the curve of efficient portfolios, where the component of the non-

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Definition. VaR= $\sqrt{VarR^2}_1 + VarR^2_2 + 2\sigma_{12}VarR_1VarR_2$

where VarR1 = Value at Risk of asset 1.

Var R2 = Value at Risk of asset 2.

σ_{12} = Correlation index between Price movements of Assets 1 and 2.

diversifiable risk and the return on assets, fell in a high risk area. This made diversifiable risk more difficult to obtain by portfolios composed of different denomination negative correlated.

3.In the **global financial** system organized and administered unreliable banks and agents investors, increased in the financial market the levels of risk entering returns into a critical zone where **non-diversifiable risk** increased market stability. The cost of excessive spending, followed by the United States in the past decade, and after institutionalizing inconvenient practices of over lending to unreliable spenders in the Euro area, weakened the monetary exchange mechanism.

The Maastricht Agreement made of the Euro the means of exchange in 17 changing the intervention of the monetary intervention of the economy for a wider consumer money market.

a. As banks and other world investor's, experienced dangerous situations of **risk or market failure** the risk-return relationship endangered investment profitability.

This situation of uncertainty and credit overexposure affected national economies, whose dynamism depended on central banks capacity to create credit facilities. This situation led by the United States and the Euro area, precipitated the **collapse** of some risky national banks, producing a downward spiral that affected people's savings and current account deposits.

b. The market volatility affected first banks more exposed to **insolvency**, especially smaller banking organizations considered profitable as happened to Lehman Brothers Bank.

4. **Non-diversifiable risk** a factor that worried financiers all over the world, affected the level of confidence of investors in financial capital, position that if it had been managed with financial prudence, had remained afloat even the world capital market downswing. In the speculative financial market, brokers dealt with risky assets ruinous practice that undermined trust in the system. The level of non-stochastic risk could not be cover with banks' wealth and good will. Fraud and deceit attributed to fraudulent engineering of portfolios, introduced taking excessive **toxic** assets like weakened mortgage market in the "subprime" lead institutions to bankruptcy. This situation precipitated a financial crisis to global levels, as happened during the 1934's world Financial Crisis.

5. The **illiquidity and insolvency situation** reported by the financial sector and banking**,** increased the level of exposure that could withstand the large private banks in Europe. The institutional environment as stated by prudential practices inhibited the European Central Bank-ECB and in United States the Federal Reserve Bank to attend overwhelming uncovered credits to trigger a global crisis of unexpected proportions.

a. This global financial crisis, brought the world to the edge of experiencing a situation of **insolvency,** characterized as a zone of danger, considering that cared for the same prize Nobel economics Paul Krugman, who suggested in an interview on BBC - Hard Talk program- that this trust failure made self-evident the bankruptcy crisis of Lehman Brothers and other banks in the United States and Europe affected the credibility of the global payments system and the limited capacity of the capital market to raise the adequate "Equity" of every indebted entity.

6.European Union and Maastricht signatory's did not have the option of using the institution of the **"monetary seignorage"** as a means to taking on its hand Bank's sovereignty right to issue money and launch interest-free loan to finance government's deficit. The European Central Bank did not have the constitutional faculty to issue fiat primary money, ability required to extend contingency loans to insolvent private banks. Maastricht faculties to the European Central Bank (ECB) has a structural constrain to attend indefinitely tax deficit and save liquidity crisis in Ireland, Portugal, Greece and Iceland.

a. In countries like Greece and Spain, promoted through consumption, growth model is not pitied with possibilities of unlimited growth through issuance of **demand for credit**.

b. The balance of the system depended on a change in the fiscal institutions of the Union and the Eurozone. So much that the monetary equation, financial and exchange rate depended on the possibility of increase **tax ladders,** theme proposed by Minsky, to stimulate growth through demand expansion.

7. Political note of all this disruption of the global system demanded as a condition of financial soundness and **Euro** stability a climate of confidence subject Mundell foreshadow in his work "Optimun Currency Areas"[320] when suggested

[320] See the works of: Robert A. Mundell. "A Theory of Optimum Currency Areas." *International Economics, Robert A. Mundell, New York: Macmillan, 1968, pp. 177-186.*

that join currency areas would require reaching exchange rates, wages and prices that were flexible or adjustable in time (1961, policies, pág.657).

http://www.columbia.edu/~ram15/ie/ie-12.html. Mundell, R. A. 1961. "A Theory of Optimum Currency Areas." *American Economic Review*. Vol 51, No 4, pp. 657–665.y"El Sueño de Mundell." 1961. *The American Economic Review*, Vol. 51, No. 4.pp. 509-517.

PART XII.

CONCLUDING REMARKS ABOUT THE HISTORICAL ROOTS OF GLOBALIZATION.[321]

In this review final chapter we do not intend to analyze the wider literature written about the concept of globalization. Rather we concentrate on commonly accepted literature views written on the topic by some reputed authors since the "Fall of the Berlin Wall" in 1989 through the year 2000. We divide the literature review on six topics. One related on the propositions made by authors like Fukuyama and Huntington and their personal view about globalization and the emerging liberal and democratic order. Second, a review on the dialogue held about Economic History and Globalization conceived as a historic and geopolitical discussing element. Third, we explore the process Globalization along three great Economic Cycles occurred during the last hundred years. The fourth point intends contrasting views about current notions about Geopolitics and sees how they connect with modern Globalization definition. An important point brings to the fore the discussion between the Global Public Policy and the scope of Microeconomic Policy on the global competitive strategy. The fifth point observes some linking elements between the emerging concept of Globalization, and the world governance policy, multinationals and competitiveness strategies and finally the spread of technology as the new name given to world governance.

The authors Francis **Fukuyama** and Samuel **Huntigton** started their enquire with an academic work that discussed about a particular view of the place in international politics and liberal democracies facing the historical events that followed after the fall of the Soviet Union's communist regime during the

[321] The present chapter surveys some of the early academic contributions made by distinguished authors that are considered as the standard exponents of the 1990-2000 debate about the meaning of the term globalization. Some of these materials are included in by my University Students in the Course 402332-Global Economy Global Governance-at Universidad de Bogotá Jorge Tadeo Lozano. Materials on this paper are part of the research Convocatoria Interna No. 9-2012. Ref. 539-09-2012."La Crisis del Dólar y el Euro y sus Efectos en la Economía Internacional. Universidad Jorge Tadeo Lozano.

1990's.[322] Fukuyama referred in *"The End of History"* that history's object is understood as a unique process where the economy and culture evolved until society transforms into the technological capitalist system, event that would be self-evident after the fall of Berlin Wall (1989, p.12) and where some countries like the Latin American Nations that abandoned the militarist experience searched for a more democratic paradigm.

Fukuyama develops a normative argument concerning the goodness of liberal democracy and explores those arguments discussed by the schools of history and nature to admit a crisis in modernity searching for empirical facts of history to prove its directional pursues and confirm it is the product of free human self-creation as suggested by Leo **Strauss** and George Wilhelm Friederich **Hegel**. Considers what Hegel said about Napoleon who understood the rationality of the world and was the person who was in the possibility to obtain universal recognition. **Huntington** view about the clash of civilization on the other hand shows a political tendency of the world where countries return to democracy by various reasons as shown with important political and economic evidences consigned in his works *"The Third Wave"* and *"The Clash of Civilization."* Huntington, suggest that the end of the Cold War only indicates the end of conflicts within Western civilization and in the broader picture it means the world is in the beginning of a new era of "intercivilizational" agreements where an increasing number of states that choose liberal democracy would come to terms although in the actual third wave of democratization some of these democracies are likely to revert to authoritarianism.

In this research work we attempt an academic overview of some of the inspiring proposals made by scholars on this topic of the formation of a "one world-one single market" system where analysts' foresight views about this emerging historical event. The rising literature on the globalization issue is particularly large, so we restrict our appreciation to some scholarship works written from 1989 to 2000. Following different historical approaches, we start claiming that both authors, Fukuyama and Huntington coincide that the world after 1989 when the Cold War was over East-West ended some political and

[322] Francis Fukuyama. 1989. "The End of History." *The National Interest.* Vol 16. Summer 1989. Pp. 3-18. Francis Fukuyama. 1994. *El Fin de la Historia y el Último Hombre.* Colombia. Editorial Planeta. English version "The End of History and the last man." New York .The Free Press .

economic events that shaped the "peaceful world" we know, at least in what concerns to World Wars. To begin with, the trigger factor that altered international politics was the fact that the Soviet Union and other socialist countries and great powers were considered the dangerous elements that could introduce the world into a new world war system. As dangers of a war diminished, international relations analyst considered the "endism" of war between certain types of Nation-States as a real possibility. Perhaps all agreed, in an absence of armed conflict between democratic regimes after the political and economic world opened to democracy and trade stimulus.

After all, democracy is a means for peaceful resolution of disputes and where liberal market economies and free market exchange is a historical force that brings prosperity to global players engaged in participating in the referred democratic zone of peace. In 1989, 60 out of 167 sovereign states were classified as free and since then the number of democratic states has been growing although some have returned to authoritarianism as happened in some Latin American Countries that adopted a brand of socialism. Some argue that war does not pay and that if trade is practiced among different countries there are motives strongly against war as less conflict of interest among countries and resorting to war to achieve its goals become very dear, as demonstrated by the destructing events attributed to the World War II. Although these wishful predictions here presented on those days still remain the risk factor of some intrastate violence that prevails with its never ending widespread number of causalities.

The *End of History* as a provocative phrase suggests that Fukuyamas's argument conveys a triumph on liberal-democratic principles as it is an alleged change in political consciousness, although conflict between states is still possible as suggested by Middle East political turmoil facts, and by the amalgamation of larger and smaller political units that shares some war possibility. As China advances in the road of competitiveness dependency links itself with developing countries interests as with other those nations offering cheap supply of raw materials. Fukuyama reminds us about this interests derived by the conflicting situation presented when industrialized countries attempted to expand its influence to retain on raw materials source this mechanics of growth and competitiveness. Consciousness, ideas and ideology are words that shape actions of nations as well as men, movement that in Fukuyama's work *The End of History*

and the Last Man, goes as far as to substantiate the fact that after the end of the Cold War the centralized state economic decisions process tend to be driven by these mankind motivators. Self-steam, popular sovereignty and the rule of law are those social variables that generally associate with the advance of a governed historical process.

The author published some *"Reflections on the End of History, Five Years Later*," in the academic journal *History and Theory* arguing that his investigation of various events is contemporary and empirically sound to evaluate liberal democracy developments. The relation of the empirical and normative evidence coincides with the description made of current events. The author however sees that the term democracy might be still an illusion. After the Berlin Wall fall in 1989 which marked the end of the Cold War and the end of a virulent nationalism still some nations attempted a return to power by some extremist's or terrorist groups that intended to dissolve the emerging democracies destroying the liberal world peace[323]. This emerging event responded to the fundamental changes occurred in some leading countries as we saw recently by the irritating annexation attempt of Crimea and of East Ukraine by Russia. This reminds humanity how the Soviet Union united its geography with the help of the secret police activity, achieving its ends through the exercise of crude force to attain in other historical moments its political aims (1989, p.18).

During the XXIst century's socialism experiment in Venezuela, Ecuador, Brazil and some other Latin American countries, regional governments' showed a political interest to attempt a socialist change when "other side of the ideological spectrum rejoiced in the hope that the opportunity to enact their long-delayed projects has finally arrived and representatives of parties with Marxists origins took power in country after country, attempting to accomplish an economic, social and political end at once" as suggested by **Weyland** et. all, in a new book entitled *"Leftist Governments in Latin America. Successes and Shortcomings"*[324].

The late Fred **Halliday** considered that the great winner with this paradigm after the events of 9/11 was the nation that adopted the open world democratic

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[323] Francis Fukuyama. "Reflections on the End of History, Five Years Later." *History and Theory.* Vol 34. No 2. May, 1995. Pp.27-43.

[324] Kurt Weyland, Raúl L Madrid and Wendy Hunter. 2010. *Leftist Governments in Latin America. Successes and Shortcomings.* Cambridge. Cambridge University Press, p.2.

systems. These theories seemed written in philosophical terms based from history idealist speculation rather that with empirical demonstrability to suggest that some historical irreversible trends followed by technological capitalism[325].

Huntington in *"The Clash of Civilization"* shows some animosity still prevailing in what he defines as civilizations after observing that "…the interactions between civilizations vary greatly in the extent to which they are likely to be characterized by violence…." Also considers that "…economic competition clearly predominates between the American and European subcivilizations of the West and between both of them and Japan…."[326] The critique this author makes about cultural hegemony of modernity coincides with the meaning we adapted to the terms "Nation-State" and "national identities," and how the United States the hegemonic nation in its preeminence goal to rule the world is aimed to preserving at least his cultural heritage. His questioned views about civilizational identities made the differences in religious traditions and ethnic and racial divides that make the sources of conflict in the forthcoming years. Conflicts will occur along the fault lines between civilizations, and these more visible and less effectively managed as observed by the resurgence of Islam post 9/11.[327]

Both liberal and communist states were for Hegel and Marx a significant expression of underlying institutions that evolved towards an end. Market liberal economy showed that under certain conditions, material prosperity reaches highs never experienced before despite positive and negative externalities like welfare policies or climate change due to atmospheric CO_2 emissions. China adoption of market incentives to expand its world economy presence during the last two decades of the 20th century shows the possibilities to improve people's expanding local wellbeing and acquiring geopolitical preeminence with the three Chinas "united." Applied sciences introduced spectacular advances both in military science and in consumption possibility. In capitalist societies despite inequality in the distribution of income still rounds some rich countries as well as social

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[325] Samuel P. Huntington. 1997. *El Choque de Civilizaciones y la Reconfiguración del Orden Mundial*. Barcelona. Editorial Paidos. Samuel P. Huntington. 1994. *La Tercera Ola. La Democratización a Finales del Siglo XX*. Barcelona. Editorial Paidos.

[326] Samuel P. Huntington. 1993. "The Clash of Civilizations." *Foreign Affairs.* No 3. Summer. p. 22.

[327] Barrie Axford. 2013. *Theories of globalization.* Cambridge. Polity. P103.

instability as suggested recently by celebrated author's works like **Piketty** and **Stiglitz**[328].

12.1. From Global Economic History to Globalization.

The author James **Foreman-Peck** in his work *Historia Económica Mundial* shows how Western Europe dominated trade in head of Great Britain, the country with the largest national income per capita and perhaps the first modern globalizing economy. The remarkable European economic superiority is due to economic trade conditions that prevailed for the last two centuries and the local political preconditions given by the enclosures and the workshops in England converted into modern industries and the recognized political theory assumption where the national faculty to exercise the monopoly of violence received recognition by governor class. Its political and judicial system was able to impose decisions to ensure that rights were respected and prepared to resolve conflicts[329].

Along the colonial empire controlling the Indian subcontinent as an exercise of world political power had long standing from the 18th century, when the old Mughal Empire was dissolved and the company of the British East Indies took advantage of the subcontinent fragmented political situation of exercising mastery of Indian divided provinces. This geopolitical experience was costly as to maintain a representative public administration, as numerous riots and popular resistance arose in British advantage to control larger territories overseas. In the case of the Imperial China, a nation that was not prepared to grant extraterritorial rights to resident European traders and attempts to impose British law came to precipitate a war in which the dominance of European troops was highlighted because of its superiority in technology and political acumen. In the case of imperialism exercised over the Kingdom of Thailand, was easy to attract to the system made by the enlarged world economy since its Monarch (Siam) had a preference for British and Western economic achievements. This gesture

[328] Thomas Piketty. 2014. *Capital In The Twenty-First Century*. London. The Belknap Press of Harvard University Press. Joseph E. Stiglitz, 2013. *The Price of Inequality*. London . Penguin Books.

[329] Foreman-Peck, James. 1995. *Historia Económica Mundial.* Madrid. Tercera Edición. Prentice Hall.

granted the ease economic to eliminate export duties and reduces tariffs on imports.

Rapid colonial market expansion experienced by the 19th century trade cycle and economic development was due in large part by technology that was implemented in the maritime and terrestrial transport with steam navigation and railroads. This was presented by the need to free markets to emerging economies; the first big step was to improve the railway and navigation technology. Carry luxury goods was never important to large economies since it was very expensive to transport them and thus this rising cost of a large world market, excepted for dear gold and spices. With the expansion of the maritime and railway network, it changed this cost situation, not only by reducing the charges of transport in general, but it became possible to carry these goods by varied and different routes shortening distances, time and costs, confirming von Thünen's theorem about integrating concentric regional circles around metropolitan areas to development. Other improvements such as the opening of Suez Canal helped to further reduce the gap between Europe and the East, thereby significantly lowering the costs of transportation in these routes. The railway network is a land mark indicator of the degree in which international markets invaded economies or brought closer together to the centers the far away countries or peripheral regions as demonstrated by Fogel in his work entitled *Los Ferrocarriles y el Crecimiento Económico de Estados Unidos*[330]. According to the liberal ethic, countries that allowed the trade would benefit both as propellants of economic relations maximizing income revenues and increasing welfare gains as people were let to buy and sell freely and satisfy its consumed "utilities."

Foreman-Peck suggests that competition prevented the use of the bargaining power to raise market prices above competitive levels. He considered that the structure of prices at competitive levels and the improvement in the purchasing power allowed greater access to the ownership of resources. However, the distribution of income indicators was uneven, and to the mercantilists, trade was essential for the growth and economic development emphasizing that generated employment and exports were therefore needed but acquiring more gold was

[330] Robert William Fogel. 1972. *Los Ferrocarriles y el Crecimiento Económico de Estados Unidos*. Madrid. Editorial Tecnos.

essential to support growth in the long run. This Exchange was supposed to be generating increasing returns to the State through higher taxes on imports, while the tax base allowed achieving a growing internal economic power, improving the ability of the Government to become an investor in public utilities and satisfy its geopolitical strength through its Royal Navy world presence. From the social structure point of view early globalization linked the slave trade to business although was not the most humane source of cheap and massive employment for the extractive industries in the colonies and in the world periphery. For African economies, meant a high price the continuous emigration of labor force, and for Brazil a benefit the creation of an African enclave in the South American continent.

Arguments to justify trade enlargement are supported by Adam Smith's size of the market concept or as demand creator proposal made by Ricardo's thesis about the comparative advantage as an explanation of exchanging more goods. According to the Rybczynski theorem, if the conditions of the theory of Hecksher-Ohlin, the growth of the labor force of a country through immigration, in the absence of other changes in the allocations of the economy, raised the production and export of goods work in out of a proportion that encourages the increase in labor-intensive factor.

The world expanded from free trade to globalization as the same economic system was governed by trade and investment rules that respected rational allocation of resources. The author **Alan Taylor** (2002) in his work "*Globalization Trade and Development"* invites the reader to compare *economic* and *political* forces that compete against traditional political forces and its institutions to produce sustainability to the world market system.[331]

He thus defines in his model that *vertical flesh* axis represents some of the *economic and technological forces* that are considered as the element that gives support to economic actors to display modern communication system and to obtain swift information at an inexpensive cost. Via new technologies like the telegraph, the phone, and internet this information is obtained at a cheap cost. The *political forces* that he calls the *horizontal spirit* axis of globalization are part of

[331] Alan M. Taylor. 2002. *"Globalization, Trade and Development: Some Lessons From History."* NBER. Working Paper Series. Working Paper 9362. http://www.nbr.org/paperes/w 9326 .

the dominium of anarchical competing States where trade policies, capital movements and labor migration characterized the new globalization trends. Execution of contracts, fiscal policy and monetary easiness imposes freedom after modern political "constitutions" evolved to satisfy needs.

In a *vertical flesh axis* of the Cartesian plane, the author considers that the *flesh* of *economic and technological* forces are those that orient and promote globalization through regulatory mandates and foreign trade regimes, corresponding to those new economic forces the benefit of lower transport cost and more valued added to goods produced and access to better information channels. Financial and business information processed at high speed and characterized by lower cost allowed *"global"* market interaction.

The time and space where a 19th century's global event occurred needed 100 or 150 years to evolve. Here the global "economic laboratory" provided the historical data to interpret cross-country comparisons of exchanged currents of people, goods and transactions, wherein this historical setting time and space dramatically contracts. This modern author raises three important empirical elements to understand what we mean by globalization in the emerging 21st century context. First, he suggests that a golden age of commonly accepted globalization existed between the years 1870-1914, where a second cycle of market protection via tariffs and other restriction goes until the finalization of the World War II, and thirdly a phase of unlimited expansion that goes until the fall of the Berlin Wall and beyond.

During the 19th century 1870-1914, the event of globalization was helped *first*, by a favorable economic environment to extractive activities and raw material market exchange accompanied by the rise of the gold standard, mechanism conceived as a means of payment and provider of exchange stability, and *second*, the transportation revolution which lowered long-distance shipping costs. The change in shipping technology the construction of major canals, the changes in tariff policy particularly after 1914 increased world trade volumes.

Finally, the impact of World Wars encouraged the consumer's economy growing and transforming into the driver of growth as suggested by von Misses. The long run impact of English Pound and the dollar extended foreign investment practices around many countries. Several questions must be answer to appreciate globalization foresight according to Taylor's views:

- First measuring the extent of the two historical globalization processes.
- Identifying events that explain the rise and fall of globalization in different periods and in different world areas.
- Determining for whom the costs and benefits of globalization goes.

After the 1940's Breton Woods Accords the world rose the question of defining what Taylor considers are the initiating conditions to spread a "Global capital market" as impressive as the emerging degree of "Economic Integration" that followed when "the ratio of the stock of foreign investment in the world to global GDP increased" and with the "time series technique observes that in the world economy the ratio of stock of capital to global GDP rose dramatically." From 1870 to 1914, this passed from 7 percent to 18 percent of total figures. He also observed that from 1914 to 1950 it fell to just 15 percent and it rose slowly but until the 1980's when it then surged quickly and in the last two decades of the 20th century passed from 25 percent to 92 percent (Taylor, 2006, p.2). The "global financial crisis" after the 2008 dollar collapse, means a new shock to interpret the impact of this event, as the U.S. Treasury had to proceed to back banking credit facilities for nearly US$ 11.9 trillion.

Economists consider that the exchange rate, capital mobility and monetary policy are determinants that can be controlled but in historic terms we observe that in the classical gold standard (1870-1914) monetary policy was subordinated to the goals of capital mobility. In the interwar period, governments felt the need to use autonomous monetary policy and brought the collapse of the gold standard or allowed capital mobility. The economic chaos and instability of the interwar period was intolerable to those planning the contours of the postwar global economy at Bretton Woods, and fixed exchange rates were still viewed as a sine-qua-non for a stable world economy. The new arrangements that sacrificed capital mobility to keep currencies on "adjustable" pegs to the dollar preserved the monetary policy autonomy for some time but in the 1960's, the adjustability of pegs invited speculative attacks, and rising inflation from the U.S. importing anchor currency.

From 1971 onwards, the major economies have floated, adapting to capital mobility, preserving policy autonomy to limit transferring inflation symptoms. In other words the Taylor's globalization model considers that in the *horizontal spirit*

axis lays the real *spirit of globalization* where, *political forces and institutions* reinforce or inhibit globalization. These are trade policies, as well as control of capital, immigration and those forces that restrict the market of goods and factors. It also includes items like the provision of public goods, property protection, contractual obligations and legal matters. The monetary and fiscal policy encourages controlling activities to curtail or eliminate bribery and corruption. In the *spirit horizontal axis*, the *political institutions* reinforce or inhibit globalization if right trade policies, control of capital, immigration and allocations of market of goods and factors respond to an organized system. It includes items like customs which provide public goods, property protection, and contractual obligations. In this axis the behavior of monetary and fiscal policy are predictable, where the elimination of bribery and corruption helps to reorganize markets.

Kenwood and Lougheed in their book entitled *"The Growth of the International Economy"* suggest in a work divided in three parts, that the international economy had a stage of rapid historical growth during 1820-1913, a period of crisis between the war and the period of rapid rate of expansion in the international setting that manifest after 1945.[332] The authors established that the exchange of goods and services were the means through which world independent units came in relation to a rapid development, arguing that the international economy promoted trade making part of the national or international community that experienced a major growth share of the economy in several ways:

- By providing opportunities for international specialization.
- Acting as a mechanism to disseminate trade-based advances in technology.
- Suggesting that part of the endowment of factors, allowed countries to grow faster thanks to technical progress that was attributed to technology, change that propelled increase in productivity and with the demand for goods and services spread welfare gains.

It is argued that the international economy promotes the growth of the economy in several ways thanks to the rapid change in the structure of the

[332]Kenwood, a. G, and A.L. Lougheed. 1998. *The Growth of the International Economy.1820-1990* Third edition. Routledge. London.

transport costs, and by the emergence of new products and production processes closing the gap between national specializations in the production along the line of the comparative and competitive advantage. This historical event was present during the last two centuries where agents like the so-called investment banks most of them located in the City of London improved the quality of the investment current in particular in Europe or Latin America. The capital outflow is linked to the higher levels of savings represented by individual households that in the end financed Governments that required loanable funds. These investment institutions helped to mediate or arbitrate resources. The process of labor migration had strong impact on growth, after millions of Europeans sought destinations in various continents, especially in North America and South America. The unification of States increased the exchange of specialized goods represented by raw materials and manufactured goods thus increasing trade balances and exchange flows.

The author Barrie **Axford** wrote a book entitled *"The Global System. Economics, Politics and Culture*" on similar lines with the two previous. Relates the globalization experience after integrating the concept of hegemony with the expansion of the global economic system.[333] In chapters 1 and 2 of this interesting work views the global system as the conductive force that transforms the social structures including modern forms of capitalism where the use of machines increases production in several ways in the newly industrialized countries. Considers that the global system changed since the 16th century when an increasing numbers of Nation-State developed its frontiers and other institutions being its immediate effect the transformation of the current world map where global politics characterizes political situations of confrontation and conflict. Creation of the Nation-State required surpassing the issue voluntary associations of producers, reconciling ethnic and religious groups and according international laws favored integration and trade. Aspects of structuralism or relations with social partners translated in different forms of mediation or modern social cooperative relations (1996, p. 3).

[333] See Barrie Axford. 1996. *The Global System. Economics, Politics and Culture*. Polity Press. Cambridge.

The Chapter 5 of the book refers to the scope of the European unification pointing out what parts and elements were involved in the process creating a new societal identity. Is the case of the formula of that International Monetary Fund and monetary systems like the Maastricht Accord where some countries attempted to create a Monetary Union between those signatory states that achieved conditions for the future convergence of economic indicators. Globalization at the end of the day is not more than a process that serves to compress the world time and distance that separate states. (1996, p. 5).

- Here, the world economy thrives on information and sharing knowledge.
- Industries where parts are made in other countries links integration and global partnership.
- Adopting the criteria of theory z and the "just in time" from the Japan, increased production and the issues and concerns about the ecological defense of invaded parties thought.
- Culture-related systems are composed by individual social-groups, or multi ethnic communities.

What a critic situation becomes in this context is that the behavior of competing states in the absence of rules governing the interaction of States in relation with the international system. This mix of interests collides with the realistic approaches to international policies that identifies and melt anarchy with regional strategies of survival. This vision is at odds with the constructivist approach of international relations in which identities are not given for free if not build by the states system. It is here therefore necessary to integrate the system to the subjects that comprise it forming within them the parts into a new whole. Supranational and world systems approach this subject according liberal and state views.

Axford in the Global systems observes that "…although the State during the 19th century attempted to organize political life by obtaining its legitimacy from the daily aspirations of citizens, during the 21st century states have to invoke alliances or subordinate with scope suprancional regimes emanating proposals, regional or local, or inspired by the feeling of civil society" (1996. pp. 41-43).

The theory of dependence or unequal exchange and power shared between countries that are related via periphery catalog negative effects between the advance of capitalism and other autonomous author like Minks pursue economic

development at a large geographical scale despite referred asymmetries. And from the perspective of global culture as a frame of reference leads to different Constitutions of power and legitimacy, as it is the structure of education, population policy and environment policy that contributes to new forms of globalization.

The values of globalization tend to extend its identity to different areas due in part to the behavior of the local practices where states tend to compete for traditions emanating from the global behavior of the political and economic mechanism. The sum of local authorities proposals make up a new network structured in a wide world whose consequences could be result of universal type institutions as suggested by the author Axford (1996, pp. 127-128). Also suggests this author that "…the advancement of post-modernity leads finally to the triumph of chaos or disorder against conceptions of large-scale, long-term social change and of organizational dynamics. Modernity endorses traditional cultures by virtue of predominance of reflexivity or self-monitoring contrasting with a post-modern notion of the excess of flux, contingency and complexity and…finally brings in the industrial societies that clamor for globalization that is coterminous with the industrial society that spread in scope to be global rather than exclusively national" (Axford, 1996. p.130).

At the other end of the theoretical international relations spectrum lies the work of the author **Immanuel Wallerstein** whose six great ideas about globalization are included in his provocative work *"The Modern World System"* (1974, p. 15) where he develops the notion that Europe constituted a kind of social interactive system that the world has not ever seen before. For some reason that deserves deeper inquire he suggests that in the world system, political life is governed by states and lager cities that adopt common rules, although each piece cannot not govern the whole world-system, mainly because it became larger than any juridical locally defined unit. It is therefore defined a *world-system* because the basic linkage between the parts of the system is in fact economic, although some cultural and political links do prevail. The authors Chase-Dunn and Grimes consider that the world system is an interactive complex where international relations and world market relates to each other, where structures such as individuals, firms, towns, regions being nationals or international as well as

global interact in different patterns and ways. Thomas Shannon explains that the core countries is organized as system of competitive Nation-States (1992, p.85).[334]

To better study this system and explain why it evolved in such a way, it is interesting to consider that the European economy transformed into a whole organization where new initial conditions determined the behavior of a set of harmonious paths, so that political development and sustained economic growth could occur. One important group of interrelated variables that integrated the world into a system can be defined as follows. In the *first* place, a prevailing nucleus of population in some small centers gradually linked or subordinated to emerging economic activity or rules originating in the center of the enlarged world-system. This increased world system made of a larger population nucleus gradually interconnected the constituent parts with an intermingled group of peoples engaged in production of surplus of different goods that required the help of a regular transport and communication network to be distributed on time. Removal of political and economic barriers to long distance trade also helped to reduce risk in the business of transportation, bringing to the process significant reduction in transport and transaction costs. In this way, trade allowed for new changes to follow in the market structure and consumption composition, changing from luxuries to bulk goods in the enlarged trading system.

Minchinton in his world *"The Growth of English Overseas Trade"* suggests that the old European trading system in the centuries referred to benefited from a *second* of Wallerstein element associated with the exploitation of a favorable geographical position of goods in producing areas. One important characteristic that allowed for the appearance of an enlarged system and closing distances was the extended use of improved vessels, so ship construction became a labor creating industry closely associated with trade activities and one important agent in developing the new world structure. An important improvement that allowed more regular navigation practices was the cartographic skills and navigational techniques acquired that allowed for easier market access. As the new trading system organized around a regular pattern, the exploitation of extra-European

[334] See the work of Thomas, R. Shannon. 1992. *An Introduction to the World-System Perspective.* Boulder. Colorado. West View. Chapter 4 . The Contemporary World System, and pp. 117-118 for a wider explanation of world systems.

trade helped to promote individual merchant's activities[335]. Time and space were shortened in this new emerging system of exchange. Therefore new economic conceptions like the improvement of efficiency, a notion commonly associated with cost reduction, helped to finance the enlargement of the world system. The more capital accumulated along this path, made this the *third* Wallerstein element is the base for the development of a new powerful factor that was the banking institution devoted to financing this and other complementary activities.

To this new enlarging process, must be added a *fourth* transforming activity that brought capital and production surplus. It refers to the rapid transformation of agricultural activity, an economic process that increased local consumption and expanding trade currents. With the incorporation of frontier agricultural land into production, additional initial conditions for sustained growth and for further capital accumulation developed, becoming important institutional changes that as a *fifth* point explains how for some centuries to come allowed for sustained growth. Wallerstein sums up as a *final* point the fact that the world-system fused into a contributory productive system forming what we know as a world economy made of several Nation-States (1994, p.12).

This crucial new concept of *the world economy* become what we understand presently a sort of liberalized globalization model where parts in itself interact. From this view point, he regards the world economy as a single interacting mechanism, where variables like commodity prices or the cost of capital, transmit powerful market signals that bring substantial and unpredictable changes into the whole world-system. Orthodox analysts coincide to proclaim that there are endogenous forces in this world system, which when activated, produce long-term cyclical movements, and that instability when excessively prolonged devastates trade and exchange structures. Empirical evidence shows that the duration and intensity of fluctuations became stronger and perhaps virtuous in those countries whose productive activity relied on the specialization of production of valuable tradable goods, and other important considerations that

[335] See the work of W.E. Minchinton. 1969. *The Growth of English Overseas Trade*.Methuen& Co Ltd. London. P . 1.

Wallerstein illustrates in his many years research work on the development of the world system[336].

12.2. Globalization and Economic Cycles.

The late author Angus **Maddison** in his book *The World Economy. A Millennial Perspective*, opens interesting views about the definition of Globalization advancing serious analysis on long term series on population, income and income per-capita variables. In his historical work that comprises several books he develops some features to define the phases of capitalism where several globalization experiences are present in the long trend. Used for the analysis of the economic cycle the following variables: growth rate of product, per-capita income, exports, cyclical changes in the product and exports, unemployment, change in consumer prices, and contributions from the Government on the change in demand, foreign trade payments mechanism and factor mobility allowing with his results seminal definitions of this world phenomena. The intensity of these features varies depending on phase stage, being her most favorable the golden-age. The starting point of the capitalist phase depends on the country and the historical moment[337].

- *Cycle I* of commercial liberalism, from 1870-1913.
- *Cycle II* of begging the neighbor, commodities price decline devaluation and tariffs rise. 1913-1950.
- *Cycle III* or golden phase of growth with full employment from 1950-1973.
- *Cycle IV* of neo liberal stability of prices from 1970 onwards.

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[336] Wallerstein, Immanuel. 1974. *The Modern World-System*. Academic Press. New York. Wallerstein, Immanuel. 1980. *El Moderno Sistema Mundial*.II. Alianza Editorial. México. Other Works are . Wallerstein, Immanuel. 1999. *Globalization or the Age of Transition?A Long Term View of the Trajectory of the World-System*." Fernand Braudel Center. Wallerstein, Immanuel. 1997. "The Time of Space and the Space of Time: The Future of Social Science." *Political Geography*, XVII, 1. Wallerstein, Immanuel. 1997. "Space Time as the Basis of Knowledge." World Congress of Convergence. Cartagena, Colombia, May 31. Wallerstein, Immanuel. 1997. The Rise of East Asia, or The World-System in the Twenty-First Century. Symposium on Perspective of the World-system in the Beginning of the Twenty First Century

[337] Angus Maddison. "Fluctuations in the Momentum of Growth Within the Capitalist Epoch." *Cliometrica*. 2007 Vol 1. P. 145-175.Angus Maddison. 1970.Economic Progress and Policy in Developing Countries. Unwin University Books. Great Britain. London. Angus Maddison. 1995. *Dynamic Forces in Capitalist Development*. Oxford University Press. Oxford.

There are tasks as the 1974-75, 1980-82, 1991-93 where there are recessions and deep crisis like in the 2008 global financial Crisis. Maddison considers that phases help to characterize changes in the pace at which deviations from the development of capitalism occur and annual movements of the variables are the factors that best reveal major changes or severity of a recession when they appear systematically in many economies. Some characteristics of economic fluctuations are those where the Great Depression of the 1930s hit all world countries alike. The Crisis or major interruptions in economic activity occurred between 1914-1919, 1930-1932, 1940-1946. Between 1870 and 1913 added stability to the world for most of the 43 years that followed. The 1947-1973, period was of growth, with only 3 years of recession. Wars, the depression, and the payments crisis were unique systemic shocks that precipitated the fall of the product.

Population, factors of production and technical change are elements that contribute to the growth and determine the formulation of economic policy in many countries as happen between 1950 and 1967 and was suggested in his work "*Economic Progress and Policy in Developing Countries"* (1970). In this work:

1) He considers that poverty is removed only if the product is growing. It differentiates between growth and development. To measure the development is required to define why because the income growth is slow in poor countries, as resources are not mobile, questions why there are few managerial skills or manifested scientific research in the emerging countries.

2) Worries what the change in the level of income between countries over time, and invites to produce studies concerning the causes that determine the acceleration of growth, exploring the relationship between commerce and income and determining the causes of slow investment, such as:

a. low-taxes,
b. low level of education,
c. lack of social reform,
d. low levels of subsidies to the productive industries

3) Brings as an example the case of the Japan before the Meiji dynasty in the 1920's Japan that invested productively about 20% of saved product, transferring the wealth of the savings generated by the activity of the rice industry into industry. Establishes that the colonial governments for example adopted a very conservative fiscal, monetary and exchange rate policies intending to obtain:

a. Balanced, budgets
b. Treasured many reserves,
c. Take advantage of lack of monetary regimes and excessive exchange control.

In **Maddison**'s book *"The World Economy. A Millennial Perspective"* resumes the stage of the world development where his central concern is the distribution of income between countries, suggesting that poverty can only deleted insofar as it increases the product of poor countries[338].

Based on the methodology of time and space analyzes the behavior of three main variables:

a. The growth of gross domestic product.
b. The growth of the population.
c. The growth of the per-capita income.

In the first case based in the series included in the Appendix of his book specialized on macroeconomic aggregates like growth of gross domestic product observes cycles during which changes on the trend of growth determine particular and characterized phases within each cycle. Figures show the behavior of the population growth, where the first series about the product are approximate built based on samples, and those of the population are expressed with complete but collected figures based on the census that only occurs for some years in the century.

With respect to oscillations and gross product phases that characterize the cycle of the 20th century, are in his work figures those that comprehend the years from 1906 to 1930, of 1930 to 1940, the War period from 1940-1945, and longer trends like 1945 to 1958, the 1958 to 1989 period and finally the global cycle from 1989 to the year 2000 and perhaps the 2008's global financial crisis.

The serial numbers reveal significant facts, as they are a few peaks of the product growth that reaches a maximum in the year of 1919 when growth was 7.98%, and 9.12% for the year of 1926, while the other higher figures of the century were 9.18% in 1946, 6.92% in 1959, 7.65% in 1972, and 7.35% in 1990. There were three strong moments of decline in the pace of output growth, as they were those

[338] See the work of Angus Maddison. 2002.*The World Economy. A Millennial Perspective* . Paris. OECD.

who passed from 1925 to 1930 when consecutively falls the rate from 9.12% product to -1.61%; from 1975 to 1981, when it declines of 5.3 percent to 1.61%; and the century minor figure from 1985 to 1997, which was the most abrupt of the 20th century, when dropped 6.9 per cent. In terms of income capita in this last phase the fall is stronger since shrinks 5.24% in 1990, to - 6.1% in 1999.

The second trend shows that in terms of growth of the population over the century, observes that in accordance with the methodology expressed by the author the annual rate becomes 1.928% in 1906, 2.021% in 1938. Until 1951 the population grew at a rate of 2.439% and then expanded to 3.025% in the year of 1964, when in the particular case of Colombia reaches the maximum growth of its population ever. Since then, a decline in the rate of population growth was evident to 1.81% in 2000.

The third case refers to the behavior of income per-capita, showing that during the course of the 20th century, increased on average. Income rate higher growth was 3.4%, in the year 1975, declining to 1.8% at the end of the century. Income per-capita had a strong rise until 1927, a drop in real terms until 1950, then a sharp increase until 1981, and then a steady fall reaching its lowest level of 1.5%% percent per year. During the last phase of the fall of the per-capita income level the nominal income of the per-capita income shrinks from 5.24% in 1990 to -6.1% in 1999.

The World Bank produced and important collective work "*On The Threshold Of The 21st Century"* that follows a previous report of 1991 where puts into account mechanisms-or-drivers for development and the interaction between the State and the Market[339]. The report refers to the persistence of poverty, and suggests investing in human resources create a favorable climate for competition, including innovation, the dissemination of technology and the use of resources. The 2001 Report, elaborates on the globalization and localization concepts, where the concept of development evolved to incorporate social goals such as the reduction of poverty, improve the quality of life, open access to education and health services. In terms of globalization proposes new conditions of trade in goods and services, international capital flows and environmental problems.

[339] The World Bank produced and important collective work in the year 2000, *On The Threshold Of The 21st Century*. Madrid. Mundi Prensa Editions.

Regarding the location highlights aspects of the decentralization of political power, the concentration of the population in the cities and the provision of public services. The globalization and localization mark the topographical map of the new development. Its operation is determined by the macroeconomic stability, considered as a condition for development.

Also the fact that the growth is not spread automatically, nor is there a policy that if one promotes development. This requires a comprehensive approach, in which institutions are important factors for sustainable development. Globalization studies the progressive integration of economies around the world. The search for international partners represents for Governments how to deal with the innovations of international trade. The truth is that the concept of development evolved since the end of the 20th century, as it considers human capital as source that stimulates economic growth. In this Report considers that:

a. Sustainable development aims to increase income per capita, but also to raise the quality of life through health and education services.
b. The World Bank proposes large goals, formulates broad policies and highlights the institutional factors that contribute in development. It aims to complement this process with the joint projects with processes, rules with processes and associated with various levels of Government, the private sector and other economic groups and civil society (p. 3).
c. In the direction of the Noble Laureate Douglas **North**, proposes a solid institutional base with efficient organizations. Institutions understood the sets of rules governing the actions of individuals and organizations as well as the interaction of interested parties and negotiations between the parties involved. To face the globalization and localization are needed new institutional initiatives.

In Chapter 6 of the report of the **World Bank** (2000) it sets new policies to specialize the cities activities through the processes of planned urbanization to exert technological influence on the process of regional economic development (p. 126). In the intermediate developed countries, corresponds to the cities

generate about 73% of net revenue, where sectors which suffer greater dynamism are the manufacturing and the services.

The work of Paul **Krugman** on economic geography, "*Development, Geography and Economic Theory"* (1995, p. 88) and the same author *"The self-organizing Economy"* (1996), complements the arguments of the World Bank on the binomial globalization location, as new enterprises characterize relations between capital, specialized high work, and use of inputs of low weight, high technology and easy supply on longer distances. The new regional division of labor pretends:

- Favor trade between countries and regions that depends on the degree of specialization, which promotes the generation of increasing returns to scale.
- Induce through specialization increasing yields and economies of scale, and hope that the trading profits arise from cost reduction and the increase in the level of production.
- Specialization although originally is the result of an historical accident or "path dependence" as suggested by North (1998, Cap 13), can generate cumulative gains from the exchange rate policy and returns to scale.

The ECLAC Model-2002 on the "stages of economic development" presented by José Antonio **Ocampo** and a team of prestigious researchers take into considerations in the research work *"Globalization and Development"* some of the late Angus **Maddison** view on Globalization.[340] In particular both Maddison and Ocampo distinguish a *first phase* of globalization going from 1870 to 1913, period characterized by a strong mobility of capital and labor, which coincides with the commercial boom, supported by the reduction of transportation cost. This golden historic stage is distinguished by the affluence of trade before the Great War followed by the disruption of exchange of goods and services between the wars and characterized by a financial retraction and foreign direct burst where foreign investment increased until the effects of the great depression were over.

The historic concept of globalization refers to the interdependence of economic and social processes, while for other scholars are attained as a microeconomic phenomenon or even a cultural experiment. A *second phase* of the globalization

[340] Ocampo, José Antonio. 2002. *Globalization and development*. Document LC/G.2157(SES.29/3). Twenty ninth regular sessions. Brasilia. May 6 to 10. ECLAC. Santiago of Chile.

process is characterized by the outburst of the world economy and an increase of economic growth that occurred from 1945 to 1973, and is marked by the great effort demonstrated to develop international trade and launch emerging financial cooperation institutions, whose end was a substantial increase in the exports of manufactures between developed countries or world competitive regions. A *third phase* of globalization is the one that manifests itself in the last quarter of the 20th century, and this new historical expression characterized by a worldwide liberalization of trade, where the growing presence on the world stage of multinational companies suggests an integrated production systems, that help rapid capital mobility and the homogenization of the development models around the world.

The concept of globalization refers to the interdependence of the financial, economic, environmental, political, social and cultural processes of global, regional, national and local purposes, by the following three reasons.

This analytical work separates a *first phase* going from 1870 to 1913 which was distinguished by a high mobility of capital and labor, along with the commercial boom supported the reduction of transportation costs. It differs by the disruption of trade between the wars and financial retraction and foreign direct investment during the great depression. The *second phase* from 1945 to 1973 is marked by the great effort to develop international trade and financial cooperation institutions, and by the remarkable increase in manufactured exports between developed countries, models of economic organization and limited mobility of capital and labor. The *third stage* of globalization distinguishes the last quarter of the 20th century. Its characteristic is the gradual liberalization of trade, the growing presence on the world stage of multinational companies that function as production systems integrated, the expansion of the mobility of capital and homogenization of the development models.

Cycle I. 1870-1945.

With the help of the *first generation of economists* like Keynes and Harrod-Domar models', analysts distinguish a **first phase** of economic expansion ranging from **1870 to 1913** which is a well-known characterization of high mobility of capital and labor along with the commercial boom occurred on those years supported by the reduction of transportation costs. It differs this economic growth phase by the

disruption of trade between the wars and financial retraction of foreign direct investment as occurred during the years of the Great Depression. Modern economic historians such as **Maddison** (1991, 1995 y 2001) **O'Rourke** (2001) and **Williamson** (1999 and 2001) emphasize that globalization has gone through several stages or phases one the golden era described in this title. This period is studied by the theoreticians of economic development searching for the causes of sustained growth. Found a correlation or dependence on the accumulation of capital and output that placed into perspective explains the contribution of fixed capital formation as in the Harrod-Domar model with the increase in the capital-product relationship. Put its attention on the effect of the residual or Total Factor Productivity - TFP in the production function the hypothesis of self-sustained growth tends to be empirically correlated. It shares other economic ideas that support sustained growth as is the influence on the advancement of knowledge and of new institutions on increasing returns, establishing which are the major determinants that contribute to the formation of social capital, recognizing hitherto the importance of the lessons of history for the analysis of long term economic change as observed by Mussa of the World Bank.

A *second generation* of analysts puts into perspective the patterns of the international relations concept of *interdependence*. This generation insists that innovative change and economic policy are agents that determine the action of the Government measures on development. Nicholas **Crafts**, writes his *"Historical Perspectives on Development"* where he inquires about the benefits that economic development reported to the economic history. It distinguishes the contribution of the two old generations of economic historians and development economics. Aside the validity attributed to the regression models that explain the growth trend, it does so thinking that it is better to concentrate on the understanding of the factors that raise the standard of living before that growth. A central aspect in his work is the contribution that considers made economic history and development economics theory concerning the dynamics of technological and institutional changes[341].

The main points included in the chapters of this collective work are:

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[341] Gerald M. Meier, Joseph E. Stiglitz. 2001. *Frontiers of development economics: the future in perspective.* Washington. Oxford University Press. The World Bank, pp. 301-345.

Chapter 1) The concept of globalization refers to the interdependence of the financial, economic, environmental, political, social and cultural processes of global, regional, national and local purposes.

- It is argued that the dynamics of the process of globalization is due in part to the uneven nature of the actors involved.
- The multinationals in this process are great actors and to a lesser extent Governments and civil society.
- With the interdependence of global governance the redistribution of functions between institutions and bodies are the emerging fact.
- Globalization as a concept with historical content and dates back to the rise of capitalism.
- The determinant of capitalism is the only historical phenomenon that has had global reach, although it is said that it is still incomplete process (p.18).

Cycle II. 1945 to 1973.

This cycle differs with the others by the great effort to develop international trade and look forward for better financial cooperation institutions, and by the remarkable increase in manufactured exports between developed and developing countries. Was the rise of new models of economic organization and limited mobility of capital and labor. The phase, of globalization distinguishes by the gradual liberalization of trade, the growing presence on the world stage of multinational companies that function as production systems integrated, the expansion of the mobility of capital and homogenization of the models of development. After the World War II, the world market deepens into the stage of global integration of markets, with breaks produced by the breakdown of Bretton Woods due to the oil crisis of 1973, by the rise of the private capital mobility, and by the culmination of the golden age of industrialization in the developed countries.

Cycle III. 1973-2004.

Where the World War II brought a stage of global integration of markets, that deepened breakdowns caused by the collapse of Bretton Woods due to the 1973 oil crisis, where we can see the mobility of the private equity boom, and the

culmination of the golden age of industrialization in the developed countries. In the **third Cycle**, of globalization, there is a **first stage** characterized by the gradual liberalization of trade,

a. Here the growing presence on the world stage of multinational companies that operates as integrated production systems.
b. Expansion of the mobility of capital and.
c. The homogenization of the models of development.

In this phase of global integration of markets two breakdowns are caused by the suspension of the dollar convertibility in gold and finally the fall of Bretton Woods due to the 1973 oil crisis. With a boom of private capital mobility and the culmination of the golden age of industrialization in the developed countries, follows an intermediate **phase of financial globalization** that has had moments of boom when London became the main international financial center. In this phase the pattern consolidated gold as a system of international payments and macroeconomic regulation. During this **financial cycle** of international capitalism the world system was signed by large equity capital market that financed the large infrastructure projects in the world.

- Arose a great bond market, and the Bretton Woods agreements adopted in 1944, served to create a multilateral system of payments and macroeconomic regulation based on types of fixed but adjustable exchange and financial support to correct balance of payments crises.

The reappearance of the privately funded international long term from 1960 was the product of a new phase of global macroeconomic stability, and of a need to place accumulated savings in safer places. Financial globalization has been faster than the commercial where the hegemony of financial exceeds the real economy. In this third **Cycle of globalization, financial** flows of labor hand have been emerging and:

- Environmental problems have also acquired a global dimension.
- Trade and financial globalization has been accompanied by the global process of culture.

Cárdenas, Ocampo and Thorp[342] work *"An Economic History of 20th century20th century Latin America. Industrialization and the State in Latin America: The Postwar Years"* develops the thesis of the periphery and the center to explain how growth out model suffered a sudden halt after the thirties. Mark two critical periods of development, first the Great Depression of 1930 and the External Debt Crisis of the 1980's. Countries faced the depression of passive and active manner and addressed in cases of large scale industrialization. The advance of industrialization and its relationship with the policies of the State, made this strategy as a factor to achieve economic independence. The issue of economic development came renewed with interest in Latin America, to broaden the agenda to issues related to the quality and level of life, promotion of economic independence, and elevation of the industrial product through the adoption of tariff policies, fees, and flexible rates of exchanges, distribution systems via control of prices, subsidies and support from State-owned enterprises. The volume 3 examines the conception of inward growth, and the removal of international trade as a source of growth. Absent in the industrialization was innovation[343]. Some research conclusions are that the effect of industrialization accelerated in countries of medium-sized and small, especially in products that are imported in quantities. Contrary to the issues raised by analysts, the export process not stopped during this period particularly because the demand for capital goods and intermediates grew during the rest of the century. Industrialization was superimposed to the export schema, and progressively advanced on export promoter model as suggested by Little, Scitovsky and Scott in the work *Industry and Trade in some Developing Countries*[344]. They argue that:

- The infant industry argument suggests that the cost of a new industry is high at first, but by protecting their costs decline.
- Against of free trade raises the imperfections in prices and wages to prevent incorporate skilled in enterprises labor.

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[342] Cárdenas, Enrique, Jose Antonio Ocampo and Rosemary *Thorp*. 2000. An Economic History of 20th century Latin America. Vol 3*: Industrialization and the State in Latin America: The Postwar Years.* Palgrave Press. Oxford.

[343] Idem.

[344] Little Ian, Tibor Scitovsky and Maurice Schott . 1971,*Industry and Trade in some Developing Countries*. OECD. Oxford University Press. pp. 12-13

- It is argued that the industry generates external economies, to provide expertise to other industry benefiting them.
- Also that the protection translates into high returns and greater savings.

This volume relates industrialization as an explanation that comes from neo institutionalism history. Not against industry and the important point is that it rises the promotion of exports (p. 14-15) arguing that is better to promote than protect, supporting the work of qualified training, improving financial institutions to support the industry, and generating positive externalities. Eliminate policies skewed to the exports and reject the intensive investment in capital that is not productive and efficient. It is better to support exports by directing resources of savings that protect it via excessive tariffs. In the global market allow approaching the external world having an increasing size and profitability around the purchases at the national market. The realistic exchange rate supports exports.

In Colombia a globalization phase that lasts between 1967 and 1974 – "was golden for the sustained growth of 6.7%." Thanks to the Statute of foreign exchange so adopted and the crawling-peg devaluation of the exchange rate and created incentives to export like indirect tax reimbursement Certificate-CAT- the draw back-or-Plan Vallejo and financial leverage through -Proexpo credit facilities, they take off low level exports. In this phase the flow of dollars increased by borrowing via multilateral organizations and also the investment banks and financial corporations thus created for that purpose (p. 244). The fourth phase starts with the creation of UPAC or four strategies of Pastrana-Currie Plan, deepening the financial sector as a result of the increase in the inflation protected financial assets. The stage of unsuspected loss of the 1980'safter Latin American debt forcing increased, curtailed exports and needed to support decrease in imports, as an accepted conditionality imposed by the International Monetary Fund and the World Bank. Neoliberal reforms derived after Washington Consensus that involved adopt ten reforms, related with the fiscal-IVA approval, accorded freer interest rates formation and the opening of financial reform, freedom of trade outside and the creation of the Ministry of Foreign Trade and Bancoldex, floating the dollar and foreign exchange free market, Privatization of the State corporations, pension funds reforms and privatization of the health

service after 1991-law 100, fundamentals the economy improved to face globalization challenges[345].

12.3. Geopolitics and Modern Globalization. The age of culturally and ethical principles.

Cycle 2004-2014.

The **Fourth Cycle of Globalization** characterizes the irruption of the XXI[st] Century where analysts proclaim this is the one of non-economic dimension, that includes culturally and ethical principles. This notion concerns the globalization of values and common ethical principles, first stands out civilians and politicians

[345] Cárdenas, Enrique, José Antonio Ocampo and Rosemary Thorp. 2000. An important point of the work of Ocampo is identifying that the Government adopted counter-cyclical policies particularly through exchange-rate management and the issuing of loans after the Crisis of the thirties, the introduction of the notion of planning by the Congress and the plans and programmes of public works. At the level of the State, it is important to point out that the reform of the State led the growth of centralism, the emergence of the decentralized institutions, and to the loss of power of the departmental governments. Between 30.000 and 60.000 kilometers of roads built before the World War II II, were multiplied by six, to improve their quality and forming a national network of roads. Telecoms raised the number of phones capita and respect of industrialization (p. 249), the creation and consolidation of the internal market were big incentives. Also the best allocation of scarce foreign exchange resources, and active export promotion policy contributed to growth. The industrialization of the country before war can be characterized in the following way: First, the emergence of beverages and soft drink, derived from petroleum products and non-metallic minerals improved industrial base. After the war, came a phase of structural transformation in basic industries like paper, chemicals, metals, metallurgical industry, small and medium industry. From globalization phase- 1925to 1974, industry productivity rose at a rate of 3% per year and total productivity of the factors-TFP grew 1.2% per year. From the fifties and sixties bankers created medium and long-term credit lines with which met the needs of financing for the expansion of companies. Also the extension of lines of the Central Bank rediscounting contributed to this end. Organizations such as the IFI, ECOPETROL and the contribution of foreign direct investment had a wide impact on the emergence of listed companies as well other government owned organizations like "Empresas Públicas de Medellín" improved long term growth. Policies of occasional devaluations and crawling peg devaluations contributed to export growth diversification and in periods of exchange rate appreciation, coffee revenues in dollars were used to support industrialization (p. 257). The tariff system served as agent to protect industries from 1931 as suggested by Luis Ospina Vásquez, Luis. (1957). In 1969 the Andean Group as a subregional mechanism for economic integration was created and for nearly fifty years contributed to teaching Colombia to face globalization by successive competitive stages. The effect of this foreign policy stance was to increase the intra-regional trade as suggested by Alicia Puyana, (1983) in *Economic Integration among Unequal Andean Group Partners*. Buenos Aires. Nueva Imagen.

who guarantee the individual economy to the State power and second economic rights, social and cultural privileges respond to the values of equality, social, economic and non-discrimination (Ocampo, 2002, p. 17-20). In the emerging century stand the world's summits on the environment, of social development, population, women and protection of the rights of the child in this field. Decisions of the United Nations Conference on the environment in Rio in 1992 and the ethnic internationalism excel (Ocampo, 2002, p. 23). This phase characterizes by **the global civil society** that has greater capacity for mobilization of communications technologies.

- The global financial development has created an environment of opportunity and facility for the financing of development projects.
- However, the asymmetries between the dynamic forces of the market and the weakness of institutional frameworks that govern them have emphasized a crisis of payments such as Mexico, Brazil and Argentina.
- The **volatility effect contagion** and poor macroeconomic policies harmony determine the recurrence of crises as happened with the 2008's global financial crisis.
- Asymmetry in technological investment matters as an international volatility element that manifested in the financial capital flows towards speculative activities.

Chapter 2) relates the process of globalization as a phenomenon of multiple dimensions. One way to address it is studying trends in trade, investment, finance, macroeconomic regimes and the international mobility of labor. Trade has direct relation with economic growth and integrated production systems, which serves as support to transnational operations of the companies.

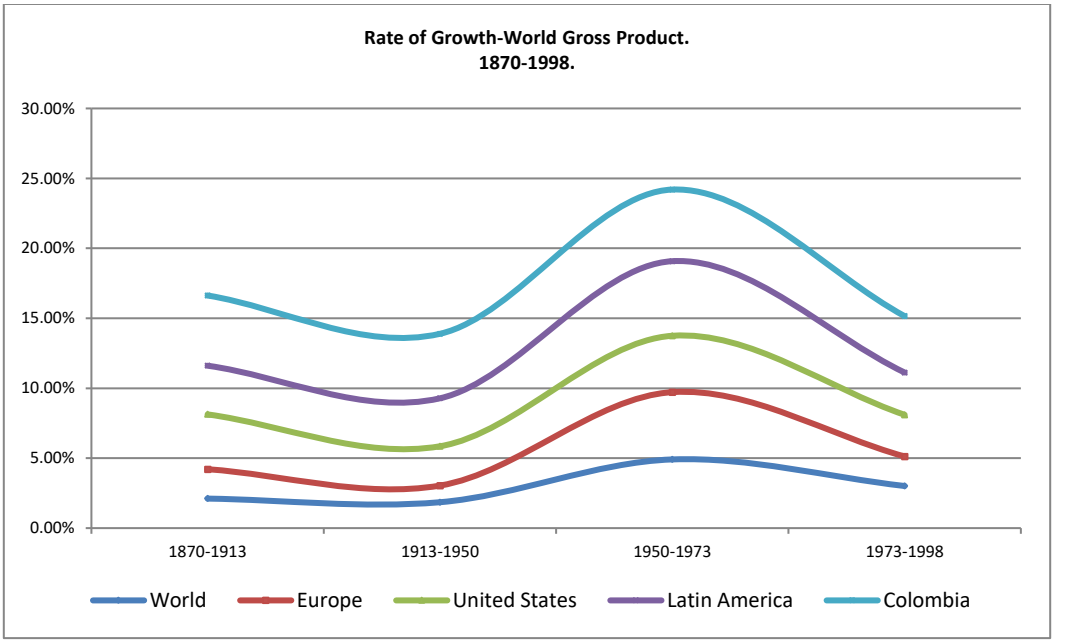
- The process also is related to changes in international finance and macroeconomic regimes (Ocampo, 2002, p. 28). Suggests that during the **First phase** of globalization, 1870-1913, expanded **international capital mobility** and labor.The gold standard was founded in the system of payments and macroeconomic regulation. Then comes a form of State regulation in the currency and socially to directing credit and protect workers. However, the dominant practice of trade in the majority of European Nations was **tariff protectionism**.It corresponded to the process of industrial modernization and acts as an engine of growth and become

the factor that promoted international trade. In this first phase the free trade was in some countries the engine of growth (Ocampo, 2002, p. 30).

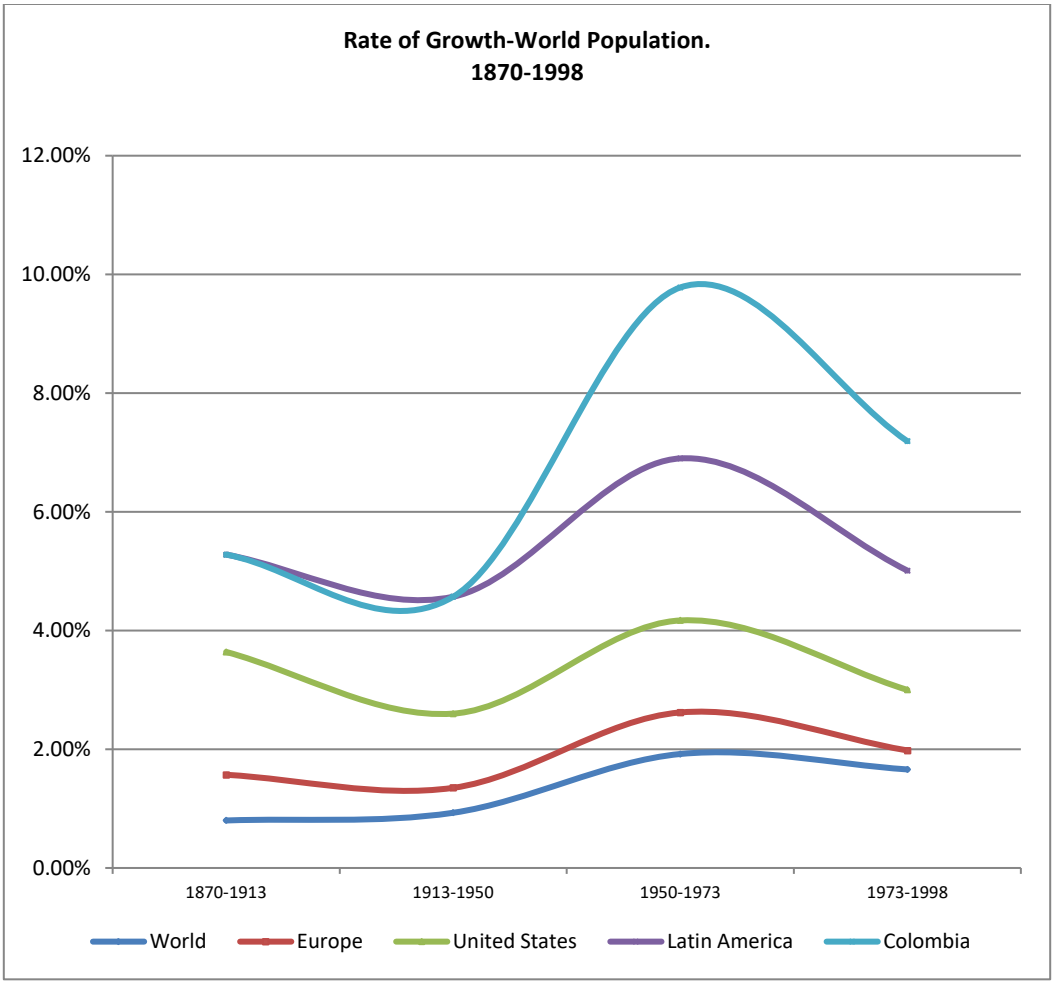
- The evidence shows that exports earned participation on **world GDP** from 1870 to 1998 from 4.5% to 18%. As to the economic growth of the world's GDP between 1870 and 1913, it was only 2% yearly, and between 1950 and 1973 only amounted to 5% annually. Between 1990 and 1998 of the 3% annual. In this **first phase**, the rate of growth of exports of goods was more than 6% a year. The dynamism of international trade was interrupted between the two world wars, which affected global political stability and slowed economic growth in developed countries. Foreign Exchange and import controls were frequent and severe rupture of the international payment system. Dynamic flows of world trade were in the trading blocs in Europe, Japan and the first generation of Asian Tigers.
- Between 1950 and 1973 many regions lost their participation in world trade. The renewed dynamism of exports from Latin America is explained by the increase of trade in Mexico in NAFTA, Continental Europe winning participation of the 26.6% in 1950 to the 41.7% in 1998, and the developing Asia that in this period of 7.9% to 13.1%.
- The interesting note is the mixed model, where the combination of import substitution and export promotion that arises was a result of the schemes of regional integration in Latin America. Since the mid-1960s the dynamism of sub-regional and regional Exchange exceeded the growth of the product (Ocampo, 2002, p. 35).

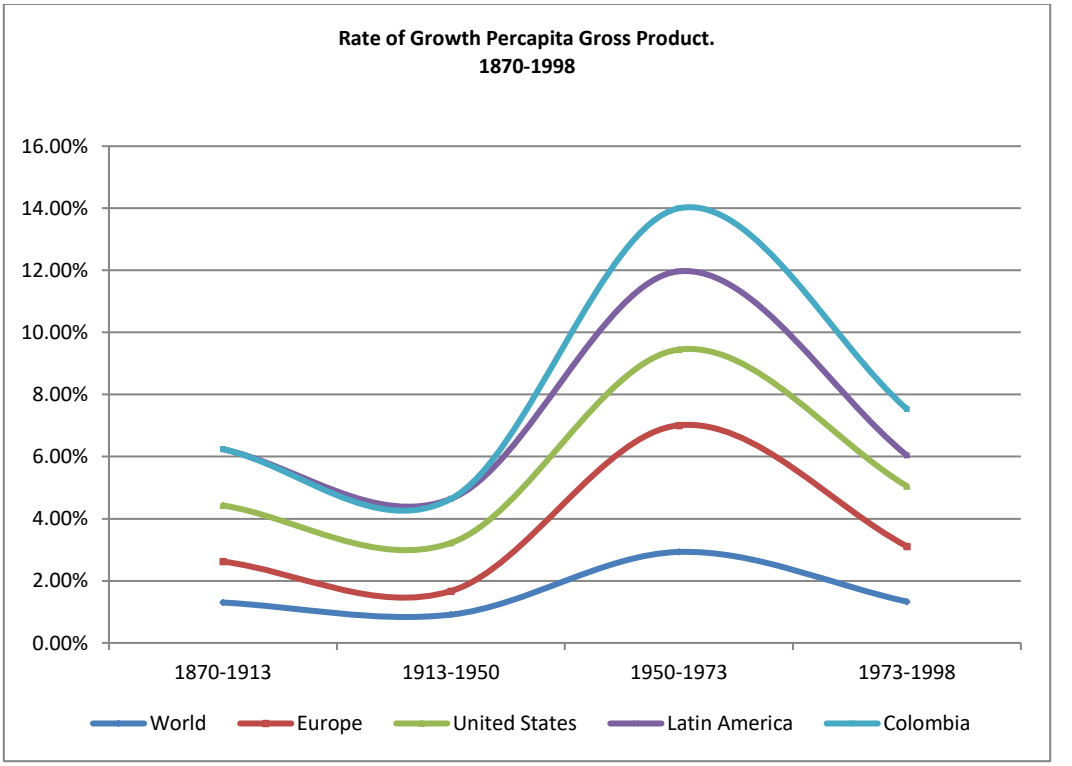
During the period 1950-73 trade is related to the growth of the product, figures from **Angus Maddison** published in *"The World Economy. A millennial Perspective"* reveals a strong correlation between growth of exports and gross product by countries. This work suggests that during the second phase of globalization 1950-1973, the correlation is strong between growth of exports and the product in different countries. During the **third phase, 1973-2000**, the correlation is stronger from 1988. The correlation coefficients of the series passed from 0.45 to 0.64 and

the coefficients of the variable annual export growth on annual passes 0.257 to 0.477 of GDP growth[346].



[346] Angus Maddison. 2002. *The World Economy. A Millennial Perspective*..Paris. OCDE. Development Centre Studies. Pág 126


Rate of Growth-World Population.
1870-1998
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
1870-1913
1913-1950
1950-1973
1973-1998
World
Europe
United States
Latin America
Colombia



Source: Angus Maddison. 2002. *The World Economy. A Millennial Perspective*. OCDE. Development Centre Studies. Paris. Pág 126. Greco. Banco de la República. 2002. *El Crecimiento Económico Colombiano en el Siglo XX*. Director Miguel Urrutia Montoya. Fondo de Cultura Económica. Bogotá.

Tasas de Crecimiento de la Economía Mundial 1870-1998
Tasa de Crecimiento Producto Bruto Mundial-GDP

	1870-1913	1913-1950	1950-1973	1973-1998
Mundo	2.11%	1.85%	4.91%	3.01%
Europa	2.10%	1.19%	4.81%	2.11%
Estados Unidos	3.92%	2.81%	4.03%	2.98%
América Latina	3.48%	3.43%	5.33%	3.02%
Colombia 1905-1913	5.02%	4.61%	5.12%	4.03%

Tasa de Crecimineto. Población Mundial

	1870-1913	1913-1950	1950-1973	1973-1998
Mundo	0.80%	0.93%	1.92%	1.66%
Europa	0.77%	0.42%	0.70%	0.32%
Estados Unidos	2.07%	1.25%	1.55%	1.02%
América Latina	1.64%	1.97%	2.73%	2.01%
Colombia			2.88%	2.18%

Tase de Crecimiento. Producto Bruto Per Cápita

	1870-1913	1913-1950	1950-1973	1973-1998
Mundo	1.30%	0.91%	2.93%	1.33%
Europa	1.32%	0.76%	4.08%	1.78%
Estados Unidos	1.81%	1.55%	2.44%	1.94%
América Latina	1.81%	1.42%	2.52%	0.99%
Colombia			2.03%	1.49%

	Mundo	*Europa*	*Estados Unidos*	*América Latina*	*Colombia 1905-1913*
Mundo	1.000				
Europa	0.965	1.000			
Estados Unidos	0.543	0.737	1.000		
América Latina	0.846	0.919	0.690	1.000	
Colombia 1905-1913	0.298	0.526	0.820	0.716	1.000

	Mundo	*Europa*	*Estados Unidos*	*América Latina*	*Colombia*
Mundo	1.000				
Europa	-0.146	1.000			
Estados Unidos	-0.445	0.937	1.000		
América Latina	0.846	0.104	-0.250	1.000	
Colombia	1.000	1.000	1.000	1.000	1.000

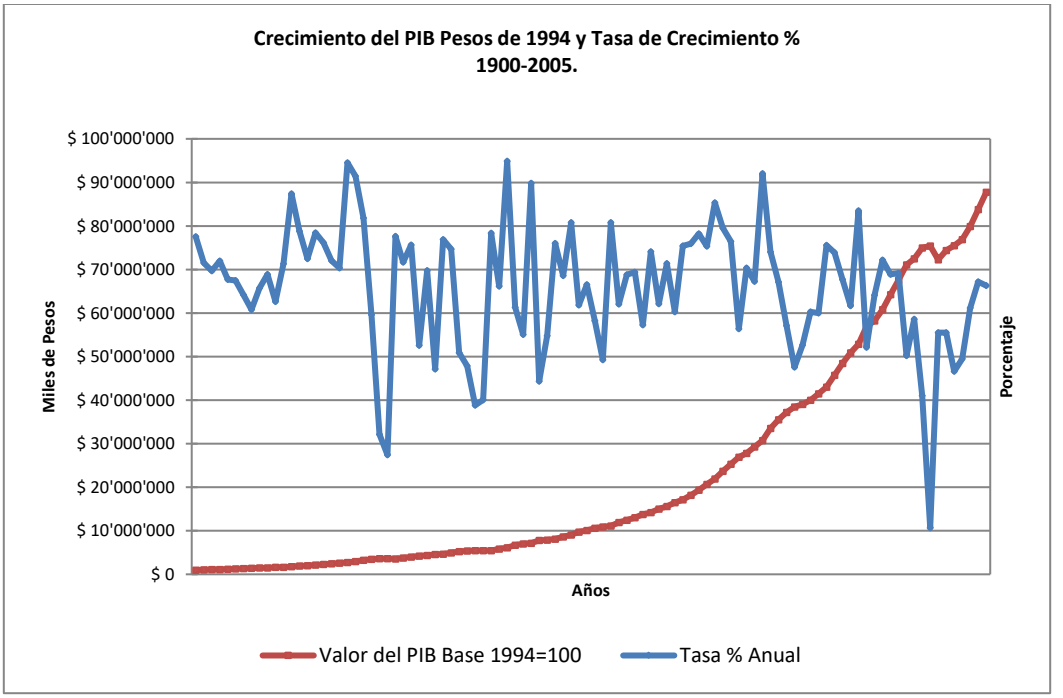
	Mundo	*Europa*	*Estados Unidos*	*América Latina*	*Colombia*
Mundo	1.000				
Europa	0.992	1.000			
Estados Unidos	0.970	0.986	1.000		
América Latina	0.827	0.751	0.693	1.000	
Colombia	1.000	1.000	1.000	1.000	1.000

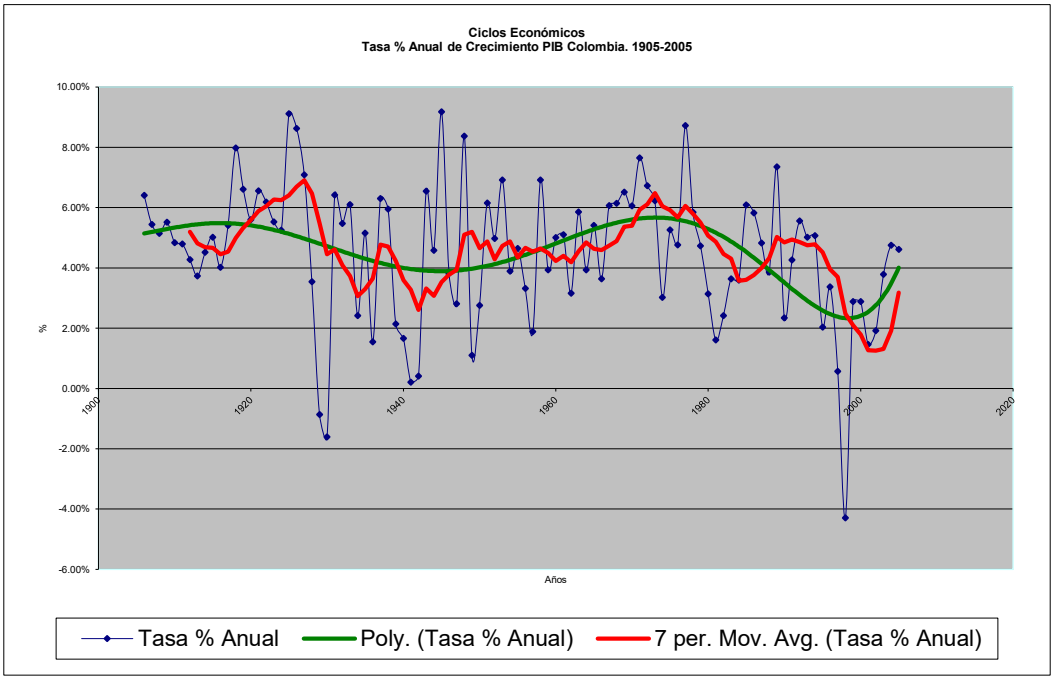
	1870-1913	*1913-1950*	*1950-1973*	*1973-1998*
1870-1913	1			
1913-1950	0.94281307	1		
1950-1973	0.00821529	0.2977617	1	
1973-1998	0.82945238	0.90746348	0.25383703	1

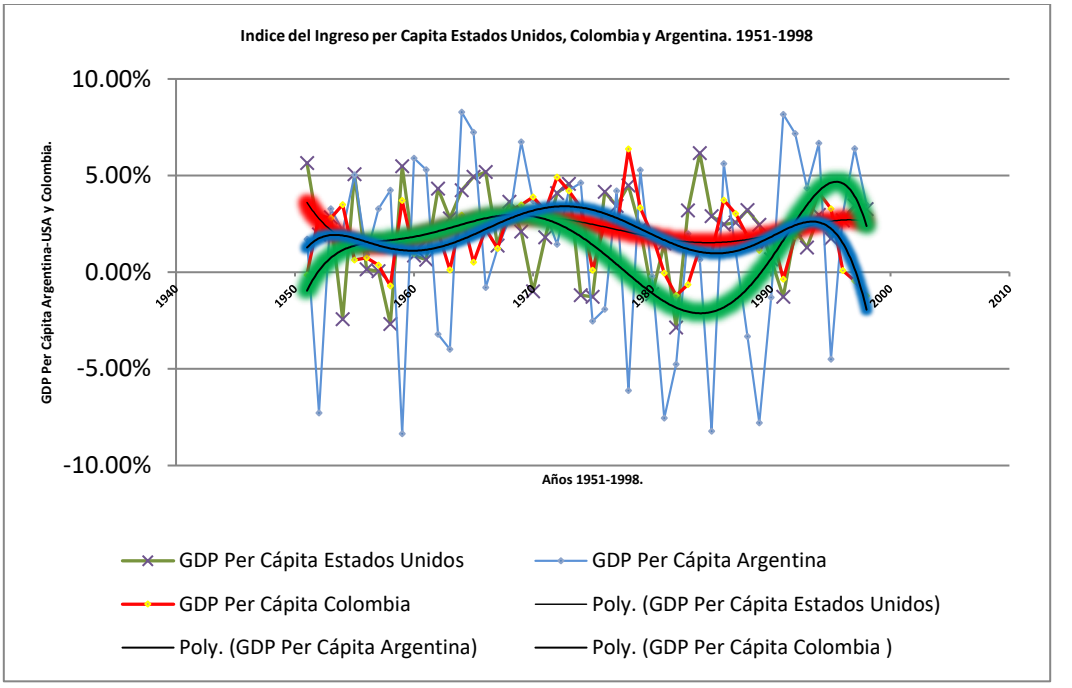
	1870-1913	*1913-1950*	*1950-1973*	*1973-1998*
1870-1913	1			
1913-1950	0.68232798	1		
1950-1973	0.40204063	0.92179782	1	
1973-1998	0.25715382	0.82012728	0.98267901	1

	1870-1913	*1913-1950*	*1950-1973*	*1973-1998*
1870-1913	1			
1913-1950	0.97257088	1		
1950-1973	-0.7648082	-0.8700543	1	
1973-1998	-0.1081396	-0.0612582	0.27747953	1

Source: Angus Maddison. 2002. *The World Economy. A Millennial Perspective*.Development Centre Studies. Paris, p. 126. Greco. Banco de la República. 2002. *El Crecimiento Económico Colombiano en el Siglo XX*. Director Miguel Urrutia Montoya. Fondo de Cultura Económica. Bogotá.


Crecimiento del PIB Pesos de 1994 y Tasa de Crecimiento %
1900-2005.
$ 100'000'000
$ 90'000'000
$ 80'000'000
$ 70'000'000
$ 60'000'000
$ 50'000'000
$ 40'000'000
$ 30'000'000
$ 20'000'000
$ 10'000'000
$ 0
Miles de Pesos
Porcentaje
Años
Valor del PIB Base 1994=100
Tasa % Anual


Ciclos Económicos
Tasa % Anual de Crecimiento PIB Colombia. 1905-2005
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
-2.00%
-4.00%
-6.00%
%
1900
1920
1940
1960
1980
2000
2020
Años
Tasa % Anual
Poly. (Tasa % Anual)
7 per. Mov. Avg. (Tasa % Anual)



Source: Greco. Banco de la República. 2002. El Crecimiento Económico Colombiano en el Siglo XX. Director Miguel Urrutia Montoya. Fondo de Cultura Económica. Bogotá.Deflactor PIB GRECO Ajustado al SCN 93 Año base 1994.B36. Deflactor PIB GRECO Ajustado al SCN 93 Año base 1994 (5). This series is obtained dividing (3) by (5), and regressing time series from 1994 to 1905 where the value of GDP of 1994 of SCN 93 with the growth rate of (2); from 1994 to 2000 where numbers are given by estimated DANE base figures.

The author **Justin Rosenberg** in his general work *"Contra la Retórica de la Globalización"* brings to the fore a sociological discussion where the logic of an argument associates first with the *Explanandum* - where globalization is a result of a historical process, which gradually transforms old events into a new history. The *Explanans* - is a concept in which globalization is a concept that explains the changing character of the modern world and it enables to obtain retrospective discoveries of the meaning of past events or occurring trends[347]. Rosenberg's model talks about the compression of time and space, argument used to explain the emerging characteristic of a particular historical type of social relations. He understands the capitalist relations of production as an indispensable tool to understand the functioning of modern societies.

And the construction of the intellectual view of the world is different according social orders. The literature about this perception is quite large and the subject of

[347] Rosenberg, Justin. 2004.*Contra la Retórica de la Globalización.* Bogotá. El Ancora Editores.

the *space and time* relationship might be abstract, linear, and an empty space depending on the analytical tool one uses. A convincing definition comes after interrogating about the when, the how and the where events arose, and integrating this modes with the concept of their role in the interpretation of the new cultural meanings of the globalizing events. Rosenberg considers that the social processes can also analyzed in terms of distance and proximity, duration, simultaneity and sequentially, and imagine time and space, as empty, homogeneous, uniform and abstract for conducting the analysis of the emerging events (2004, pp.14-18). At the end of the day the vacuum of space and modern time, refers to the social and cultural relations that produce it. The rhetoric of globalization in the field of international relations is situated in the border between international relations and political philosophy.

The critical analyst Richard **Flak,** in his book *"Predatory Globalization"* considers that *globalization from above* derives from the Washington Consensus or neo-liberalism view about who's actor in world politics is responsible of promoting rapid economic growth, considering that trade and investment as well as a moderate pattern of governance leads to sustaining growth in countries that follow at least ten markets mandates to encourage local national economy to work properly. Some Latin Americans countries advanced "Keynesianism" economic practices to resolve its structural fiscal deficit. The consequence of the malpractice of this policy translate in the severe consequence of more than one thousand inflation rate a year and incomes deterioration especially in the working class and self-employed groups as it did occur in Argentina and some Southern Latin American nations during the 1980's. Neoliberalism is claimed to be responsible of market privatization practices, minimizing economic regulation, reducing government expenditure, tax reduction and unrestricted currency repatriation. However adverse effects accounts for predatory globalization where neoliberalism is situated within a merciless civil society that support social contract between state and society leading to workers strikes all over last century in Latin America's labor movement after steady family incomes decline.[348]

A new expression of *globalization from bellow* of world economic order should include new priorities like protecting the planet and its inhabitants, avoiding

[348] Richard Falk. 1999. *Predatory Globalization. A Critique.* Cambridge. Polity Press.

financial crisis like the 2008's subprime catastrophe, or oceans pollution where rising water and the danger of climate warming by more than two Celsius degrees leads coastlines to inundations and hurricanes damages. Institutional requirements about a new source of voluntary global governance is needed to encourage cooperative social terms and reduce negative consequences of globalization including new consequences of this historical event like pandemics as the one attributed to Ebola, cybercrime, massive migrations and money laundering and the danger of speculative financial flows and black market operations (Flak,1999, pp. 2-7).

Global Public Policy and Microeconomic Policy.

The author Wolfgang **Reinicke**, presents an important work about the public policy implications of the emerging term globalization. The author's book title is *"Global Public Policy"* in his study shows that the international relations concept of **interdependence** should be redefined as the increasing process where national economies cooperate, allows for better world resources mobility and allocation. Reinicke considers there are some historical forces that in the actual process behave like external drivers of this long term event where independent states are connected by an increasing number of channels, like political, social, economic and cultural institutions leading to externalities and complementarities in world markets.

1. ***Globalization at the corporate-level*** phenomenon where industrial organization such as flexible manufacturing is the result of supply factors movements, capital mobility, technology improvements, information flows and freer ownership and control of assets, leading firms to benefit an emergent and single integrated economic place.
2. ***Globalization and economic drivers*** are microeconomic decisions being private in nature, as decisions in technological are associated with firm's innovation process. Capital movements become global responding as forces that lead production to new forms of specialization leading to heightened interdependence.[349]

[349] Reinicke, Wolfgang H. 1998. *Global Public Policy*. Washington The Brooking Institution. Págs, 54-55.

Talk about globalization, sovereignty and the Nation-State has a new meaning after the Cold War ended. Historical time is concerned with discontinuities focusing on what the effect of this end of war will be in the international system, and what will be the new developments derived from liberal economic international system. Recently global international economy has been affected by the crisis in de dollar area and the euro system after excessive expenditure in war ventures lead by the US policy in the Arab countries, private bank loans without reliable collaterals and due to private overspending in Europe ending with a non-systemic consequence on the international global financial system.

The international system is challenged as well by the effects of globalization of consumption, and the diffusion of sources of the technology of communication and information processing. Deep integration of markets through trade agreements and technology used for defense strategy creates a more globally integrated world but also a dangerous place to live, especially after the bipolar system collapsed together with the legitimacy of communism. Emerging problems like the ISI political movement in the Middle East creates confusion in the global political system. The problem with globalization is that the narrow meaning of the globalization term might go further away than the meaning of consumer economics as global problems goes as far to introduce damages by the effects of the environmental pollution, natural resources depletion, and financial crisis that spread risk of wiping bank depositors savings in interconnected financial markets. Poverty global inequality, global crime drugs trafficking illicit arms deals are bids that affect nation state (Reinicke1998, p. 2-3).

12.4. Scope of the Concepts of Globalization, Governance, Competitiveness and Technology

The Economic Concept of **Globalization** shows that the instruments that corporations use to pursue global strategies vary across borders, sectors, and regions where the geographic scope of those strategies, are more limited than the term global means (Reinicke1998: 39). The economist Michael **Porter** suggested that globalization is a strategy where the multi-domestic strategy followed by companies serving multiple independent local markets allows firms to enhance their competitive positions by creating an integrated cross-border network. Through cross-border activity corporations enter a new market along taking

advantage of the entire length of the product cycle, and thus exploiting their technological and organizational advantages reducing both cost and risk. Thus a global corporate presence implies that globalization includes all functional aspects of a firm, like management, finance, research and development and marketing. In developing a global strategy firms seek to locate their activities in regions with infrastructure externalities, skilled supply of labor and technological and information structures (Reinicke, 1998, pp.12-13).

By economic globalization **Reinicke** means an irreversible trend of facts that takes place in a social, political and legal historical setting. Despite economic and technological forces that promote globalization, some social political and cultural forces may work in the opposite direction of the foresighted global trend. Path dependence theories proclaim no reversible or irreversibility of social process after initial conditions occurs leading to a new process to take place, however returning to the starting point where globalization forces may drive events in an opposite direction where the process was launched first, like world economic growth through the encouragement of technological advance, or economic and political crisis that leads to depression or civil unrest (Reinicke,1998, p. 3).

Governance as a concept is defined as the governing public policy which serve as a basis for determining what acts are regarded as contrary to the public good and the term public policy can be defined as having three broad functional areas: distributive, regulatory and redistributive (Reinicke1998, p. 4-5). Globalization as a qualitative ongoing trend refers to an idea that transforms the meaning of the international system leading to the end of the nation state and the beginning of transnational institutions. For many internationalist analysts, globalization is a term basically referred to financial services and manufacturing, but the radical interpretation of this concept needs to differentiate between interdependence and global governance.

- *Legal* sovereignty characterizes the Nation-State and represents the ability to run public policy.
- The *internal* dimension of external sovereignty relates the state and civil society.
- In the economic realm the *relationship* between the public and private sector.

- The *external dimension* of sovereignty portrays relationship among states, and may be functional and equivalent in the internal system, although no external central authority exercises sovereignty.
- *Interdependence* denotes sensitivity among states in the international system, and the source is systemic or external.

After globalization, states leave the financial responsibility and the technology research, information and control of assets to the corporate level. So the more the world globalizes and integrates economically, the states the more fragments its responsibility to multinationals interests, and ideas believed by civil society are implemented by global governmental institutions. (Reinicke,1998, p. 6).

Defensive interventionism relies on economic measures as tariff and non-tariff barriers or capital controls the force companies to reorganize along national lines. Offensive interventionism relies in a strategy to become global competitors like subsidies as a national political policy to gain competitive advantage.

Global public policy decomposes in:

- Governance-internal sovereignty.
- Nation-State- territorial foundation.
- Government-institutional environment (Reinicke,1998, p. 8).
- Global financial markets pioneers in global public policy, and global crime like money laundering is a crucial front that also militates against global finance advance and trust towards institutions (Reinicke, 1998, p. 9).

In the global market companies' **competitiveness** refers to the benefit of the global web of multinational firms in which profitability depends on the improvement of competitive positions and in the interconnecting value creation nodes that distributes value among supply chains. Firms tend to develop globally after integrating strategies that rationalize the allocation of resources across the entire market spectrum and benefitting of the length of product cycle. The global corporation globalizes management, finance, and research and development to improve competitiveness (Reinicke, 1998. p. 11-13).

- The globalization of manufacturing and finance benefits of the liberalization and deregulation of international economic activity encouraged by nine multilateral trade GATT-WTO's rounds leading to widened tariff reduction, facilitating a corporate cross-border activity and establishing a global network of corporate interaction. Cross border

horizontal mergers in industries other than financial services, especially transportation and communication facilitated new forms of cooperation among firms (Reinicke, 1998, p. 15)

Previous to the global 2008's financial crisis event, Reinicke discuses about the consequences of international finance liberalization, centered on lifting credit and currency controls and as barriers to capital mobility and consequences about dismantle capital movements in less regulated foreign markets.

Technology is another well-developed force fostering globalization. Financial services telecommunications and computer driven financial innovations make the world shrink (Reinicke, 1998, p. 15).The concept of globalization refers to various aspects of economic life and measuring its scope is quite complex. However as a strategic view of business relies on the organization logic of companies, degree of concentration of firms within geography, and in the financial world is affected by new alternatives of investing financial surplus, like options and securitization of financial assets.

- Foreign Investment is considered as a force that helped to deconcentrate geographical industrial activity. Worldwide FDI flows rose faster than global trade output. In 1996 FDI represented US$ 350 billion, while transnational corporations number 45,000 parent companies and controlling over 280,000 affiliates worldwide.
- The rapid expansion of FDI leads to a number of mergers and acquisitions representing a growing share of all investment flows.
- Developing countries receive increasing value of investments, and have shifted from primary industries into high-value added and knowledge and R&D intensive manufacturing.
- International intra-firm collaboration depends on internationalization of assets and other cross-border activities. Arrangements may be horizontal, linking firms in different industries or, vertical linking firms in different stages of production in the same industry. The top ten U.S firms draw nearly 6 percent of their revenue from alliances and show a fourfold increase since 1987. Cross-border intra-firm collaboration is cheaper and quicker than globalizing through FDI. Low cost alliances and a collaboration agreement is cheaper than FDI. While development

in technology-intensive have increased the attractiveness of intra-firm collaboration (Reinicke, 1998, p. 17-22).

- In the third globalization era, the rapid growth of international trade has become a salient feature of postwar economic lands escape. Trade has grown at 6% p.a while growth of world output has been smaller at 4% p.a.

The aftermath of 2008 global financial and severe drop of oil and iron core prices in 2015, suggests again that the recurrent world economic crisis raise the question that the solution to the global market is very much dependent on the Resources, Markets and Profits tripod's accessibility. Along these lines the author William I. **Robinson** in his book *Una teoríasobre el Capitalismo Global,* distinguishes between the emerging global economy and the contradicting global accumulation circuit. In the world global economy the production process associates with local vertical integration of industries and in the creation of a global production and accumulation whose decisions are centralized, and so much dependent on the free disposal of resources, markets and source of global profits. Capital as a source of financial accumulation is movable since the 1970's leading to a decentralized investment decision process where long supply and distribution chains govern the allocation of global financial assets. Billions of liquid assets represented in hard currencies or in technological patents are allocated by concentrated governing decision taking bodies along the transnationals. Large business governing bodies represent decentralized capital and investment not exclusively within national borders as it spreads along complex production chains. The world economy integrates foreign trade and financial cash flows within an integrated market. The global economy characterizes by transnational, national and regional productive structures linking production and accumulation within one single market.[350]

Quantitatively we can say that trade against gross domestic product is larger than 1929's, flux of transnational capital is longer and the information and communication system helps to decentralize production, transnational corporations leads global investments and the number of internationalized

[350] William I. Robinson. 2007. *Una Teoríasobre el Capitalismo Global: Producción Clase y Estado en un Mundo Transnacional*.Bogotá. Ediciones desde Abajo. P. 27-29.

economies increased as the process deepens. Globalization of markets and the global financial systems transactions surpasses local banking activities. Quantitatively, production seems to be ruled by global production chains and final product parts and assembly is governed by central management practices where the global productive and managerial system covers the whole global economy (2007, pp. 30-21). Fundamental indicators that refrain advance of globalizations and the rise of a new global culture are, the increase of foreign direct investment, capital formation, increase in foreign financial portfolios, world exports and merging and acquisitions, increase in exports in goods and services, upsurge in value of foreign own assets, great number of multinational corporations and subsidiaries, and the global culture where research and development is now a common worldwide activity made of a network of Ph.D.'s researchers.

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