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The Bolivarian Alternative for the Americas: Rethinking Economic Integration After the Failures of Neoliberalism

Shannon D. Williams
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To the Graduate Council:

I am submitting herewith a thesis written by Shannon D. Williams entitled "The Bolivarian Alternative for the Americas: Rethinking Economic Integration After the Failures of Neoliberalism." I have examined the final electronic copy of this thesis for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Master of Arts, with a major in Sociology.

Paul Gellert, Major Professor

We have read this thesis and recommend its acceptance:

Harry F. Dahms, Jon Shefner

Accepted for the Council:
Dixie L. Thompson

Vice Provost and Dean of the Graduate School

(Original signatures are on file with official student records.)

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THE BOLIVARIAN ALTERNATIVE FOR THE AMERICAS:

Rethinking Economic Integration After the Failures of Neoliberalism

A Thesis Presented for
the Master of Arts
Degree
The University of Tennessee, Knoxville

Shannon D. Williams

May 2009

For Jaime and Elijah

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Abstract

The deteriorating societal conditions that have accompanied the implementation of the neoliberal model in Latin America have been well documented. This analysis draws heavily on this work to identify the emergence of de-industrialization, displacement of food production, exclusion of basic human services, and excessive unemployment following the application of neoliberal reform. Such ill effects have ushered in a strong anti-neoliberal current that has opened up new spaces for discussion and debate about alternative development models for the region. Perhaps the most radical alternative to emerge is the Bolivarian Alternative for the Americas (ALBA). ALBA's architects have been explicit in their denunciation of neoliberalism and insist that ALBA is an alternative that has been designed to rectify the ills associated with neoliberal reform. The following analysis examines ALBA as an alternative idea and practice of development. The following analysis examines the ways in which ALBA is formulated as an abstract alternative to neoliberalism and highlights the concrete policies and projects that distinguish it from the defining aspects of the neoliberal model.

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Chapter 1

Introduction

The devastating effects of neoliberalism on the economic and social development of Latin America have been well documented (Peet and Hartwick 1999, Petras and Veltmeyer 2001, Petras Veltmeyer and Vieux 1997, Dello Buono and Bell Lara 2007). In many instances, the application of the neoliberal model has brought Latin American nations to the brink of economic collapse. The deteriorating quality of life that has accompanied this model of development (e.g., increasing poverty and inequality, loss of formal employment, loss of basic public services, and food shortages) has harvested a wave of resistance that has spread across all of Latin America. Massive street protests have resulted in successive overthrows of multiple governments dedicated to neoliberalism, including Peru (2000), Argentina (2001), Bolivia (2003, 2005), and Ecuador (2000, 2005), and many leftist leaders who fervently campaigned against the neoliberal model have been swept into power at the ballot box- Chavez in Venezuela, Morales in Bolivia, Correa in Ecuador, Ortega in Nicaragua, and Lugo in Paraguay.

The anti-neoliberal current has opened up new spaces for discussion and debate about alternative development strategies in the region. Dello Buono and Bell Lara (2007:73) point out that there is an “increasing urgency”, by a “growing consensus”, “to define a regional development agenda that responds to the demands and interests of the people.” It is within this context that scholars have focused their attention on the Bolivarian Alternative for the Americas (ALBA) (Dello Buono and Bell Lara 2007, Foster 2007, Harris and Azzi 2006). ALBA (named after Simon Bolivar, the 19th century revolutionary that liberated South America from Spanish rule) is a regional trading block established between Venezuela, Cuba, Bolivia, Nicaragua, Dominica, and Honduras in direct response to the long-term economic decline generated by neoliberalism. ALBA's representatives have characterized it as a project based on regional solidarity, directed toward fostering sustainable development through regional economic integration.

The purpose of this thesis is to examine ALBA as an alternative idea and practice of development. In this analysis I will examine the ways in which ALBA is formulated as an abstract alternative and highlight the concrete policies and projects that distinguish it from the defining aspects of the neoliberal model.

The methodological approach taken in this thesis is an historical sociological one. Much of the analysis therefore relies on secondary data including: books, journal articles, government documents. The thesis also builds on empirical material about ALBA that was gathered from official ALBA documents, journal articles, and key newspaper and periodical reports about ALBA. [1]

Below, I provide a historical overview of the emergence of the neoliberal model in Latin America by highlighting the global political and economic developments that lead to its materialization. I pay particular attention to Venezuela throughout this thesis because of its leading role in the formation of ALBA. This historical analysis begins with an overview of Latin America's first attempt at establishing sustainable economic development through import substitution industrialization (ISI). I explain why the ISI model ultimately failed, and how neoliberalism emerged as the "logical and rational"

[1] With respect to official ALBA documents written in Spanish (these include ALBA 2005, ALBA 2006, ALBA 2007, ALBA 2008, ALBA 2008a) I relied heavily on internet-assisted translations. However, no direct quotations were taken from these translations.

alternative. Although, neoliberals argue that ISI was destined to fail because of heavy state intervention and protectionism, the following analysis reveals that the principal challenges of ISI resulted from the dissolution of the Bretton Woods fixed exchange rate system, not the microeconomic devices of the ISI model (Soederberg 2004, Gowan 1999, Rodrik 1998.

Next, I describe the neoliberal model of development in detail, both as an abstract theoretical concept and in its concrete manifestations in Latin America. This is followed by a discussion of the widespread effects of neoliberal structural reform on the economic development and societal conditions of the region. Although there has been no standard application of the neoliberal model, I identify three main elements that have consistently accompanied its implementation since the 1990s: trade liberalization, privatization, and financial deregulation. The effects of these structural reforms have varied among Latin American nations. Nevertheless, this analysis reveals the occurrence of widespread patterns with respect to the trajectory and stability of economic and social development. More specifically, this analysis identifies the emergence of de-industrialization, displacement of food production, exclusion of basic human services, and excessive unemployment after the implementation of these reforms. Following this discussion, I highlight the emergence of the anti-neoliberal current throughout Latin America.

In the key empirical chapter of the thesis, I compare the features of the ALBA model (including the terms and conditions of trade, joint ventures, and finance) with features of the neoliberal model (i.e., trade liberalization privatization, and financial deregulation). This comparison is approached first by way of a comparison of the theoretical and ideological approaches that ALBA and neoliberalism offer and second by a review of the projects and programs that ALBA is beginning to develop. The latter comparison allows consideration and early assessment of ALBA's potential to thwart the effects associated with neoliberal reform. I conclude with a short discussion on ALBA's short and medium run potential as a sustainable regional model of development.

Chapter 2

The Development Era in Latin America

During the postwar period, development strategies took on a practical and sustained significance in Latin America, as nations in the region searched for a model of development that promoted economic sustainability and enhance their political independence.[2] By the end of WWII, collective negotiations directed toward reestablishing international trade and promoting economic growth and stability between the world's capitalist powers were underway. Because the productive and technological capacities of Great Britain, France, and Germany had been weakened or destroyed in the war, the United States emerged as the world's most powerful industrial nation. Despite the shared emphasis on peace and stability between nations, the United States had no intention of relinquishing its newly established position as the world's dominant power. Its position of superiority allowed the United States to take the leading role in establishing the terms and conditions of the postwar settlement.[3] Central to US objectives was the reconstruction and expansion of a global market economy that would bring capitalist-style economic development to the rest of the world. To this end, a number of international institutions were established. At the Bretton Woods Conference in 1944, the International Bank for Reconstruction (more commonly referred to as the World Bank) was established to provide much-needed financial assistance for the economic development of war torn nations; the International Monetary Fund (IMF) was created to provide short-term lending to coordinate currency fluctuations resulting from trade imbalances between capitalist

[2] For a thorough discussion of development during the postwar era, see Gilbert Rist, *The History of Development: From Western Origins to Global Faith*, London: Zed Books, 1997.
[3] See: David Harvey, *The New Imperialism*, New York: Oxford University Press, 2003.

nations; finally the US dollar, with its exchange price fixed to gold, became the principal medium of exchange for all international transactions. In 1948, at the UN Conference on Trade, the General Agreement on Tariff and Trade (GATT) was established to provide the terms and conditions of international free trade.[4] Overtime, these institutions would be increasingly relied upon as US geopolitical interest pushed to reestablish and expand international trade.

Two important events during the post-war period influenced the dynamics of capitalist expansion: (1) the politics of the Cold War and (2) the emergence of newly independent states in Asia and Africa after the disintegration of European colonial empires (So 1990). The biggest perceived threat to capitalist expansion was the Soviet Union, which had already established major territorial gains in Europe during the war and was now beginning to spread to parts of Asia. The Soviet threat was two-fold. The first part rested upon the fact that the Soviet Union and its sphere of influence kept about one-third of the world outside the reach of capitalist production, especially resource extraction and potential consumer markets. The second part consisted in the fact that the Soviet model provided an alternative path to economic development, an alternative that could spread to poor independent nations in Asia, Africa, and Latin America. ALBA, as we shall see, represents the continuation of this ideological and material challenge to US capital dominance in Latin America. The preoccupation with the "Soviet threat" obliged financial operators to begin directing assistance toward the economic development of

[4] Initially GATT was to be instrumental in moving international trade away from the postwar system of planned resource allocation. However, due to strong international protectionist forces, it became little more than a negotiation forum during the immediate aftermath of its inception (Veltmeyer, Petras, and Vieux 1997:13).

poor nations during the 1960s (Mc Michael 1996). This was the beginning of what is commonly referred to as the “development era”. From a geopolitical point of view, support for development projects provided the opportunity to thwart the expansion of communism by gaining support of developing nations and expanding capitalist economic relations around the globe.

The philosophy behind the development project was simple: poor nations would need to industrialize if they were to reach the level of prosperity of the developed regions of the world (the United States and Western Europe being the most prominent examples) (So 1990). Much of the intellectual justification for development came from the ideas of the modernization school, which held that all societies progress along a similar evolutionary path of development. This path of development was viewed as natural and progressive (Rostow 1959). It was comprised of successive stages that ranged from “traditional” to “modern”. Poor nations were characterized as “traditional” societies, while Western Europe and the United States were examples of the “modern” stage of development. Somewhere between the traditional and modern stage was the “takeoff” stage, which was responsible for propelling societies forward into modernity. Industrialization was seen as the necessary element that allowed developing nations to “takeoff” in the direction of their more modern counterparts (Rostow 1956). But in order to reach the “takeoff”, developing nations would need a stimulus in the form of a “rise in the rate of productive investment” (in an amount that ranged between 5 - 10 percent of the national income) and “the development of one or more substantial manufacturing sectors”

(Rostow 1956:32). Modernization theory matched well with US international policy. As Alvin So (1990:30) notes:

> If the problem facing third countries lies in their lack of productive investment, then the solution lies in the provision of aid to these countries- in the form of capital, technology, and expertise. Concurring with Rostow, US policymakers therefore viewed American aid as the best way to help Third World countries to modernize. Thus, millions and million of U.S. dollars are loaned each year to Third World countries to build infrastructures and manufacturing sectors, and hundreds of thousands of U.S. technicians are sent to help them reach the takeoff stage.

Import Substitution Industrialization (ISI)

It is important to point out that not all development strategies were equally committed to modernization theory. The U.N. Economic Commission for Latin America (ECLA) was largely responsible for formulating development strategies for nations in the South. ECLA strategists were by no means modernization ideologues, but they too considered industrial development as part of the answer to Latin America's economic upheavals. However, the ECLA stressed another important factor that had been largely neglected by modernization theorists, i.e., the unfavorable position that developing nations had traditionally occupied in the international economy.[5] According to ECLA's chief intellectual Raul Prebisch, Latin America's impediment to building sustainable economic growth was rooted in the fact that the region's economic activity was centered on the export of food and raw materials to core regions in exchange for industrial-produced consumer goods (Prebisch 1950). In this type of trading arrangement, the

[5] Recall that Modernization Theory relied heavily on a state-centered evolutionary model to explain the development process. From this perspective, the fundamental principal that governs the trajectory of national development is an evolution (assumingly) inherent to all forms of social organization. The influence of external factors at the international level, such as competition between nation states or hegemonic domination, does not factor in.

production and consumption of the region was determined by—and dependent on—particular demands from the core. Such ‘foreign oriented economic development’, he argued, necessarily restricts the internal development of poor nations, while leading to declining terms of trade due to the tendency for monopolized international markets to lower the price of raw materials. Prebisch proposed a policy of import-substitution as a means to break the region’s dependency on foreign imports, and to direct production towards domestic needs. The idea was for Latin American countries to build industrial capacity under the direction and protection of the state so that foreign imports could be replaced with products produced domestically. The policies that governments pursued to promote import substitution industrialization (ISI) were broadly similar. Industrial development was encouraged through access to cheap credit and exemption from heavy taxation. The traditional export sector was not to be abandoned but instead used as a means of acquiring international currency (US dollars) for the import of capital goods (i.e., machines and technology to be used by the industrial sector); tariffs and subsidies were implemented to protect domestic industry from international competition (Hoffman 2000).

During the postwar period, there was great optimism among Latin American leaders that ISI would help the region achieve greater economic growth and self-reliance; and for good reason, in the decades following, Latin America’s six largest economies experienced a fairly respectable rate of growth. Between 1950-1980 the average GDP

Table 1: Latin America: Total GDP, 1900-1989 (average annual compound growth rates)[6]

	1900-13	**1913-29**	**1929-50**	**1950-73**	**1973-80**	**1980-89**
Argentina	6.4	3.5	2.5	4.0	3.0	-1.0
Brazil	4.5	4.7	5.0	6.9	7.2	2.3
Chile	3.7	2.9	2.2	3.6	2.8	2.9
Colombia	4.2	4.7	3.6	5.1	5.0	3.3
Mexico	2.6	0.8	4.0	6.5	6.4	1.4
Venezuela	3.3	8.2	5.9	6.4	4.1	-0.1
Arithmetic Average	4.1	4.1	3.9	5.4	4.8	1.5

growth rates of the six largest economies in the region exceeded 5 percent. However, by the 1980's the region began experiencing a sharp economic downturn. See: Table 1. One of the main reasons why the ISI model of development could not maintain its postwar success stemmed from its dependence on international finance for the purchase of capital goods (Hoffman 2000, Veltmeyer 2007, SAPRI Report 2004).

By the late 1970s, Latin American debt had reached crisis proportions. The following historical analysis highlights multiple factors that contributed to Latin America's accumulation of debt, the most significant being the dissolution of the Bretton Woods fixed exchange rate system. Although the ISI model was dependent on foreign finance from the beginning, it was after the removal of the gold standard and international capital controls that this dependence increased immensely. By the early 1980s nations were borrowing just to pay the interest on old loans.

[6] Maddsion (1995).

Dos Santos (1971) highlighted multiple reasons why the ISI model required external financing from the outset. First, developing nations needed foreign currency (US dollars) for the import of capital goods and technology. Unfortunately the traditional export sector did not prove to be a stable source of revenue as initially hoped. The price of raw materials continued to drop in the international market while the cost of imported capital goods steadily rose. Moreover, the amount of revenue generated from traditional exports was volatile and susceptible to the changes in demand of core regions. Over time, the US increasingly lessened its dependence on the exports of developing countries by creating synthetic replacements. Third, a great deal of the surplus generated from the industrial sector was not channeled back into production but was exported back to core regions through patent costs and royalty stipulations that accompanied imported technology. As industrializing nations sent more capital abroad than they were bringing in, many depended on foreign finance to maintain the development and expansion of industry (ECLAC 1998).

In the 1970's Latin America's efforts to industrialize were confronted with additional challenges due to the dissolution of the Bretton Woods fixed exchange rate system and the 1973 oil crisis. The removal of the Bretton Woods fixed exchange rate system in effect, moved the world economy on to a system of freely floating exchange rates. Under the Bretton Woods system, the exchange rate of a country's currency was either directly or indirectly fixed to gold.[7] However under the new system, gold was no

[7] Since the US had most of the worlds gold at the outset of the postwar period, the dollar was designated as the sole currency that would back with $.25 in gold; other countries then backed their currencies in dollars. The fact that all currencies were backed either directly or indirectly by a given quantity of gold, meant that countries could not freely decide the value of their respective currency and therefore manipulate

longer the anchor. Instead, the paper dollar alone became the international medium of exchange. The term used to describe the dollar's new role in international monetary relations is seigniorage.[8] With the dollar's value no longer fixed to gold, its exchange rate with other currencies could fluctuate to a considerable extent as the US Treasury determined.[9]

Since the dollar was still designated as the international medium of exchange to which all other currencies were pegged, the international trading power of Latin American currencies fluctuated every time the value of the dollar rose or fell (Soederberg 2004, Gowan 1999). This meant that if countries were to continue importing technology and machinery for the maintenance and development of industry, they would need to increase their borrowing in order to defend a stable and fixed exchange rate with the dollar.[10]

At the same historical conjuncture, the oil crisis began in 1973, which dramatically increased the cost of oil imports for non-oil producing nations. Instead of

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international trading environments as they pleased. Hence, this decision was designed to create reliability and stability in international monetary relations between countries. See: Gowan 1999: 16, Hudson 2006: 22.

[8] For a comprehensive discussion on the privileges that accompanies seigniorage see: Gowan 1999: 25.

[9] If the Fed wanted to pursue a "strong dollar" policy, it could raise US interest rates, which would pull money out of circulation and into US Treasury Bonds. Conversely, if the Fed wanted to depreciate the dollar it could do so by lowering interest rates (and hence the price at which banks purchase money from the Fed) allowing the banks to lend more liberally. Increased liquidity would pressure the dollar to depreciate.

[10] If the value of a country's currency is falling relative to the dollar, and the country wishes to defend its currency, it must have enough dollar reserve holdings to flood the FOREX, as to absorb the rising demand of the dollar. The country then must take the value received from the sale of the dollar reserves and buy up its domestic currency, making the demand of the domestic currency rise. Monetary crisis occurs when a country cannot stabilize its currency, because it has no more currency reserves to pump into the FOREX. In the event that this occurs, the country must borrow the currency from either the IMF or from private banks if it is to maintain a steady exchange rate with the dollar. According to Gowan, it is usually private banks that offer the most competitive rates for defending currencies, but as we will see this subjects borrowing countries to the volatility of short-term interest rates. See Gowan 1999:33.

pursuing stabilization policies that would have required sharp macroeconomic adjustments, most nations decided to continue their industrialization efforts by expanding their external borrowing. This, however, resulted in persistent inflationary trends across Latin America (Hoffman 2000). The average rate of inflation steadily rose from 12 percent in 1970, to over 60 percent by 1976 (ECLAC 1998: 356).

Finally, the removal of the Bretton Woods international "capital controls", allowed private Western banks (which ironically had also been selected to recycle OPEC's petrodollars during the oil crisis) to emerge as the primary lenders to developing nations (Gowan 1999: 29). The dramatic increase in the price of oil due to the oil crisis ensured that there would be plenty of liquidity to go around. Unlike the economic assistance that had come from the World Bank and the Inter-American Development Bank (the primary lending agents during the early postwar period), these private loans were offered at shorter terms and at interest rates that fluctuated with changes in US short-term rates. In short, the " US Federal Reserve could largely dictate the levels of international interest rates thorough moving US domestic interest rates…It could thus determine the cost of credit internationally with enormously powerful effects on other economies " (Gowan 1999: 28). Collectively, these factors brought an unprecedented amount of debt to developing nations.

The Fed's decision to strengthen the value of the dollar in the late 1970s by raising US interest rates set the stage for Latin America's debt crisis. (Gowan 1999:40). For Latin America, the effects of this decision were three fold. First, as mentioned above, a rising dollar meant that developing nations would have to borrow larger sums to defend

Table 2:Average Real Annual Percentage Interest Rate on Developing Country Floating-Rate Debt.[11]

1977	1978	1979	1980	1981	1982	1983
-11.8	-7.4	-9.7	-6.0	14.6	16.7	15.9

a stable and fixed exchange rate in order to continue the import of capital goods for the development of industry. Second, the hike in US interest rates exponentially increased the indebtedness of developing countries, as interest rates on private loans spiked. As table 2 indicates, floating interest rates rose steadily on Latin American foreign debt from –11.8 in 1977 to 15.9 by 1983.[12] Third, the rate hiked opened up investment opportunity in US bonds, which resulted in a massive wave of capital flight from Latin America to the North (Soederberg 2004: 37).

A rising US dollar, coupled with the high cost of oil, made Latin American nations increasingly dependent on foreign finance.[13] By the late 1970's, the amount of debt that Latin American nations had accumulated reached crisis proportions. Many nations were forced to continue borrowing just to meet debt service payments. In 1979 Brazil directed 95.5% of its new finances to debt service payments (Evans 1983). As debt and inflation steadily rose, political pressures began to emerge against state-led development in some regions of Latin America. Domestic enterprise became increasingly

[11] Reisen (1985).
[12] Negative interest rates indeed seem paradoxical. However, it is understandable when one considers the risk (from inflation) associated with holding on to massive amounts of capital. Negative interest rates can best be understood as a fee that owners pay banks so that they may avoid the costs associated with holding to large sums of cash (Thornton 1999). During the 1970s, the spike in oil prices produced a massive amount of revenue that OPEC states could not absorb into their own productive sectors. Consequently, private US Banks were sought out as the ideal recycling agents, against their own will I might add. According to Gowan (1999: 22), the Nixon administration all but forced them to accept this role, as banks initially didn't want the risk associated with investing such a huge amount of money.
[13] See: footnote 8.

aggravated by the high cost of domestic finance due to rate hikes that governments had implemented to curb inflation (Hoffman 2000:133). As early as the mid 1970s, international and domestic capitalist classes had begun expressing their disapproval with the high levels of public ownership, price controls, and wage regulations (Soederberg 2004:36). Opposition was most pronounced in the Southern Cone, as exemplified by the region's two US backed military coups, Chile in 1973 and Argentina in 1976. Chile's military government, in coordination with the US, was the first to implement neoliberal economic reform (Harvey 2007) in Latin America, and both regimes progressively shifted away from the ISI strategy towards an "outward oriented" model of development (Hoffman 2000:134). However, it wasn't until after the eruption of the region wide debt crisis that neoliberalism became the standard model of development in the region.

In the summer of 1982, both Brazil and Mexico found it impossible to keep up with debt service payments. Their only option was to default on a combined debt of US$ 300 billion. The news of debt default terrified Western lenders. The IMF, in collaboration with US Banks and the World Bank, set out on a purported "rescue operation" to help the countries "stabilize" their economies. The plan they proposed included a rescheduling of debt payments and additional aid to stabilize the BoP deficit and to service the debt. However, the additional aid was contingent on the Mexican government taking steps to "stabilize" their economy by introducing austerity measures that required governments to impose strict monetary and fiscal discipline at the expense of the Mexican citizenry. Austerity measures included:

- a cap on budget deficits;

- a freeze on public spending levels;
- the removal of subsidies;
- an increase in taxes;
- currency devaluation.[14]

The implementation of austerity measures shifted national economies away from the ISI model of development toward an export-oriented model of growth. Cheaper currency made exports more competitive while at the same time creating recession-like conditions that reduced demand for imports. These measure were not designed to generate economic growth. Rather, they were intended to induce savings, stabilize the balance of payments (BoPs), and generate hard currency from exports so that countries could service debt (Veltmeyer, Petras, and Vieux 1997:16). In this regard these policies were quite successful. As table 3 indicates, from 1980-1989 economies in the region made dramatic cuts in imports and expanded exports, resulting in a trade surplus that began to rectify BoP problems. With savings generated from cuts in fiscal budgets and caps on imports, countries began making significant strides toward servicing their debt. However this success was not without its social cost. Cuts in fiscal expenditures led to sharp declines in public spending for social services, especially in the areas of healthcare and education (SAPRIN 2004).

[14] This list is based on SAPRIN 2004:176.

Table 3:External Balance, Latin America 1981-9 (billion $)[15]

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Goods Imports	93.53	100.90	82.19	60.31	61.80	61.13	61.92	69.78	78.97	84.81
Goods Exports	91.41	98.59	89.49	89.94	100.20	94.28	79.35	90.13	102.45	111.57
Trade Balance	-2.12	-2.31	7.30	29.63	38.41	33.15	17.43	20.35	23.48	26.76
Services Balance	-29.37	-41.84	-50.28	-40.02	-41.67	-38.91	-36.57	-33.62	-36.74	-39.29
Debt Service	26.97	29.89	32.31	30.01	31.11	31.65	31.98	32.04	37.85	34.16
Current Account	-30.18	-42.70	-41.89	-8.65	-0.99	-2.34	-16.02	-9.22	-8.69	-7.77

The removal of subsidies and price controls contributed to a rise in the cost of living, unemployment, the displacement of domestic industry, and the degradation of infrastructure. Together these factors put downward pressure on the living standards of popular sectors (Veltmeyer, Petras, and Vieux 1007:67). Initially these policies were met with resistance. The increase in the price of food and fuel, along with the cessation of many imported consumer goods, sparked riots and protest in a number of countries. The World Bank stepped in with additional funds that calmed the unrest. These loans were contingent on nations instituting longer-term structural changes that had less of an immediate impact than did austerity measures (SAPRIN 2004). These reform packages became known as structural adjustment programs (SAPs) and were introduced with the intent of boosting investor confidence by creating a favorable investment climate for international capital. (Hershberg and Rosen (2006:7). These reforms benefited private banks in two important ways. First, the implementations of SAPs allowed private banks to recover some of their losses via the expropriation of public enterprises. Second, it opened up investment opportunities that were less risky than traditional bank lending.

[15] Inter American Development Bank 1990.

After the threat of debt default, many private lenders were less enthusiastic about having their assets tied up with the fates of borrowing countries. IMF-led SAPs attempted to rectify this situation by insisting that nations remove controls on capital accounts as a condition for receiving additional aid. This allowed private lenders to assume less risk. They could now lend to developing nations through the purchase of government securities, which could be withdrawn at the discretion of the lender (Gowan 1999: 41). As David Harvey (2003: 62-67) has commented, the debt crisis established an unprecedented standard: if "private lenders get over stretched in international lending", "the IMF and the World Bank" will come "bail them out" by implementing greater control on debtor nations' economies.

It's also important to consider why Latin American governments were obliged to accept the IMF's terms of agreement, something that can only be appreciated after understanding the true significance of dollar seigniorage in international trade. Since the dollar is the international medium of exchange, countries wishing to buy anything abroad must have dollars! The two principle ways through which countries acquire dollars is through exports or loans. Had governments refused these new terms and defaulted, their access to international currency would have all but dried up. Hence dollar seigniorage has endowed US financial institutions and the IMF, with the power to restructure the economies of developing nations to their own advantage by operating as the world's principle source of credit (Gowan 1999: 21). However as we will later see, Venezuela has emerged as a new international lender and threatens the regional supremacy of this powerful creditors cartel. Although their specific application has varied by country, SAPs have most often included:

- trade liberalization;
- labor market reform
- deregulation of the financial sector/ open capital accounts;
- privatization of public enterprises and services.[16]

The Demise of ISI and the Emergence of Neoliberalism in Venezuela

Venezuela's development history was quite different from most Latin American nations. Due to its specificity, and because of its leading role in the creation of ALBA, it is necessary to distinguish Venezuela's history from the general patterns that emerged during the development era. Because Venezuela had access to abundant oil revenues during the early twentieth century, it had less of an incentive to embark on major development projects during the early postwar period. It wasn't until 1959, after the price of oil began to fluctuate sporadically, that Venezuela implemented its ISI strategy. However, heavy oil revenues allowed Venezuela to finance its development model long after other nations in the region were forced to abandon ISI.

Oil became the dominant feature of Venezuela's economy after its discovery in the 1920s. In the decades following, Venezuela would become one of the world's largest oil producing countries. By the 1930s, oil was the single most import source of private and public wealth, constituting 91.2 percent of total exports (Wilpert 2007: 10). With an

[16] This list is based on SAPRIN 2004:178.

abundance of oil revenues, Venezuela quickly evolved into a classic renter-state, using heavy oil rents to import consumer goods and finance ambitious social programs. However, beginning in the late 1950s, fluctuations in the international price of oil posed unprecedented challenges to Venezuela's oil dependent economy. In 1958, the reopening of the Suez Canal, coupled with the development of oil fields in the Middle East, drove oil prices down by 25 percent (Hoffman 2000:132). The decline in oil revenue obliged the Venezuelan government to embark on an ISI strategy the following year. The goal was to create a robust agricultural and industrial base that would help diversify Venezuela's economy away from oil (Naim 1993: 40). Like other ISI strategies throughout Latin America, the state assumed heavy responsibility in the development process. Tariffs were placed on imports that competed with domestic enterprise. Oil revenues were used to import capital goods for the development of industry, mining, and agriculture (Naim 1993). The Venezuelan state also relied on oil revenue for allocating heavy subsidies to these same sectors. To relieve inflationary pressures, the government implemented price controls on certain staple items such as corn, flour, milk sugar poultry, and sardines (Naim 1993: 55).

Unfortunately, Venezuela's efforts to develop industry and large-scale agricultural had little success. Over reliance on state expenditures allowed firms to continue operation regardless of their competitiveness. Moreover, the sell of oil maintained an overvalued Bolivar that undermined the competitiveness of Venezuela's industrial base (both domestically and internationally). Non-oil exports were too expensive to sale internationally, and consumer goods were cheaper to import than produce at home

(Wilpert 2007:11, Lebowitz 2006:86). Nevertheless, Venezuela continued to pursue the ISI model up until the late 1980s.

Beginning in the 1970s, Venezuela began to experience the effects of sporadic international oil shocks, i.e., dramatic shifts in the price of oil. The volatility of oil prices soon began to impact the state's ability to manage its fiscal budget. When the price of oil increased, so did state spending for public expenditures and industrial projects. However, when the price of oil dropped, the Venezuelan state did not adjust its spending levels. Rather the state relied on foreign banks to tide it over during periods of low oil prices. As in the case of other nations who accepted private loans, the interest that Venezuela had to pay fluctuated with US short-term interest rates. Likewise, when the US raised interest rates in 1979, not only did the interest on Venezuela's private loans increase, but this also produced a massive wave of capital flight to the North, as investors sought better returns on their money capital. By 1982 Venezuela foreign debt totaled over $35 billion (Naim 1993). As oil prices continued to drop throughout the 1980s, Venezuela found itself running massive trade and budget deficits. By 1989, with its foreign reserves depleted, Venezuela was forced to borrow from international creditors once again. However, this time additional loans were contingent upon Venezuela adopting both austerity measures and structural adjustment. The implementation of austerity measures shifted Venezuela's economy away from the ISI model of development toward an export-oriented model of growth. As in other Latin American nations, the idea was to induce savings, stabilize the balance of payments (BoPs), and generate hard currency from exports so that Venezuela could service its debt. These efforts were complemented by structural adjustments that focused on creating a favorable investment climate for international capital.

The austerity and structural adjustments that Venezuelan president Carlos Andres Perez agreed to were comprised of the same basic elements that other Latin American nations had adopted. Austerity measures included: a cap on budget deficits; a freeze on public spending levels; the removal of subsidies; increased taxation; and free currency convertibility, which resulted in a 170 percent devaluation of the Bolivar (Naim 1993:54). Venezuela's SAP included: trade liberalization, privatization, financial and labor market reform. The effects of trade liberalization and privatization measures will be highlighted along with other case examples in the following chapter. However, because Venezuela's financial reform was distinct in important ways from the regional patterns identified in the next chapter, it will not be included in the financial deregulation section in the next chapter.

It is important, however, to briefly clarify the distinctiveness of Venezuela's financial debacle. Unlike the experiences of most other Latin American nations that implemented structural adjustment, the financial reforms that were imposed actually brought tighter regulations back in; however, this was not before the financial sector collapsed. Throughout the 1960 and 70s, there was little oversight and regulatory control over of banking practices. Bankers were powerful lobbyists and had important political ties. During the years of high oil prices Venezuelan banks enjoyed strong deposits and lent liberally. A lack of government oversight lead to illegal accounting practices, bad loans, and corrupt clientele investments (Villasmil, Monaldi, Rios, and Gonzalez 2007:

277). Although financial reforms (aimed at bringing in tighter regulatory controls) were a key feature of the 1989 structural adjustment, they did not advance as planned. Venezuela's powerful banking cartel successfully postponed these measures up until a full-blown banking crisis emerged. Ultimately, the government was forced to intervene in order to save four of the largest banks in Venezuela, but this came at the expense of the overall stability of the Venezuelan economy, as heavy government assistance left international reserves severely depleted. Further declines in oil prices, the banking crisis, and resulting capital flight forced Venezuela to turn to international lending institutions. In order to restore investor confidence and secure international capital flows, Venezuela once again had to gain the IMF's seal of approval. This second round of structural adjustment was called " The Agenda Venezuela Program". It was primarily designed to advance further the elements of the previous SAP, particularly the reestablishment of privatization and the effective implementation of financial regulation (Villasmil, Monaldi, Rios, and Gonzalez 2007).

At the present juncture, Venezuela is once again using heavy oil revenues to finance development. The failures of neoliberalism, which will be discussed in the following chapter, have relegitimated the state as the chief administrator responsible for directing national development. What makes Venezuela's current experience different form the ISI period, is that development is not be pursued strictly within the confines of its national borders. Rather, Venezuela is using its windfall oil profits to pursue a regional development agenda known as ALBA. Although the ALBA model faces some of the same challenges of ISI, I argue that its regional cooperative aspect gives it more resources from which to pull from, allowing nations to pursue development collectively by “joining forces” as oppose to each country having to bear the burden alone. But before expounding further upon ALBA, it is important to clarify the context in which this new development model has emerged.

Chapter 3

Neoliberalism

Eventually the adoption of SAPs became standard policy for any nation wishing to receive aid from the IMF, World Bank, and US lenders (SAPRIN 2004). By the end of the 1980s, as the debt crisis came to full fruition, practically every nation in the region had implemented austerity measures and SAPs (Veltmeyer, Petras, and Vieux 1997: 16). Later, portions of these reform packages would be refined as some nations signed on to GATT (later to become the World Trade organization (WTO)), the North American Free Trade Agreement (NAFTA), the Central American Free Trade Agreement (CAFTA), the Organization for Economic Cooperation and Development (OECD), or various other bilateral agreements.

Inspired by the guiding principles of classic libertarian philosophy and neoclassical economics, SAPs were designed to "free" markets and trade from control of the state. The widespread implementation of SAPs and austerity measures marked the beginning of what is commonly referred to as the "neoliberal era". Neoliberalism is a political and economic theory about how best to structure capitalist economies.[17] The origins of neoliberalism can be traced back to the early libertarian philosophy of Herbert Spencer and to the work of early neoclassical economists such as Williams Stanley Jevons, Carl Menger, and Leon Walras. Later, the famous Austrian School economist, Friedrich Alfred von Hayek would prove to be one of the most avid defenders of free markets and trade. Hayek's work would be very important to Milton Friedman and the "Chicago Boys", the famous architects of early neoliberal policy in Chile

[17] See: Fernandez-Kelly (2007) for a discussion on the lineage of neoliberal thought.

Neoliberalism holds that overall economic growth is best advanced through the free play of market forces (Hayek 1979). According to this theory, free and open markets provide the most efficient means of allocating society's productive resources. State intrusion into economic affairs should be strictly prohibited, so as to allow for market-based solutions based on comparative advantage. This premise holds that specializing in the production of goods and services in areas where there is greatest advantage best maximizes gains from international trade (Cole 1996: 233). Moreover, free and open economies usher in competition that facilitates such specialization by cleansing the economy of inefficient producers (Balassa, Bueno, and Simonsen 1986). With the influx of more efficiently produced imports, consumers benefit by having access to cheaper goods and services. Furthermore, in terms of getting "prices right", free markets provide the most efficient means for setting prices based on the law of supply and demand. From this perspective consumers have the power to discipline producers by buying less when prices for goods and services rise to high. Conversely, the implementation of interventionist policies such as government price controls is apt to stifle reinvestment, leading to shortages in supply and setting up conditions for a thriving black market where prices rise to levels that exceed the purchasing power of most people. Hence, the role of the state must be strictly relegated to establishing and protecting free markets, free trade, and private property rights (Harvey 2007:22).

In practice, neoliberalism has often diverged from this theoretical model, especially with respect to the role of the state. Contrary to neoliberal orthodoxy, the emergence of neoliberal reform has not entailed the dismantling of state intervention in the economy. As will become clear, closer examination suggests that the state has moved to a more selective type of market intervention, one that rewards financial, transnational, and domestic capitalist classes at the expense of the popular sector (Reygadas 2006, Veltmeyer, Petras, and Vieux 1997). Below, I draw attention to the effects of what I consider to the most significant aspects of neoliberal reform with respect to economic development, namely:

- trade liberalization
- privatization.
- financial sector liberalization

For each of these, several national case examples are included although not fully developed. They are intended to illustrate the occurrence of general patterns following the implementation of neoliberal reform and to set the stage for a better understanding of ALBA as an alternative in the following chapter.

Trade Liberalization

Trade liberalization came to full fruition after initial austerity measures had taken effect. It is important to recall that austerity measures were aimed at generating savings in hard currency so that countries could begin servicing their debt. The strategy was to curb imports and maximize exports. Thus, following the implementation of austerity measures, tariffs had not been dissolved and quantitative restrictions on imports still applied (SAPRIN 2004:46). However, things started to change between the mid 80s and early 90s, as many countries began reducing or eliminating tariffs and quotas on imported goods. The scenarios under which trade liberalization was advanced varied from country to country. In many instances, trade liberalization was implemented in order to secure additional funds from the IMF. At other times it was adopted in connection with respective countries joining regional trading blocks such as the GATT, WTO, NAFTA, CAFTA, or other bilateral agreements. Below I highlight the effects of trade liberalization with respect to Mexico, Ecuador, Nicaragua, and Venezuela. I have different rationales for including these particular cases. First, Mexico was chosen because of its involvement in the North American Free Trade Agreement (NAFTA), one of the most controversial free trade agreements of the 1990s. The cases of Venezuela and Nicaragua are important because both countries are members of ALBA. Exploring their history will put us in a better position to understand why these two countries have elected to pursue alternatives to free trade. Similarly, I highlight Ecuador because of its close involvement in ALBA. While not an official member, Ecuador has consistently sent a representative to the annual ALBA Summit and is actively pursuing complementary forms of integration with ALBA members.

In the case of Mexico, the government removed import restrictions on basic consumer goods as a means to tackle increasing inflation by channeling more supply into the domestic market (SAPRIN 2004:46). At the same time, Mexico was attempting to expand its exports to the north but was increasingly met with US protectionism. To get beyond this barrier, in 1987 Mexico agreed to the stipulations required by GATT, which promised greater access to US markets (Soederberg 2004: 41-43). Among these stipulations was a reduction in tariff levels from 50 percent to 20 percent of the total value of the imported product (Jose Alberto Garibaldi 2007).[18] The treaty negotiations led to additional complementarities between US capital and the transnational *Maquila* industries,[19] with the US providing financial resources and Mexico providing cheap and "flexible" labor for the production of US imports (Jose Alberto Garibaldi 2007: 149). As a result, Mexico's export sector made modest gains. This had a positive impact on unemployment levels and currency earnings in the more dynamic export regions (Reygadas 2006:125). However, most of the jobs that were created were concentrated in the *maquila* industries, which provided unstable contract work and paid very low wages (Reygadas 2006: 126).

Unfortunately, the rest of the Mexican economy did not fare as well. The reduction of tariffs released a wave of cheap US imports that displaced most small and medium sized industry that produced for the domestic market (SAPRIN 2004, Reygadas 2006, Veltmeyer and Petras 2000). Also, the removal of government subsidies (as part of the austerity measures) certainly contributed to the decline of domestic production. Unfortunately, the high cost of credit inhibited most firms from making the technological renovations that would have allowed them to compete.[20] As numerous domestic firms closed down, unemployment soared and countless numbers were thrown into the ranks of the informal sector.[21] In 1994 the situation was exacerbated with the signing of the

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[18] For a general discussion see: Jose Alberto Garibaldi 2007.
[19] For a general discussion on *Maquila* see: Soederberg 2004 44-45).
[20] The implementation of high interest rates was part of a two-fold strategy. First, it would reduce the amount of money in circulation, which put downward pressure on inflation. Second, high interest rates were used to attract investment into government bonds which was a way for Mexico to provide its own source of financing after international credit had begun to dry up (more below).
[21] The "informal sector" is a term that denotes the major transformation that the labor reserve army has undergone since the rise of the neoliberal era. Among those included in the informal sector are the unemployed and underemployed who are subject to irregular forms of employment- part time and short-

NAFTA. The opening of trade resulted in a trade deficit that reached US$ 4.7 billion by 2000. By 1998, an estimated 20,000 small businesses had been forced into bankruptcy as a result of trade liberalization (SAPRIN 2004: 56). The displacement of domestic producers has been accompanied by increasing numbers of transnational producers. As of 2004, more than 70 percent of exporting enterprises were foreign owned (Reygadas 2007: SAPRIN 2004: 59).

The agriculture sector was hit the hardest, as domestic growers could not compete with the cheap imports that flowed in from the north. These imports contributed to a significant rise in unemployment and the demise of domestic food production.[22] Lower tariffs on subsidized[23] US corn imports pushed the price of corn down to force more than 1 million Mexican farmers out of business since 1994 (Prevost and Weber 2002: 71). The dumping of cheap food imports, coupled with reductions in state support for domestic production, lead to declining food security in Mexico. Food dependence rose from 18 percent in 1980 to 43 percent by the end of the 1990s. In 1996, over half of Mexico's grain consumption was met through imports (SAPRIN 2004:142). Unfortunately, the increase in agricultural unemployment, along with the low wages associated with informal employment, has kept much of the popular sector from taking advantage of the cheap imports (Reygadas 2006).

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term contract work. It has been estimated that this sector makes up over 40 percent of the workforce in Mexico. Also included in these ranks are a significant number of "officially" employed people. The official unemployment record in Mexico is quite skewed, because it counts all those who work even one hour a week within the employed population. For a general discussion on the informal sector see: Veltmeyer and Petras: 2000: 149.

[22] It is all but impossible to distinguish the specific effect of a single feature of macroeconomic policy. In this case it is difficult to say exactly how much trade liberalization contributed to rising unemployment, as other policies were also implemented that contributed to overall unemployment e.g., privatization, financial deregulation.

[23] As of 2005, spending on agriculture subsidies totaled US$ 350 billion dollars (De la Barra 2007:52).

Trade liberalization was first introduced in Ecuador beginning in 1986. Initially this was a “touch and go” process, with only modest reductions in tariff rates and cuts on banned imports -from 600 to 200 percent (SAPRIN 2004: 46). It wasn’t until the beginning of the 1990s that trade liberalization was accelerated. By 1994, dramatic cuts in tariffs had been imposed, reducing the maximum level of protection from 75 percent to an average of 11 percent (SAPRIN 2004: 46). Additional non-tariff reforms were also implemented to secure the county’s membership in the WTO even before negotiations began. Among these were: the removal of import restrictions on agriculture products and machinery; and a 25 percent cut in port taxes. By 1995, Ecuador was regarded as one of the most open trade regimes in Latin America.

As in Mexico, the increased openness of Ecuador’s domestic markets produced a trade imbalance, as imports grew at a faster rate than exports. By 1990 trade imports were growing at an annul rate of 15 percent, while exports grew only by 5.6 percent (SAPRIN: 2004). The growing trade deficit led to a decline in terms of trade, resulting in a decline of the value of exports SAPRIN 2004: 49. For example, the share of GDP attributed to exports rose from 21.5 percent in 1980 to 25.8 percent in 1990. However, the total value of exports declined from US$ 2.52 billion to US$ 2.35 billion during the same period (SAPRIN 2004: 49). Again, the arrival of cheap imports coincided with the displacement of domestic manufacturing. The total share of industrial firms registered in the economy dropped from 20.4 percent in 1985 to 11.6 percent in 1988. During the same period, the percentage of total sales attributed to manufacturing fell from 40.4 percent to 31.4 percent (SAPRIN 2004: 58). The demise of the manufacturing sector contributed to higher unemployment rates, which rose from 6.1 percent in 1990 to 10.4 percent by 1996 (ECLAC 1998:198). The poorest sectors of the population have been affected the most. The bottom 25 percent of the population experienced a rise in unemployment from 10 percent in 1989 to 24 percent by 1999. Moreover, the Gini coefficient increased from 0.44 in 1988 to 0.57 in 2000 (SAPRIN 2004:64).

In Nicaragua, similar patterns played out, except that in this case neoliberalism was ushered in after a US economic embargo and low intensity warfare of the US-backed Contras broke the back and legitimacy of Sandinism in 1990 (Vanden 2002). Following the electoral defeat of the Sandinistas, the Chamorro administration, under the advice and financial support of the IMF and the World Bank, enthusiastically introduced neoliberal reform. Trade liberalization was constituted through the removal of import restrictions and a reduction in the average tariff level, from 42 percent in 1990 to 15 percent by 1992 (Vanden 2002). As with our previous two examples, trade liberalization opened Nicaragua up to a wave of imports that grew faster than the country's exports (ECLAC 1998:256). As the trade balance ballooned, Nicaragua began to experience a decline in the terms of trade. The total value of exports fell US$ 87 million from 1990 to 1992, while the value of total value of imports climbed by US$ 237 million (Vanden 2002: 165). This produced a BoP deficit that reached US$642 million by 1997 (ECLAC 1998:256). By the mid 1990s external debt had climbed to US$ 12 billion dollars, making Nicaragua one of the most heavily indebted countries per capita in the world (Vanden 2002: 165). To service the debt, the government spent over 60 percent of the value of its exports (Vanden 2002: 166). In order to rectify the situation, the government increased credit to large scale farming to stimulate exports but reduced credit to small and medium sized farming operations. The new lines of finance to large agribusiness had little effect on the trade deficit, as the total value of imports continued to outpace the total value exports. However, the reduction in credit to small and medium sized farming resulted in the demise of small and medium scale agriculture. This was followed by dramatic increase in employment. The little job growth that existed was concentrated in the informal sector. By the mid 1990s the official unemployment rate reached 21.8 percent (ECLAC 1998:256). By most accounts unemployment was much higher. In 1995, even the American Embassy estimated that over 60 percent of the able bodied population was either unemployed or underemployed (Vanden 2002: 166).

Venezuela became one of the most liberalized trade regimes in Latin America following the implementation of trade liberalization in 1989. Protectionist strategies that were implemented during ISI were dissolved. Subsidies for domestic production was suspended, and average tariff levels were reduced from 35 percent in 1988 to 10 percent by 1990, making them among the lowest in the region. The explanation for these reforms was the same as those that had been used by other heads of state that agreed to austerity and structural adjustment: the need to rectify disequilibrium in the economy i.e., stabilize balance of payments by orienting the economy toward export, so as to bring more revenue into the country than was being spent abroad. Unfortunately, these polices were not as successful as initially hoped. The growth of non-oil exports following the reforms was negligible. Perhaps more disturbing was that these policies lead to a lack of investment opportunity for domestic capitalists, which in many instances produced capital flight.

Finally, the dramatic rise in the price of consumer goods that accompanied these reforms lead to deteriorating societal conditions and social unrest.

Let us recall that ISI did not create a robust industrial base in Venezuela as it did in other Latin American nations. Because the export of oil undermined the competiveness of industry, domestic enterprise was largely comprised of retailers that imported cheap consumer goods with overvalued currency. The manufacturers that did exist were largely inefficient by international standards. Decades of heavy government subsidies allowed these firms to operate without making significant reinvestments into production. The impacts of trade liberalization, coupled with the devaluation of the Bolivar and the removal of government subsidies (two central components of the austerity program), put domestic enterprises in uncharted territory. No longer could retailers depend on a strong Bolivar to import and sale consumer goods at competitive prices. Moreover, domestic manufacturers found it difficult to compete with imports once tariffs were removed, as this required significant investments into an industrial base that had long been outdated. Likewise, the expectation that a devalued currency would allow Venezuela's small and highly inefficient industries to compete in international markets was unrealistic.

Instead of producing a robust export economy, these trade reforms actually encouraged capital flight, as Venezuela's domestic producers were obliged to deinvest their capital and look for investment opportunities abroad. The chairman of an important business organization explained the scenario that confronted Venezuelan industries following trade reform.

> Since our beginning, in the early sixties, the government had always protected and offered us all sorts of special incentives. It's true that it also controlled our prices and made life difficult in many other ways, but on balance it created conditions for us and others to grow and prosper. We never had to worry a whole lot about foreign competition and the exchange rate made it impossible for us to even attempt to export. Since we began, [non-oil] exports had never been a government priority…Now, all of a sudden the government tells us that protection against cheaper foreign products will be taken away from us and that we will have to compete internationally and start exporting. In order to do that I will have to do two things: Bring back several million dollars, buy new machines and modernize our operation, making it more efficient, and the other is to buy myself and my people new suitcases and start traveling around the world trying to sell my products in competition with the Taiwanese and the Koreans, who, by the way, have been doing it for decades before us. On top of this, of course, I will be risking the possibility that a new government, or a new team in this same government, will change the policies and let the exchange rate appreciate and wipe out any competitive gains that we may have achieved. At the same time, our holdings abroad not only are safe and without risks in comparison to our local operations, but each year they generate more profits than we can ever dream of making here, and this without having to worry about the government, the unions, or the Taiwanese (Naim 1993: 79).

Venezuelan firms that actually pursued export strategies were increasingly confronted with protectionism from the North. In 1993, it was estimated that Venezuelan firms lost over $400 million per year in potential earnings due to US protectionism (Naim 1993).

On the whole, trade liberalization, coupled with the removal of government subsidies, has undermined the development of Venezuela's industrial sector. Cheap foreign imports has kept local producers from establishing a foothold in domestic markets, while protectionism, a lack of exporting experience, and less efficient industry, have thwarted growth in non-oil exports. Coupled with this is the fact that Venezuelan retailers, traditionally the most durable sector, declined significantly after the devaluation of the Bolivar (Naim 1993). Following the implementation of trade reform, Venezuela experienced a nearly 10 percent drop in output. Total GDP fell by 8.6 percent and non-oil

GDP contracted 9.8 percent by the end of 1989 (Naim1993: 56). Unemployment rose 3.5 percent, up from about 7 percent in 1988 to 10.4 percent by 1992 (ECLAC 1998: 312). On top of this, disposable income shrank by 14 percent and real salaries declined by 11 percent by 1989. (Naim 1993:57).

Despite this largely negative summary of trade liberalization, various gains were made by Latin American economies. Over time, most Latin American nations increasingly gained better access to US markets and hence, accomplished modest gains in exports. However, this was most always accompanied by excessive rates of imports, which had a detrimental effect on both domestic production and the balance of payments. Moreover, most of the benefits of trade liberalization were reaped by large-scale producers- many of which were transnationals. One problem that continued to haunt most nations during the decade was a lack of export diversity. Many countries remained depended on just a few exports with very little value added - mainly agriculture products and natural resources (ECLAC1998).

Despite the largely negative impact that trade liberalization has had on weaker less developed countries, Latin American nations have been developing their own free trade blocks – MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay) and CAN (Bolivia, Colombia, Ecuador, Peru). This has coincided with US efforts to establish the Free Trade Area of the Americas (FTAA) which would encompass all of South and Central America. However, negotiations broke down in 2004, after the countries of MERCOSUR insisted that the US reduce subsidies (Dierckxsens 2007: 307). As of yet, neither side has backed down. Meanwhile, public criticism has been mounting that CAN and MERCOSUR have the same inherent weaknesses that have accompanied the liberalized trade agreements of the past (Dello Buono and Bell Lara 2007). In practice these agreements are based solely on commercial interest. In the case of MERCOSUR, de la Barra (2007:75) has noted, " small countries like Uruguay and Paraguay are becoming powerless in relation to Brazil and Argentina, their comparatively gigantic partners." Also, bitter disputes between Argentina and Brazil involving allegations of food dumping and tariff regulations have undermined efforts to build a cooperative and mutually beneficial model integration.[24] Similar patterns have played out in CAN, with Venezuela ultimately abandoning the group after arguments broke out about its refusal to abandon research and development of generic medications for its peoples (de la Barra 2007: 74-75).

Privatization

As already mentioned, one of the main propositions of neoliberal orthodoxy is that the production of all goods and services should be opened to the "free market". As part of the plan to free up markets from control of the state, governments have become active in selling off public assets to the private sector. The privatization of natural resources, state-owned enterprises, and public services is the second primary feature of the neoliberal project. Justifications for privatization have emphasized the need to increase economic efficiency, improve the quality of goods and services, attract foreign investment, and relieve ballooning fiscal budgets from inefficient and costly units of

[24] For more on Argentina and Brazil's disputes over tariff regulations and food dumping see Vigevani, Pasquariello, Fernandes, and Campus 2002: 239.

production. Moreover, proponents argue that privatization will reduce government corruption and increase total employment in the economy (SAPRIN 2004:112).

In practice, however, privatization has met few of these expectations. On the contrary, acquisitions of most public enterprises have not taken place under competitive and transparent conditions but rather, through clientele linkages between state and local elite. Furthermore, the claim that privatization is necessary to increase efficiency and relieve the state from the burden of maintaining unproductive industries is hollow since in most cases it has proven easier to privatize the more efficient public enterprises. The main aim of privatization schemes, according to Harvey (2003), has been to open up new domains for capital accumulation in areas that were formerly off limits to the profit motive. As a result, privatization has increased unemployment, restricted access to life sustaining resources, and cut state revenue that could be used to fund social programs or finance the development of strategic sectors. Below I highlight the effects of privatization in Argentina, Bolivia, and Venezuela. Argentina is included in the case examples because it had one of the most ambitious privatization programs in Latin America during the 1990s. In addition to being cases where privatization was highly contested, Venezuela and Bolivia are used because both are ALBA members. Exploring their histories will shed light on why both countries have abandoned neoliberalism and pursued alternative paths to development.

During the same period in Argentina, Carlos Menem's administration embarked on one of the most aggressive privatization programs in the region, including: the privatization of gas, electricity, water, sewage, steel, petroleum, telecommunications and airlines. These resources were purchased at very low prices by some of the largest conglomerates in Argentina. Reportedly the state airline, Aerolineas Argentina, was purchased at a price that was equal to the cost of two of its Boeing jets, while the state telephone monopoly, Entel, was purchased for less than a third of its estimated value (Veltmeyer, Petras, and Vieux 1997: 77). These purchases took place between pacts of high-ranking government officials and powerful businesses. Afterwards, many of the officials involved, went on to take high paying jobs in the newly privatized firms (Reygadas (2006:133).

Following the privatization of basic utilities, the public experienced substantial rate increases, accompanied by less than adequate service with respect to water and electricity. Some companies cut off services altogether to the poorest, and hence less profitable, areas (Dierckxsens 2007: 314). Moreover, the unemployment rate increased substantially due to lay-offs. Between 1990 and 1995 it is estimated that over 25 percent of the overall rise in employment is attributable to privatizations (Acuna, Galiani, and Tommasi 2007: 57-58).

In Bolivia, beginning in the mid 1990s, Sanchez de Lozado's administration oversaw the privatization of the nation's oil, gas, telecommunications, airlines, electricity and railroads. [25] Together these industries accounted for about 60 percent of government revenues. The government justified the sell off by arguing that it would create 500,000 new jobs, and raise the annual GDP growth by 6 percent. Following privatization, the telecommunications, oil, gas, and railroad industries all increased in efficiency and productivity, due to increases in investment and technological renovation. Within months

[25] Case material for Bolivia is summarized from Kohl 2002:456-461.

most of these industries began generating sizable gains. By 1999, the Cruz Blanca railroad line had doubled its annual profits. However, the high profit rates of these companies did little to benefit the general public. In 1998 the government substantially reduced taxes and royalties on oil and natural gas, relinquishing an estimated US$ 4 billion in public funds over 20 years. Also, contrary to de Lozado's prediction, the privatized firms cut more jobs than they created. The fact that Cruz Blanca cut over 4100 jobs no doubt contributed to its increase in profits. Likewise, the national oil company Yacimientos Petroleros Fiscales Boliviano (YPFB) reduced its work force by 3000. Unfortunately, many of the workers who lost their jobs have been unable to find comparable employment opportunities in the private sector. Of the 4100 workers who lost their jobs at Cruz Blanca, only 25 percent were reported to have found skilled jobs. Another 25 percent were forced into immigration, while the remaining 50 percent were thrown into the informal sector. Aside from the loss of public jobs, privatization has also had other negative impacts on the Bolivian citizenry. Since 1997, rate hikes on gas, electricity gasoline, and diesel fuel have lead to a string of popular protests.

A tipping point was when the government sold off the Cochabamba public water company in 2000. The privatization of the Cochabamba water company sparked an uprising after rates increased over 100 percent. Following three months of riots that left 5 dead and 42 wounded, the government finally agreed to return the water company to the public. As the above examples have demonstrated, this form of economic restructuring has permitted the private sector to strip the public of basic life necessities (not only in terms of goods and services but also the streams of revenue that they generate), contributed substantially to unemployment[26] and fostered corrupt linkages between the state and the private sector.

Privatization was a central component of both waves of Venezuela's structural adjustment, first in 1989 and later in 1996. By 1991, four commercial banks, the national airline, the state television network, the state phone company, water, several ports, the national sugar mills, several hotels and horse racing tracks had all been privatized. The justification for such an ambitious privatization program was similar to that of other countries who implemented such reforms: the need to cap budget deficits and freeze public spending levels. (Naim 1993, Villasmil, Monaldi, Rios, and Gonzalez 2007). But as even the World Bank admitted, the sale of CANTV (the state telephone company) could hardly be justified, as it had did not constitute a fiscal burden - it actually had a positive cash flow (Villasmil, Monaldi, Rios, and Gonzalez 2007 . By 1995, four years after its privatization, CANTV had cut nearly 30 percent of its workforce (Villasmil, Monaldi, Rios, and Gonzalez 2007). In 1997, Sidor, Venezuela's largest aluminum and steel industry was privatized. Soon thereafter the industry reduced its workforce by 44 percent. Of the 14,500 workers that the company employed, 10,000 were converted into the ranks of the informal sector, without benefits and pensions (Estes 2005). It is not clear exactly how much the other privatizations mentioned above contributed to unemployment and underemployment, but it would be safe to assume that they were not insignificant. By 1996 Venezuela's unemployment rate hovered around 12 percent, while over 50 percent of the workforce was comprised of informal workers (ECLAC 1998:

[26] Since the 1980's public employment has steadily declined due to both privatizations and eroding state expenditures. In 1990, alone, public employment fell in Latin America from 41.7 percent to 40.6 percent (Reygadas 2006: 135).

312,317). One of the most controversial privatizations was the opening up of Venezuela's oil reserves to transnational oil companies. The measure overturned Venezuela's 1975 nationalization of the oil industry, allowing foreign companies to pay only 1 percent in royalties of the total value of oil extracted from the ground (Embassy of Venezuela 2008).

Financial Sector Deregulation

The path to financial deregulation was paved beginning in the 1973 when the Nixon administration removed the Bretton Woods regulations on international financial movements. As discussed in the previous chapter, the abolition of 'capital controls' was instrumental in establishing the US financial system as the world's main provider of credit (Gowan 1999:25). This development led to the indebtedness of many Latin American nations beginning in the mid 1970s, as international credit was now linked to US short-term interest rates. After the emergence of the 1980s debt crisis, however, many private lenders were less enthusiastic about having their assets tied up with the fates of borrowing countries. IMF-imposed SAPs attempted to rectify this situation by insisting that nations remove controls on capital accounts as a condition for receiving additional aid. This made for a less risky investment on the part of private lenders who could now lend to developing nations through the purchase of government securities that could be withdrawn at the discretion of the lender (Gowan 1999: 41). Likewise, increased investment into government bonds provided healthy support to nations' currencies and governments could take the money from the sale to finance their operations. Despite the insistence of the IMF, most nations refused to open capital accounts initially. Below I highlight the effects of financial deregulation in Mexico Argentina, and Brazil. As we will see, the removal of capital controls in these countries resulted in the three largest financial collapses in Latin America.

With respect to Mexico, it wasn't until 1990 that it fully liberalized its capital account. This decision had disastrous consequences on the internal stability of the Mexican economy and subsequently, other countries in the region. The signing of the NAFTA accord in 1993 unleashed a flood of US imports into Mexico. A trade imbalance ensued that pushed Mexico's BoP into the negative (ECLAC 1998: 244). Mexico needed additional finance to defend its currency and service its debt obligations. Unlike previous times, however, international lending institutions did not come to the rescue. Mexico was forced to supply its own finance through the sale of government bonds yielding high rates of interest. To attract foreign investment Mexico pegged the peso to the dollar by shedding its dollar holdings for pesos in the FOREX.[27] This move reassured investors that the value of their bonds would not be subject to sporadic devaluations due to a volatile Mexican economy). Next, the government hiked interest rates up to as high as 19 percent (much higher then the money centers located in the North) to attract a wave of US investment (Soederberg 2004: 49). Following the rate hike, a massive wave of investment poured in. The influx of capital into the country resulted in a significant appreciation of the peso.[28] This made Mexico's exports less competitive in international

[27] Governments manipulate the supply and demand of currencies in this way to raise, lower, or stabilize the exchange rates of their currency. See footnote 7 in chapter 1.
[28] An increase in foreign investment will have the same effect on a country's currency as an increase in exports. In both cases there will be an increase in foreign demand for the domestic currency, since goods,

markets, while simultaneously producing an import boom. The trade deficit quickly pushed Mexico's BoP further into the negative. Fearful that this imbalance would provoke the Mexican government to devalue the peso, and hence their investments, speculators began pulling out in November of 1994. This marked the beginning of the Mexico's financial crisis. The Mexican government attempted to reassure investors by a last ditch effort to defend the pegged exchange rate by pumping US$4.5 billion into the FOREX in December (Bello, Malhotra, Bullard, and Mezzera 2000: 12). Finally, in late December government could no longer maintain the overvalued exchange rate. Before letting the peso devalue, the Mexican government helped the reaming bondholders get their money out while the middleclass lost their life savings (Reygadas 2006: 129, Soederberg 2004: 50). After bondholders pulled the plug, Mexico experienced its worst depression on record, interest rates skyrocketed, the productive sector collapsed, and unemployment and poverty rates rose sharply rose sharply (Reygadas 2006: 129, Soederberg 2004: 51). To those who hold that financial liberalization is part of an overall strategy dismantle state intervention in the economy, it is important to note that the "free market" did not induce the initial wave of investment into government securities. Rather, the state was actively involved in manipulating exchange rates and interest rates with the objective of producing an "investor friendly" environment.

Argentina experienced a similar crisis after liberalizing its capital account (Frenkel 2007, Reygadas 2006). In 1991, Argentina instituted a policy of free capital mobility with an open capital account, as part of an overall strategy to lower inflation

services, property assets, and financial assets can only be purchased with the respective country's currency. For a comprehensive discussion on currency valuation, see: Hahnel 2002: 198-207.

(Acuna, Galiani, and Tommasi 2007: 43). As with Mexico, foreign investors were attracted by the sale of government bonds yielding high rates of interest and a peso – dollar convertibility scheme. What was even more appealing about Argentina's investment climate was that the government backed the value of every security sold with US dollars. Under Argentine law, the central bank could issue no more bonds than exceeded the total value of its US dollar reserves (Frenkel 2007)). This gave investors the liberty to immediately convert their profit holdings into dollars, as oppose to having to cash them in for dollars in the FOREX. The influx investment significantly appreciated the peso. The appreciation of the peso's exchange rate made Argentina's exports less completive, ultimately resulting in the collapse of the manufacturing sector (Vilas 2007:120, Reygadas 2006: 130). Following the demise of the manufacturing sector, peso to dollar conversions soon began to outpace the country's currency reserve holdings. The only other major source of revenue was provided by the government's heavy-handed privatization policy. What made the situation particularly burdensome was the frequency in which Argentine profits were being cashed in for dollars, as speculators sought to minimize their risk. After the privatization process had been exhausted, Argentina depended solely on foreign lending (short-term loans with high interest) to provide the steady inflows of revenue needed to fuel the convertibility scheme (Vilas: 2007:121). With the immense growth in Argentinean debt, investors increasingly lost confidence in the government's ability to maintain the peso dollar convertibility. Soon a panic ensued and speculators, with the help of the government, cashed in their remaining investments and repatriated the holdings, while the popular sectors lost their life savings (Reygadas

2006:130). In October of 2001, Argentina's economy collapsed. The economic crisis was particularly hard on the popular classes. The official unemployment soared near 20 percent (Acuna, Galiani, and Tommasi 2007: 58). Instead of providing assistance to the unemployed, as the catastrophe unfolded, public spending was directed toward paying the interest on the debt that financed the peso – dollar convertibility scheme. In the end, 60 percent of the population was left below the poverty line (Gonzalez, 2003, Acuna, Galiani, and Tommasi 2007: 59).

Similar patterns played out in Brazil, where the government spent $50 billion to maintain an exchange rate in order to attract the necessary investment into government bonds. Of course once the bubble burst, most of the money ended up in the pockets of foreign speculators. According to Reygadas (2006:130), "some [speculators] lost and others came out ahead, but overall they [speculators] gained an amount roughly equivalent to what the government lost."

Summary

High capital mobility, coupled with open capital accounts, has made for an extremely volatile economic climate and has not been conducive to attracting long-term investments in production. As Rene Villarreal (1990: 297) has commented, financial liberalization, "… leads to the progressive deterioration of the productive sector…because the profitability and maturation of productive investments cannot match those in the speculative sector." Since the beginning of the 1990s, net capital flows into the region have increased dramatically, rising from US$ 7 billion in 1991to US$ 32 billion by 1993

(Bello, Malhotra, Bullard, and Mezzera 2000: 8.) The vast majority of this capital has not been invested in production but used for extracting rents on government securities (Bello, Malhotra, Bullard, and Mezzera 2000: 8.). The erratic and speculative nature of finance capital, as demonstrated in the case of Mexico and Argentina, has proven detrimental to the overall stability of the internal economy. Foreign speculators have looted some of the largest economies in the region, taking with them the savings of the middle and working classes. Moreover, the strategies that governments employ to attract this predatory investment, such as maintaining high interest rates and overvaluing the domestic currency, restricts financial resources for domestic production, and weakens the productive sector's competitiveness in the international economy (Villarreal 1990: 297, SAPRIN 2004: 76).

Coupled with this, has been the pervasiveness of liberalized trade and privatization. The opening of the domestic market to foreign subsidized imports, combined with the elimination of tariffs and other protectionist measures, has taken its toll on the domestic economy. Countless small and medium scale industries have been displaced. Agriculture production has taken the hardest hit, which has resulted in the destruction of the domestic food base in many regions. Moreover, privatization schemes have striped the poor of basic life necessities and cut the streams of state revenue that once financed the development of strategic sectors and subsidized the disadvantaged sectors of the population. With the loss of public employment, millions of workers have been thrown into the ranks of the informal sector or forced into immigration. Collectively these policies have resulted in increasing inequality, unemployment, and widespread poverty (Bell Lara and Lopez 2007: 22-27).

Inequality, Unemployment, and Poverty

The 1990 World Bank Development Report indicated that in Latin America the difference between the richest 20 percent and the poorest 20 percent was 19-to- one (World Bank, 1990). According to a 2000 IDB report, the wealthiest 10 percent of the Latin American population was receiving 40 percent of the total income (IDB 2000). With respect to unemployment, between 1990 to 2000 the total number of idle workers expanded by 10 percent per year, with overall unemployment rising over 3 percent during the same period (Bell Lara and Lopez 2007). From 1990 to 2006, public employment dropped from 42 percent to 40.6 percent (Reygadas 2006:135). With the loss of public jobs, workers have had to look for employment opportunities in the private sector which is increasingly offering only part-time and short-term contract employment. Between 1990 and 1999, it is estimated that 20 million of the total 29million new jobs created provided informal employment (Reygadas 2006:136). The rise in unemployment and underemployment has resulted in an increase in official poverty rates. From 1970 -1979 the average poverty rate had fallen an estimated 40 percent (Bell Lara and Lopez 2006:26). However, since the beginning of the neoliberal period, poverty rates have started to climb again. By 1990 the average poverty rate reached 48.3 percent (ECLAC 2001). Between 1990-1999 an additional 11 million people had been thrown into the ranks of the poor, bringing the total number of persons living in poverty to 211 million

(ECLAC 2001). In 2006, the Economic Commission for Latin American and the Caribbean estimated that half of Latin America's poor live on less than a dollar a day (ECLAC 2006).

Dismal Economic Growth

Since the implementation of the neoliberal model, the overall growth rate for the region has been dismal, leading many to aptly term the period from 1980 to 1990 as the "lost decade". During this period, the average annual growth rate for Latin America and the Caribbean was little more than 1 percent (ECLAC 1998: 358). From 1980 to 2000 per capita income (the most basic measure of economic progress) has grown by only 9 percent. Compare this to the 82 percent rise in per capita income between 1960-1980 (Weisbrot 2006:3). The net transfer of resources abroad (to service debts) has been one of the main factors contributing to the region's poor economic growth (ECLAC1998: 359). Debt servicing has absorbed most of the revenue that could be redirected back into production. Consequently, average total investment amounted to only 17 percent of the regional product, a 50-year low (ECLAC1998: 361). Despite the poor growth record and the deteriorating quality of life that has accompanied the neoliberal model, it has proven resilient and continues to consolidate itself within the political and economic fabric of Latin America (Dello Buono and Bell Lara 2007). This is most exemplified by the neoliberal inspired agreements signed between Latin American Nations e.g., MERCOSUR and CAN. Portions of these agreements contain elements that have been responsible for much of the devastation of the last 40 years. As mentioned above, the core principles in these agreements are by and large commercial and based on the tenets of liberalized trade (de la Barra 2007:75). Moreover, these agreements are fostering divisions between nations, as each country wrestles for greater position over the other.

It would be an error, however, to presume that the resiliency of this hegemonic doctrine has gone uncontested. On the contrary, the deteriorating quality of life that has accompanied the neoliberal model has harvested waves of resistance that have spread (in varying degrees) across all of Latin America. The anti-neoliberal current has opened up new spaces for discussion and debate about alternative development strategies in the region. Dello Buono and Bell Lara (2007:73) point out that there is an increasing urgency to define a regional development agenda that responds to the demands and interests of the people based on more mutually- beneficial forms of integration that go beyond traditional commercial objectives.

Chapter 4

ALBA and the Call for a More Egalitarian Form of Integration

Recently, Cuba and Venezuela have proposed the Bolivarian Alternative for Latin America (ALBA) as an alternative model of development for the region. ALBA, named after Simon Bolivar, the 19th century revolutionary that liberated South America from Spanish rule, is a Latin American and Caribbean trading block comprised of unconventional inter-state programs, trade agreements, and joint ventures that are purportedly directed toward cooperative and mutually beneficial forms of economic integration**.** As a model of development, its purported aim is to rectify the ills that neoliberalism has generated. According to its architects, ALBA constitutes a radical break with neoliberal-led integration in that it advocates a different type of development that is not strictly based on profit maximization at the expense of weaker less developed nations (ALBA2008). Their proposals and declarations characterize ALBA as a regional integration project that is based on egalitarian principles and directed toward fostering sustainable economic and human development for all its peoples (ALBA 2004).

ALBA was first proposed by Venezuelan President Hugo Chavez at Isla Margarita at the III Summit of the Heads of State in December 2001. It would be three years later, however, before the first official declaration of ALBA was signed between Venezuela and Cuba in Havana on Dec. 14 2004. Bolivia signed on in April 2006, and Nicaragua signed on immediately after the election of Daniel Ortega in January 2007. Dominica made its membership official in January of 2008 at the Sixth ALBA Summit; and Honduras, the most recent ALBA member, joined in August.

Other countries have signed on to specific ALBA projects but, interestingly, have not made their membership official. Ecuador and the countries that make up Petrocaribe, the ALBA energy integration project for Cuba, Nicaragua, and other members of the Caribbean are the most prominent examples. According to Medea Benjamin (2008), the presidents of these nations would like to make their membership official but face internal pressure not to align too closely with such controversial figures as Chavez, Morales, Ortega, and Castro, a group that regularly refers to itself as the Club of “Chicos Malos”, or bad boys. Despite such internal opposition, Ecuador has consistently sent representatives to the annual ALBA Summit, as have the multiple nations that make up Petrocaribe (more on Petrocaribe below).

The formal organizational structure of ALBA was established in April 2007 at the Fifth ALBA Summit. The governing structure is comprised of representatives from all official member countries. It includes a council of presidents, ministers, and social movements. The council on social movements was implemented as a means to incorporate grassroots participation in the decision-making process. It includes representatives from Honduras, Peru, El Salvador, Chile, Bolivia, and Colombia . The incorporation of social movements into the governing architecture exemplifies what Ximena de la Barra (2007:75) has said about ALBA, namely that “integration ceases to be a matter for governments who may be more or less submissive to imperial interest and becomes transformed into a matter of the people.”

Below I explore the contours of ALBA as an alternative model of development. I provide an overview of the theoretical orientation of ALBA including the “guiding principles" stated in the official declaration that directs the integration process. Later, I expound upon some of the concrete projects that have been implemented to date. I will follow up with an assessment about ALBA's overall potential as an alternative to neoliberalism, paying special attention to those features of the model that could potentially rectify the problems associated with trade liberalization privatization, and financial deregulation.

ALBA in Theory

In an interview with Marta Harnecker (2005), Venezuelan President Hugo Chavez explained the philosophy behind the creation of ALBA. Chavez expressed that ALBA can be understood as an attempt to reclaim the original vision set forth by Simon Bolivar, the 19th century revolutionary that liberated South America from Spanish rule. According to Chavez, the guiding theme of Bolivar's philosophy was South American integration. Bolivar envisioned the creation of a political, economic, and military unity between the regions of South America in order to confront the challenges posed by external political threats, especially imperial intrusion "We are trying to go back to this idea", Chavez expressed. "That is where we came up with the idea of ALBA. We would have to reexamine those historic documents, reconsider the whole concept… To do something new, we would have to begin by recognizing the failures of the neoliberal capitalist models of integration" (Harnecker 2005: 120-121).

For Chavez, the problem with neoliberal integration was that it was directed by, and on behalf, of the international and domestic capitalist classes. The motivation behind ALBA was to "invert this equation", i.e., to foster cooperation and integration between countries in the interest of popular sectors, or in Chavez's terms, "collaboration with the cavalry in front." According to Chavez, the neoliberal model has "the equation backwards…We have to invert it. We have to retake politics. It requires that statesmen, politicians with a grand vision, begin making decisions" (Harnecker 2005: 121).

In 2004, Venezuela and Cuba, established twelve cardinal principles that attempted to develop this neo-Bolivarian form of integration further by specifying how it might be put into practice. This initial ALBA declaration highlighted twelve cardinal principles that would serve as guidelines for the implementation of the ALBA. According to the first principle, "trade and investment should not be an end in itself but a tool to achieve just and sustainable development". The second principle holds that economic integration should provide "special and differential treatment that takes into account the level of development of diverse countries and the dimensions of their economies." Extending this principle, the third principle holds that integration should be based on "economic cooperation between participant countries and not competition between countries and productions." Other principles include: the imperative to create regional investment with the objective of reducing dependence on foreign investment, production for regional necessities with the objective of reducing dependence on foreign imports, integrate member countries through joint ventures in the areas of communications, transportation and energy, and create a development bank to finance regional development projects and to transfer financial resources to those countries with the greatest disparities. Below I provide a complete list of the guiding principles of the 2004 declaration (ALBA 2004).

1.Trade and investment should not be ends in themselves, but tools to achieve just and sustainable development, since the true Latin American and Caribbean integration cannot be the blind child of market or a mere strategy to expand foreign markets or stimulate trade. To this end, the State's effective involvement is required as a regulating and coordinating agent of the economic activity.

2. Special and differential treatment that takes into account the development degree of the different countries and the sizes of their economies, and guarantees access to all nations that are benefited by the integration process.

3. Economic complementarity and cooperation among the involved countries and non-competition among countries and productions, so that a productive, efficient, and competitive specialization is promoted that is consistent with each country's balanced economic development, with the strategies to fight poverty, and the preservation of the peoples' cultural identity.

4. Cooperation and solidarity that are expressed in special plans aimed at the least developed countries in the region, including a Continental Plan to fight illiteracy, based on modern technologies that were already tested in Venezuela; a free health care plan in Latin America for the citizens that do not enjoy this service, and a plan to award regional grants in the main areas concerning economic and social development.

5. Organization of the Social Emergency Fund.

6. Integration of communication and transportation means throughout Latin American and Caribbean countries that includes joint plans for the construction of roads, railways, sea and airways, telecommunications, etc.

7. Actions aimed at favoring a sustainable development by means of rules intended to protect the environment, promoting the rational use of resources, and avoid proliferation of wasteful consumption patterns that are alien to the realities of our peoples.

8. Energy integration among the region's countries that guarantees the stable supply of energy products for the benefit of the Latin American and Caribbean societies, as it is promoted by the Bolivarian Republic of Venezuela with the creation of Petroamérica.

9. Promotion of Latin American capital investment in Latin America and the Caribbean, with a view to reducing the dependence of the countries in the region on foreign investors. To this end, a Latin American Investment Fund, a Development Bank of the South, and the Society of Latin American Reciprocal Guarantees, among others, would be set up.

10. Defense of the Latin American and Caribbean culture and of the identity of the peoples in the region, with particular respect for and promotion of the autochthonous and indigenous cultures and organization of the Televisora del Sur (TELESUR), as an alternative instrument to disseminate our realities.

11. Actions that allow intellectual property rules to protect the Latin American and Caribbean countries' patrimony against the voracity of the transnational corporations but that, at the same time, do not prevent the necessary cooperation in all areas among our countries.

12. Harmonizing of stances in the multilateral sphere and in all kinds of negotiation processes with countries and blocs from other regions, including the fight for *democratization and the international organizations transparency, particularly the UN and its agencies.*

Grannacionale (in theory)

In accordance with the guiding principles of the 2004 declaration, a supranational architecture was designed to facilitate the integration process between ALBA nations. The architecture is based on the concept of “Grannacionale”. In an abstract sense, Grannacionale refers to the overall political and economic alliance between ALBA countries and emphasizes the common vision and strategy they share for providing for their peoples (ALBA 2008). The concept draws on Bolivar’s original vision of regional integration and also addresses the necessity of doing so in the interest of popular sectors, i.e., “with the Calvary in front.” “Grannacionale” also has a more practical application that refers to the concrete inter-state programs and joint ventures designed to address the immediate challenges confronting ALBA nations (more below).

Comparison of the Theoretical Orientations of ALBA and Neoliberalism.

The theoretical distinctions between ALBA and neoliberalism are relatively explicit. As we will recall, neoliberalism contends that overall human well-being is best advanced when individuals make choices on behalf of their own self interest. According to this theory, free competition among and between sellers and buyers will provide the most efficient allocation of societies productive resources, however unintentional this may be from the standpoint of individual actors. The goal for neoliberals, then, is to establish an institutional framework comprised of free markets, free trade, and private property rights, in order to maximize entrepreneurial freedom and ensure the best possible outcomes for society at large. The state's role is largely relegated to opening up new markets where they do not exist and protecting existing ones. However, state intervention into markets (once created) is seen as inhibiting the development and expansion of market-based solutions (Harvey 2007:22).

The theoretical distinctions between ALBA and neoliberalism are most apparent when one looks at the guiding principles of the initial ALBA declaration. The first principle in the ALBA declaration holds that "just and sustainable development … can not be the blind child of the market." Rather, "…the state's effective involvement is required as a regulating and coordinating agent of economic activity." In essence, ALBA's philosophy is very similar to the ideology of the development era, in that both models make an explicit call for the state to direct a national development agenda. There are differences, however, with respect to the emphasis that ALBA places on "regional integration" and "cooperation and non-competition". In this sense, ALBA goes beyond the narrower confines of a national development agenda towards a development agenda for the region. Such a unifying political stance no doubt resonates with other Latin American countries that have suffered from neoliberal reform. With respect to the theoretical distinctions between ALBA and neoliberalism, the differences are most clear when one looks at the underlying principles and strategies that each model adheres to. Whereas neoliberal theory contends that overall economic development is best advanced in a manner that allows everyone to pursue their own self-interest, ALBA holds that economic development should be directed by principles that are based on “cooperation” and “non-competition”. Whereas neoliberal theory argues that markets should be opened to free competition, ALBA insists that trade should be based on “special and differential treatment that takes into account the development degrees” of different actors. Whereas neoliberal theory denounces state regulation, as to allow for market based solutions, ALBA explicitly calls for the “state’s effective involvement” in initiating and directing the development process; this also includes guaranteeing basic human services such as healthcare and education for citizenries.

ALBA in Practice

This section of the thesis will concentrate on the concrete architecture of ALBA as a model of development. The following analyses will break down the actual agreements and projects that have materialized between member countries. Below I highlight three fundamental components of the ALBA model: *Grannacionales*, *The Peoples Trade Agreement (TCP)*, and the *Bank of ALBA*. These three features currently comprise the fundamental architecture through which ALBA’s economic and social projects are being implemented. A breakdown of the terms and conditions of the economic and social projects that have materialized under these structures will allow for a better understanding of the extent to which ALBA is (or isn’t) materializing along the course that is consistent with the guiding principles of the initial declaration. Following that, I compare these three aspects of ALBA with the features of the neoliberal model that were highlighted in the previous chapter: *Privatization, Trade Liberalization,* and *Financial Deregulation.*

Grannacionale (in practice)

As mentioned above, Grannacionale also has a more practical application that refers to the concrete inter-state programs and joint ventures designed to address the immediate challenges confronting ALBA nations. This practical side includes everything from the provision of basic human services (e.g., literacy, education and healthcare) to the development of strategic sectors of ALBA economies (e.g., food, industry, petrochemical and steel production). The sectors that have been identified for development are denoted by the following terms: ALBA Education, ALBA Culture, ALBA Trade, ALBA Finance, ALBA Food, ALBA Health, ALBA Telecommunications, ALBA Transportation, ALBA Tourism, ALBA Mining, ALBA Industry, and ALBA Energy (ALBA 2007).

Grannacionales can be further divided into two groups, Company Grannacionales and Program Grannacionales. The philosophy behind these institutions is intended to be consistent with the 2004 declaration. In essence, these programs and companies consist of joint efforts, directed toward the development of strategic sectors of ALBA nations. The development of these sectors is achieved through cooperation and the rational exploitation of respective countries' advantages, including: expertise, raw materials, finance, and scientific and technological development (ALBA 2007). These programs and companies are collectively owned by ALBA states (bilateral, trilateral, or multilateral ownership), with 51 percent of the generated revenue going to the host country (ALBA 2006).

The development of Grannacionales marks an overall shift towards the nationalization of strategic sectors of ALBA economies. Unlike the privatization schemes that accompanied the neoliberal model of development, both the production and revenue that these companies produce are directed toward the immediate needs of member countries' populations. To the extent that these companies become more efficient and are capable of producing surpluses, production will be directed toward the international market (ALBA 2008). The cost of the goods and services produced will be subsidized to ensure sufficient allocation.

With respect to Program Grannacionales, such as ALBA Health and ALBA Education, these services are being provided free of charge to the populations of member countries. One of the strategic aims of Grannacionales is to establish lateral linkages between countries so as to maximize employment opportunities and the overall development of ALBA nations (ALBA 2008). The idea is for one Grannacionale to produce a good or service that can be utilized by another Grannacionale for either further production, distribution, or retail. For example, the companies that comprise ALBA Industry can exchange with the companies that comprise ALBA transportation, which can exchange with state-run retail stores that comprise ALBA Trade. The objective is to develop a dynamic and interlocking system of production and distribution for the mutual benefit of ALBA nations.

The Fifth ALBA Summit in April of 2007 focused on furthering the development of Grannacionales in the area of energy. Agreements were signed to construct six oil refineries in Nicaragua, Bolivia, Ecuador, Dominica, and Cuba (ALBA 2007). In addition, member nations agreed to build a regional energy system that replaces oil with natural gas to meet domestic energy needs.[29] Such an energy shift will ensure that regional demand for oil does not limit international sales. Agreements also extend Cuba's health and educational services to all ALBA member countries, including Caribbean nations that make up Petrocaribe

At the first official meeting of the ALBA Technical Committee in July of 2007, representatives discussed plans for the future development of Grannacionales in the areas of trade, transportation, mining, energy, technology, telecommunications, industry, science, health, tourism, finance and finance. Representatives also discussed plans to create an inter-ALBA market in which case the products produced by Grannacionales would not be limited to meeting demands of member counties but would also be directed toward export. Venezuelan Foreign Minister Nicolas Maduro stated that Grannacionales will eventually become self-sustaining and competitive on the international market, especially those involved technology, raw materials, and financial sectors (Carlson 2007). Three months after the ALBA Technical Committee made its announcements, Cuba and Venezuela began construction on a joint oil refinery. They also signed joint contracts to explore for oil in Cuban Territories. To integrate their telecommunication systems, the two countries announced the construction of an underwater fiber optic system. The two countries also agreed to begin construction of joint industries for the production of cement, stainless steel, and nickel. To complement a fishing industry, the two nations agreed to begin construction of a ship building industry (Recent agreements signed between Cuba and Venezuela).

[29] Venezuela has started a joint project with Argentina to produce natural gas automobile motors with technology they have acquired from Iran. See: Chris Carlson (2007d)

In December of 2007, during the Fourth Summit of Petrocaribe, a new agreement was signed between Venezuela and members of Petrocaribe to create a fund so that Caribbean nations can finance their own energy projects. Member countries along with Cuba and Venezuela also agreed upon an initiative to provide technical and professional development for citizens in the energy sector (Janicke 2007). The summit closed with a celebration of the reopening of Cuba's Camilo Ceinfeugos oil refinery, another joint project between Cuba and Venezuela (the old refinery shut down after the cessation of subsidized oil following the collapse of the Soviet Union). The renovated refinery will employ 1,200 people (Janicke 2007).

In October of 2008, using Venezuela's technical assistance and oil exploration technology, Cuba discovered an offshore oil well estimated to hold 20 billion barrels of oil reserves. Rafael Tenreyro, the exploration manger of Cuba's state owned oil company (Cubapetroleo) has stated that drilling will begin before the second quarter of next year (Roy 2008). It is not yet clear how Cuba's newfound oil wealth will impact ALBA. If proven, these reserves will allow Cuba to meet all of its energy needs and should provide enough export revenue to finance both national development projects, as well as contribute to the many bilateral Grannacionales developed with Venezuela. Alternatively, Cuba could potentially take some of the burden off of Venezuela by selling a portion of the oil at preferential rates to other ALBA member countries, or contribute to ALBA's development fund by depositing portions of the revenue in the Bank of ALBA (More about the Bank of ALBA below). Cuba's oil discovery is an example of how the ALBA model can potentially reduce the asymmetries existing between member countries by transferring expertise and resources from more developed nations to less developed nations. See Appendix 1 for a list of Grannacionales currently underway.

Two other important pieces of ALBA's architecture are the Peoples Trade Agreement (TCP) and the Bank of ALBA. The former is a feature of ALBA Trade and the latter a feature of ALBA Finance. Although both these institutions reside within the overall framework of Grannacionale, each deserves their own consideration given their overall strategic significance.

The Peoples Trade Agreement (TCP)

The TCP is a trade initiative comprised of bartering arrangements that capitalize on each country's comparative advantage. The trade agreements that fall under the auspices of the TCP are tailored to ensure mutual benefit, employment expansion, access to markets, and resource conservation (ALBA 2006). In accordance with second principle of the 2004 declaration, the terms of trade are based on "special and differential treatment". *T*he degree of special treatment a member country has access to is determined by variables such as population, total production, endowment of resources, the overall degree of industrial development, structural limitations of the economies with respect to composition of exports and external vulnerability, per capita income and poverty (Bancoex 2004). Under the TCP, ALBA countries barter goods and/or services that they specialize in, for goods and/or services they lack. The TCP has produced a wide range of bartering agreements that have included the exchange of foodstuffs, technology, infrastructure, health and human services, petrochemicals, raw materials, financial resources, and the list is still longer. For a list of some of the more significant bartering arrangements that have been established to date see Appendix 2.

Many bartering agreements signed under the TCP are also features of other Grannacionales. In some instances they are the mechanism through which Grannacionales develop. For example, Mission Robinson I, the literacy program provided by Cuba in exchange for subsidized Venezuelan oil (at $27 a barrel) is technically part of the TCP. However, since 2007 these services have been expanded with the help of Venezuela, Bolivia, and Nicaragua to include all ALBA nations, thereby advancing the development of ALBA Education. Likewise Mission Robinson II (Cuba's elementary education program) and Mission Ribas (Cuba's higher education program) have also been extended to all ALBA nations under the auspices ALBA Education (ALBA 2007). With respect to ALBA Health, its development has been greatly advanced via Barrio Adentro (Cuba's medical care service) and Operation Miracle (Cuba's ophthalmology services). As with the programs that make up ALBA Education, these services also started out as bilateral bartering agreements between Cuba and Venezuela, following the signing of the 2004 declaration.

In June 2005, Venezuela sought to extend its bartering relations to other countries of the Caribbean. Venezuela's state owned oil company PDVSA and fourteen Caribbean nations formed a bartering arrangement known as Petrocaribe. Like Cuba, these nations get Venezuelan oil at preferential prices (40% discount off of the market price) in exchange for foodstuffs. Cheap loans from Venezuela finance the purchase of oil. Countries have 25 years to pay the loan back at one-percent interest (ALBA 2005).

In April of 2006, Bolivia, signed on to the People's Trade Agreement (TCP). As part of this agreement, Venezuela and Cuba agreed to barter for Bolivia's soy and meat products. Cuba agreed to exchange its health and educational resources and Venezuela agreed to provide Bolivia with subsidized oil and technical assistance for the exploration and extraction of petrochemicals (ALBA 2006).

The Bank of ALBA

In January of 2008, the Bank of ALBA was founded at the Sixth ALBA Summit. The Bank of ALBA was designed to establish a new financial architecture in accordance with the 2004 declaration. The bank's goal is to promote sustainable economic and human development, as well as advance economic integration between member countries (ALBA 2008). The institution will provide finance for development projects throughout the region, including the development of Grannacionales. The Bank of ALBA will purportedly provide low cost credit to member countries with flexible repayment plans that do not subject borrowing countries to the conditions international lending institutions have imposed in the past (ALBA 2008).

There appears to be a tension between the autonomous aims of the member governments and the project priorities of ALBA's leadership. According to Nicaraguan representative, Alberto Guevara, the aid can be directed toward whatever priorities the borrowing country chooses (Carlson 2007). However, according to official documents, one of the main objectives of the bank is to provide finance for the development of program and company Grannacionales (ALBA 2008).

The organizational structure of the Bank of ALBA is based on a two-tier system comprised of a ministerial council and an executive. The executive position will rotate between representatives of each member country (ALBA 2008). The bank started with an initial sum of $1 billion dollars provided by Venezuela. This amount is expected to grow with the contributions of other member countries as development projects generate revenue, but there is no public schedule for such contributions. The banks operations will purportedly be run democratically, and each member country will have equal participation in the decision making process. A steady deposit of petrodollars should ensure that member countries are provided with adequate amounts of low cost credit.

One of the Banks' first major projects has been the development of an ALBA food security fund. The food security fund will not only provide subsidies for state agriculture production, but also provide finance for small and medium scale producers who do not have access to credit through private banks (ALBA 2008a). ALBA's food security fund is part of a larger effort to respond to the global food crisis that started in early 2008. Since the beginning of the global food crisis, many developing countries have witnessed a sharp rise in the cost of imported food, with some regions having to deal with food shortages. After food shortages sparked riots in Haiti, ALBA nations joined together to send 365 tons of chicken, ham, milk, lentils, olive oil, and vegetables to Haiti, which has been experiencing violent food riots over increases in the cost of food (Suggett 2008).

As a development model, ALBA is comprehensive in scope. ALBA's structural design is comprised of an egalitarian system of trade, cooperative projects geared toward the development of strategic sectors of ALBA nation's economies, and a financial architecture designed to facilitate the development process and promote basic food security of ALBA nations. Indeed, part of ALBA's distinctiveness lies in its explicit focus on human well-being, as exemplified by its free healthcare and education programs for citizenries. Unfortunately, at the present juncture, it is difficult to tell how much has been accomplished with respect to all of the proposals and agreements signed. More data will need to be collected in order to make a comprehensive evaluation of ALBA's development and success. The difficulty of not having up-to date information, necessarily limits the analysis in the following chapter, where I compare, in broad terms, the features of ALBA to the features of neoliberalism.

Chapter 5

ALBA and Neoliberalism

The formation of ALBA has marked the return of state-centered development in Latin America. However, what makes ALBA distinct from the old, state-centered, model of ISI is its regional focus. Not only are ALBA nations heavily involved in joint efforts to develop strategic sectors of their economies (Grannacionales), they have also carefully designed trade agreements (TCP), and created a financial architecture that will facilitate such development (The Bank of ALBA). Unlike neoliberal-led globalization whereby profits are pursued at the expense of lesser-developed nations, ALBA points toward a more egalitarian mode of integration, whereby states reserve their sovereign right to coordinate economic activity for the benefit of their peoples. With respect to economic relations between member countries, ALBA's (current) mode of integration is not based on competition but rather on complementarity. ALBA's design is such that it fosters a vested interest on the part of member countries for mutual cooperation. Grannacionales, for instance, is a mechanism by which member countries become joint stakeholders in the development of social programs and industry. Likewise, the TCP is comprised of mutually beneficial bartering arrangements whereby countries exchange goods and service that they have for those that they lack. Under these agreements, the terms and conditions of trade are based on partial and differential treatment that takes into account economic disparities between trading countries.

The overall human dimension of ALBA is a defining characteristic that separates it from traditional development models. For the first time some of the poorest peoples in the entire region have access to free healthcare and a college education. In 2005, Operation Miracle provided more than 200,000 eye operations in Venezuela alone (Anderson 2006). By 2007, Barrio Adentro had carried out 60 million medical treatments. Since the implementation of these services, infant mortality has decreased in Caracas by 75 percent (Carlson 2007). Likewise, Mission Sucre has proven to be a success. In October of 2008 the scholarship program graduated 5,949 students in the areas of administration, computing, social communication, agriculture production, environmental management, and management for local development. Mission Sucre currently has 527,134 students enrolled, with another 108,000 registered to enroll (Pearson 2008).

This human dimension is exemplified not only in the free healthcare and education programs, but also in the inclusion of participatory democracy within the governing architecture. ALBA's incorporation of grassroots organizations and social movements is part of a broader agenda aimed at promoting participatory democracy within its overall development schema (Harris and Azzi 2006). The capacity in which social movements are participating in the decision making process is significant. According to Hattingh, an oil pipeline that Chavez wanted to build between Venezuela and Argentina was stopped due to opposition by a Venezuelan social movement, which argued that the construction of the pipeline would destroy indigenous peoples' land. Finally, after a long battle with the Venezuelan government, the project was shelved. By promoting the inclusion of grassroots organizations and social movements, and demonstrating that their involvement is meaningful, ALBA can continue to increase its legitimacy and gain the support of local actors which can serve as a powerful political base for its expansion.

Grannacionalization Vs Privatization

The development of Grannacionales is part of a larger state strategy aimed at recovering the main levers of the economy from the private sector. With the elections of Chavez and Morales, the nationalization of hydrocarbons and other strategic sectors are once again playing a pivotal role in the region's development strategies. With respect to Venezuela, rent is being collected from the state oil company PDVSA, to finance the development of public healthcare and education, as well the development of strategic sectors of the economy. This would have been unthinkable under the neoliberal privatization schemes, which drastically reduced the revenue that the state collected from the oil sector.[30] With respect to ALBA Health and ALBA Education, these joint government programs were designed to provide basic human services that the neoliberal market had failed to allocate for a large majority of Latin Americans.[31] For the first time some of the poorest peoples in the entire region have access to free healthcare and a college education. In 2005, Operation Miracle provided more than 200,000 eye operations in Venezuela alone (Anderson 2006). By 2007, *Barrio Adentro had* carried out 60 million medical treatments. Since the implementation of these services, infant mortality has decreased in Caracas by 75 percent (Carlson 2007). Likewise, Mission

[30] When Venezuela's oil fields were opened up to transnational oil companies in the 1990's, government royalties amounted to 1 percent of the total value of the oil extracted (Venezuelan Embassy 2008).
[31] See: SAPRIN (2004: 174) for an overview of the effects of public expenditure policies on healthcare and education.

Sucre has proven to been a success. In October of 2008 the scholarship program graduated 5,949 students in the areas of administration, computing, social communication, agriculture production, environmental management, and management for local development. Mission Sucre currently has 527,134 students enrolled, with another 108,000 registered to enroll (Pearson 2008).

What makes ALBA's push toward nationalization different from the old ISI model is that it is a strategy that transcends national boundaries. Indeed, the increase in state owned enterprises is being ushered in through cooperative agreements across national borders. With the development of Grannacionales, ALBA states are pursuing cooperative agreements with one another to create a whole chain of inter-state companies. Grannacionales, if they develop in accordance with ALBA's guiding principles, will provide the opportunity for ALBA countries to develop collectively by "joining forces" as oppose to each country having to bear the burden alone, or rely on transnational companies and foreign investors. Such a strategy no doubt has potential, given that, together, ALBA nations comprise a block that is rich in natural, human, and financial resources.

The regional objective is to establish lateral linkages in and between ALBA countries so as to maximize employment opportunities and the overall development of ALBA nations. The goods and services produced in these companies are first and foremost intended to meet the needs of ALBA nations' citizenries. As such Grannacionales are intended to be the fundamental instruments comprising an ALBA fair trade block (ALBA 2008). Prices will be subsidized to ensure ample distribution, rather than in accordance with the profit logic of capital accumulation. This also marks an important distinction between Grannacionalization and privatization. Under the neoliberal model, once public enterprises become privatized, they were governed by the profit motive. Higher profits are almost always attained at the expense of workers who lose jobs and consumers who pay higher prices (Reygadas 2006:135). With Grannacionales, however, the important thing is not the maximization of the rate of profit but rather simple reproduction. The main aim is to generate employment and provide affordable goods and services to ALBA citizenries in an economically sustainable manner. However as surpluses become available they will be directed toward international markets. To the extent that profits are realized, they can either be channeled back into production, public programs and services or into the development of other strategic sectors of the economy.

The TCP Vs Liberalized Trade

Trade liberalization in Latin America consisted in the opening of developing nations' economies to powerful foreign competitors. After the removal of protectionist measures (i.e., subsidies, tariffs, and import restrictions) countless domestic producers were displaced, which lead to deindustrialization in some regions and food shortages in others (SAPRIN 2004). In addition to the challenges that confronted the domestic economy, export sectors often had difficulty competing with the heavily subsidized industries in developed countries' economies. This aspect of foreign competition, in both domestic and international markets, marks a categorical distinction between neoliberal

FTA's and the TCP. Under the TCP, trade does not consist of nations competing for market share. Rather, trade is established through bartering arrangements based on " beneficial and productive complementation", with "special and preferential treatment" for less developed nations (Venezuela and Cuban delegations 2005). Because the TCP is designed as a bartering arrangement, it not only opens markets between member countries, it actually ensures exchange. That is to say, instead of letting market forces dictate the level of economic activity between nations, sales are actually guaranteed up front by governments' commitments to purchase (Montano: 2006). For example, after the Colombia quit importing Bolivian soy, Bolivia signed a TCP wherein Venezuela and Cuba made a commitment up front to buy and barter for all of Bolivia's soy produce. (Bolivia signs on to the TCP 2006).

Another crucial feature of the TCP is that it does not try to impose general obligations on signatory countries. Although it has been a standard practice thus far for member countries to remove all tariff and non- tariff barriers, the TCP recognizes and respects the sovereign right of states to employ and regulate tariffs, subsidies or price controls for the protection of national economies (Bancoex 2004, Montano 2006). Hence, the TCP does not pursue integration at the expense of national sovereignty.

Bartering arrangements under the TCP frequently involve technology exchange and technical assistance. One prominent example is Petrocaribe. In this agreement subsidized Venezuelan oil is sent to poor nations in the Caribbean in exchange for basic foodstuffs. Part of this agreement also involves technological cooperation and financial assistance so that these nations can develop their own oil-extracting capability. Another example is the 2006 TCP agreement signed between Bolivia, Venezuela, and Cuba wherein Venezuela donated an asphalt plant to Bolivia for road construction and maintenance, as well as technology to renovate Bolivia's state oil company, YPFB.

The TCP is a system of trade that is specifically tailored to foster the development of strategic sectors. As with Grannacionales, the goals of the TCP are to foster economic development through the creation of lateral linkages between member countries so that the dependence on foreign imports and markets can be broken. Unfortunately, current bartering arrangements do not fully provide member nations with all their basic needs; hence, the development of Grannacionales will be crucial if ALBA member countries are going to break their reliance on foreign markets.

The Bank of ALBA Vs Financial Deregulation

As discussed in the previous chapters, one of the main reasons that Latin American nations have agreed to IMF-led SAPs stems from their dependence on international finance. As Mark Weisbrot (2006:4) has stated:

> The IMF was the 'gatekeeper' for most other sources of credit for developing country governments. If a government did not reach an agreement with the IMF, it would not be eligible for most lending from the Worlds Bank, regional banks, such as the important Inter-American Development Bank in this hemisphere, G-7 government loans and grants, and even the private sector.

One feature of the SAP reform package required developing nations to open their capital accounts to foreign investment with little, if any, regulations on the entry and exit of capital. This was imposed as a means for developing nations to contribute to their own financial inflows (Soederberg 2004: 38). With respect to foreign lenders, the liberalization of capital accounts made for less risky investments, with quicker turnovers, than traditional loans had provided (Gowan 1999). Private investors and hedge fund operators looking to diversify their portfolios could now lend to developing nations through the purchase of government securities, which could be withdrawn at their discretion (Gowan 1999: 41).

The reason why this strategy is particularly antagonistic to the real economy is that it obliges governments to abandon their role in allocating financial resources for productive sectors. In order to attract investment, governments are obliged to maintain high interest rates and restrict financial flows into long-term productive projects (Villarreal 1990). Furthermore, high rates of investment into government bonds tend to create huge economic imbalances. The influx of foreign capital pressures the currency to appreciate, which undermines the competitiveness of the export sector while simultaneously encouraging excessive importing. As the balance of payments go into the negative, investors risk devaluation and consequently are obliged to pull their money out, resulting in capital flight.

Fortunately for ALBA nations, a new source of international finance has emerged that has allowed developing nations to eschew the IMF-led SAPs. The Bank of ALBA provides finance that isn't contingent upon the adoption of structural reforms. Hence, ALBA nations can secure financial inflows without having to sacrifice their economies to foreign competition, privatization schemes, or money speculators. According to ALBA officials, one of the main purposes of the bank is to provide developing nations with an alternative to the World Bank and the IMF. They argue that the Bank will provide financial resources under conditions that are not damaging to the region (Carlson 2007). The Bank of ALBA will purportedly provide financial resources for productive investment at a very low interest rate, and with flexible repayment plans (6th ALBA Summit). According to Nicaraguan representative, Alberto Guevara, the aid can be directed toward whatever priorities the borrowing country chooses (Carlson 2007f). However, one of the main objectives of the bank is to provide finance for the development of Grannacionales (ALBA 2008).

The Bank of ALBA is also one important feature of Venezuela's larger regional objective aimed at breaking Latin America's dependence on the IMF and US financial institutions. Since the re-nationalization of its state oil company (PDVSA)), Venezuela has used its windfall oil profits to reconfigure the region's financial architecture (Weisbrot 2006). In 2005, 80 percent of the IMF's outstanding loans (totaling $81 billion) were directed to Latin American countries. By 2007, Latin America accounted for only 1 percent of total IMF lending. Today, Pakistan and Turkey account for nearly all of the IMF's $17 billion in outstanding loans (Lendman 2007). Argentina officially withdrew from the IMF in December of 2005, after paying off its total debt of $9.8 billion. Venezuela contributed $2.5 billion to the cause, and Chavez announced that Venezuela would provide additional funds if Argentina needed it (Weisbrot 2006:8). Ecuador has also sought greater independence from the IMF. In 2005, Ecuador cleared its IMF debt and suspended World Bank loans. Venezuela assisted by agreeing to purchase $300 million of Ecuador's bonds. However, as it turned out there was plenty of demand for Ecuador's bonds and Venezuela only needed to buy $25million (Weisbrot

2006: 8). In 2005 alone, Venezuela directed an estimated $9 billion to financial services in the region.

In December 2007, Venezuela teamed up with Argentina, Bolivia, Brazil, Ecuador, Uruguay, and Paraguay to create a regional development bank known as the Banco del Sur Bank of the South. Initially there were differences that threatened to throw the whole project into disarray. Venezuela and Brazil disagreed over the projects main objective and who should be included in the official membership. Brazil wanted the scope of the project limited to South America, while Venezuela wanted to include Central America and the Caribbean (Romero 2007). According to Vince McElhinny, an analyst at the Bank Information Center (a Washington based think tank that tracks development Banks), Venezuela's focus was on egalitarian principles and regional solidarity, whereas Brazil was pursuing a more conservative agenda (Romero 2007). Venezuelan Finance Minister Rodrigo Cabezas has avowed: "There will be no credit subjected to economic policies. There will be no credit that produces calamity for our people and as a result, it will not be a tool of domination like the international lending agencies" (Lendman 2007:3).

In other financial developments, Venezuela announced in August that it would nationalize the privately owned Bank of Venezuela. It's not yet known if this bank will have an egalitarian focus or if it will strictly pursue commercial objectives; nevertheless, it poses an additional challenge to the IMF and the US based financial institutions that have dominated international finance over the last three decades. According to Latin American economist Mark Weisbrot, the diminishing role of the IMF is as historically significant as the collapse of the Bretton Woods fixed exchange rate system (Weisbrot 2006: 7). This institution no longer has the power to dictate to Latin American nations how to run their economies. With access to an alternative source of financing, governments are beginning to assume greater control over the development of their economies, as exemplified by the growing number of nationalizations in Bolivia, Argentina, and Ecuador. The recent economic restructurings that have taken place with respect to states pursuing their own development agendas has been greatly facilitated by Venezuela's emergence as regional lender. The financial agreements listed above indicate that Venezuela's efforts to promote regional solidarity and cooperation go well beyond the confines of ALBA. As we will soon see, this is also evident with respect to trade among non-ALBA nations.

Regional Participation

At the current juncture ALBA does not constitute a region-wide alternative, as Venezuela and Cuba have only been able to secure the signatures of the least developed countries of the region. The development of ALBA might potentially be advanced if industrial powerhouses such as Brazil and Argentina were brought into the fold. The technological capacity of these two countries could provide invaluable support, both in terms of technology sharing and training, for ALBA's less developed nations. Certainly without the involvement of other wealthier nations in the region, the development of ALBA will greatly depend on Venezuela. However, this might not be as debilitating as it appears at first sight. Brazil's commitment to its commercial objectives (as expressed in its initial agenda for the Bank of the South as well as the spats that it has had with less developed countries over the particulars of free trade agreements) could prevent it from taking on a meaningful role in such an accord. The high degree of preferential treatment that Brazil, as a more developed country, would be expected to grant less developed signatory countries, would likely stretch the limits of its humanitarian goodwill. In fact, many of President Luiz Inacio Lula da Silva's (known as Lula) economic policies represent a continuation of aspects of the neoliberal model, and his behavior towards other countries in the region has been ambiguous at best (Marques and Mendes 2007, DE Oliveira and Nakatani 2007, Prates and Paulani 2007, Stedile 2007). With respect to the continuation of neoliberal policy, Brazil's commitment to the domestic and international finance has significantly undermined the industrial sector. The high interest rates that have been necessary to attract foreign investment into the Brazilian real, coupled with the associated appreciation of the real, "has resulted in a regressive specialization of Brazil's industry, a loss of important capital and technology intensive sectors" (Prates and Paulani 2007). Moreover, Brazil has continued to pursue gains through liberalized trade, particularly under the framework of the WTO, with the aim of securing greater access to North American and European markets for its exports (Harris and Azzi 2006). This commitment has often strained relations between Brazil and its neighbors. For example, at the 2006 WTO Ministerial meeting in Hong Kong, Brazil's diplomats silenced both Venezuela and Cuba (who spoke out against the recent WTO proposal) in order to push forward a trade agreement with developed countries (Harris and Azzi 2006). Perhaps more explicit was Brazil’s willingness to command UN troops in Haiti. According to Harris and Azzi (2006:19):

> The Brazilian command of UN troops in Haiti has been used by the US as a test of its regional leadership, and is used by Brazil as a point in favor of its ever growing demand- especially under Lula’s administration- for a permanent seat at the Un security council, with an eye to the remote chance that it might be expanded.

If Brazil were to enter ALBA with the same inclinations, it could potentially foster division and undermine the model’s whole objective. On the other hand, Brazil has at times showed solidarity with its neighbors. Brazil supported Venezuela and Ecuador when Colombia (with the support and assistance of the US) carried out a bombing raid on a FARC encampment inside Ecuadorian territory. Following this incident, Brazil agreed to head up the South American Defense Council with Venezuela with the aim of protecting the sovereignty and territorial integrity of nations in the region. Nevertheless, given its ambiguous behavior and its continued pursuit of neoliberal-style capitalism, it is unclear how Brazil’s membership would affect ALBA.

Interestingly enough, there are other nations in the region that are not official ALBA members, yet have developed bilateral arrangements (of both material and social exchange) with Venezuela that look very similar to the agreements that have been established under ALBA. Venezuelan has a bartering arrangement with Argentina that involves the exchange of subsidized Venezuelan oil for Argentinean ships and foodstuffs (Kozloff 2008). In addition, state officials, workers, and businessmen from Venezuela and Argentina have held forums to discuss types of cooperative measures that could facilitate economic and social integration between two countries. One prominent example is the cooperative forums held between Venezuelan unions and Argentinean workers, where workers are invited to speak about their experience of worker run factories in Argentina (Kozloff 2008).

The bilateral bartering arrangements and joint ventures that have been established between Venezuela and Uruguay are another example of an ALBA- like agreement. Since August of 2007, Venezuela has sold subsidized petroleum to Uruguay in exchange for dairy cows. The specificities of the agreement allow Uruguay to pay 75 percent of the cost up front and the remaining 25 percent over a period of 15 years at an interest rate of 2 percent (Carlson 2007). In addition, Venezuela and Uruguay have embarked on a series of joint venture projects including: a joint oil company between Venezuela's state oil company PDVSA and the Uruguayan Ancap (an investment of more than $ 20 billion), the expansion of Uruguayan oil refinery that will double its productive capacity, and the construction of a natural gas refinery that will supply Uruguay with Venezuelan natural gas. The two countries are also in the process of planning the construction of a joint factory that will produce insulin (Carlson 2007). In support of the insulin factory Chavez asserted that it will "unhitch the region from the transnational medical companies that exploit out populations" (Carlson 2007).

Finally, Venezuela and Ecuador have also been planning ambitious agreements aimed at both energy and economic integration. One of the most important is the construction of a joint oil refinery in Ecuador that will process 300,000 barrels of oil a day, making it one of the largest in the region (Carlson 2007). The two countries also have signed an agreement to promote the development of small and medium-sized industry in both Venezuela and Ecuador.

Although the agreements mentioned above have not been officially implemented under the ALBA framework (and more information is required to assess the particulars of these agreements) they are in many ways consistent with ALBA's regional objective of fostering cooperation and solidarity between governments, economies, and peoples of the region. These agreements also contain elements found in the ALBA Declaration such as energy integration and economic complementarity based on comparative advantage. Aside from the fact that they are strictly bilateral as oppose to multilateral, the specific modes through which these interchanges take place, i.e., joint ventures and bartering arrangements are practically indistinguishable from Grannacionales and the TCP. When one considers Venezuela's financial and trading relations with non-member countries, ALBA, as an ideal of political and economic unity, seems to be also materializing outside the narrow confines of ALBA proper. Indeed, whether a true region-wide alternative -consistent with the principles of solidarity, cooperation and mutually beneficial forms of economic integration- materializes in Latin America, may depend less on a growing number of countries signing the official ALBA declaration and more on the continuation of the broader cooperative activities that Venezuela is embarking upon with its neighbors.

Chapter 6

Conclusion

In this thesis I have given a historical overview of Latin America's attempt to achieve sustainable economic development since the postwar period. Beginning with the "development era", many Latin American nations implemented ISI strategies in the hopes of achieving a more independent and self-reliant model development. However, the ISI strategy was only partially successful. While many Latin American nations experienced unprecedented rates of growth and made significant strides toward industrializing, they were never able to break their dependence on foreign markets and financing. Consequently, the region accumulated considerable debt, which increased exponentially after the US unilaterally dissolved the Bretton Woods fixed exchange rate system. Ultimately, compounding debt, coupled with US interventionism (in Brazil, Chile, and Argentina) brought Latin America's development era to a close.

Beginning in the 1980s, heavily indebted nations, on the verge of economic collapse, were in desperate need of foreign investment and financial assistance. In order to signal their investment and credit worthiness, Latin American nations were forced to adopt the neoliberal model of development, which involved a drastic restructuring of their economies. The neoliberal model in effect took away the sovereign right of the state to plan, implement, and coordinate economic policy on behalf of the nation. Under this model, foreign capital was to receive the same treatment as local capital. The components of structural adjustment that I have highlighted throughout this thesis, namely trade liberalization, privatization, and financial deregulation are a reflection of this. These measures, in different ways, all amount to a removal of state regulation on the movement of foreign capital. While these policies rewarded foreign-based transnationals and money speculators, these elements were particularly antagonistic to national economies. The components of structural adjustment were largely responsible for the displacement of local industry and agriculture, while also increasing nations' exposure to sporadic waves of capital flight. In most cases the implementation of the neoliberal model has undermined stable economic growth and increased poverty and inequality throughout the region. The effects have been particular hard on popular sectors. Unemployment, food shortages, increasing costs and limited access to basic human necessities such as water and electricity have all resulted from the implementation of neoliberal structural adjustment.

The deteriorating societal conditions that accompanied the neoliberal model produced discontent that has spread throughout Latin America. This anti-neoliberal sentiment has opened up new spaces for discussion and debate about alternative development strategies for the region. At this same historical juncture, Venezuela has emerged as a regional lender and is promoting its own alternative: ALBA. Venezuela's abundant financial resources, in conjunction with ALBA, are providing the opportunity for developing nations to eschew IMF-led SAPs. As I have attempted to demonstrate throughout this thesis, ALBA offers new opportunities for Latin American nations that did not previously exist under neoliberal structural adjustment. However, ALBA is still in its infancy; and as of yet, it is too early to tell if it will realize its promise. Below I highlight a number of contingencies that have implications for ALBA's future.

How Viable is ALBA?

What can be made of ALBA's medium and long-term prospects? Although ALBA's trade agreements, joint ventures, and financial architecture are designed in a manner that allows for cooperative management, democratic planning, and mutual benefit, it is reasonable to question the viability of an alternative that is comprised of such unequal countries. Venezuela is certainly the most economically powerful member of ALBA and undoubtedly asserts more control over the course and direction of ALBA than any other member country. In this context it is important to consider the extent to which Venezuela might be willing to exploit less developed member countries for its own advantage. Venezuela's declining international standing (outside Latin America) may buffer such behavior considerably. In other words, if Venezuela has any hope of establishing a national development project, in the face of US-led aggression, it continues to need the support and respect of its neighbors. At this juncture, it appears that any exploitative actions by Venezuela toward other ALBA countries would not only be counter productive for ALBA but for Venezuela as well.

If at some point Venezuela becomes unwilling to abide by ALBA's guiding principles, member nations would likely be obliged to pursue other alternatives. Besides Venezuela, other sources of finance and economic integration have recently emerged for Latin American nations. Since 2006, European Banks have begun offering grants and loans to Bolivia without the IMF's seal of approval (Weisbrot 2006:7). Moreover, China, Iran, and Russia have all strengthened their political and economic ties to Latin America in the last few years. Bolivia and Nicaragua are currently receiving financial assistance from Iran (Erikson 2007). Russia was among the first to give Cuba financial assistance following the devastation left by two major hurricanes and had signed a number of agreements with Nicaragua this year (BBC 2008). Not to be outdone, China has increased its trade with Latin America by $ 90 billion since 2000 (Painter 2008). Succinctly put, Venezuela and ALBA are not the only options available to developing nations in Latin America.

Chavez has proven that he is willing to make concessions when other players oppose the adoption of particular measures that he favors. Venezuela’s agreement to abandon the construction of the gas pipeline through the Amazon is one example. If Venezuela is serious about furthering a regionally based development project based on mutual cooperation and respect for national sovereignty, then it will have to continue to take seriously the views held by other members in the governing structure. The project itself will depend on it.

If ALBA continues to develop along its current path, whereby resources are transferred from the most developed nations to the least developed nations, then the huge power asymmetries that exist between Venezuela and other ALBA nations could potentially dissolve over time. The fact that Cuba will soon begin developing its own oil fields due to the technical and financial assistance of Venezuela is a testament to this potential.

External Threats

ALBA represents the most concrete and comprehensive state-run development model in Latin America since the ISI model. The early chapters of this thesis explored the challenges that confronted ISI and the reasons why it ultimately failed. With respect to gauging ALBA's prospects for success, it is important to clarify the distinctions and similarities of these two models, including the global political-economic contexts in which they emerged. Below I highlight a number of these similarities and distinctions. I find that while ALBA does not have to face many of the same challenges that confronted ISI model, it does, however, share one important limitation: technological dependence. Lastly, I discuss the increasing threat of US imperialism in an era of global peak-oil production.

As we will recall, ISI projects depended heavily on foreign financing because the revenue generated from traditional exports was insufficient to sustain industrial development. Coupled with this were the upheavals associated with the demise of the gold standard. The United States' decision to abolish the gold standard allowed the dollar to float (often sporadically) against the world's other trading currencies. This had disastrous consequences on the ISI model of development. As the value of the dollar increased, so did the cost of capital goods imported from abroad (i.e., industry and technology). This produced a strain on current accounts, which ultimately resulted in a large scale economic imbalance for many Latin American nations (Gowan: 1999:48). In order to continue with the development process under stable conditions, developing nations were obliged to borrow heavily from international financial institutions so as to maintain a fixed exchange rate with the dollar (Gowan 1999). Throughout the 1970s and 1980s Latin American governments committed millions of dollars to defend their currencies against a rising dollar. After the removal of international capital controls, the majority of the money used to service currencies came from private banks. Unfortunately (for Latin American nations) private loans came with adjustable interest rates that fluctuated with changes in US short-term rates (Gowan 1999: 28). Every time the Federal Reserve raised interest rates to curb inflation, the interest on Latin America's private debt rose. To make matters worse, all of these events occurred in the context of the 1970s oil crisis, which was characterized by an unprecedented rise in the cost of oil.[32]

Fortunately, many of the upheavals that the ISI model had to contend with are not relevant to ALBA's development prospects. Because of ALBA's access to Venezuela's oil revenue, development under the ALBA model does not currently depend on the IMF or US based financial institutions. Also, rising oil prices will not stifle development as they did in the 1970s and 80s, but rather provide more financial resources for the development of ALBA programs and projects. In addition, the US dollar does not pose the same threat for the ALBA model as it did for the ISI projects of the development era. Currently the US is running a trade deficit with a host of oil producing nations, including Venezuela. This has left Venezuela and others with substantial sums of US dollars to pursue national development agendas (Phillips 2008: 139). Under this scenario, if the value of the dollar rises, so does the amount of revenue that Venezuela can direct toward

[32] Despite these challenges, the ISI model was fairly successful in generating economic growth. Between 1950-1980, average growth rates for the region exceeded 5 percent (Maddison 1995), and from 1970 -1979 the average poverty rate fell by 40 percent (Bell Lara and Lopez 2006:26).

development projects; and if the dollar falls, then the price of oil climbs. Neither case should thwart Venezuela's ability to finance its development projects.

Global Recession and Technological Dependence

With respect to contemporary challenges that ALBA will have to confront, the current slowdown of the global economy poses a significant risk. Oil prices have been on a steady decline since the eruption of the global financial crisis. Speculators have been moving their money out of oil futures, as expectations of declining demand mount. Since November, oil prices have steadily plummeted below the US$70 to US$90 mark that Chavez said could maintain current spending levels (Painter 2008a). Oil analysts at Goldman Sachs have predicted that prices could drop as low as US$50 if the current recession continues (Painter2008a). The question then becomes how long will Venezuela be able to finance ALBA's ambitious programs and development projects in the face of dwindling oil profits. According to Weisbrot and Ray (2008) even if oil drops to $50 per barrel, Venezuela would still run a BoP surplus until 2010 at its current annual import rate of 43.2 billion. Moreover, even if Venezuela were to fall into a BoP deficit, the government has foreign reserves that exceed $40 billion and another $37 billion in other hard currency assets, thus providing an enormous cushion in the event that the government is forced to pursue deficit government spending (Weisbrot and Ray 2008:8). In any case, dwindling export revenue most certainly has serious implications for Venezuela's ability to finance ALBA. If prices fall below the projection mentioned above, ALBA's financial resources will most certainly be at risk. Venezuela in conjunction with Iran has spearheaded the effort to stop the fall of oil prices. In October Venezuela and Iran successfully lobbied other members of OPEC to cut production by 500,000 barrels a day, but the measure did little to stabilize oil prices. OPEC has scheduled an emergency meeting in December and additional cuts are expected.

The challenge that falling oil prices pose for ALBA is a symptom of a deeper structural problem: dependence on the import of technology and capital goods from developed nations. As we will recall, technological dependence was also characteristic of ISI. Under ISI, developing nations ran massive BoP deficits and accumulated considerable debt importing capital goods from developed nations. This technology also came with royalty and patent stipulations that channeled much of the profit back to developed nations. While currently ALBA does not have to borrow money to import capital goods, it does need to maintain healthy export revenues .The current economic recession threatens to undermine ALBA's development agenda, as falling oil prices will leave Venezuela with less financial resources with which to purchase industrial necessities. Moreover, this is a problem that cannot be overcome by diversifying exports. In the context of falling global demand and prolonged global economic downturn, the export of natural gas, or even industrial products from Grannacionales would undoubtedly face the same problems. In order to break the dependence on foreign export markets, ALBA nations must begin to develop their own capital goods sectors. This will also include developing the science and technology necessary for research and development. As Harry Magdoff (2003:130) once highlighted in a critique of ISI, " [development strategies] must attack the central issue of developing an independent technological base and an indigenous research and development capability for the generation of technology adapted to the specific needs of developing nations."

Currently, ALBA's industrialization and infrastructure development still greatly depends on the import of technology and industry from developed nations. If ALBA can successfully develop its own capital goods sector, dependence on foreign export markets can be broken, as ALBA nations will no longer need to maintain robust export sectors in order to get the foreign currency needed to import industrial necessities. Moreover, this will allow ALBA nations to keep their abundant natural resources for their own energy and production needs. But until this is achieved, ALBA's development will be largely dictated by demand for its exports.

US imperialism

US imperialism constitutes the most immediate threat to ALBA. Given the significance of Venezuela's membership in the ALBA alliance, the overthrow of the Chavez administration would likely throw the whole project into disarray. Indeed, the replacement of Chavez has been an important agenda item for Washington and the Venezuelan opposition. Beginning with its support for the 2002 coup attempt, the US government, along with the Venezuelan opposition, have devised a string of operations aimed at destabilizing Venezuela's democratically elected government (Foster 2007, Gollinger 2006, Gollinger 2008). The corporate media (who were also instrumental assisting the 2002 coup plotters) have contributed by consistently stoking a "mood of violence" amongst the rightwing opposition (Gollinger 2006).

In 2006, the Council on Foreign Relations released a report entitled *Living with Hugo*. The report addressed potential strategies that could be used to upset Chavez's "anti-capitalist crusade." The report called for a long-term diplomatic effort to isolate the Venezuelan government by establishing "specific red lines" (determined by the United States and "regional leaders such as Brazil, Chile, Argentina, and Mexico") that once crossed would bring about a "joint preventive response". The US, in tandem with regional leaders, would collectively determine "how to respond in the event that such red lines are crossed." The report specified that red lines could be drawn around (1) any attempt to alter the Venezuelan constitution; (2) Venezuelan support for destabilizing forces throughout the region; (3) a military relationship with a rogue state such as Iran (Lapper 2006).

In 2007, one such red line was crossed, as the government pushed forward with a referendum to amend the Constitution. Before the run up to the referendum, the Venezuelan government uncovered a confidential document sent from the US embassy to the CIA that revealed the depths of Washington's covert operations. The document elaborated the specificities of a secret plan called "Operation Pincer" (OP) that was designed to delegitimate the results of the referendum and prevent the constitutional changes (Petras 2007). The document described in detail the efforts aimed at infiltrating Chavez support groups in an attempt to influence the referendum vote. According to James Petras (2007: 1), OP involved a two-part strategy, one part aimed at supporting a 'No' vote and the other calling for the citizenry to reject the outcome and employ violence, as they were expecting the majority of the citizenry to vote in favor of the constitutional changes. According to Petras (2007:1):

> The run up to the referendum involved running phony polls, attacking electoral officials, and running propaganda through the private media accusing the government of fraud… The key and most dangerous threats to democracy raised by the embassy memo point to their success in mobilizing private university students (backed by top administrators) to attack key government buildings including the Presidential Palace, Supreme Court, and the National Electoral Council. The ultimate objective was to seize territorial and institutional base with the 'massive support of the defeated electoral minority… backed by an uprising by oppositionists military officers principally the National Guard.

Meanwhile, the private media did its part by calling on the Venezuelan citizenry to "rebel" against the government, and stop the constitutional changes "through any means possible", according to Tibisay Lucena, Venezuela's National Electoral Council President (Lendman 2007). Although the referendum was voted down, the government was successful in maintaining stability and order during the aftermath of the vote.

More recently, there has been an attempt to link President Chavez with the Colombian guerilla group the FARC, in the hope of labeling Venezuela as a terrorist state and undermine the government's legitimacy internationally, perhaps establishing the basis for preemptive operations. After a Colombian military raid on a FARC encampment inside the borders of Ecuador, Colombian President Uribe, Washington's closest ally, announced that the Colombian military found evidence that Chavez and Ecuadorian President Rafael Correa were financially and militarily assisting the FARC. The evidence consisted of documents found on laptop computers that were allegedly discovered at the FARC encampment. The documents were purported to include information about financial and military agreements between the Colombian guerilla group and Chavez.

The computers were sent to the international police organization (INTERPOL) in order to validate Colombia's claims. However, all the analysis indicated was that the computers were not tampered with after the Colombian Military purportedly found them. This, of course, in no way proves that the computers were not planted at the scene. Interestingly, however, INTERPOL did find a number of documents on the computers that had been dated in the future (Suggett 2008a), but no official explanation was given. Ultimately, the "evidence" was not compelling enough to indict the Venezuelan and Ecuadorian governments. Allegations were dropped and no official charges were ever filed. Perhaps one reason that Colombia and the US did not pursue these claims was the overwhelming support for Venezuela and Ecuador by other Latin American nations. The Organization of American States (OAS) condemned Colombia's bombing raid into Ecuador. All members with the exception of the US and Colombia explicitly denounced the incursion into Ecuador's territory.

Peak Oil and US Hegemony

What accounts for the hostile nature of the US toward the Venezuelan government? First of all, Venezuela's many progressive projects no doubt pose a threat to the economic and political interest of the US. In some cases these projects, especially the move to build "21st Century Socialism," point towards alternative forms of property relations as well as alternative modes of production and distribution that are not consistent with American global interest. In many respects, Venezuela's national and regional development agenda constitutes an ideological assault on the international capitalist order.

As historian David Schmitz (2006) has pointed out, “It was the threat of a successful socialist state in Chile that could provide a model for other nations that caused concern and led to American opposition.” Venezuela no doubt poses a similar risk at a stage when many in the international community (especially in Latin America) are disenchanted with neoliberal-style capitalism. More directly, however, I believe that there is one issue resulting from Venezuela’s development agenda that poses a direct threat to American hegemony: declining oil production. Venezuela’s oil production has been gradually declining, along with many other oil producing states (Foster 2008:22). Of course, Venezuela’s production level will increase dramatically once the Oronoco Belt is tapped. However, it is expected that the majority of this oil will be allocated to China and India, the two largest up and coming oil consuming nations. If this happens, the US will be left out in the cold during an era characterized by declining global oil production. A comprehensive assessment of “peak oil” production is beyond the scope of this project. However, in order to understand the United States’ stance against Venezuela, it is necessary to make clear the significance of declining oil production with respect to US energy security.

Beginning in 1998 a series of reports were released by oil industry representatives and US government officials on the state of US energy security (Campbell and Laherrere 1998, Morse 1999, White House 2001). A common theme in these reports was the concern over increasing foreign oil dependency and global “peal oil” production. “Peak oil” is a term that refers to the point at which global oil production has reached its maximum, followed by a steady and permanent decline in output (Foster 2008). Peak oil is determined by both geological and technological limitations. Once an oil well has been tapped, the rate of extraction steadily increases until the point at which the well is half empty. Once the halfway mark is reached, the rate of extraction steadily declines, as it becomes harder to maintain the going rate of extraction the further down the oil is (Foster 2008). According to the Energy Watch Group, a large percentage of existing oil wells are currently running at peak production (EWG 2007). Coupled with this is the fact that the rate of new oil field discoveries has steadily declined, while the average size of newly discovered oil fields are much smaller (Foster 2008). Strategic energy initiatives have increasingly focused their attention on ways to boost global oil production, as to stabilize the rising price of oil. In 2005, a report by the US Army warned:

> The doubling of oil prices from 2003-2005 is not an anomaly, but a picture of the future. Oil production is approaching its peak; low growth in availability can be expected for the next 5 to 10 years. As worldwide petroleum production peaks, geopolitics and market economies will cause even more significant price increases and security risks. (Fournier and Westervelt 2005)

Over the last decade, a number of reports have identified state owned oil companies as one of the most significant factors contributing to dwindling oil supply and rising costs. In 2001, the James Baker III Institute cosponsored a study that noted that excess capacity had been wiped out due to oil producing states willingness to devote oil revenues to national development and social projects, as oppose to reinvesting into productive capacity. Special emphasis was placed on the US assuming a greater role in the development of global oil reserves and the replacement of national oil companies (NOCs) with transnational oil companies, which would purportedly “inject a more competitive tenor to oil trade” (Morse 2001). In 2006, the Center for Strategic

International Studies (CSIS) issued a report that explicitly highlighted the international supply threat posed by Venezuelan State's commitment to pursuing domestic and geopolitical goals with its oil revenues (Deutsch and Schlesinger 2006).

Perhaps the most explicit indictment of Venezuela came from another policy report issued by the James Baker III Institute in 2007. The report stressed the growing concern over "Venezuela's national development policy" and its willingness to pursue "social and cultural investment" over "commercial development" (James A. Baker III Institute 2007: 10-12). The report emphasized the imperative of "breaking up" OPEC's control over global oil production so that greater revenues could be directed toward production. "If the United States were able to wish into existence a world that would favor its terms of trade, and super power status," the report stated, "all national oil companies would be privatized."

These reports demonstrate the urgency on the part of the US to secure and extend its control over global oil reserves. The looming threat of energy imperialism is something that Venezuela (and by extension, ALBA) will no doubt have to contend with for years to come. The US has showed its willingness not only to act through covert means (as in Venezuela), but also through full scale military combat (as in Iraq), according to former Federal Reserve Board Chairman Alan Greenspan (2007: 462-463). In his new book, Greenspan admitted that he was "saddened that it is politically inconvenient to acknowledge what everyone knows: that the Iraq war is largely about oil." Greenspan went on to argue that the US occupation in Iraq should be understood along the lines of previous Western interventions in the region, such as CIA overthrow of

Iranian Prime Minister Mossadeq in 1953, following the nationalization of Iran's oil (Greenspan 2007:462-463).

The longevity of ALBA will depend on how Venezuela confronts US-led aggression. The present strategy seems to be one of bolstering political, economic, and military ties with other world powers such as China Russia and Brazil, while fostering regional support from other Latin American nations. In November of 2008 Venezuela and Russia plan to embark on joint military exercises off of the coast of Venezuela. This will undoubtedly escalate tensions between the US and Venezuela. However, before Venezuela and Russia even announced such plans the US had already decided to recommission the 4th Fleet, a formidable line of US warships and submarines with nuclear armaments, to patrol along the Caribbean and South American coastline (Gragg 2008).

Venezuela must find effective ways to counterbalance the military might of the US and Colombia, while also continuing to garner support from its allies in the region. The most concrete example of such an initiative has been the launching of the South American Defense Council by Venezuela and Brazil. Initially, the US had requested to be involved but was denied. According to Brazil's defense minister, Nelson Jobim, the council will promote joint military training and defense bases, as well as push toward military industrial integration (Suggett 2008b). Jobim stated that the main purpose of the council was to "dissuade" possible military incursions. In order to develop ample capacity for dissuasion, Jobim insisted on the need to integrate and advance the region's militaries.

Perhaps Latin America's new defense council, in conjunction with the political and military support from other formidable world powers such as Russia, will provide sufficient dissuasion against military incursion from either the US or its ally, Colombia. With the threat of US military intervention effectively checked, Venezuela can continue to pursue more egalitarian modes of economic integration with its neighbors, both inside and outside of the ALBA model.

ALBA, as a concrete model of development, may provide an opportunity for poor nations in the region to make meaningful strides towards development without compromising national sovereignty. Under ALBA, states are not pressured to sell off public assets, expose their economies to foreign money speculators, or compromise national production by making local producers compete with highly subsidized international monopolies in order to secure markets or financial assistance. ALBA points toward a more egalitarian mode of economic integration, whereby states reclaim their sovereign right to direct national development agendas for the benefit and security of their citizenries. Under ALBA's framework, states still pursue economic gains through international trade but not under competitive conditions or at the expense of less developed nations. Rather ALBA's focus is on cooperation and complementarity. Not only are ALBA nations heavily involved in joint efforts to develop strategic sectors of their economies (Grannacionales), they have also carefully designed mutually beneficial bartering agreements (TCP), and created a financial architecture that will facilitate such development (The Bank of ALBA). Indeed the strong cooperative element in ALBA is what separates it from the nationalist development strategies of the ISI period. By collaborating in the areas of technology, finance, and trade, Latin American countries can for the first time begin to embark on a regional development project that is independent from foreign based transnationals, investors, and financers that have pulled so much wealth out of the region.

The emergence of ALBA in the present juncture has an important symbolic significance. ALBA is perhaps the most inclusive and concrete alternative to the neoliberal order that has materialized. Part of ALBA's distinctiveness lies in the fact that it constitutes more than just a new mode of economic integration; it also has a strong human dimension, as healthcare and education make up a significant part of ALBA's fundamental architecture. For the first time some of the poorest peoples in the entire region have access to free healthcare and a college education. By proving that a state-lead, non-competitive, mode of integration that focuses on human well-being is possible, ALBA not only serves as an example to other Latin American states but also to the rest of the world.

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Appendices

Appendix 1 Grannacionales of ALBA

Cuba, Venezuela, Bolivia, Nicaragua, and Dominica

- Operation Miracle - ophthalmology services that are provided free of charge to ALBA citizenries

- Barrio Adentro - basic medical care services that are provided free of charge to ALBA citizenries

- Mission Robinson I - literacy program provided free of charge to ALBA citizenries.

- Mission Robinson II - elementary education program provided free of charge to ALBA citizenries.

- Mission Ribas - higher education program provided free of charge to ALBA citizenries.

- PETROALBA – a multilateral oil exploration and extraction company that will be run by ALBA countries for the purposes of exploring and extracting oil in Venezuela's Oronico Oil Belt.

- A multi lateral energy Grannacionale that covers the areas of oil, gas, refining, petrochemicals, infrastructure development, transport, storage, distribution, electricity, alternative energy and shipping.

Venezuela, Nicaragua, and Dominica

- A hydropower plant in Dominica between Venezuela, Nicaragua, and Dominica.

Venezuela and Nicaragua

- A joint oil refinery

- A joint thermal power plant

- An underwater fiber optic system connecting Venezuela and Nicaragua

Cuba and Venezuela

- The renovation of the Camilo Ceinfeugos oil refinery in Cuba

- A joint oil refinery

- A joint oil exploration venture in Cuban territories

- A joint cement industry

- A joint steel industry
- A joint ship building industry
- An underwater fiber optic system connecting Cuba and Venezuela
- A joint airline industry

Venezuela and Bolivia

- Two joint natural gas extraction plants
- A joint thermal power plant
- A joint asphalt industry
- A joint exploration of four of Bolivia’s gas fields.
- A joint oil refinery
- A joint oil exploration venture in Cuban territories
- A joint cement industry
- A joint steel industry
- A joint ship building industry
- An underwater fiber optic system connecting Cuba and Venezuela
- A joint airline industry
- Two joint natural gas extraction plants
- A joint thermal power plant
- A joint asphalt industry
- A joint exploration of four of Bolivia’s gas fields.

Appendix 2 TCP Agreements of ALBA

Venezuela to Cuba

- Technology Transfers in the energy sector
- The removal of all bilateral tariff and non-tariff barriers on Cuban exports to Venezuela
- Finance for productive projects in the energy sector, electricity industry, and agriculture.
- Finance for the renovation of infrastructure including: road construction, port development, and aqueduct and sewer renovation.
- Subsidized oil at a minimum of $27 per barrel plus market premiums.

Cuba to Venezuela

- The removal of all tariff and non-tariff barriers on Venezuelan imports.
- Tax exemptions on both state and private capital investments.
- Barrio Adentro – free general health care services provided to the Venezuelan citizenry by some 30,000 Cuban doctors scattered throughout Venezuela.
- Operation Miracle - ophthalmologic healthcare provided to the Venezuelan citizenry free of charge.
- Mission Robinson I – a literacy program provided to the Venezuelan citizenry free of charge.
- Mission Robinson II - an elementary education program provided to the Venezuelan citizenry free of charge
- Mission Ribas - high school education program provided to the Venezuelan citizenry free of charge
- Mission Sucre – higher education program provided to the Venezuelan citizenry free of charge, includes 2000 general tertiary scholarships and additional uncapped medical scholarships over 10 years .[1]

Cuba to Bolivia

- Barrio Adentro – free general health care services provided to the Bolivian citizenry by some 600 medical specialists scattered throughout Bolivia.
- Operation Miracle – ophthalmologic healthcare provided to the Bolivian citizenry free of charge.

- Mission Robinson – a literacy program in four languages: Spanish, Aymara, Quechua, and Guarani, provided to the Bolivian citizenry free of charge.

- The provision of 5000 scholarships to train doctors and healthcare specialists in General Medicine and in other areas of Medical Sciences.

- Tax exemption on state investments and joint ventures in Cuba

Venezuela to Bolivia

- 200, 000 barrels of subsidized fuel per month.

- Technical assistance and technology transfers for the development and maintenance of Bolivia's state oil company (YPFB).

- A donation of $100 million to finance productive projects and infrastructure.

- A donation of $ 30 million to finance social development.

- Donation of an asphalt plant for the construction and maintenance of roads.

- Agreement to increase the importation of Bolivian products.

- Tax incentives in Venezuela on Bolivian state projects of strategic interest.

Bolivia to Venezuela and Cuba

- Will contribute to the export of mining, agriculture, and livestock products that are required by Cuban and Venezuelan industry.

- Will contribute to the energy security of ALBA countries with gas and oil surpluses.

- Tax exemptions on both state investments and joint ventures.

Venezuela and Cuba to Bolivia

- The removal of all bilateral tariff and non-tariff barriers on Bolivian imports.

- Commit to the purchase of all Bolivia's soy and additional agriculture produce that no longer has a market due to the implementation of free trade agreements.

- Transfers in technological financial, and human resources for the development of state airline.[1]

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Vita

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