

# Building Bridges

The Montevideo Circle

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# The vision from business

## The contributions of:

### Carlos Slim

#### Carlos Slim: *Businessmen's role*

I would like to offer, in this occasion, some ideas that can define the present and give us some signs for the future; and also, maybe, in order to understand the deep crises we have been through in the 20<sup>th</sup> century, and those we will attend in the 21<sup>st</sup>.

As we all know, 10,000 years after the ice age was over and the civilization started, the first societies were agricultural, with very clear paradigms. Some of them still survive now, but in general they were displaced in the 19<sup>th</sup> century, mostly by industrial societies, in countries that are developed now. In the last 50 years, these societies have turned into technological, knowledge or digital societies. To make it simple we could say that the agricultural society was primary; the industrial society was secondary and the technological or service society would be tertiary.

In this society, most of the population provides a service, which generates an important change in the society as a whole. Obviously, this new society has far different paradigms from those of the agricultural society.

This change was provoked undoubtedly by the technological advancement, which derives in a change in productivity and totally transforms society by simplifying the production of goods and services, mostly goods.

The agricultural society ended in the 18<sup>th</sup> century as the steam engine appeared. The most significant manifestations of change were seen in transportation (the railway engine, sailing) and in machinery, both industrial and heavy production (tow trucks, tractors) which increased productivity and quickly transformed society. That was the first stage in the industrial society.

A second stage started by the end of the 19<sup>th</sup> century and early on the 20<sup>th</sup> with the internal combustion engine and electricity. That was the modernization of the industrial society that took place in the 20<sup>th</sup> century and totally transformed it.

If we observe the agricultural societies, we clearly see their characteristics, very different paradigms from those in modern societies, among which we can mention little social

mobility and class division. The authority is monolithic and political power is integrated with religious, economic and military power. It is not casual that the Egyptian Pharaoh descends from divinity as well as the Mexican *Tlatoani* and the Japanese emperor.

It also happened in the colonies. The social immobility prevailed for the need to have the people working in specific areas, or to implement the monarch's decisions, laws or edicts. That was the reason for slavery: servants were inherent to the agricultural society.

The agricultural society is also a society in which the economy is, in general, a zero-sum economy. They have to work a lot, produce the most possible and consume the least possible. The printing machine, then, had limited effects because people did not know how to read. I think that until the 17<sup>th</sup> century or even later in the 19<sup>th</sup>, just a few could read or write. Some of the main characteristics of that society included the land, the servants, the tributes and the conquest wars. The military force for defense or to conquer was very important. It is curious, but as great disadvantages as this situation may have, it was also ethnically helpful to keep a relation between people at great distances, because, as you know, one or two hundred years ago people was born, lived and died in the same place.

There are great transformations during this period, great technological advances (from the wind mill, the plow, the wheel, which was used in a very significant way, except in America where there were no traction animals). Bronze was found and then steel, which were both great technological changes. At the time, the business part was very limited and it was centered in the formation of certain middle classes, generally in commerce.

By these years also, thousands of years ago, globalization started mainly in the Mediterranean with navigation. By then, what provoked globalization were the communications (now telecommunications). The Phoenicians globalized all over the Mediterranean not only with the commercial activity but with a cultural change. The business activities were limited, the economic force was concentrated, there were important commercial activities (for example, the silk route, the Mediterranean commerce) and, of course, the beginning of banking and a different type of economic activities. But power was monolithic and what they seek was power through conquest, looting, slavery, gaining territories and demanding tributes.

Sovereignty is later defined with some characteristics that are different today. What used to be military wars now are economic wars, competition for markets. In a certain way, it has been mentioned here in passing, the modern armies are the cross-border companies, the economic activities of the countries. The present sovereignty is then, basically culture and market.

This has provoked many changes. The industrial society already has other paradigms. In the modern industrial society of the 20<sup>th</sup> century, there are many advances in productivity and technology. The great transformation comes also during the 20<sup>th</sup> century, with the new knowledge society which is also called the service society. Especially when this society globalizes, it is integrated as a result of switching the horse and the sailboat or the train and steamboat, to the speed of sound and light, which make our world smaller and form a very important part of it. But the paradigms of this new civilization are different and

started showing since the 18<sup>th</sup> century with the French Revolution. They were stronger in the 19<sup>th</sup>; and in the 20<sup>th</sup>, they were clearly established.

Now, which are the new paradigms for this new civilization? This civilization is a product of a radical change, in which the people is no longer dedicated to produce primary goods, not even secondary, only tertiary. In fact, I think it is the change in the relation of exchange terms. While in the industrial society the exchange terms for primary products were lowered, in this society, the exchange terms that are lowered are those for industrial products. However, primary products started improving because of the population growth which started participating in the modern economy, while stopping self consuming, which is mostly the case of China, Asia in general, India in a very important manner; and a little less and hopefully soon in a significant way, through the incorporation of the population that was sidelined to the modern economy, of Latin America.

So, I think these new paradigms are very clear and make reference to: democracy, power division, freedom, human rights, environment, plurality, diversity and in matter of economy they make reference to concepts like: competition, productivity, innovation, technology. Globalization, in my opinion, is simply a feature of this new society, it is not the change, and it is not the paradigm.

I differ a little from what Enrique Iglesias said that we need total openness. I think we need to be open but in an intelligent way, just as China has done, or like Brazil is doing. But each country is different, a country with 2 million people has to be very open; a country with a thousand million can be much closed but without losing the advantages of openness, globalization and technology.

What has been very sad is that the civilizing changes have not been well conducted by the ruling authorities, the politicians and by all of us.

Today, education is essential, quality education, middle and superior education. We are behind in regard of this; and we have to work hard on it as soon as possible.

In the 20<sup>th</sup> century there was a change in the society, in which fear of change, ignorance of change, and not knowing how to conduct it provoked both world crises and wars, as well as political and economic social experiments which are maybe as bad as world wars and led many hundreds of millions of people to live in all types of dismaying conditions for many years, because of the lack of possibilities to progress in life.

But this new civilization, in contrast to the agricultural which was a zero sum civilization, is developed and sustained in everybody's welfare. This means that everybody is interested in others being well, forming part of the economy, the market, having time and being able to buy, services, goods, etc. For that reason, the best investment is to fight poverty. It is no longer just an ethical or moral problem or a social justice problem. It is an economic need. Developed countries have done it because they have been incorporating better remunerated activities to its population, thus a larger purchasing power. I do not have many doubts that poverty has been seized in the wrong way. In the agricultural society, charity, donations and health care, were reasonable.

Nowadays, charity, welfare and social plans help a little, but poverty is only reduced with health, education and jobs. The solution to poverty is not charity, welfare or free food. Education and health are very important and they should be of high-quality and public in order that the people can grow in them and get a great social mobility, which is one of the paradigms of this new society.

Then, what we need for sure is health, education and jobs. Now, the government can open positions to work at their offices, or maybe have large armies, it can make aggressive programs and maintain social order; but at the end, jobs are what we need and jobs are given by employers and usually they are businessmen. And those who grant more jobs are small and medium businesses and those that have intensive manpower force. So it is very important that the governments create an adequate climate for business development. As much as infant mortality has decreased, let's reduce business mortality, especially for really small businesses. That can be achieved with less regulation or no regulation at all, in order that there are no impediments for them to develop and get the financial resources to operate.

I think that even the Chinese proverb about "not to give a fish to a man but to teach him to fish" is then obsolete. To teach to fish will keep them in a self consuming situation; they are going to eat fish for a lifetime. We need to teach them to trade or commercialize that fish. That is when social changes come. When a community was born, lived and died in the same place, self consuming was fine. Today, all this has changed very significantly.

I would like to finish by establishing that today, the businessman's role goes beyond investment, reinvestment or traditional business activity, tax payment and personnel training; and also that the businessman's role is different from the role of the business itself.

Further than the traditional characteristics, businessmen must change our activities beyond the business responsibility, a social activity that contributes to the reduction of backwardness. In other countries, there have been jealous politicians who do not like very much that the businessmen come near or enter those fields. I believe that is in the past. In the last years I have noticed a greater openness for a more participative civil society; and the performance of the businessmen is very important. I think that what we businessmen do to manage resources effectively, to make with a coin what others do with two, leadership within organizations, long-term vision, knowledge, strategy, the ability to operate things, etc... are all business characteristics that I think are very important to face backwardness. That is backwardness especially in job generation, education and health.

Backwardness is an opportunity for investment, job and growth. We do not need to invent warm water; we only have to look at what all developed countries have done, which is having economic activity, creating human capital, and creating physical capital. The development and formation of human and physical capital is essential to any country, even in agricultural societies. There is no country that has been developed and did not have big constructions, infrastructure, and formation of human capital even for war or for any other not so important activity.

Also, we need to do what others have already done: what has been done in China and India. It is remarkable, even though it gets us a little envious, though in a good way, because Latin America has taken 25 years since the '82 crisis, with models to pay, limited models, a macro economy which is fine, but it is not the right way, David Ibar calls it "stabilizing standstill". We need another thing: development plans, economic activity and as Felipe Gonzalez says, not to confuse instruments with objectives.

The objective is not a well balanced macro economy, or a fiscal deficit; that is an instrument, conditions that are necessary but not sufficient. We need to have clear which the objectives are. We have seen Spain, which is the best example in the last 20 years. When Felipe Gonzalez was ruling, the per capita income grew from US\$ 4.50 to more than US\$ 30.000. And it has been in just one generation, we don't need to sacrifice one to get the other. On the contrary, it is not by sacrificing, but by incorporating most part of the population to the modern society, welfare, economy and high level jobs, just as China is doing, with 40 million people every year.

I think China already reached the critical mass; they are educating their people, and they already have high technology, which is very important. In our countries, Mexico grew 6.2%, during 50 years because it passed from being an agricultural and rural society to an industrial and urban society. Today, China is passing from being a very primitive of a thousand years agricultural and rural society, to a society not only industrial and urban, but a high technology society, a knowledge society, a highly modernized advanced society, in an accelerated process. And while we were growing during 50 years at 6.2% back then, they have been growing at 10%. The Chinese have done it, they have done it also in Singapore, in Korea and they are still doing it. The Germans and Japanese did it to rebuild, and Central Europe is doing it. Spain did it. We have to do it in Latin America.