

## Social and Rural Costs of Integration in the Americas

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## NOTES, INFORMATIONS ET DOCUMENTS

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### **Social and Rural Costs of Integration in the Americas**

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#### **INTRODUCTION**

The concept of globalization is linked to the economic and social changes that are reshaping the underpinnings of the Welfare State in a world where the significance of national boundaries is rapidly declining. Economists focus on this phenomenon in terms of elimination of international barriers to trade, while sociologists highlight the production and consumption processes. However, it is generally agreed that globalization is developing in the dynamic context of a new international division of labour which will rearrange the relationship among the spheres of production, finances and socioeconomic control, affecting not only production processes but markets (Bonanno *et al.*, 1994).

On the other hand, we observe a rapid process of regionalization of the spaces and also of formation or consolidation of blocs of nations in Europe, South-east Asia, North and South America. The integration of countries with similar interests is becoming a necessity, particularly in the Southern Hemisphere where economic complementarity and political union between countries is a "must" in order to be more competitive with respect to the North.

The actual process of integration and formation of prominent sub-regional groups in the Americas is based on a neo-liberal model which favours

economic growth rather than human and real development. The increase in trade and the capital accumulation stimulated by this model do not equally affect the different classes or groups of which a society is composed. In the next few pages, we will analyze two dimensions of this problem : What are the social impacts and costs of the integration that is occurring in the Americas, particularly in South America? What are the rural impacts of this process and what is the importance of rural institutional restructuring?

For this purpose, we will proceed in three steps : (I) a brief description of the integration process that is occurring in the Americas; (II) an examination of the social impacts and costs of this process; (III) an analysis of the rural impacts.

## **I. INTEGRATION PROCESS IN THE AMERICAS**

In South America, there exist two subregional integration agreements : the Andean Pact, and the recently formally implemented (January 1995) Southern Common Market (MERCOSUL) which consists of Argentina, Brazil, Paraguay and Uruguay. In 1995 the countries of MERCOSUL, the Andean Pact and Chile are negotiating the South America Free Trade Agreement (SAFTA). Additionally, many bilateral accords have been reached in the region, in particular by Chile with a number of different countries.

In Central America and in the Caribbean the subregional integration process is developing through, respectively, the Central American Common Market (CACM) and the Caribbean Community (CARICOM).

Since 1994 the three countries of North America formalized their integration through the North American Free Trade Agreement (NAFTA).

Simultaneously, the Northern, Central and Southern America integration is being implemented in different ways : through trade liberalization commitments which have been formalized between groups of countries, such as those between the CACM and Mexico, between the Central American countries, Colombia and Venezuela, among the CARICOM countries and Venezuela (ECLAC, 1994 : 42), as well as between the Group of Three (G-3), Mexico, Venezuela and Colombia, leading to the construction of an open regionalism.

Finally, another event was very significant : in December 1994, a "Summit of the Americas", which was the first Congress of the Western Hemisphere countries since 1967, was held in Miami. This summit was convened by President Clinton of the United States of America (U.S.A.) who invited all the Presidents or Prime Ministers of the three Americas and the Caribbean, except Cuba. One of the results of this event was the decision to start negotiations towards the formation of a Western Hemispheric free trade area between all these countries until 2005. This area would create the largest market in the world, in excess of 700 million inhabitants, and a Gross Internal Product of US \$7.3 billion. Over the next few years these countries will try to generate a hemispheric consensus on common minimum standards for sensitive trade-related issues, such as intellectual property, the environment, labour, etc. All procedures will take into account existing progress in subregional integration, and employ it in the construction of a hemispheric free trade area, on the basis of inclusion and consensus.

During this summit, a South American country, Chile, was invited to become a member of the North American bloc, NAFTA.

## II. SOCIAL IMPACTS AND COSTS

Focusing on South America, we observe that over the last few years, the majority of the countries, stimulated by an increasing openism and regionalism, adopted the neo-liberal model. This means that they took monetary, financial and fiscal measures and liberalized the production apparatus, in order to open the economies, and to allow competition and market forces to become the major mechanisms. The model emphasizes individual factors more than it does social factors.

On the other hand, in the context of a new international division of labour, the major actor, in South America as well as in the majority of the rest of the world, is no longer the Nation-State but, in fact, the transnational corporations. With alliances formed between the State, capital and the various domestic classes, the State no longer exercises the hegemonic authority that it once did. Global capital is now in the driver's seat (Bonanno *et al.*, 1994 : 4).

What are the consequences of the neo-liberal model for the region? The financial policies and the fiscal adjustments of this model have their social and human costs which are often extremely high for some segments of the population, due to higher unemployment or worsening conditions of education, health, nutrition and housing, all diminishing the quality of life. Moreover, as Morales-Gómez (1994 : 6) points out, quoting the United Nations Development Program (UNDP) : "The economic and social costs of the adjustment process [...] are under no circumstances justifiable or acceptable, even under the pretext of promoting growth [...] The human costs of the current processes are unacceptable from a humanitarian perspective. Nor can they be accepted from an economic perspective".

From a strictly economic point of view, the policies applied can be prejudicial. The paralysis and the dismantling of social programs, as happened during the 1990s in many Latin American countries, can become a major obstacle to economic growth, and also to sound environmental management. The research of many private institutes, non-governmental organizations and also of some governmental agencies, such as the International Development Research Centre (IDRC) of Canada, show that, as asserted by the IDRC, "while stabilization programs may produce short-term economic equilibrium, the structural adjustment programs that accompany them do not necessarily produce growth. This evidence is leading national governments and international agencies to realize that stagnant social development hampers transformation and liberalization and can prevent establishment of sustainable market economies" (Pestieau, 1994 : v).

What is the situation in terms of income distribution? According to the UNDP (1990), the distribution in Latin America is worse than in the rest of the developing world. A UNDP Report on Human Development in 1994 shows that in Colombia the richest 20 % have an income 13,3 times higher than the poorest 20 %, while in Panama this figure reaches 29,9 times, in Guatemala 30 and in Brazil 32,1 (UNDP, 1994). Obviously this situation is not new, but *is reinforced* by the present neo-liberal model.

We can focus on two countries which have rigorously applied this model, have obtained some rapid and evident economic successes, and also are involved in a process of integration : Chile and Argentina. Today Chile has certainly the best economy in South America. Its adjustment program was successful, but it had a social price. Indeed, real wages fell by 20%, unemployment exceeded 25% in the first years of the stabilization process and continue to be very high, and

there was a 20% cut in social spending *per capita* (Weston, 1994). In Argentina, salaries lost 30% of their real value, unemployment and underemployment increased significantly (Schvarzer, 1994) and most of all, the income distribution became worse, stimulated by the rapid process of privatization and deregulation. One of the factors that stimulated the increasing income gap was the rapid demand for skilled labour.

In this context, the social inequalities between groups, classes and regions within a country increase. The quality of life of the population, especially in the rural areas, decreases, because personal development cannot exist where there is poverty, unemployment and inequality. Moreover, in Latin America, over the last ten years, the poverty increased in absolute and relative terms. As the Inter-American Development Bank (IDB) states: "in absolute numbers and as a percentage of the total population [...] there is today more poverty in the region than at the beginning of the 1980s" (IDB, 1993 : 1). This means that the process of social exclusion and polarization between classes is growing.

In societies with enormous social inequalities and a profound crisis of the Nation-State, as in Latin America, the elimination of trade barriers and a regional integration can often increase these inequalities, particularly if this integration and the neo-liberal model are applied very quickly, as, for example, in Argentina or Mexico, or if it is done without large popular participation. The poor, especially in the countryside, are obviously more vulnerable to face this process than the rich; the same relationship exists with the small firms compared to the large. Furthermore, it is clear that globalization not only favours transnational corporations but is stimulated by these corporations all around the world.

What is going on in South America clearly affects North America. In a globalized market economy, there is an increasing interaction between developed and developing countries. During the NAFTA debates at the beginning of the 1990s, it was evident that such issues as environment, regulation, cost of labour and democracy or human rights in Mexico directly affect Canada and the U.S.A., as well as the investments policies of the transnational corporations.

The devaluation of the Mexican currency at the end of 1994, the following crisis of this country and the immediate financial aid from the U.S.A., as well as the International Monetary Fund demonstrated, not only that the fate of the three NAFTA countries is closely linked, but also that the neo-liberal model applied in Mexico during the Salinas administration partially failed. This was already evidenced by the increase of violence in the country and by the protests and *guerrilla* in the rural area of Chiapas in January 1994. The question is : who will pay the "bill" for this dysfunctionality, at least temporarily, of the model applied in Mexico? Many people believe that it will be mostly the salaried and underemployed population. One thing is certain : the social impacts and costs of the Mexican crisis are very significant.

Bearing in mind that the transnational corporations occupy more space in a globalized world, it is clear that the sovereignty of the State is constrained. "The enhanced mobility of capital inherent in globalization weakens the capacity of governments to tax corporate income, to engage in industrial policies and economic planning, and to chart distinctive national approaches to social problems. These constraints on national choices have powerful implications for the quality of democratic life within individual nations" (Banting, 1994 : 12). Consequently, the State *must* be alert and need to *continue* to be present at various levels. Simulta-

neously, this State must be transformed to represent and defend the interests of the large majority of the population, instead of those of the elite.

A new social agenda in development requires a fundamental rethinking of the existing form of governance and the identification of new roles of the State that can propitiate enhanced forms of popular participation and social consensus (Morales-Gómez, 1994). The existing new technology, product and market require a shift of paradigm in terms of policies, processes, infrastructures, and institutions. We need to address issues dealing with the institutional capacity of societies to formulate and implement effective social policies. The Latin American countries lack an appropriate institutional and social policy framework that would benefit the majority of its inhabitants.

Restructuring must start at the social and institutional levels. For this reason, the Government of each country of the three Americas should follow the example of the European Union (EU) countries which increased their social expenditure from 21% during the 1980s to 24% during the 1990s (Banting, 1994). In terms of Latin America, one positive example was the fact that the Inter-American Development Bank decided, in 1994, to lend more than US \$40 billion over the next years to improve the social capital of the region.

### III. RURAL IMPACTS

In Latin America, as well as all around the world, rapid changes have occurred in terms of rural populations. For example, during the 1960s more than two thirds of the populations of most South American countries could be classified as rural populations, but in the 1990s less than one third lived in the countryside. However, today the standard of living has not improved for millions of inhabitants, considering that, according to the UNDP (1994), the percentage of the rural population living at the absolute poverty level reaches 45% in Colombia, 51% in Mexico, 58% in Venezuela, 73% in Brazil, 75% in Peru and an astonishing 86% in Bolivia.<sup>1</sup>

The neo-liberal model and integration, through the opening of the countries, stimulates the modernization of the primary and agrobusiness sectors, adoption of new technologies, rural research institutes in biotechnology, and an improved competitiveness relative to the Northern Hemisphere. A greater complementarity between, for example, the Andean Pact or the MERCOSUL countries, production diversification, economies of scale and, mostly, more investments in new technologies, are necessary to counterbalance the various subsidized primary products in the North, particularly in many European nations. This transformation process which in many sectors is urgent and absolutely necessary, had its costs when it meant that thousands of small rural producers lost their means of living and were propelled towards the cities.

All this process is leading to a change of mentality. Constant migrations and the rapid penetration of mass media in the more remote areas of the continent contribute towards the dissatisfaction with old values, generate new ideas, restructure rural institutions and construct a different society. Relationships at the local and rural communities level became less "vertical" and authoritarian.

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1. Peru and Bolivia have a very significant indigenous population frequently living in sub-human conditions.

In fact, compared to the 1970s, Latin America is now much more democratic. We can see more popular mobilization, more participation by rural populations, and free elections at the municipal, state or national levels.<sup>2</sup> The integration process which normally is motivated more by political than by economic reasons, as, for example, was the case in the integration Treaty between Argentina and Brazil in 1988, stimulated the democratic process. For example, the parliamentary Commission of MERCOSUL voted a resolution stipulating that if a country is transformed into a military dictatorship, it will be expelled from the common market.

This new democratic process, as well as the open regionalism and trade liberalization commitments through the formation of subregional blocs or bilateral agreements, are challenging the traditional relationship between the State as a political welfare institution and the civil society. Rural and autonomous civil institutions have a significant influence on the political process in many Latin American countries, with far-reaching impacts on democratization, development and policy-making. There is a role for rural institutions and organizations in defining rural policy agendas, and in providing alternative rural models for the supply of social services in more remote areas. There is also a need to focus dimensions much less discussed, such as environment, consumer rights, human rights, cultural values within a holistic approach, etc.

Two rural institutions have tradition and a specially strong impact in Latin America: cooperatives and unions. Considering the integration going on, we could say, simplifying, that the cooperatives have adopted an economic approach, while the unions focussed more on political and social dimensions of the process. For instance, the union movement believes that it must be unified at the continental level must elaborate strategies based on global information and analysis, taking into account the internationalization of capital and markets. Then, in 1987 the Latin American workers created the coordination of the *Centrales Sindicales* of the Southern Cone countries, including the four MERCOSUL countries, Chile and Bolivia. In various countries institutes were created to analyze the significance and the perspectives of integration.

Furthermore, the Presidents of the rural unions of MERCOSUL, representing more than five million small farmers and six million salaried people, met in Montevideo in October 1993, to analyse the impact of integration on their members and to elaborate a declaration widely discussed and disseminated. Among many suggestions and claims, they ask that the integration process does not preferentially favour the trading relationships and that the governments elaborate restructuring policies, as the European Union continues to do for its small farmers hardly affected by integration (Chaloult, 1994). In this context, the insertion of social requirements into international trading agreements and the preservation or creation of social programs for farmers affected by economic changes are obviously crucial.

Rural institutions, such as unions, cooperatives and non-governmental organizations, can and *must* mediate relationships to improve rural control over the

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2. The democratization process is quick and sometimes the voters even have sophisticated choices. For example, during the last Brazilian presidential election, in October 1994, the two candidates who gained, by far, the most votes, had the following backgrounds: one, Luís Inácio Lula da Silva, former worker, was union leader, and the other, the sociologist Fernando Henrique Cardoso, elected President, was a former left wing leader and university teacher who lived abroad during the military regime.

regionalization and globalization processes. These institutions can act effectively in order that more emphasis be given to ecological issues, traditional rural culture, knowledge of people and such values as solidarity, justice and creativity. They can generate alliances that will diminish the risks and uncertainties for individual economies from expanding globalization of trade (Apelaide and Fullerton, 1994). The interaction of non-governmental organizations and various institutions at the municipal or state levels, could create a new "Arena Society": "The current restructuring of all groups and organizations, and the rise of new non-governmental horizontal institutions makes the Arena Society rich and diverse in institutional structure (Fuller, 1994).

In the three Americas, local, state and regional rural institutions can help to counterbalance to some extent the power of transnational corporations and of financial capital, through more democratic participation and institutional restructuring, building, than, a stronger civil society, based on the logic of a social contract and not on that of capital accumulation.

Obviously in the Southern Hemisphere, the Nation-States must be present at the primary, secondary and financial levels in order to defend the rural producers, as is happening in the northern or core nations. For example, as far back as 1967, the former European Economic Community (EEC) adopted a Common Agricultural Policy and took strong measures to protect the primary sector and sectors linked to it. The key Northern Hemisphere countries that negotiated the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), legitimized, through the agreements signed in Marrakech in April 1994, billions of agricultural subsidies for their farmers, often against the interests of the Southern Hemisphere which will be strongly affected in terms of competitiveness. It is interesting to observe that the North pressures the South to very quickly liberalize its trade and agricultural policies, while at the same time the former maintains a strong State presence!

Integration generates unemployment and migration in sectors of the economy more vulnerable to the process, and then the Nation-State must be alert. For example, experts estimated that in Mexico more than one million peasants and almost three million communal farmers will be unable to resist the competitiveness of the American agriculture, especially in grain production. According to the Mexican Undersecretary of Agriculture, more than 13 million people will have to migrate from the countryside during the next decade (Foweraker, 1993 : 285). The government cannot ignore this reality and must adopt policies.

In South America, one of these policies could be linked to land redistribution. Indeed, in the subcontinent, the concentration land in rural areas is one of the worst in the world. According to the United Nations, Paraguay with a Gini Index of 0.94 and Brazil with one of 0.88 are respectively the first and third country in the world in terms of land concentration (Palau, 1993). Many decades ago the Northern Hemisphere had its successful agrarian reform, such as, for example, Japan, after the Second World War. Many Latin American countries would benefit from an authentic agrarian reform that would improve the quality of life of millions of people and would slow the migration process towards cities or towards developed countries, such as the U.S.A. and Canada.

This type of reform would save jobs in the U.S.A. and Canada, bearing in mind that today, Mexican, Central American and even South American workers, seasonal or not, already work, not only in California or Texas, but also in the Prairie Provinces and in Québec, Canada. Although it has diminished over the last few years, the birth rate remains very high in Latin America. An excess of population



can create a demographic problem which, in a recession context, will inevitably increase migration from South to North. The possibility of a free trade area from Yukon in Canada to *Tierra del Fuego* in Argentina until 2005 may also increase the flow of migrants from one subcontinent to another, with rural and social impacts in North America.

## CONCLUSION

The rapid process of integration in Latin America and between the Americas, following the neo-liberal framework, is worsening the already very bad income distribution in the Southern Hemisphere, increasing social inequality and generating marginalization and social exclusion at various levels. In terms of rural impacts, integration favours modernization, economies of scale, competitiveness, capital intensive investments, increased trade and gives more power to the transnational corporations. The threat exists that rural people and institutions will have little control over the rapid changes and the globalization process. Rural institutions are aware that they need to accelerate their restructuring and build democratic alliances within the rural sector and with other segments of the civil society.

Another rural impact of this rapid integration process is the loss of competitiveness of millions of small farmers, forcing them to migrate within their own or towards neighbouring countries, as well as towards the Northern Hemisphere. Then the already existing migration from South to North will be accelerated and may create labour market and racial conflicts in the U.S.A. or Canada, as is happening in Europe, as well as social and political tension and polarization of the Americas, jeopardizing the construction of an ambitious free trade area in the Western Hemisphere.

The rethinking and restructuring of rural institutions, in alliance with local governments and various segments of the civil society, such as the non-governmental organizations, is now a necessity in order to construct a different society, based not on competitiveness and a "compartmentalized" vision, but on solidarity and a holistic approach.

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