5-5-2017

Hindrances to South America's Emergence as a Key Player in International Business

Sloan Coolbroth

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By

Sloan Coolbroth

Submitted in Partial Fulfillment
Of the Requirements for
Graduation with Honors from the
South Carolina Honors College

May 2, 2017

Approved:

Dr. Nancy Buchan
Director of Thesis

Professor Dean Kress
Second Reader

Steve Lynn, Dean
For South Carolina Honors College

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Thesis Summary

This thesis seeks to explore the variety of inhibitors that have counteracted South America's ability to emerge as an influential competitor in the international marketplace. Largely due to political, economic, and societal issues, both a macro and microanalysis is performed to better understand both the regional and individual issues plaguing South America. Due to their overlapping nature, it is difficult to characterize any one particular issue as more pertinent than another. Therefore, an analysis by issue is required to obtain a better grasp of its complexity, severity, and impending necessity to overcome in order to capitalize on the region's potential international influence.

The thesis begins by first examining the extent of wealth disparity and poverty prevalence. The Gini Index, a commonly used statistic in the social sciences, is introduced and defined in order to offer a better understanding of how South America compares to other regions in the world. The regional inequality gap is discussed further, and a decrease in recent years is accredited to various economic shifts that are evident throughout South America. A suggestion is made that latter sections will offer a more thorough explanation to other factors that have contributed to the region's wealth disparity.

The thesis then continues to the next section, which delves into the dependency of commodity-based industries across South America. In addition to explaining the extent of commodity reliance, an analysis of foreign demand and intervention explains how the region has experienced both economic booms and contractions over the past decade and a half. Several reasons are given to express

the unsustainable nature of commodity-driven economies followed by analytical suggestions that can potentially curtail the negative repercussions. Lastly, Chile and Brazil have implemented several measures to ensure the sustainability of their economic competitive advantage. The Global Entrepreneurship Monitor is introduced and is used to exhibit the push for industry diversification in South America.

The third issue analyzed in the thesis examines the inconsistent approaches to international trade throughout the region and the resulting inefficiencies it has caused. An explanation of hub and spoke countries sets the stage for a better analysis of the three primary approaches to trade in the region: aggressive implementation of bilateral trade agreements, trading blocs, and passive approach. Relevant pros and cons to each trade position are discussed as well as a potential convergence of efforts to improve South America's presence in the international value stream.

The fourth section explores the extent of urban migration and the related political, economic, and social pressures it has imposed on South American countries. Several issues attributed to rapid urban agglomeration are discussed including the proliferating frequency of urban slums, inadequate infrastructure, socioeconomic tensions, and increasing rates of violence. This section uses regionally encompassing dilemmas as well as specific urban examples to demonstrate the internal struggles that South America is experiencing. An analytical discussion at the end examines effective measures that have been taken

to capitalize on the economic and social benefits that come along with rapid urban growth.

The final section of the paper deals with governmental corruption, inefficiencies, and setbacks. Due to the lack of one all-encompassing issue faced by all countries within the reason, a narrowed scope of focus is used by analyzing Venezuela, Colombia, Argentina, Brazil, and Chile. Prevalent throughout their institutional systems, inherent corruption has historically impaired the region's ability to alleviate socioeconomic tensions, reinvest into social reform, and establish confidence from foreign investors.

The thesis concludes with an analysis of the issues as well as suggestions as to which problems should be tackled first in order to ensure regional cohesion and bolster international influence. This is approached from two different angles, one from the viewpoint of policymakers' agendas and the other from businessmen's. The conflicting interests and long-term goals hampers the ability for significant change to potentially come about, and, therefore, threatens the future relevance of South America's international affairs.

Abstract

South America, a region full of economic competitive advantages, intellectual capital, and a rapidly consolidating population, has experienced a sluggish emergence into international business affairs. Hindered by a myriad of historically pervasive and newly emerging issues, the South American region has been unable to effectively capitalize on its assets and has subsequently witnessed an economic stagnation. Including, but not limited to, political, economic, socioeconomic, and societal disruptions, both a macro and micro analytical approach is used to better understand the regional issues facing South America as a whole as well as those faced by individual countries. This thesis explores five principal inhibitors that are prevalent throughout the region including wealth disparity, dependency on commodity-based industries, inefficient and inconsistent approaches to international trade, agglomeration around city-centers, and governmental corruption. In breaking down the ubiquitous obstacles, providing an in-depth analysis, and offering recommendations going forward, a more thorough understanding of South America's current state is apparent. Inherently overlapping in nature, though, no particular issue can be accredited with South America's delay in international influence. Despite the plethora of regional setbacks, it is evident that South America, with the correct governmental restructuring, social reinvestments, and economic diversification, has the potential to reverse course and emerge as a key player in international affairs.

Introduction

South America, a region full of abundant natural resources, access to international trade routes, and a burgeoning population, has failed to witness an equivalent emergence into the international marketplace compared to other similarly developing regions across the globe. Inhibited by both regionally broad and individually unique issues, South America’s ability to capitalize on its intellectual, physical, and capital resources has limited the region’s overall political and economic influence in international affairs. As a result, five historically relevant issues can be attributed to the state in which South America currently finds itself.

Primarily, South America leads the world in regional wealth disparity and poverty prevalence. With unequal distribution of wealth, limited economic opportunities, and narrow industry diversification, the income inequality gap threatens the region’s ability to cohesively emerge. Secondly, the regional dependency on commodity-based industries, although bolstering an economic boom during the rise in global demand a decade ago, has since limited South America’s growth. Due to inadequate investment into alternative sectors, the increasing dependency on foreign demand, and the inherently volatile nature of commodities, a current economic contraction has proliferated other regional issues. Thirdly, South America has witnessed inconsistent approaches to the establishment of bilateral and multilateral trade agreements with foreign countries. A lack of regional unity has caused a separation between internationally relevant countries and has limited cohesive efforts to benefit the region as a

whole. Fourthly, the rapid agglomeration of the South American population to urban city-centers has ushered in new economic, political, and socioeconomic issues. With inadequate infrastructure, lacking municipal service, socioeconomic tensions, and an increasing proliferation of urban violence, the fiscal and social economic strain on regional urban hubs has stifled the capacity of economic output. Lastly, governmental corruption and its related inefficiencies and setbacks have had devastating effects on South American countries. By funneling money away from investments into social and economic reforms, governmental malpractice furthers socioeconomic tensions, political mistrust, and foreign hesitations to invest in the region.

South America, in the midst of global development and increasing interdependency, has failed to emerge as an influential player in the growing business world due to political, economic, and social hindrances. The issues plaguing the region, although individually unique, are inherently overlapping in nature, thus making the task of mitigating repercussions a difficult feat for South American policymakers. Derived from a variety of outlets, the setbacks the region has incurred call for a restructuring of governmental institutions, significant reinvestment into social reforms, and increasing economic diversification to ensure a sustainable and competitive role in international business.

Analysis of Wealth Disparity and Poverty Prevalence

In order to fully grasp the extent of economic influence, it is important to understand how wealth is distributed and with whom the power lies. The Gini Index is a widely used statistic in social sciences that indicates a country or region's wealth disparity between the rich and the poor. Not only can this index be used to compare countries within a region, but it is also a vital indicator of how a region's social development relates on an international scale.

The Gini Index is measured on a scale from 0 to 1, with a 1 indicating that all wealth goes to the same individual and a zero suggesting that everyone has the same income. Although both are theoretically impossible, the scale sets up extremes to better understand the extent of how consistent a country's distribution of wealth is throughout its socioeconomic classes (Lustig, 2015). Compared to the rest of the world, Latin America, and specifically South America, is a region of striking disparities in the equality of wealth distribution, access to education, availability of basic services, and other indicators of equality (Gasparini & Lustig, 2011). According to a study performed by UNICEF, the Latin American region has the highest average level of income inequality in the world at 0.483, ahead of Sub-Saharan Africa and Asia. By contrast, high-income countries mark significantly lower with a Gini Index of only .309 (Ortiz & Cummins, 2011). By these numbers, Latin America is, "30 percent more unequal than the world average," a concerning statistic highlighting a disruption in socioeconomic equality that can explain the region's stagnation in international growth (Lustig, 2015).

An inconsistency arises, however, with regard to the Gini indices of South American countries compared to other countries with similar per capita GDP. As indicated by the smoothed regression line in Graph 1, an increase in a country's per capita GDP correlates to a lower Gini index. Despite this trend, South American countries find themselves with higher Gini indices, or "excess inequality", than should be expected for their level of per capita GDP (Gasparini & Lustig, 2011). This observation raises questions as to what underlying factors are causing the pervasive lack in equality throughout the region and may offer an explanation as to South America's shortcomings in their emergence as a global player.

Despite the region's notoriety of income inequality, South America has witnessed a steady decline in nearly every country over the last decade and a half (see Graph 2) (World Bank, 2016). Two principle reasons can be accredited with the improvement of income distribution. The first reason is in response to labor earnings becoming more evenly distributed. The wages of workers with little to no education increased faster than those with higher education. This narrowing of the wage gap can be attributed to increased access to secondary and tertiary education and therefore a larger share of skilled professionals entering the workforce than ever before. Further, the number of jobs requiring skilled labor has not grown as fast as the supply over the last decade leading to a reduction in the premium previously paid for those employees. On the other end, a combination of increased demand for low-skilled employees in commodity-based industries as well as minimum wage increases in certain countries have helped to

narrow the discrepancy in income. The secondary reason for the narrowing of the wage gap can be attributed to government transfers. One of the most influential innovations in social policy, government transfers have not only increased in size but also have become more targeted towards the poorer, rural regions. Although still not a perfect system that satisfies the widespread need, conditional cash transfers provide needed financial resources to families, contingent on their adherence to certain requirements including regular health checkups and keeping their children in school (Lustig, 2015).

Due to the reasons previously discussed as well as improved infrastructure, municipal services, and economic opportunities, the proportion of extremely poor people witnessed a 50% decline from 25% of the population to 12% in the past 15 years (Lustig, 2015). However, maintaining this continued decline in poverty is by no means guaranteed. As mentioned, there has been stagnation in the growth of jobs requiring skilled labor. This, in turn, reflects the lag in industry diversification in which South American countries are involved in as they continue to remain dependent on commodity-based industries. Further, the continuation of slow economic growth will result in increasingly lower tax revenues (Lustig, 2015). Governments will either be forced to raise taxes or cut expenditures causing the progress in declining inequality to stagnate or possibly even reverse course.

Although merely a singular number indicating wealth distribution in a country, the Gini Index considers a multitude of socioeconomic factors that tell a story about the underlying influences affecting a country. In order to better

understand why South America has been slow to emerge as a key international player, one must first consider the distribution of wealth in a country as well as the opportunities available to its citizens.

Dependency on Commodity-Based Industries

During the 2000's, South America witnessed a boom in the demand for commodities such as oil in Colombia, copper in Chile, coffee in Brazil, lumber in the Amazon River basin, and other raw materials (National Geographic, 2017). Fueled by international economic growth, South American countries were propelled into a new era of wealth and expansion following the heels of developing countries, particularly China. Between 2000 and 2010, Chinese imports of South American products, primarily raw materials, rose by 1,153%, which was an increase from 1% to 7% of the region's exports (Wharton: University of Pennsylvania, 2012). Attributed to rising world prices for South American commodities and the resulting increase in output, it is estimated that "between one-third and half of the region's growth over the past decade" came as a result (Economist, 2010). Further, because of the vigor with which India, China, and other Asian economies were consuming natural resources, South America was relatively unaffected by the global economic downturn with their commodity prices' historically high levels remaining unfazed. In recent years, though, a decline in the exponential growth and consumption of China and similar developing countries has led to troubling concerns for the sustainability of commodity-based economies.

Times are changing in South America. The last several years have hit commodity-driven economies hard as the international demand for raw materials has begun to wane in previously high-development nations. Constituting 52% of total exports in the region during the first decade of the millennia, raw material-

rich South America experienced accelerated growth in their economies by an average of 4.3% annually. Although South America's dependency is down from 86% in the mid-1970's, this does not compare to the figure of East Asia and the Pacific falling from 94% to 30% over the same time period (Economist, 2010; Economist 2014). This staggering statistic demonstrates the lack of timely reaction to opportunities in the developing world that arose as a result of growing global commerce.

Today, South American economies find themselves in a time of declining international commodity consumption. As demand has dwindled, South American countries have begun to experience a consequential downturn in economic growth. Of all the regions in the emerging world, South America is the only one currently experiencing an economic contraction. Compared to the deceleration of the Chinese economy, South America's growth decline is disproportionately large. This is especially worrisome when comparing South America to emerging economies in Southeast Asia that have managed to maintain stable growth rates of 4-5% since 2012 despite having significantly more interconnected economies with the manufacturing powerhouse (De la Torre, Filippini, & Ize, 2016) What originally began as a "slowdown in regional economic activity in 2012 turned into a contraction by 2015" as economic growth turned negative with a GDP contraction of 0.8% (De la Torre, Filippini, & Ize, 2016; Aceves, 2017). Although only an average for the region, certain economies were hit much harder than others. Brazil, suffering from a prolonged recession, and Venezuela, whose crude oil production continues to decline, respectively suffered a 3.6% and 12.2% GDP

contraction in 2016 (Aceves, 2017). This comes as disheartening news, particularly to Brazil, whose categorization as a BRIC nation held a promising prognosis for long-term growth and threatens its involvement as a key player in international affairs.

As the reality of an economic growth slowdown begins to set in, reliance on a singular industry is starting to have its repercussions. This can be attributed to several reasons. First, there has been a lack of investment into manufacturing and industrial sectors. Not only are commodity prices more volatile and unpredictable than those of manufacturing, but a lack of secondary sectors limits the opportunity to create value and, in turn, capitalize on its premium (United Press International, 2010). South America's dependence on China's consumption of raw materials has, in reality, created an unequal relationship. Once considered complementary economies, South America supplied natural resources to China in exchange for importation of their inexpensive manufactured goods. However, as cheaper secondary products have flooded South American markets, manufacturing industries find themselves unable to compete causing further reliance upon commodities. If China's growth continues to slow down, a decreasing demand for raw materials could mean greater trade inequality and even more harm to South American growth efforts (Wharton: University of Pennsylvania, 2012). Second, heavy reliance on commodity exports can drive up the value of a region's currency, causing other economic sectors to be less competitive. This excess inflation creates a further imbalance, as other economic sectors become less competitive resulting in further dependence on the trade of

natural resources. Finally, and perhaps most alarming, is the issue that the majority of non-agricultural commodities are non-renewable resources (Economist 2010). South America is in a state of imminent danger of a digression of economic influence. Although not limited to these three issues, they portray the consequences that a commodity-based industry can have in terms of long-term sustainable growth.

With the future economic outlook in question, a change must occur in South American countries that had previously turned a blind eye to the consequences of relying too heavily on non-renewable resources. Diversification into other industries, specifically secondary sectors, is perhaps the most impending necessity. Expanding the industries in which South American countries operate will not only insulate them from external influences, but it will also create more jobs, open up opportunities for trade with new partners, and improve the quality of their insertion into the international economy (United Press International, 2010). Diversifying from a singularly based economy is by no means an easy task. However, there are various economic strategies such as investing tax revenue into new business sectors and Research & Development, accumulating reserves during times of economic surplus, and redistributing wealth that can pave the way for new opportunities.

This is precisely what Chile and Brazil have begun doing in the past several decades. Following the boom in Chilean copper prices, the country's principal export, the government capitalized on the premium of inflated global prices by collecting excess tax reserves and creating a stabilization fund that

equated to approximately 12% of the nation's GDP. This very reserve funded a large fiscal stimulus during the global recession to help counteract the volatility of international markets (Economist 2010).

In addition to Chile's forward thinking in creating crisis reserve funds, the country is also known for its emphasis on entrepreneurship. The Global Entrepreneurship Monitor (GEM) is a worldwide study that measures the extent to which entrepreneurship plays a part in economic development within individual countries and regions. Pioneered 27 years ago by the Universidad de Desarrollo in southern Chile, the university, which began with only 100 students, now educates nearly 30,000 students in the field of entrepreneurship. Chile, in return, has seen a spike in innovation with the second highest level in the world only behind Lebanon. This classification is a result of more than 50% of Chile's entrepreneurs introducing products or services that were new to nearly all users and were offered by few or no previously existing businesses. Further, the level of Total Early-Stage Entrepreneurial Activity, a key measure of the GEM, ranked Chile as the 7th highest country in the world in 2016. Similar in eagerness to create sector diversification, Colombia, Ecuador, and Peru all ranked in the top 10 as well. High levels of entrepreneurial activity are a promising sign for any given country, but without sustainable future growth and ease of doing business, start-ups have little chance of staying afloat. Therefore, Chile's rank of 8th in the world for generating six or more jobs within five years demonstrates the ability to generate new employment, diversity industries, and create sustainable businesses (Global Entrepreneurship Monitor, 2017). Further, in 2010, Chile began a program that

offers $40,000 grants to bring 25 entrepreneurs from the United States to "live and work on a new venture there for up to six months" (Farrell, 2010). Once a primarily commodity-dependent nation, Chile is going to extensive efforts to counteract the transition in global demand for its natural resources. By investing heavily into entrepreneurial start-ups and ventures, the country is creating a sustainable environment for innovation that will hopefully carry Chile into a new era as an influential player in global affairs.

Brazil, on the other hand, is a large agricultural producer that set up an initiative in the mid-1970's to invest heavily into its green revolution of plant and animal genetic modification. Since the founding of this initiative, only 20% more agricultural land has come into use while a 150% increase in production has since made Brazil the world's largest exporter of coffee, tobacco, sugar, beef, and chicken, among others (Economist 2010). The growth of these various industries became evermore important in the early 2000's when Brazil's cocoa crop, a key ingredient of chocolate, was ravaged by the spreading of a fungus throughout South America. Although local economies were initially devastated, Brazil was able to rebound faster than other countries as a result of the research that had been done to adopt plant species to the harsh Brazilian climate (National Geographic, 2017). An example of the benefits of reinvestment into further research and development is epitomized by what Brazil has done. Even though this is not an example of diversification into different industries, Brazil has capitalized on its vast reserves of arable land mixed with an investment into more resilient genetic modifications to assert themselves as leaders in the international marketplace.

Both countries lead the way within the region of investing into their futures in hopes of ensuring a sustainable level of growth. Without proper industry diversification, a decline in global demand of South America's natural resources will likely hinder the region's economic climate. Following the examples set by Chile and Brazil will offer other South American countries similar opportunities to grow, foster healthy economic environments, and assert themselves as key international players in an increasingly global economy.

Inefficiencies Due to Inconsistent Approaches to International Trade

Gaining political traction in the mid-1990's, free trade agreements (FTAs) started to play a larger role in international politics and have since become a distinctive characteristic of foreign policies in the South American region. While the main objective of these agreements is to liberalize trade through the elimination of tariffs and other restrictive trade measures, some also include provisions for the treatment of foreign investment, government procedures, and the ease of trade activities and intellectual properties (Mendoza, 2012). The spaghetti bowl, termed by Bhagwati and Baldwin, was created by "the surge in the numbers of 'crisscrossing' trade agreements which defines a very complex interaction between different and often overlapping free trade agreements" (Sopranzetti, 2015). The countries of South America take vastly different approaches in their negotiations of FTAs and, because of this, issues arise regarding the overlapping of trade agreements and the inefficiencies that come from the lack of collaboration within the region. In order to keep up in an increasingly globalized world, South America must adapt their foreign policy and unite to create a common trade policy that would allow the region to reach its full potential.

When discussing international trade and FTAs, a country can be coined as either a hub or a spoke. To illustrate the differences between the two, take the example of Israel, which has FTAs both with the European Union and with the United States. At this time, the EU and US have yet to establish a FTA. Israel, therefore, would be considered the hub due to its connection with both countries,

while the EU and US are considered spokes because of their lack of interconnection (Sopranzetti, 2015). Hub countries have preferential accessibility to international marketplaces, which provides the opportunity to significantly increase the number of exports, but also increases their potential risk of facing overlap due to multiple trade agreements. On the other hand, spokes, which only have preferential market access with the hub country they are in agreement with, face significantly more competition. Hubs have the advantage of conducting trade between countries that have an absolute competitive advantage over others, whether in terms of cost or selection of goods, thus putting more pressure on the spoke countries to compete in the global markets. However, in regards to tariffs, spoke countries have an advantage over hub countries that naturally deal with various complicated tariff systems, resulting in “a waste of time and effort which can increase the trade costs and potentially decrease trade” (Sopranzetti, 2015). Furthermore, spoke countries also maintain the benefit of mitigating unanticipated complications due to overlap within trade agreements. An understanding of the differences between hub and spoke countries will set the stage for a better analysis of the state in which South American countries find themselves in respect to international trade.

The main concern plaguing South America as a whole is the lack of one cohesive negotiation strategy shared by all countries in the region. In fact, South American countries can be categorized into three different approaches towards international trade. The first strategy, exemplified by Chile, Peru and Colombia, is characterized by an aggressive approach to negotiating trade accords, typically

bilateral, with main or potential partners outside of the region in an attempt to secure access to large global markets. The trade bloc, Mercosur, offers another strategy, prioritizing negotiations 'en bloc', or the encompassment of all countries within the terms of the agreement (Mendoza, 2012). This strategy emphasizes the cohesive collaboration within the markets of these countries. Finally, the countries of Bolivia, Ecuador and Venezuela combine to create a third, but ultimately inactive, strategy. These countries, "by virtue of their current political orientation and developmental model, reject the negotiation of free trade treaties" (Mendoza, 2012). Bolivia and Ecuador have maintained some regional trade agreements, but Venezuela has ultimately renounced all trade accords, within and outside of the region. This lack of one harmonized strategy has created an inefficient environment in which to conduct international business and boost regional growth.

Chile, Peru and Colombia, perfect examples of hub countries, have epitomized the proliferation of free trade agreements in the South American region and are responsible for nearly all of the agreements between South America and third-party countries. Chile alone has signed 21 FTAs and six other trade deals since the early 1990's, demonstrating the Chilean government's conviction that further strengthening its presence in the international marketplace will benefit the country's economy (Wehner, 2011). All three countries hold a strong economic reliance on their commodity-based export sectors, which explains the low levels of opposition towards entering new bilateral trade accords as well as the recognition of a necessity to create international ties in order to

propel themselves into the global marketplace. The three governments have similarly positioned their trade policies to target powerhouse economies and strengthen their economic relationships with current and potential trading partners in order to secure access to major global markets.

The negotiation strategies of all three aforementioned countries, mainly Chile and Peru, prioritize Asia because of its importance to the trading market of South America as a whole (Mendoza, 2012). While this creation of strong international trading ties initially appears to positively affect South America and encourage foreign direct investment in the region, under further examination it seems to be more of a double-edged sword. The dependency on Asian countries as trading partners fosters the commodity-based nature of its export sector and allows for South American markets to be flooded with cheap manufactured goods. This could not only threaten South American GDP's as Asia's economic growth continues to decline, but it could also prevent small businesses from entering the competitive marketplace, leading to a lack of diversification in industry sectors.

The Trans-Pacific Partnership (TPP) has also caused complications among international trade policies of South America. This agreement would unite twelve, Pacific-lined nations that made up approximately 40% of the world's economy into one regional trade accord (Baker, 2017). Chile and Peru, both involved in the negotiations of the TPP, are hopeful that its implementation will provide them the ability "to attract investment and insert themselves into global value chains in manufacturing and other commerce" (Wilson, 2015). Both countries, in addition to Colombia, which is likely for future inclusion in the TPP, are attempting to

diversify their economies, and the TPP would provide a strong opportunity for just that. The execution of the TPP would benefit the countries by consolidating some of their current bilateral trade accords into one cohesive agreement. However, just one day into his term, President Trump formally withdrew from the TPP, ending the United State's inclusion into what would have been the largest regional trade agreement to date. While this decision has controversial consequences for the United States, it is certain that the country's withdrawal from the TPP will "hand the keys to China" and allow it to emerge as a regional leader in South America, filling the void that America has abandoned (Baker, 2017). The timing of this retraction is potentially dangerous for South America, as an increasing fiscal dependency on countries that are experiencing strong declines in economic growth could have major implications on South America's overall GDP. While the TPP initially provided an outlet for countries like Chile and Peru to vary their portfolio of industries and focus investments into manufacturing and other secondary sectors, the withdrawal of the United States implies that China will dominate trade in the region, limiting the ability of these countries to diversify their economies.

Mercado Común del Cono Sur, better known as Mercosur, is a regional trade agreement comprised of Argentina, Brazil, Paraguay and Uruguay. Due to the nature of this trade group and their regional-based strategies, the associated countries would all be considered spoke countries. In an attempt to replicate the successful European Union, Mercosur has unanimously agreed that its underlying member countries will not form bilateral trade accords but rather will negotiate

agreements as a cohesive unit. Further, Mercosur implemented a common external tariff of 35% on certain imports coming from countries outside of the group members. Initially, Mercosur saw high levels of success. Between 1990 and 1997, trade within the group increased from $4 billion to $20 billion (Renwick, 2016). The intention was to mimic a free trade area similar to that of the European Union; the bloc even contemplated converting all members to one common currency. However, the regional growth slowed after Brazil and Argentina each faced fiscal crises that led to trade disputes between the countries in 2011. These disputes contributed to a 15% decline in Brazil's exports in just one year (Renwick, 2016). Consequently, internal disputes have created hesitancies and doubt among many foreign players in regards to negotiating with and investing in the trade bloc. Despite attempts to mock the strategies applied in the EU, Mercosur has faced major setbacks with its own members that have impaired its significance in the global economic world.

Another hindrance facing Mercosur is its inability to attain Chile, a major economy in the South American region. While Mercosur is not currently a major destination of Chilean exports, Brazil and Argentina together make up the majority of Chile's imports, making it a likely candidate for the inclusion into Mercosur. Nevertheless, Chile chose not to join Mercosur because it did not want to limit its ability to create bilateral trade accords, nor did it want to exchange its single tariff policy for the strict tariff guidelines and regulations appointed by Mercosur (Mendoza, 2012). Observing a major economy in the continent reject its inclusion into a free trade area was a major indicator that Mercosur would not see

the economic success that the European Union has seen. Despite promising intentions, the overwhelming opinion regarding Mercosur is that it has been ultimately unsuccessful due to its inability to both achieve a sense of cohesiveness within the group and to negotiate successful trade agreements with key international players.

The final strategy observed by South American countries would be a passive approach that Bolivia, Ecuador, and Venezuela all demonstrate. These countries typically reject the negotiations of bilateral trade agreements and instead prioritize the protectionism of their internal markets (Mendoza, 2012). Bolivia, one of the few landlocked countries in South America, has failed to capitalize on the benefits of bilateral trade agreements. Unlike Venezuela and Ecuador, though, this is largely due to geographical restrictions rather than political resistance. In 1884, a treaty signed between Chile and Bolivia concluded the War of the Pacific resulting in Bolivia's relinquishment of their westernmost territory that connected them to the sea. Unknown at the time, this territory was rich with natural resources and has since boosted Chile's GDP as the world's largest copper producer. Although Bolivia is rich in natural gas and the treaty permitted peaceful access to Chilean ports, Bolivia has failed to see the economic growth potential it would have if history had been written differently (Woody, 2015). Despite its geographical hindrances, Bolivia's hesitant attitude towards free trade agreements speaks to the country's delay in global relevance. This political attitude towards the negotiation of trade agreements has caused Bolivia to find itself in a stagnated situation with no real overarching trade policy whatsoever.

Similar to Bolivia, oil-rich Venezuela has failed to capitalize on the international trade ties that would have alleviated its current economic and political pressure. Despite a questionable 'backdoor induction' into Mercosur in 2013, hopes were high that joining the trade bloc would have improved Venezuela's crashing economy. The reality, instead, was that Venezuela failed to comply with the bloc's regulations and tariff policies to a point so extreme that the remaining members of Mercosur agreed to suspend Venezuela from the bloc in December 2016. This resulted in the country being denied the inclusion of negotiations currently being made with the European Union, an agreement that, when implemented, could have significantly improved the country's current state of instability (Margolis, 2016). Venezuela has been unreliable in the negotiation of large region-encompassing trade agreements. It was originally a signing member of Group-3, along with Colombia and Mexico, before it backed out of the agreement in 2006 (Mendoza, 2012). Similarly, Venezuela also withdrew its membership from the Andean Community (CAN) customs union, an agreement made between countries in the northwestern part of South America. The consistent renouncing of trade agreements has not only hurt Venezuela's internal industries, it has also severely damaged their international relations by giving a feeling of doubt and hesitation to any country that would consider negotiating a trade agreement in the future. Venezuela's struggle to both sustain itself and compete with international markets has proven that the country's lack of trade accords hinders its ability to capitalize on international economic opportunities.

South America's lack of one common approach for negotiation tactics is inhibiting the region from becoming a powerful international force like NAFTA and the European Union. Greater coordination among the states would not only strengthen individual economies, but also foster the region's global competitive position. Further, it would help to eliminate some of the complex overlap that South America faces due to a large number of crisscrossing FTAs. The spaghetti bowl of trade accords raises a concern about potentially conflicting rules and commitments made by various South American countries, and it is only increasing in complexity as more and more FTAs are negotiated. This is evident in the conflicting standards that various trade agreements have created in regards to the acceptable level of pesticides allowed in agricultural exports (Perales, 2012). An elimination of these overlapping regulations would reduce the burden on the region's internal industries and therefore improve their overall productivity. If the countries of South America were willing to collectively reach an agreement on trade tactics, inefficiencies caused by overlapping regulations would be much less apparent and the states would see a potentially significant boost in their economies as a result.

It is apparent that a greater convergence of the various FTAs in South America would benefit the region by creating a transparent set of regulations, which would improve international attitudes about doing business with the region. Further, the elimination of any overlap would allow for South America to fully harmonize and become the key international business player that it has the potential to be. As observed, South America is divided between various trade

policies, some which prioritize regionalized protectionism and others that prefer forming bilateral relationships with major trading partners. However, the consolidation of mutual efforts may be best for the region. The creation of a successful trading bloc within South America could potentially foster a greater environment for internal growth that would allow them to strengthen their manufacturing and industrial sectors while limiting external interference to debilitate their growth. In addition, if such a bloc was established, cohesive moves to establish foreign trading partners could offer similar opportunities for the region to emerge as a whole. The lack of a dominant negotiation strategy that is pervasive throughout South America hinders its ability to realize all of the benefits that trade liberalization offers and, therefore, limits the region's potential to emerge as a key international player.

Migration to Urban Centers and Related Issues

South America is a region of stark contrast when it comes to rural and urban population densities. Fueled by a necessity for better employment opportunities, more readily available access to basic public services, and the natural progression towards economic growth, a migration to urban city centers in South America has been well under way since the mid-20th century. However, the rapid increase in urban populations has seen the rise of a myriad of troubling issues that threaten the productivity and sustainability of such concentrated populations. As urban centers continue to expand outwards and exponentially increase in density, the fiscal resources of local and state governments are becoming stretched beyond their reasonable limits of sustainable control. A lack of adequate infrastructure, inefficient public transportation systems, rapid growth of urban poverty, and an ever increasing disparity in socioeconomic equality are preventing South American nations from capitalizing on the opportunities often associated with heavy urban growth.

The centralization of the South American population is not a characteristic that has recently defined the current-day region. Since the colonization by Spanish and Portuguese conquistadors, Latin America has been dominated by a network of large urban centers, both initially established by indigenous populations like the Aztecs and Incas as well as new cities created to control the newfound territories (Muggah & Szabó de Carvalho, 2016). However, as the centuries have passed, further aggregation of populations around city centers has increased at an alarming rate as a mass exodus from rural to urban areas has taken place in search

of a better life. Today, an approximated 82% of the South American population lives in cities and is predicted to reach 90% in Brazil and the Southern Cone by as early as 2020. Further, more striking density statistics are apparent in Venezuela, Argentina, and Chile where they are already witnessing a total percentage of urban dwellers of 93%, 92.5%, and 89.3% respectively. (Muggah & Szabó de Carvalho, 2016; Paranagua, 2012). Coupled with internal population growth, the migration to urban hubs raises alarming questions surrounding the ability to sustain such high numbers. Inevitably linked together, the daunting issues that local and state governments face creates a plethora of obstacles that are causing a strain on fiscal resources, urban safety and security, and a further separation of socioeconomic classes throughout South America.

As urban populations have continued to increase, the infrastructure, transportation, and basic needs to bolster such growth have failed to match the demand. Consequently, migrants in search of better job opportunities and a more promising lifestyle have failed to see their hopes come to fruition. The rampant urbanization in South America, while benefitting total poverty and narrowing the overall inequality gap by generating economic growth, has led to the new issue of urban poverty that has been confronted with the aforementioned issues.

Principal of these dilemmas is the lack of adequate housing and availability of basic services to accommodate such populations. According to global estimates, there is approximately a "$4.1 to 4.3 trillion annual investment gap between current urban infrastructure and what cities need" given the rapid projection of urban growth (Pacheco, 2016). As the urban migration has

continued, cities have begun spreading outward with large conglomerations of people gathering in the peripheries where land is cheap, property rights are ignored, and occupation goes relatively unopposed. Once established, there is little that governments and law enforcement can do to slow or reverse the course of shantytown growth. Although a prevalent issue throughout the entirety of the South American region, perhaps the best examples to portray the struggles are found in Brazil's two largest cities, Sao Paulo and Rio de Janeiro.

Sao Paulo, a city of 21.1 million people, is the fourth largest city in the world followed closely by Rio de Janeiro with 13 million people. However, the more startling statistic lies in the percentage of the population that resides in favelas, the Brazilian term for slums, which approximately measure 40% and 22% respectively (Kuo, 2016; Forte, 2015). Located around the peripheries of large city-centers, favelas are typically characterized by their poorly constructed housing with undependable building materials like scrap metal and wood on relatively undevelopable land. This land, often polluted by surrounding neighborhoods or on sloping mountainsides, is subject to the dangerous possibility of landslides and heightened risks of fires due to the concentration of living quarters. Further, these illegally constructed communities often lack basic sewage systems, waste collection services, and potable water that creates a cesspool of disease, contamination, and unsanitary living conditions for the thousands of people who call a favela home (Barcelona Field Studies Centre, 2017). An even greater issue of concern is the rate at which the favelas are growing.

With limited options for affordable living, due to both the extent to which urban migration is occurring and the slow rate of development, people are faced with no alternative option causing favelas to grow at an alarming rate. For example, over the past decade, Rio de Janeiro has seen a population growth in its favelas of 27.65 percent compared to the "growth of population in the rest of the city, which has increased only 3.4 percent" (Forte, 2015). This unsustainable growth gives rise to further problems that, without proper containment and an according public response, will cause an untold amount of future problems for the community and state.

Not only are the favelas' uninhabitable living conditions an issue for those that live there, but the communities and local governments in which they are located are affected by the appearance of such undocumented residents. The illegal residencies have a twofold consequence in harming the area by simultaneously consuming community resources while also contributing little back to the state. As undocumented residents, little can be done about imposing property taxes or similar sources of tax-derived revenue streams for the government. This propagates the issue of inadequate housing because the government, whose fiscal resources are already stretched thin, are limited in their investment capabilities for additional development projects to combat the poverty-stricken neighborhoods. Further, in order to diminish living costs, favelas are notorious for stealing electricity, cable, and other services, known as 'gatos', from both public and private companies by tapping into the service providers' transporters. (Kaiser 2013). This tampering with electrical currents not only

compromises the electricity supply in other neighboring regions but also heightens the likelihood of short circuits and potential fires that can devastate the favelas.

Similarly to residential infrastructure, investment into basic public transportation systems has failed to keep up with the ever-increasing demand. Migrant workers, who come to large city-centers in search of better opportunities across South America, are faced with inefficient means of transportation due to their location in the city peripheries. Consequently, increased traffic congestion on unkempt roads causes shantytown residents in search of employment "to endure hours upon hours in crowded buses stuck in traffic jams" (Lara, 2015). More than a crisis that Brazil faces, the availability of competent public transportation is pervasive throughout the entire South American region.

Argentina, as a byproduct of consumer-induced economic expansion, has seen a boom in the automotive industry. However, an unequal governmental contribution into roadway maintenance has only led to increased traffic congestion. Additionally, Lima, the capital of Peru, outsources their transportation services to privately held microbus companies. This inefficient system causes an overlapping, undependable transportation system that is subject to fare hikes and service beyond the government's control. Due to the unreliable public transportation system and inherit roadway congestion, Lima has the highest pedestrian death rate of anywhere in the region (Lara, 2015). Prevalent throughout South America, the rapid urbanization with which the region is faced presents local and state governments with an increasing amount of infrastructural

demands. The provision of adequate housing, transportation, and basic services like electricity are issues that are faced throughout the continent and must be addressed before economic growth and emergence into international affairs can be wholly capitalized upon.

An additional, often overlooked, repercussion of the staggering population growth in urban city centers is the further division of socioeconomic classes. As favelas and similar shantytowns have surfaced, the concentration of economically disadvantaged social classes around city peripheries has inadvertently created an urban divide separating the slums from wealthier residential neighborhoods. The resulting visible geographical separation has not only led to an unequal distribution of wealth but has also furthered the inequality surrounding investments into development and infrastructure (Paranagua, 2012). Consequently, a two-fold repercussion has led to additional separation in urban equality. First, wealthier neighborhoods, as the primary source of urban GDP and tax revenue, hold the economic influence to manipulate political actions in their favor, thus propagating the ever-increasing tensions between socioeconomic class priorities. Second, the residential communities holding the majority of urban wealth often outsource their needs such as security, basic services, and private amenities to third parties resulting in minimal dependence on governments to maintain their quality of life. Therefore, without a demand for immediate governmental intervention, the influential wealthy classes lack a sense of urgency in lobbying for social reform that would exponentially benefit the lower socioeconomic classes (Van Haeften, 2010). As social divisions continue to

compound, the increasing imbalance in access to municipal services, employment opportunities, and regional population density has fostered the rise of violence and illegal activities in urban slums throughout South America.

Pervasive throughout South American cities, violence is perhaps the most immediate threat faced by both urban dwellers and governments alike. Home to 47 of the world's 50 most murderous cities, 32 of which are in Brazil alone, Latin America is plagued by urban violence that transcends from the over population and concentration of economically disadvantaged residents in slums. Two key characteristics contribute to the level at which cities experience heightened rates of crime. Primarily, a positive correlation is apparent between the level of urban inequality and rates of violence. Evident throughout this section, greater inequality causes an imbalance of infrastructure, transportation, and basic municipal services that leads to a lack of employment opportunities in slums and, in turn, fosters the likelihood of involvement in illegal, violent activities. Second, fast-growing cities are much more susceptible to high crime rates due to the rapid population growth in congested, impoverished neighborhoods (Muggah & Szabó de Carvalho, 2016). This is a distressing issue given that South America's rate of urbanization causes a conglomeration of people with difficult and diverse backgrounds that, when concentrated in impoverished areas, may be more prone to violent, divisive behavior.

Leading causes for the propagation of slum violence, drug trafficking and the inability of municipal police forces to combat illegal activities has fed the proliferation of security concerns throughout South American cities. The once

relatively rural drug trade, consisting primarily of cocaine, has since shifted to urban centers as a byproduct of urbanization and favela growth. More centrally located than ever, the greater accessibility to domestic and international networks has made the narcotics trade a significant economic industry throughout South America "providing hundreds of millions of dollars to drug organizations, known as cartels" (National Geographic, 2017). Specifically plaguing Brazil and Colombia, who notoriously endured the terror of the Medellin and Cali cartels for decades, urban drug cartels pose a serious economic and security threat to both local and international governments. Foreign governments take a hard stance against the South American global narcotics trade due to their unfavorable side effects to economic productivity. Not only are international GDP's threatened as money leaves the country by the millions, but the consumption of drugs brings violence, corruption, and illegal trafficking to foreign shores.

On a more domestic level, impoverished neighborhoods, which cite insecurity as their principal concern ahead of infrastructure and employment, are often controlled by organized crime syndicates and local gangs (Paranagua, 2012). This furthers the underlying urban inequality experienced in South America, as the working class does not enjoy the luxury that middle socioeconomic classes have to distance themselves from the violence and corruption that plagues the city peripheries. Domestic governments, often with limited fiscal capacity to combat the overwhelming growth of urban drug cartels, are experiencing an increasingly daunting burden of pacifying illegal activities in slums (Lara, 2015).

Sao Paulo, home to over 600 favelas alone, epitomizes the struggle that law enforcement faces in stifling the distribution of narcotics and related gang activity (National Geographic, 2017). The task of mitigating violence seems to be a nearly impossible feat with uncontrollable growth rates compounded by insufficient physical resources to prevent illegal activities and a consequential deterioration of policing practices in some areas. This deterioration, a combination of an increasing need for urban policing compounded with an inadequate number of enforcement officers, has caused Brazil and other South American countries to become notorious for "shooting first and asking questions later" (Lara, 2015). As of 2015, the injustice in combating criminal behavior, combined with the underlying social class discrimination, caused the mortality rate of young black males in Brazilian city peripheries to be quadruple the national average with 63 daily deaths (Lara, 2015). Without proper organizational structure and adequate enforcement numbers, the narcotics industry will continue to thrive and, therefore, further the risk of violence, the deterioration of living-conditions in slums, and jeopardize the ability of cities to capitalize on the potential economic benefits of heavy urbanization.

As disruptive as the narcotics trade may be for internal stability in South American countries, it does not compare to the issues that the region's governments face as drug-related activities transcend beyond their immediate social repercussions. Often overlooked in the discussion of domestic safety, the negative stigma that is created as a result of South American drug-related activity is, perhaps, the most hampering setback to economic productivity in urban

centers. The negative light through which South American trading partners may view the ease of doing business and personal safety could affect the region's ability to exploit their economic potential. This can be seen through a number of outlets including a potential downturn of tourism industries, hesitancy for foreign direct investment, and skepticism surrounding the reliability of potential South American business partners.

Despite the myriad of setbacks that the region has faced with rapid urbanization, South America has the opportunity to capitalize on significant economic growth if sustainable urban development can be achieved. Individually unique, yet collectively intertwined, efforts to improve infrastructure, provide more efficient public services and transportation, reduce socioeconomic disparities, and subdue crime rates will not only improve quality of life in urban centers but also create a healthy environment to foster more reliable economic growth.

The fundamental issue, from which all other struggles arise, lies in the peripheral congestion witnessed in urban slums and the resulting lack of adequate infrastructure available. According to estimates by the United States Agency for International Development, "poor or inadequate infrastructure" in the Latin American region "can reduce urban economic output by 10 to 15 percent" (Van Haeften, 2010). Between inefficient urban planning and uncontrolled in-migration, Brazil witnesses a housing deficit of over 5.4 million homes, with 73.6% of those in need classified as low-income families (Pacheco, 2016). However, a reversal of the urban housing deficiency and social equality reform

promises significant economic growth. According to the United States Agency for International Development, there is a positive correlation between the percent of a country's population living in urban areas and per capita income (Graph 3) (Van Haeften, 2010). This encouraging statistic gives hope to South American countries that, with proper investment into urban development, they can harness their complete economic potential.

A pioneer in the region, Brazil, in 2009, began the Minha Casa Minha Vida urban development project to provide safer, more affordable housing to its city-dwellers (Lara, 2015). Since its inception, "the program has already placed 10.5 million low-income people in 2.6 million housing units" throughout the nation (Pacheco, 2016). This initiative has provided families, previously living in dangerous and opportunity-lacking communities, the possibility of a new start by becoming a more contributing member of society.

However, while promising as first glance, there are many internal problems within the program that draw attention to its progressiveness. First off, the private contracting companies hired to construct the housing units are incentivized to do so as cheaply as possible in order to maximize their profits. Therefore, the companies purchase the most inexpensive building materials and land available, which is often located in the cities peripheries, thus furthering the issue of access to potential employment opportunities. Second, the contractors hired by the Minha Casa Minha Vida program are only responsible for the building units leaving the cities to supply everything else including sidewalks, public spaces, expansion of public transportation routes, etc. (Lara, 2015).

Although the newer housing units are often located in safer communities, their distance from the cities' commercial districts does little to aid the decentralization of low-income families by distancing themselves further from employment opportunities. Without a similar investment in intercity transportation to support extensive outward development, Brazil has experienced an urban population that is willing to pay more for centrally located housing in favelas than the newer units developed by the Minha Casa Minha Vida project (Lara, 2015). The internal issues of the housing project highlight the imperfect system in which South American cities find themselves due to a lack of fiscal capacity and inherent incentives to maximize personal gains. Brazil exemplifies the overwhelming task that South America is confronted with as the region grapples with the challenge of accommodating its urban population growth.

Coupled with a greater availability of housing, a significant improvement of public transportation, either in quality or cost reduction, would significantly help urban centers. By both increasing the value of land in city peripheries and providing greater ease of access to and from employment opportunities, more inclusive transportation is an immediate need that could benefit South American cities. To combat the inefficient public transportation system in Lima, for example, the city has begun the process of constructing a subway system to meet the demand of urban commuters (National Geographic, 2017). In order to capture the true economic potential of city-centers and even re-energize the workforce, a serious analysis of future urban planning calls for a healthy balance of investment into housing as well as the provision of more reliable services such as

transportation, electricity, and other basic services. Because, in the end, improvement of one without the other may only cause further urban disruption and waste precious municipal resources.

Additionally, the crackdown on urban violence by South American governments, particularly in slums, demonstrates the extent to which they are attempting to reverse the negative perception of violence and urban safety. In 2008, Rio de Janeiro established the Police Pacifying Unit (UPP), an organized task force that sought to improve favelas security by removing powerful drug cartels, encourage local business growth, and restore a sense of order and safety to the city's favelas (Forte, 2015). Met with initial success, the limited physical capacity of the program became evident due to the lack of manpower to maintain order. Despite their efforts, for every pacified favela, a new one would surface with the same struggles as before.

Brazil's UPP program, although demonstrating an awareness and push for social reform, is an example of inefficient disbursement of resources. However, successful efforts to improve urban security throughout South America can be seen in cities like Santiago de Chile, Bogotá, Medellín, and even the region's largest city, Sao Paulo. These cities have incorporated several characteristics into the law enforcement systems to help deter and reduce crime. First, efforts have been refocused to providing urban youth with foundational opportunities to avoid a life of crime involvement through stronger public education systems, cognitive therapy, and methods of childhood intervention. Second, law enforcement efforts have been refocused to target specific areas, people, and types of behavior

(Muggah & Szabó de Carvalho, 2016). In South America, approximately "50% of homicidal violence in cities takes place in less than 2% of the street addresses" with only about 0.5% of the region's population committing 75% of the murders (Muggah & Szabó de Carvalho, 2016). Due to the alarming concentration of urban homicidal activity, police forces are able to analyze statistics that can help them predict criminal behavior, cohesively pool their resources, and curtail urban violence. Lastly, greater action is being taken to improve underlying socioeconomic disparities by promoting an attitude of mutual responsibility and reduction of inequality. This is not done by relocating low-income populations to remote neighborhoods but rather by fostering a sense of inclusion and municipal support through the provision of reliable public transit, centrally located and affordable housing developments, widespread basic services, and even possible conditional cash transfers to support impoverished families (Muggah & Szabó de Carvalho, 2016). Through the thorough efforts to suppress violence by several South American cities, a successful framework has been erected to help the region reevaluate methods to bring about social inclusion and foster an environment potential of more promising economic growth.

South America sits alone as the global leader in urbanization. City centers, which are home to most manufacturing and service-based industries, have greater labor pools, a larger customer base, and a network of complementary businesses. Beneficial for urban growth and economic expansion, a greater diversification of urban industries can also help ease the dependency on commodity-based industries in South America and offer buffers for fluctuations in the international

market. Urbanization, in other words, is not only inevitable; it is also a force for modernization and economic growth. South American cities are melting pots full of cultural interchange, social movements, innovation, and drivers for economic prosperity. Therefore, in order to realize the economic benefits associated with urban agglomeration, measures must be taken to implement innovative policies to foster a reduction in socioeconomic inequality, offer sustainable solutions for improved urban living conditions, and apply effective strategies to suppress the sense of insecurity throughout the region.

Governmental Corruption Inefficiency, and Setbacks

Since its introduction to the new world, South America has been hindered by inherent corruption, government inefficiency, and debilitating setbacks that have since limited its emergence into the international marketplace. Although pervasive throughout the region, no all-encompassing description can fully capture the individual struggles that each country experiences on a personal level. Therefore, to better understand what has prevented the South American region from truly capitalizing on its myriad of physical and intellectual resources, a broken-down analysis by country is necessary.

Fueled by corruption and governmental malpractice, a regional microanalysis is required to obtain a better understanding of the pervasive political transgressions throughout South America. Without understanding the history and individual setbacks that have inhibited the region's ability to efficiently govern, the complete picture of regional inefficiency cannot be fully understood. Though prevalent throughout the region, Venezuela, Brazil, Chile, Colombia, and Argentina exemplify both past and present governmental transgressions that have threatened their external relationships with global partners, shaken their internal societal stability, and created mistrust in the current political systems.

Venezuela

Venezuela has one of the most notorious reputations in the region, if not the world, for governmental corruption and internal distress. When Hugo Chavez won the presidency in 1998, Venezuela's oil-fueled economy was suffering as a

result of the Asian economic crisis. On a platform of anti-corruption and populism, his promise of investing into social programs, providing better infrastructure, and creating employment opportunities restored the population's belief in a government that was for the people, particularly the poor. However, even though Chavez's "programs aimed to combat the deeply rooted social and economic issues Venezuela faced, they were inherently dependent upon the country's oil wealth" (Fang, 2017). This reliance on oil would be the foundational issue that incubated the growth of corruption that plagued the Chavez regime.

As Asian markets turned around in the early 2000's, the subsequent rise of global oil prices reinvigorated the Venezuelan economy. To capitalize further on the surge in oil prices, Chavez nationalized privately owned oil fields and consolidated them into the state-owned company, Petroleum of Venezuela, S.A. (Halvorssen, 2017). Through the radical move, the government's oil profits skyrocketed from 1999 to 2008 as the price for a barrel of oil increased from $10 to $126, thus providing the fiscal resources needed to fund Chavez's social programs (Fang, 2017). Although Venezuela's economic boom was by no means a result of Chavez's policies but rather a consequence of systematic surges in global oil prices, his popularity continued to grow, which allowed him to evade public criticism of the pervasive corruption.

In 2002, Chavez was ousted from office when the state-owned Petroleum of Venezuela, S.A. (PdVSA) went on strike in protest over his corruption and stifling control of the industry sector. However, Chavez, through his popular support and militant power, quickly regained control and sought change with a

vengeance. He subsequently fired over 18,000 workers, consolidated managerial control, and actively practiced nepotism to ensure his grasp on the lucrative industry. To make matters worse for Venezuela's oil industry, Chavez began fully nationalizing all oil production and exploration by seizing the assets of foreign companies like ExxonMobil and ConocoPhillips. Consequently, from 2006 to 2011, Venezuela witnessed their daily oil production fall from 3.3 million barrels to 2.7 million (Fang, 2017). This not only had detrimental impacts on key international relationships with developed nations, but it also limited Venezuela's revenue and capacity of oil extraction due to limited physical resources and a deprivation of technological innovations in oil extraction from foreign competitors.

The state-run company exemplifies the corruption and inefficiency that plagued Chavez's reign of power. The mismanagement of control and incentive to consolidate national profits not only crippled Venezuela's industrial competition, but it set the country on a trajectory towards economic deficits. However, despite the lucrative rise in global oil prices, the embezzlement of profits hindered Venezuela's ability to capture the true potential of social reform Chavez had promised. Between 2004 and 2014, an estimated 11 billion of PdVSA's profits went missing, a likely result of the corrupt, and largely shielded, management put in place by Chavez (Halvorssen, 2017). Although well intended, Chavez's efforts to increase adult literacy, subsidize consumer goods, and invest in low-income housing developments created an unsustainable system destined for failure as a

result of the hindered oil industry and the subsequent lack of sector diversification.

Over the last several years, a global decline in oil prices has reintroduced a state of instability to the Venezuelan economy. Due to overspending and inherent corruption, an increasing gap between governmental revenue and expenditures has created a troubling fiscal deficit that has ushered along several other social issues (Graph 4) (Fang, 2017). Today, continuing governmental malpractice coupled with a shortage of basic supplies and a lack of employment opportunities has been met with pervasive instability and economic decline.

As a deficit between governmental revenue and expenditures threatens Venezuela's social stability, their economy continues to plummet as a result of its dependency on oil. Constituting 90% of the country's total exports, the continuing decline of global oil prices combined with massive government expenditures, corruption, and a crashing currency have experts predicting inflation to rise 1,660% this year, and if Venezuela continues at its current rate, then 2,880% by 2018 (Gillespie, 2017). The rapid rates of inflation have caused a severe devaluation of Venezuela's currency to the point at which one Bolivar is now equivalent to a meager one-fifth of a penny (Gillespie 2015). The issue of devaluation is experienced on a governmental level as Venezuela has witnessed a 50% decrease in imports from a year ago (Gillespie, 2017). This broadens the inequality gap as those who cannot afford to exchange Bolivars to US dollars are suffering from an inability to purchase necessities with a worthless currency. Further, on an international level, heightened inflation rates are crushing

American companies with Oracle and Ford Motor Company, among others, claiming to have lost $111 and $800 million last year respectively (Gillespie, 2015). To make matters worse, Venezuela only has $10.5 billion in foreign reserves remaining, down from $30 billion just six years ago (Graph 5) (Gillespie, 2017). Without the access to backup fiscal reserves and other sectors to support the stagnated oil industry, Venezuela could soon be facing default, as an inability to repay debts and sustain its current level of spending will inevitably render its economy helpless.

The economic recession following the global decline in oil prices has only made corruption throughout Venezuela more rampant. Costing Venezuela an estimated $300 billion during Hugo Chavez's reign, corruption became common practice throughout governmental systems and continues to threaten the stability of the country today (Insight Crime, October, 2016). Not only limited to public institutions, corruption is pervasive throughout the entire political systems reaching the upper echelons of law enforcement and government. Last year, President Nicolás Maduro appointed Tareck El Aissami as Venezuela's Vice President. However, after a multi-year investigation by the United States' Office of Foreign Asset Control (OFAC), El Aissami was shown to have facilitated narcotics shipments to the United States and Mexico by way of his political power. OFAC's conclusions resulted in the imposition of sanctions upon El Aissami forbidding anyone in the United States from conducting business with him as well as freezing any American assets. These sanctions were in an effort to demonstrate that power and influence cannot protect individuals engaging in illicit

activities for their own personal gain (Griffin, Guerrero, Romo & Zamost, 2017). Further, former directors of Venezuela's anti-drug agency, Nestor Luis Reverol Torres and Edylberto Jose Molina Molina, accepted compensation from narcotics traffickers in exchange for obstructing anti-drug investigations by tipping them off about upcoming raids (Insight Crime, August, 2016). This is particularly troubling for Venezuela as the narcotics trade continues to face limited opposition by financially manipulating politicians and law enforcement agencies. However, on a more long-term note, the rampant corruption threatens Venezuela's ability to capitalize on international ties as they continue to retreat back into its old habits.

As Venezuela's economic recession continues to show no signs of reversal, the country's dwindling cash reserves are making it difficult to pay for the necessary food and medical imports to support its population of 30 million. Shortages of basic food supplies have had detrimental impacts on the struggling nation as oil-based revenue growth remains stagnate. Due to government rationing, access to basic foodstuffs such as eggs, milk, and butter have become hard to come by with people often standing in lines up to two kilometers long to feed their family for the day (Charner, 2016, Gillespie, 2015). Further, Venezuela is so strapped for cash that they no longer have the ability to pay for basic imported goods. Left with only oil reserves that have failed to generate the same economic revenue as the previous decade, Venezuela has been forced to resort to bartering with countries like Uruguay and Trinidad and Tobago in exchange for beef and toilet paper respectively (Gillespie, 2015). Consequently, basic necessities remain hard to come by and a greater percentage of Venezuelans are

malnourished with an estimated 9.6 million people, one third of the total population, eating two or fewer meals per day. To make matters worse, President Nicolás Maduro recently pleading for support from the United Nations after the Pharmaceutical Federation of Venezuela declared that the country was lacking about 80% of its basic medical supplies (Brocchetto, 2017). Without a diversified economy, the continuing stagnation of oil prices and depletion of foreign reserves will plunge Venezuela further and further into an economic deficit that will only foster the proliferation of corruption, crime, and the detraction from international affairs.

Perhaps the most immediate issue that threatens Venezuela's future is the past and current emigration of educated and skilled laborers. A country that once boasted a favorable immigration rate began witnessing a trend reversal following Hugo Chavez's seizing of power. Averaging a population exodus of 100,000 per year from 1999 to 2015, this rate doubled to 200,000 last year with U.S. and Argentinian asylum requests increasing 170% and 120% respectively (Gillespie, 2017). Venezuela's myriad of social issues is to blame. Foremost, violence has become rampant throughout the country with corrupt governments and social programs doing little to deter abductions, homicides, and the narcotics trade. Venezuela's capital city, Caracas, was recently named the world's most dangerous city with nearly 120 murders per 100,000 people (World Atlas, 2017). As food and medical shortages continue to plague Venezuela, obtaining basic necessities for survival has become a matter of life and death in itself. To further the reasons for seeking asylum is the short supply of employment opportunities.

Between a withdrawal of foreign investment and heavy inflation rates devaluing salaries, the jeopardized future of skilled workers is causing them to leave Venezuela in search of more promising jobs. This, however, is depleting the intellectual capital that could have the biggest impact on reversing the country's downward tumble.

Columbia

Similar to Venezuela, Colombia is no stranger to corruption and social movements that have disrupted the country's progress for decades. When Juan Manuel Santos was elected President of Colombia in 2010, he was faced with inherent corruption throughout the governmental system, widespread violence largely due to rebel groups, and a declining, yet still relevant, narcotics trade. However, running on the platform of future social stability, Santos has experienced varying results that may promise better opportunities and international relevance in the future.

Santos's war on corruption has failed to come to fruition as governmental extortion and kickbacks have continued to run rampant. According to numbers released by the Inspector General's Office, state corruption costs Colombia an estimated $7.5 billion yearly, approximately 10% of the 2017 governmental budget. Broken down, this magnitude of corruption costs each Colombian citizen an average of $165, or 75% of a monthly minimum wage. Further, Colombia, whose economy is also suffering from dropping oil prices, has been forced to restore its budget deficit by ramping up taxes in hopes of maintaining its current agenda of improving infrastructure, public education, and quality health care

(Alsema, 2016). Although, President Santos's attempts to curtail corruption has seen little success, his efforts to restore social order through the crackdown on violence may pave the way for increased foreign direct investment, more promising employment opportunities, and international exposure.

Colombia's largest internal adversary may not have been economic in nature but rather by way of a social movement. In 1964, under a communist-fueled proclamation of governmental suppression and injustice, the Revolutionary Armed Forces of Colombia (FARC) was born. Financing itself through means of extortion, kidnapping ransoms, and the narcotics trade, the group quickly became a small army boasting a following of nearly 18,000 fighters with effective control of as much as 40% of rural Colombia (Brodzinsky, 2017). In its half-century of guerrilla warfare, a conservative estimate of six million Colombians were uprooted from their communities and 220,000 left dead at the hands of FARC's soldiers. However, a tide began shifting in the 1990's when the United States, who had been severely affected by Colombia's international drug trade, particularly cocaine, began investing money into the country to combat FARC's efforts (United States Institute of Peace, 2017). Now, some $10 billion dollars from the US later, combined with the radical changes President Santos envisioned for the country, the once unstable social environment and widespread anti-government sentiment is beginning to subside.

With his agenda to restore a harmonious Colombia capable of capitalizing on its true economic potential, President Santos began peace negotiations with FARC leader, Timoleon Jiménez, in 2012. After nearly four years of

deliberations, a popular vote on the ratification of the peace deal took place on October 2, 2016. What was considered to be a shoo-in accord, surprisingly lost with 50.2% of the populating voting no. Spearheaded by former president Alvaro Uribe, the 'no campaign' openly opposed the lenient repercussions of the fighters and how it excused rebellious activities at the expense of law-abiding citizens (BBC News, 2016). However, President Santos remained undeterred, and after several adjustments to appease opponents of the deal, a new era of peace was ushered in on November 24, 2016. Following the monumental truce, Colombia's second largest rebel group, the National Liberation Army, stepped up to the table to pursue peace talks as well, demonstrating the extent to which President Santos has gone to reestablish order in Colombia (Casey, 2017). Although the dismantling of FARC promises a safer and more promising future for Colombia, a new issue of reintegrating rebels into society poses a concern for politicians and citizens alike. Despite this, President Santos, who received a Nobel Peace Prize for his actions, has made significant steps in restoring the Colombia he dreamed of and should pose as an example for other South American countries to follow.

Argentina, Brazil, and Chile

Argentina and Chile, two of the region's largest economies, have recently been disrupted by scandals in their highest political office. In 2015, former Argentine president, Cristina Fernández de Kirchner, was indicted on charges of a corruption scheme that rocked the entire country. Fernández, along with the help of a public works secretary, Jose Lopez, seized and stashed away millions of dollars intended for public infrastructure. Fernandez, who was admired for her

social welfare programs, has since received criticism for ruining Argentina's economy through corrupt state spending and oppressive trade and currency regulations (The Telegraph, 2016). Chile finds itself in a similar situation following corruption allegations that surfaced a few years ago surrounding President Michelle Bachelet and her family. In 2015, Sebastian Davalos, Bachelet's son and the former director of Chile's sociocultural agenda, was accused of a potentially illegal real estate trade. Based on alleged insider knowledge of a proposed municipal zoning change that would have caused real estate prices to soar, Davalos is suspected to have used his political power to secure a $10 million bank loan with which he flipped properties and made millions in a matter of weeks. Although President Bachelet holds fast in claiming she had no knowledge of her son's dealings, her approval rate has taken a beating falling from 84% to a mere 31% (Franklin, 2015). Due to massive public criticism, Bachelet is struggling to maintain her social reform agendas, which championed the reinvigoration of the economic sector and advocated greater equality for the nation's poor.

Throughout the past several years, Brazil has been making headlines with a seemingly endless stream of corruption scandals. In 2013, Brazil's enormous state-run oil company, Petrobras, came under accusations of corrupt behaviors in which an estimated $5.3 billion exchanged hands over the course of a decade. Uncovered in the investigation, Petrobras executives were accused of offering kickbacks to politicians in return for inflated contracts resulting in greater personal returns (Beauchamp, 2017). Corruption allegations culminated last year

when President Dilma Rousseff, who also happened to be a Chairwoman of Petrobras from 2003 to 2010, was impeached after allegedly manipulating Brazil's fiscal deficit to aid her bid for reelection in 2014 (Gillespie, 2016). However, the irony and portrayal of rampant corruption lies in those who were responsible for Rousseff's impeachment. In order for a presidential impeachment to come about, it must first pass through the congress and senate in which 303 out of 513 members and 49 of its 81 members, respectively, are currently under investigation for serious crimes (Bevins, 2016). The corruption scandals that have plagued Brazil in the last several years have repercussions that go beyond simple political mistrust. In unethical institutional systems where the wealthy benefit at the poor's expense, greater inequality threatens the future cohesiveness of socioeconomic classes and consolidation of economic efforts to increase Brazil's international relevance.

Governmental and institutional corruption is not only limited to struggling countries throughout the South American region but is prevalent in even the largest and most economically relevant economies as well. The wide range of current situations covered by Venezuela, Colombia, Argentina, Brazil, and Chile demonstrates that no singular country is more prone to unethical behaviors. Despite the myriad of economic, social, and political issues that surround a country, corruption remains a relevant impediment that continues to threaten greater inequality, social instability, and political mistrust. Although progress has been seen in countries like Colombia and Brazil, South America will not truly prosper until the endemic tolerance of corruption is eradicated. Principally,

politicians and those in power must be held accountable. Whether through stiffer regulations, greater checks and balances, or a decentralization of authority, South America must restore confidence in its political system if it has any hopes of changing its future economic trajectory.

Concluding Summaries

South America, faced with a myriad of fiscal, political, socioeconomic, and social problems finds itself in a state of limited international influence. The region's restricted industry diversification, inherent political corruption, inadequate infrastructural investments, and socioeconomic wealth disparities have perpetually restricted the extent to which the region has been able to capitalize on its plethora of resources. The inherently overlapping nature of the regional issues has presented a daunting task for policymakers to mitigate the repercussions and emerge as a regionally influential player in international business.

Consequently, the overarching dilemma presented to policymakers and businessmen alike is to which issue future policies and fiscal funding be diverted to first in order to improve the underlying social stability, economic capacity, and political influence throughout South America. However, varying short and long-term agendas between the two parties can potentially lead to conflicting opinions as to the most impending necessity to overcome.

Policymakers, responsible for ensuring social cohesion, generating economic productivity, and establishing foreign ties, must concern themselves with both domestic and foreign agendas. An argument can be made for each issue discussed, but the crisscrossing of repercussions effectively limits the success of suppressing one obstacle without equal attention to another. For example, governmental investments into social reforms that provide better educational opportunities, affordable housing, and safer urban environments will be met with limited success unless an equal investment into industry diversification is made to

offer a broader range of employment opportunities. With this being said, perhaps the most immediate action that will provide the furthest-reaching regional benefits would be a governmental restructuring that would reduce inherent institutional corruption. By ridding the political systems of corrupt officials, implementing strong checks and balances, and creating an ingrained sense of mutual responsibility throughout society, South America will likely witness beneficial consequences throughout the region. A crackdown on political corruption and extortion will not only alleviate political mistrust, but it will also reduce socioeconomic tensions between wealth classes, provide more funding to invest in social reforms and industry diversification, and also provide a sense of business sustainability to encourage foreign investment and trading relationships. Although a reduction in political and institutional corruption is a step in the right direction, it will by no means guarantee South America's emergence as a regionally influential player in international affairs without similar attention paid to the other issues plaguing the region.

Businessmen, on the other hand, concern themselves with long-term profitability, maintaining an economic competitive advantage, and ensuring continual business growth. Therefore, their agendas potentially call for a prioritization of industry diversification first and foremost. A broadened diversification of established industries beyond commodities will insulate South America from fluctuations in global demand and prices, allow manufacturing and industrial secondary sectors to emerge and remain competitive, as well as offer a more extensive network of complimentary businesses to encourage internal

stability. Again, although industry diversification is a necessity for South American countries to occupy a greater role in the global value stream, this cannot be done without attention paid to other pressing issues. Without similar investment of fiscal capital into wealth disparity reduction, the creating of a more educated workforce through the provision of opportunities, and a better organization of urban planning to generate economic growth, South America will fail to witness a complete competitive emergence onto the international stage.

The confluence of adverse factors results in an overlapping of obligatory actions that must be taken in order for South America to capitalize on its economic potential. Without cohesive efforts made by politicians, businessmen, and regional inhabitants alike, South America will continue to limit its international influence. Although the regional inhibitors go beyond wealth disparity, commodity dependency, inconsistent trade approaches, urban agglomeration, and governmental corruption, South America, in tackling these issues, would likely witness a reversal of course and emerge as an international competitor with the capability of stimulating sustainable, long-term growth.

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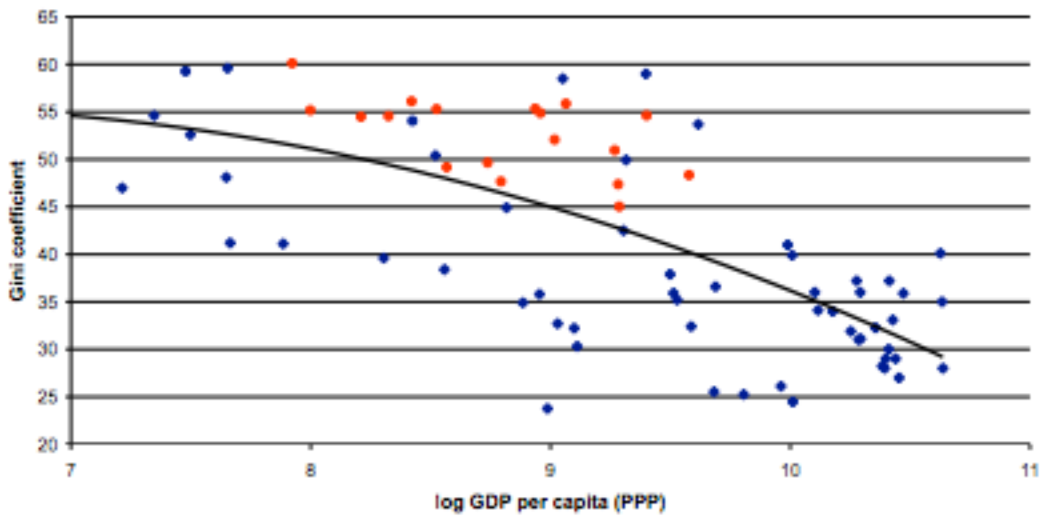
Graphs and Tables

Graph 1



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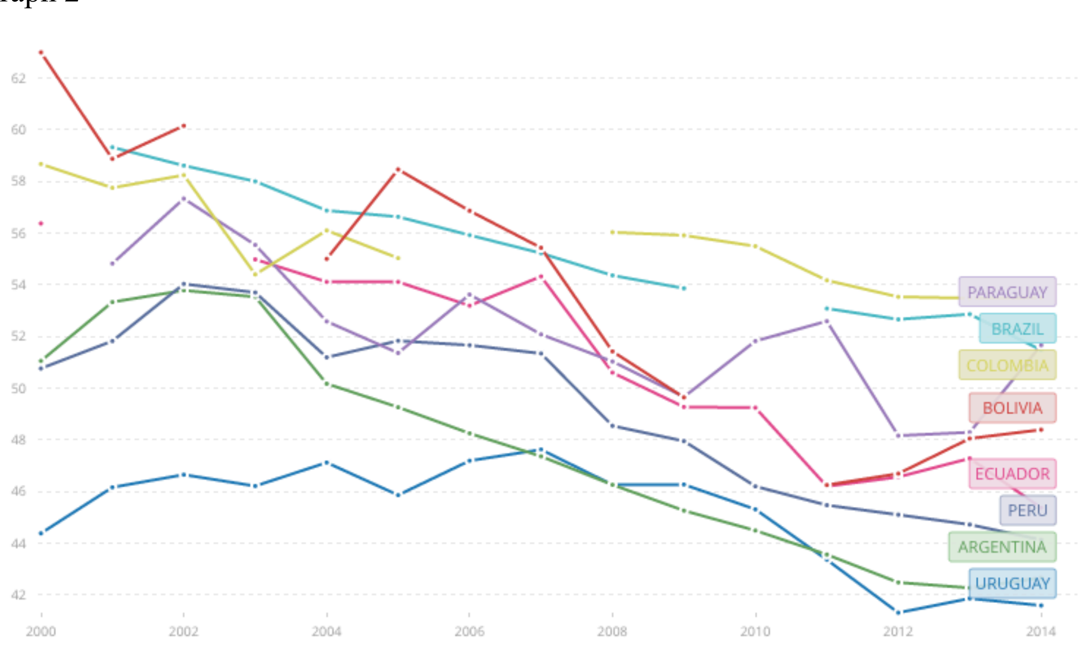

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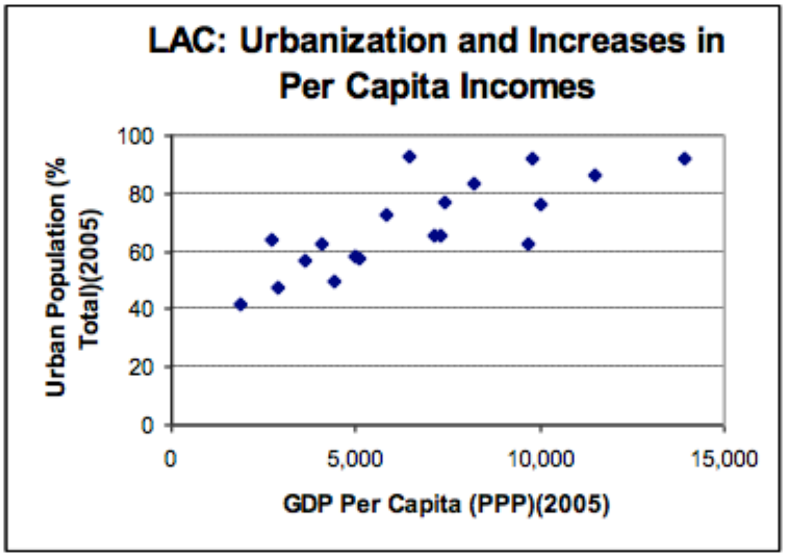

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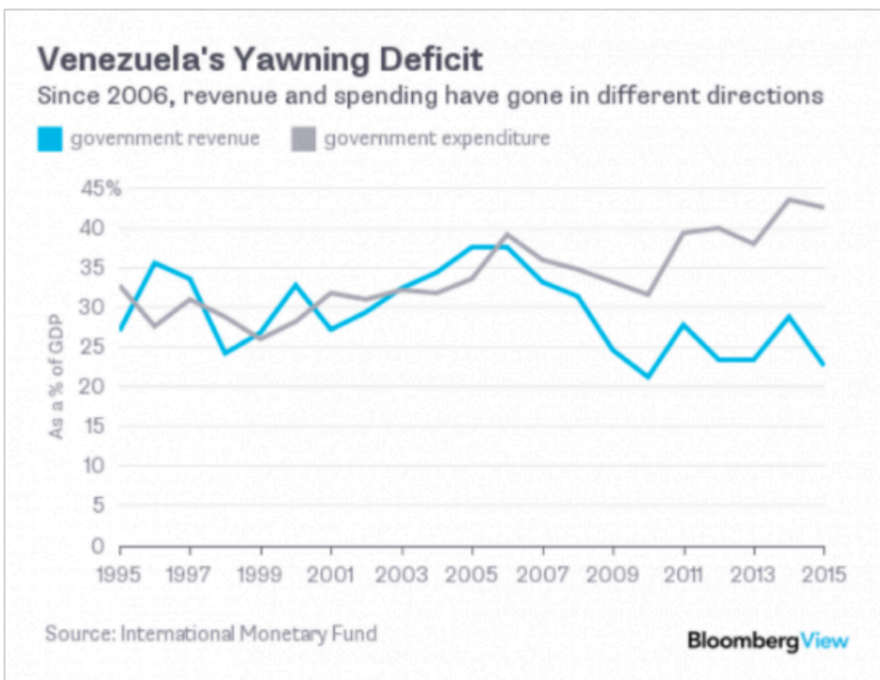

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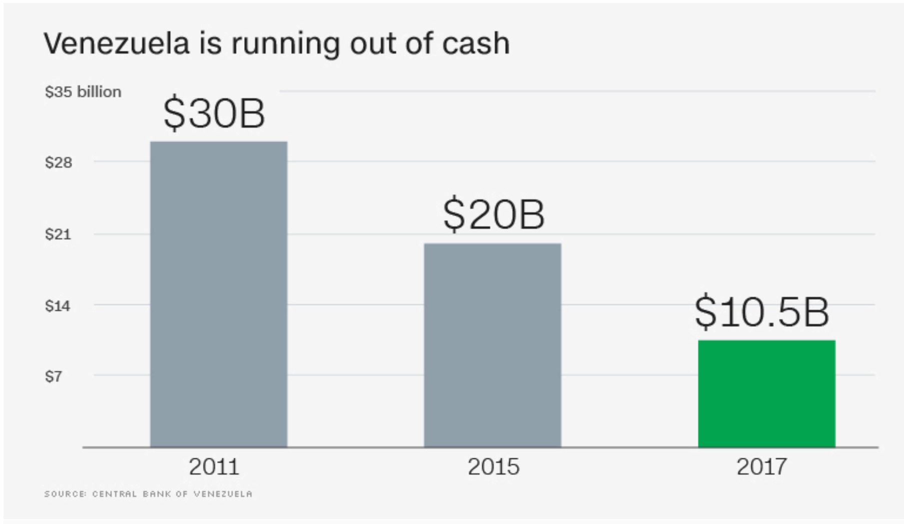

Venezuela is running out of cash
$35 billion
$28
$21
$14
$7
$30B
$20B
$10.5B
2011
2015
2017
SOURCE: CENTRAL BANK OF VENEZUELA