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ILPES: "EXTERNAL INSERTION, DEVELOPMENT AND PLANNING"

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FORWARD

This document responds to a mandate by the governments of Latin America and the Caribbean: that **ILPES prepare the ground for the VII Conference of Ministers and Heads of Planning (Montevideo, May, 1989)** by putting together a central report, which would address the topics of **External Insertion, Development and Planning**. Due to the predominance of decentralized economies, the latter concept should give prerogative to the need for the coordination of public policy. In accordance also with what was approved (XI Meeting of the Presiding Officers/Regional Council for Planning (RCP), San Jose, November, 1988), conclusions should be centered around three main themes: **External Insertion and Development (Intro & Parts I & II)**, **Entrepreneurial Capacity and Competitiveness (Part III)** and **Fiscal Problems in the Management of State (Part IV)**, ending with a guideline as to possible functions of **National Planning Agencies (NPAs)** in supporting new policies for external reinsertion (Part V).

In an upcoming revision, form and content will benefit from criticisms and comments made by the countries which currently preside at the two multilateral forums - **SCCOPALC** and **CRP** and from the **ECLAC System**, once this first draught is distributed to them. All necessary changes will be included in the next draught which will then be sent to the Internal Editorial Service. In any event, its main source of enrichment will be the participation by **Ministers and Heads of Planning at this VII Conference**, although as a matter of policy this document is not subject to formal approval; the same applies to document **NTI/G.VII.4** which gives a detailed account of the contents of this document, except for Part V.

In rendering direct advisory services to governments or in training, the Institute necessarily comes across matters which are everyday fare for the **NPA's**, and it seeks to support them in their more immediate concerns and requirements. At this multilateral debate the Institute must raise issues which are aimed at the future. Its construction may not appear to be of priority...but it is urgent. Hopefully this document will succeed in getting this idea across.

Santiago, Chile, March, 1989
Director General of ILPES

(I/TWZRY)

Part A

INTRODUCTION

1. The balance of the eighties allows for different interpretations. One, already very common, is that they have been lost from the point of view of development and, above all, of its per capita expression: there has been a return to standards lived ten years ago or more. Another, less common but more transcendent, is that the economic, social, political and cultural dynamics of the last years, when projected towards the future, show that Latin America and the Caribbean have jeopardized more than the next decade. This idea permeates the entire document, which is dedicated to examining the possibilities of the region becoming more dynamically reinserted into the world of tomorrow. The terms "insertion" or "reinsertion" are used in a very broad sense. At the limits of definition, "insertion" refers to the globality of the region's "interdependence" with the rest of the world. In this document "reinsertion" suggests changes in external policies which seek, within the framework of interdependence, a less perverse distribution of vulnerability.
2. Policies deliberated for the reordering of external relations may help to reduce current vulnerability, but will unlikely be sufficient to eliminate it. In truth, the manner in which the region interacts with the exterior explains part of its problems - including some very serious ones - and conditions others. Nevertheless, it would be simplistic to explain its vicissitudes only in terms of external insertion. On the other hand, the very concept of region needs to be viewed in relative terms, due to its increasing heterogeneity. Its main attributes are not distributed in a very homogenous way among countries and within them. The region will end the eighties with a

5. From 1980 onward, the region gave signs of enormous instrumental creativity, alternating policies of varying degrees of orthodoxy and predominantly oriented to controlling monetary aggregates and key prices. Moderate reactivation impetus were followed by greater imbalance; then, efforts at austererity aggravated unemployment and accentuated social tensions. In the area of macrovariables, three ended up with irreparable damage: investment and expenditure in science and technology (Sc&T), and certain categories of social expenditure (education and health). In a globalized world, the opportunities for reinsertion by Latin America and the Caribbean are restricted today and will continue to be so in the years to come, as a consequence of this basic fact: short term decisions forget that each yesterday contained definitive conditioning factors for the future.

6. In the contact between nations, while up front there occurs an exchange of goods and services and movement of capital, in reality, in behind there occurs, logistically speaking, a confrontation of their economic, social, political and cultural structures. All these phenomena must be considered when one examines the topic of "External Insertion, Development and Planning". On this basis, the report has been divided into five parts (excluding this Introduction). Part B analyzes the evolution of the region's relative position in the international context and Part C examines the main phenomena of contemporary development which will condition its future. Part D emphasizes the vitality of productive enterprise as a strategic resource for external reinsertion policies, provided that the increase in its competitiveness is supported by increases in real productivity. Part E deals with the fiscal crisis and its

ties with the external situation. Finally, Part F refers to the possible role to be played by National Planning Agencies (NPAs), in conjunction with other agents within and without the State, in supporting new policies for external reinsertion.

Part B

THE REGION'S PRESENCE IN THE EXTERNAL CONTEXT

7. It is known that in post World War II the internationalization of production, markets and culture deepened. Some of its peculiarities are noteworthy in that they constitute a **backdrop for the design of external reinsertion policies**. Concentration of capital in those enterprises undergoing said process was intensified, thus allowing them growing influence in the orienting of future development. At the same time, their specific company policies regarding productivity, wages and reinvestment among others, were also designed to be international in scope, and did not always coincide with the respective policies of the countries in which they operated. Consequently, a sizable part of what is commonly termed "international division of work" occurs today inside certain companies. Little by little there occurred a new and as yet little-studied articulation of the three conventional spheres of capital: productive, commercial and financial, and more recently, between them and a fourth one among these, which has begun to be called "intellectual capital".
8. Thus a strategic change was witnessed in world economy dynamics, which put an end to the secular paradigm of industrialization based on stable models of manufactures and on mass production. Said change opened up new perspectives for the deconcentration of production, in which parent companies eventually retained only those segments which were key to overall organization (finance, quality standards, decisions on technology, market distribution and R&D, among others). In cross-fertilization with the previous

phenomenon, there occurred a vertiginous development of communications technology, which, in turn, was boosted with high priority. Then, production and trading gained in almost equivalent strategic importance. In this new context it became essential to associate real productivity and competitiveness, with being a "sine qua non" condition for penetrating and consolidating new markets. Simultaneously, another process of restructuring of the international scenario was witnessed, not completely independent of the previous one, which gave rise to new blocs of association among countries.

9. All this implied a restructuring of world power, in terms of production, trade, finance, technological development and cultural influence. In this new and shifting power field one must identify opportunities for participation by Latin America and the Caribbean. Concurrently, the new polynuclear nature of the world should favour said opportunities. Herein lies the demand for fine-tuning between diplomacy and development policies geared towards reinsertion. A partial indicator of the degree of external insertion is the rate of participation in world exports. As one goes back in time, the loss in global presence becomes more evident: the region today occupies only 40% of the ground its exports occupied 40 years ago. In addition, it lost relative position in the quality of its insertion: it has less presence in the most dynamic items.

10. Since at least three decades ago, the different flows of external resources have also been undergoing important changes. Up until the end of the seventies, the region received close to 2% of GDP from abroad for Net Transfer of Resources. During the eighties, it remitted close to 4% of GDP. The "minus 6%" difference is doubly significant: it explains the systematic reduction in per capita income

(which in 1988 was equivalent to that of 10 years ago) and also explains the drop in investment which will affect the near future.

11. At the beginning of the sixties the inflow of resources "via government" accounted for 60% of capital inflow; already by the end of the seventies, only 12% were from public sources and 88% private. In reality, Net Capital Income more than doubled in the seventies; nevertheless, these figures already referred to resources from a very different source, subject to varying types of conditionalities, for different usage and also with different future effects. Partially incubated already in this structural change were commitments with remittance of profits and interest payments, which would subsequently end up cancelling out the developmental effects of the Net Capital Income. In 1978, Net Transfers of Resources, i.e. Net Capital Income minus Net Profit Payments, reached an historic record, and later fell. From 1982 onward, they were negative, (minus US\$ 28.99 billion in 1988). In seven years, from 1981 to 1988, the region transferred internal savings abroad totalling US\$ 178.7 billion. For the most part, this was only for partial interest payments. The total amount transferred was 12% higher than all Net Capital Income received from abroad over the last ten years.
12. This backdrop already reflects a progressive loss of regional influence in terms of multilateral development policy. Once again, the problem has remote roots. Exactly 20 years ago, the "Latin American Consensus of Viña del Mar" recognized the need to mobilize greater support for the region, "in particular from countries having greater weight in world decisions". A few years later, multilateral participation in the directed at governments of the region had already dropped 2/3, and the main bilateral aid almost

9/10. As of 1980, Latin America and the Caribbean suffered with the "graduation", which reduced their priority in the distribution of Official Development Aid. This aggravated the availability of external resources which in previous years had already started to be provided through banking operations of a commercial nature. Given all the above, a recent OAS (Organization of American States) report states that "the region is a passive agent in international events and its weightiness in international system decision-making is practically nil. This contributes to explain the depth of the economic recession in which it is submerged". For all these reasons it is possible to state that the region's current external presence falls below the requirements of its population, the virtual potentiality of its human and natural resources and its right to historical fulfillment.

Part C

CONTEMPORARY DEVELOPMENT HINDERS REINSERTION

13. The possibility of Latin America and the Caribbean finding fulfillment in the world of tomorrow implies a turn in perspective regarding the past. Contemporary development is best understood on the basis of certain distinguishable but closely intertwined phenomena: knowledge is accumulated, dominated by technological purpose; then, it permits the acceleration of productive and organizational innovation; which is why we witness today a proliferation of formal and informal specialization in the work area, which contributes to the generation of great complexity in structure and social interaction; which, in turn, creates new tensions in terms of governability and ability to govern.

C.1. INFORMATION INPUTS AND ACCELERATED INNOVATION.

14. For some time now companies and governments of advanced industrial economies have modified their expenditure in science and technology, being more pragmatic in broadening and reorienting it. Knowledge destined to become technology and technology destined to become product and to broaden markets, both underwent increases in relative growth rate with respect to other types of knowledge and technology. In this way the touchstone was prepared for a new production paradigm: knowledge and technology converted to "information" would penetrate and dominate modern production relations. It would be difficult to investigate contemporary development without first understanding this fundamental phenomenon.

15. As a new critical input, knowledge converted to "information units" changes the proportion to which other inputs are used (natural resources, work, energy) and, little by little, introduces a factor of obsolescence in previous techniques of productive organization and entrepreneurial management. Production itself becomes "dematerialized" since there will be less raw material, work or energy per output unit. These transformations will demand the putting into practice of a series of deliberated measures to build "dynamic comparative advantage" (DCA). It is worth here to digress briefly: this expression is used as a "sign", as a semantic resort. It permits one to call attention to the need for reinsertion policies to take into consideration international market tendencies, regional availability of resources and the proportions to which they are used per unit of output. Likewise, the allocution "build DCA" has the virtue of alerting one to the fact that they are not there, that they will have to be generated.

16. Productive capital is partially freed from its physical and financial roots and takes the form of "intellectual capital". The accumulation of intellectual capital shifts the frontiers of technological power ad infinitum; the latter is concentrated in political geography. Electronic complexes, biotechnology, development of semiconductors and other new materials, new energy resources, are some of the branches in which efforts are being concentrated. Thus, high technology is directed from its birth: first it inaugurates, then it diffuses the new technological and productive standard. To conquer it implies a cost in foreign exchange; to resist it a cost in historic marginalization and to become submerged in it a cost in sovereignty. One would have to assimilate it in a selective manner, but this presupposes systematic expenditure in science and technology. This intermediate course is more

difficult for those countries which did not previously amass some intellectual capital. This summarizes some of the concrete challenges of this decade's end.

17. Negligence in the face of the future has reduced the region's possibilities of implementing reinsertion policies whose effects will be more immediate and at the same time more lasting. To recognize the greater presence of knowledge inputs in modern productive relations implies revising the potential availability of the region's comparative advantages and adopting technological decisions consistent with them. Domestically, it is necessary to be familiar with and to know how to select options; abroad, the transfer of technology will be more difficult in the degree to which it implies a potential risk of competence to the vendor. Therefore, there will be transfers which will be inaccessible and there will be others whose conditionalities will reinforce asymmetrical interdependence among the advanced countries which provide it and the developing countries which receive it.
18. New reinsertion policies acquire greater urgency in the same measure that innovations in world production and trade accelerate. The more the restructuring of the region's productive apparatus is delayed, the more difficult will be its access to a dynamic position and greater weightiness in world economy, because it would be occurring from a more marginalized position. Once again in history, possible modernization will be heterogenous both among countries of Latin America and the Caribbean as well as within each one of them. The realistic expectation is that technological heterogeneity will grow throughout the region and inexorably so within many countries.

19. This acceleration of innovation has been made possible only through prior growth in Sc&T and R&D expenditure. In terms of GDP percentages, advanced market countries dedicate between 3% and 3.5% to the Sc&T item, while Latin America and the Caribbean less than 0.7%. In this sense the region as a whole is incapacitated to proceed with an immediate restructuring of its productive apparatus, independently of the specific problems in financing it. During the recent past, four spheres of capital "dashed to pieces" the opportunities for restructuring and making the region's economy more dynamic: the rise in international interest rate (financial); acceleration of innovations using new and costly technology (productive); protectionism and a deterioration in terms of trade (commercial); and domestic delays in mastering knowledge and in R&D expenditure (intellectual capital). A strange historical coincidence which weakened regional opportunities for future development.
20. At an aggregate level, the acceleration of technological innovation requires a reformulation of forecasting techniques. Agile innovation of processes, products, organization, communication or trading increase the degree of indetermination of the future. Uncertainty changes in composition: economic processes which allow for forecasting calculation based on stochastic regularity, loss relative importance; perhaps it is gained by those processes whose upcoming stages are known but not so their probability of occurring: without a doubt other phenomena gain in weight, those whose possible future states are not even known. The latter are the open domain of human creativity. This creativity finds a complement in the real world: flexible productive structures, with great potential for innovation. This complementarity is not entirely casual: the "production of knowledge" has been financed in such a way as

to concentrate it in those spheres of creativity whose sparks may fly more rapidly to production and from thence to market.

C.2 WORK AND THE INFORMAL SECTOR: FRACTIONATION AND PROLIFERATION

21. Contemporary economy produces "multivariation" in the division of work. Movement is projected in various ways: in manufacturing, in modern primary activities and obviously, in the diffuse range of services. The diffusion of informatics, in turn, generates a great many new specialties within each one of them. Advances in the field of telecommunications, semiconductors, industrial and office automation, in addition to the data processing industry itself, thus play a triple role in the creation of new work specialties: directly within each one of its own branches; having an impact on the capital goods industry and, less directly, through the diffusion of these goods in other industries and in the production of services. It would be useful to point out that the "specialities' explosion" is not necessarily limited to the productive apparatus of each country, be it developed or not. The flexibility which the new technological and productive standard sponsors at an international scale, opens up new possibilities for developing countries.
22. Active external reinsertion critically depends on the innovative and negotiating capacity of the entrepreneurs of the region, backed up by efficient promotion of the State, which will also be responsible for correcting or compensating equity distortions, which productive modernization may provoke. From this standpoint, it is worthwhile to recognize that the generation of high technology industrial and service work specialties, broadens

the spectrum of heterogeneity already in existence. Greater productivity allows for (and demands) high profits but also produces higher remunerations, and therefore benefits those segments of the population that are tied to the most dynamic sectors, moving them upwards in social income distribution. On the other hand, it is a fact that the countries in this part of the world benefitted in a differentiated way from the previous stages of the world industrialization process; it is likely that once again they will become more differentiated as they become more modernized. This raises another issue which is crucial for the tuning of public policies, between those which defend a more dynamic external insertion and those which promote social development. Specifically, the dissemination of the new technological and productive standard will end up requiring a reordering of all labour-related public policy: employment, remunerations, social security, the formation of human resources and labour rights. Perhaps this is the most delicate of topics in the agenda for the necessary dialogue between companies, labour unions and governments.

23. The multiplying of the informal sector is another facet of this third phenomenon - accelerated broadening of the work spectrum - in a mixture of expansion and greater diversity. Within its background lies a situation which has carried over for three decades: marked underutilization of labour with underemployment predominating over open unemployment. According to a recent study by IDB (Inter-American Development Bank), between 1980 and the year 2000 the labour force in cities will double from 74 to 148 million inhabitants. Current policy on the informal sector is not sufficient in light of this new dimension of the problem. In general it swings from a prophylaxis of urban violence (paying greater attention to the destimulation of delinquency) to promoting small business initiative.

Nevertheless, the informal labour force as a percentage of the working population, varies in the region from nearly 30% to close to 60%, depending on the different national situations. In the face of this magnitude, it is difficult to place bets on a single type of corrective policy; it is more probable that there will be a need to combine very different proposals, in each case; neither will solutions arise only from new external reinsertion policies. More likely, it is worth mentioning a risk here: the new productive standard will necessarily impel developing countries to adopt their own mixture of technology with varying degrees of progress. The resulting one will aim at "growth without employment", perhaps even because of the current experience of some of the more industrialized countries. Knowledge today dominates production and innovation leads markets; within this framework, there exists an added risk for Latin America and the Caribbean: that "growth without employment" will amass those citizens which are less qualified, at the base of its social pyramid, as if they were superfluous objects.

C.3 COMPLEX SOCIETY AND THE CRISIS OF GOVERNABILITY

24. Up to this point three accelerations have been highlighted, which interact in contemporary economic dynamics: greater information inputs per unit of output; greater innovation in processes, products, organization and markets and greater dispersion of work modalities. All alter the "useful" combinations of available production factors; the work factor, in particular the less qualified, loses relative position in this framework of new technology. Thus, but not only thus, important contingents of the population shift towards the informal sector. Within this fractionation process everything goes: upwards and downwards, the

heterogeneity of work is broadened, and consequently so is that of remunerations and family incomes. Modern social structure splits up and disperses in the most varied articulations with the various activities of the classic economic cycle: production, distribution, consumption and profit sharing. This is one of the ingredients of complexity, this unmistakable trademark of current society.

25. **"Complexity"** today has a specific meaning in the sciences and in technical vocabulary; another brief digression would be useful to deal with it. According to some of the most outstanding specialists in the matter, the following should be considered:

- that "complexity" is a symbolic expression for describing a series of new perceptions and scientific representations of reality; the latter is considered to be an "open entity" and in constant mutation, characterized by instability and creativity;
- that dynamic systems - including social ones - are more unstable than was previously admitted and that their trajectories contain a basic property of "divergence";
- that an increasingly complex society also arises out of the computarization of information, with its own logic and memory;
- that it is necessary to have a new understanding of this "factory of trajectories" which is what current reality is, and that this implies a great cultural transformation; and
- that specialization and broadening of markets stimulate the development of the most complex of social systems, both vertically as well as horizontally.

26. In the world today no national society is exempt from the attributes of complexity, in the order of the ideas outlined above. Of course the fractionating of formal and informal work is accompanied by a broader spectrum of income distribution, of values and social expectations, which make the behaviour of the various actors more unpredictable. In the external domain, a deepening interdependence is witnessed, which is a central phenomenon of contemporary societal complexity. In terms of time, its "open entity" nature is intelligible as a major indetermination of the future.
27. The complexity of national societies in the region combines different elements: coexistence of multiorganizations (with its own actors); growing interdependence (with external actors) and an essential vulnerability; the latter, especially in its projection towards the future. In this way, vulnerability and uncertainty, those two undisassociatable traits of a complex developing society-always demand vigilance and the protection of certain basic domestic balance. At the level of inequality in force in Latin America and the Caribbean, said balance cannot depend exclusively on the market; neither can it be born from rigid intertemporal planning exercises. Complexity reduces the efficacy of all partial balance; on the other hand, uncertainty does away with almost all normative efforts at disciplining the future.
28. The recent history of adjustment policies was a succession of tentative partial balance; the social pacts, which are normally indispensable, constitute another modality of partial balance. The transitory nature of both is partly explained by accelerated economic change and by the progressive incrementation of complexity. In an interdependent world, economic, social, political and

cultural events have become more vulnerable. Vulnerability emerges as a kind of fingerprint of complex phenomena, all similar but each one very unique. As the concept is used here, external insertion is almost equivalent to interdependence; from this perspective, reinsertion policies are a special case in the management of modern complexity.

29. New productive function of knowledge, innovation as the nucleus of production and trade strategies, proliferation of formal and informal work, increase of structural and interactive complexity of modern society, are the four paths covered so far for a more integrated understanding of contemporary development. To culminate, a fifth phenomenon is presented: the vulnerability of current society reduces its governability; accelerated economic and social change reduces the capacity to govern; and thus, the gap grows - at this very moment - between the need for government and the capacity to govern. This gap is observed not only in modern states, but also in any large social organization which has the configuration of a complex system. Likewise this gap increases when complex problems are handled inappropriately, e.g.: treating each symptom separately, exacerbating others; looking for short term solutions and at points where intervention is ineffective over the medium and long terms; inventing solutions based on statistical analysis of problems.

30. The decrease in governability in a developing society today, is explained by a great many elements, whose analysis falls beyond the scope of this document. Among these can be mentioned: the fractioning of social structure which implies extreme differentiation of aspirations; innovation concentrates power, then social heterogeneity also widens from this point of view and the innovative stance clashes with inertia throughout the breadth of each society.

Likewise, it was said that the loss of efficacy is a potential risk for the management of large and complex social organizations, including the state. From there, that there are serious additional difficulties which undermine the capacity to govern, among these the following: information available on society is becoming increasingly insufficient - in quantity and quality - in terms of that which is necessary for adequate decision-making; within and without national boundaries, financial matters have acquired greater relative autonomy in the face of commercial and productive matters; to all this is added the new strategic role of intellectual capital, whose production is going through a subtle articulation of scientific communities, universities, armed forces, private enterprises, governments and other non-governmental entities (refer in particular to details of that paragraph in document NTI/G.VII.4, Chapter III).

31. The conclusion is that inefficiency can penetrate into the performance of the governing function. Contradictorily, in the international ambit there are various high efficiency foci which promote the new technological standard, impulse modernity and accelerate history. Reinsertion policies should not ignore the real availability of the capacity to govern in the region. There are strong indications that it is decreasing because ungovernability is consuming it from below and management inefficiency is eroding it from above. Nevertheless, greater capacity to govern is not resolved with more power. The multiplication of social agents also generates greater interdependence among its conflicts. Political regimes which open up more space to social participation, tend to witness a greater struggle between the various actors; thus pressures converge on governments for "margins of preference" in the allocation of public resources and in the implementing of domestic policies.

Consequently, another challenge is to promote growing levels of consensus and agreement for boosting new development, at a time of greater widespread of social tensions. Active policies of external reinsertion do not automatically help to relieve these tensions; for this reason complementary policies are required which simultaneously tend to overcome serious social problems.

32. As a corollary of the complexity of current society and of the growing difficulties in government conditions already mentioned, noteworthy is a task which ILPES designated previously as "transmuting into forces of social cohesion energies released to revindicative pressures". A creative role, supported by new instruments for action which consider social needs not only in terms of their "lackings" but also in terms of their positive side: to permit the channelling of new social energies with significant self-management potential. Freed from exclusion, spurred on by more open political regimes and exacerbated by the sacrifices caused by the current crisis, said energies tend to be oriented towards revindicative actions. Governments lack the necessary resources to attend sufficiently to this avalanche of revindications, within traditional mechanisms of social policy. Thus arises the need to arrive at agreement and social participation with public instrumental creativity in a broader attempt to attend to social needs. This requires the promoting of new concepts of organization and implies assigning to the direct beneficiaries a major role in the attention of their own needs, minimizing direct government assistance. This makes even greater sense in the situation of financial austerity which will prevail in the coming years. Besides, this approach is essential to compensate for the greater concentration and exclusion resulting from economic dynamics generated by new projects of external reinsertion.

Part D

THE PATHS TO REINSERTION GO THROUGH GREATER PRODUCTIVITY

33. At this point it is useful to return to the main stream of the document. Mention has been made of the region's heterogeneity, that the eighties have been practically lost in terms of preparing for the future, that the region gave up commercial ground, having to carry out net transfers of resources overseas and lost decision-making capacity in multilateral circles. Then, situations, tendencies and challenges were examined with regard to five characteristics of recent world development (knowledge-intensive technology, acceleration of innovation, diversification of formal and informal work structures, increasing complexity of society and crisis of governability). At this point, two of the more immediate concepts will be dealt with: the generation of external competitiveness and its maintainance on the basis of real increase in productivity.
34. Innovative impetus, creativity, the capacity to assume risks, knowledge of trends in one's area of activity, flexibility and agility in decision-making, commercial aggressiveness, efficiency in organization, these are some of the essential attributes for sponsoring positive leaps in competitiveness. In general terms, the kind of ownership of productive assets (state or private) cannot be viewed per se as being an impediment to the occurrence of said jumps. Doctrines aside, it is enough to recognize that various public enterprises have wholly fulfilled their duties in this role, achieving outstanding position in the international market. Nevertheless, in the greater part of the region, private enterprise is the most generalized potential asset which is susceptible to being mobilized and

promoted within the framework of deliberate external reinsertion policies.

35. This will not automatically resolve the most serious social problems affecting Latin America and the Caribbean. But the region's private enterprise cannot be expected to conquer markets with dignity under current conditions of international competition, and at the same time that it contribute significantly to correcting accumulated problems of employment and social income distribution. On the other hand, it is unrealistic to imagine that the region will conquer a dynamic and tenable position in future world economy, on the basis of governmental Schumpeterism or of a massive reproduction of efficient public enterprises.

D.1 COMPETITIVENESS AND EXTERNAL INSERTION

36. As is known, effective productive insertion in the international economy implies the need to generate surplus for export. The debate on the region's development in the eighties has centered, to a large extent, on export oriented policies and on the quality of international specialization. The external debt has forced exports to take on prerogative as a function of critical demand for foreign exchange needed to service it. During these years the exporter has had special power to influence policy formulation: he would sell a scarce commodity, foreign exchange. External restriction was a dominant element: at the end of 1988, after seven years of adjustment and renegotiation of the external debt, imports attained only three quarters of the level registered in 1981. During this period, the region transferred resources abroad in an amount equivalent to nearly a third of its total imports.

37. Recent commercial evolution shows the heterogenous behaviour of products traded on international markets. Manufactures are outstanding as the motor behind world trade, doubling and sometimes tripling agricultural and mining trade. This differentiated activity is also reflected in prices: while in 1987 the unit value index of manufactures grew by 14.1% with regard to 1980, that of agricultural outputs remained stagnant and that of mineral products dropped by 31%. From 1982 to 1987, the value of world exports grew at a yearly average of 6.1%; not one economy of the region placed over that average. The value of regional exports increased at a yearly average of 1.7%, equivalent to less than a third of the corresponding world value. Between 1984 and 1988, a period in which foreign trade recovered slightly, the region exported 100 in volume to receive 74 in value, while industrial countries exported 100 and received 124.
38. It seems clear that there is a need to incorporate greater value added to exports and strengthen the tie between industry and services, technological development and exports. Despite certain notable advances, the challenge continues for improving the quality of international specialization, seeking better insertion in the most active areas of international trade. This is summarized in improving "authentic competitiveness": greater participation in international markets, but simultaneously raising productivity and the population's standard of living, as is maintained by ECLAC. Nevertheless, the trade and financial imbalances of the industrialized world, with its impact on interest rates and exchange rates have produced a relative disassociation between competitiveness and comparative advantages. The movements of exchange rates have exogenously affected competitiveness, and the very instability of exchange rates have hindered the identification of relative advantages. In addition, the

region concentrated a good part of its exports in a single developed area, increasing the potential risk of protectionist measures.

39. In effect, it is convenient to differentiate between competitiveness/price, which relates quality and price in the short term, and stronger competitiveness, with a structural base, which pays greater attention to the awaited evolution of world demand, to mastery over information and research in applied technology and to technological development. Without a doubt, competitiveness/price is relevant in concurrent markets and with scarce differentiation of products. In an international context characterized by innovation of technology and products, a country may impose prices if the quality, technological level of and demand for its products justifies it. From this perspective, competitiveness implies economic organization and articulation of the productive base, marketing, industrial policies supported by production lines and long term entrepreneurial strategies. At the public level, there will be a need to compatibilize fiscal, credit, labour, tariff and exchange policies. External commercial insertion will derive from selective incorporation of the new technological and productive paradigm. This will involve greater intensity in information and knowledge, more flexible means of production, smaller sized plants, interrelating of industry and services, shortening of output cycles and rewards for innovation. The challenge of public policy in this area will be to consider the country's specific advantages in resources and technology and to promote the expansion of national enterprises in production and marketing, even with active international negotiation.

40. The current trade struggle gives prerogative to competitiveness in innovation (quality, design, service, marketing), economies of distance (transport, communications, insurance, financing) and to the quality of entrepreneurial management (productivity, knowledge, processing technology, handling of risks in foreign exchange, marketing). For all these reasons, consensus is expanded on the basis of the existence of solid ties between incorporation of technical progress, industrial dynamism, increases in productivity and authentic competitiveness. From this perspective, as was already indicated, the technological lagging of Latin America and the Caribbean is serious.

D.2 NEGOTIATION PLUS AN INCREASE IN PRODUCTIVITY

41. The possibility of competitive reinsertion may be strengthened if it produces an active process of domestic articulation and international negotiation, with complementary economies being generated between public and private action. "Negotiation diplomacy" will be essential both for exports and for effective import substitution". The latter has always been present in successful cases of external reinsertion of developing countries. The articulation between enterprises and the State has been a key factor in propositions as diverse as the opening up of external markets, public and private investment programmes, development of information and applied technology, basic support infrastructure (transport, ports, communications and export services, etc.) and negotiation and regulation of foreign investment. In any case, all these measures together are eluded in a vision focused on the short term. On the other hand, there is a role to be played by regional integration in the boosting of joint and complementary

specialization projects and productive modernization, which will allow for the capture of international markets.

42. Within the nucleus of greater authentic competitiveness lies the increase of real productivity. For the period 1950-1980, the yearly average productivity of work in the region grew to more than 4% only in one country; in OECD countries, it is possible to detect periods of over a decade where annual productive growth in manufacturing remained between 6% and 10%. In the region, the trade balance of the balance of payments recorded in nearly three decades, indicates a manufacturing sector lacking in foreign exchange, financed by surplus generated in primary exports.
43. In various dimensions of economic regional activity there has been a deepening concentration by countries of global output, industrial output, gross formation of fixed capital and of exports. With regard to technological complexity incorporated into the export of manufactures, the contrast is even more notable. The regional lag is also apparent in terms of increases in real productivity. In effect, the group of countries which generates over 85% of regional output, shows a decline in work productivity between 1980 and 1987 which varies from 1% to 2%. In sum, the eighties incorporate a decisive component to the region's external vulnerability: the deterioration of investment and productivity, which reduces the possibility of a more solid commercial reinsertion in future decades.

Part E

INSERTION PROBLEMS AND THE FISCAL CRISIS OF THE STATE

44. The experience of the region in recent years has shown a reduction in the degree of governments' autonomy for designing and implementing public policy. It is urgent to regain past levels of investment, social expenditure and formation of new intellectual capital. In truth, the debt has stopped being only a problem of financing of international payments; its servicing has become a dilemma in the utilization of own savings between payment of the debt and domestic allocation (consumption, investment and expenditure in Sc&T).

E.1 COMMUNICATING VESSELS OF TWO IMBALANCES

45. It is known that domestic savings remained at their pre-crisis levels but that investment declined, as a result of interest payments, the deterioration in terms of trade and flight of capital. It is also worth examining the interaction between external adjustment, fiscal crisis and inflation levels. The main point is that the external debt in almost its entirety was absorbed by the State: to its own indebtedness was added a high proportion of private indebtedness. Over 80% of the total debt became public or public by guaranteed.
46. All known non-inflationary avenues for governments to mobilize needed resources in national currency required for net transfer abroad, have been covered in the recent past within the region. External indebtedness was transmuted to domestic; the role of public assets, has been used more slowly and controversially and also governments have attempted to reduce their net financing needs. This has

frequently been difficult. On the income side major real reductions were confirmed as was acuteness in the regressive nature of the tax burden. Likewise, in various countries prices and public rates were used as a means for curbing inflation or reducing export costs, with deficits being generated in public enterprises and a drop in reinvestment capacity.

47. Current expenditure contracted primarily at the level of remunerations and least employment. Nevertheless, the greater portion of expenditure reduction was concentrated in investment and especially in maintenance of infrastructure. Information available to a group which includes the greater countries from the region, indicates that during the first years of the decade, public expenditure declined by 18.3% in real terms. Once non-inflationary avenues were exhausted various governments resorted to issue money as a last alternative to closing their budget gap. Inflation dynamics accentuated at unprecedented levels in the region; speculative movement of private monetary balances was induced towards financial assets; and the room for controlling monetary mass and maintaining overall financing of the economy was reduced.

E.2 THE EIGHTIES: LESS ATTENTION PAID TO THE FUTURE

48. Without a doubt, the region made bold efforts to contain budgetary imbalance; various of its troubles came about as a result of the perverse relation between public accounts and the external sector; among these, the volatility of expectations due to external and domestic uncertainty; the intertwining of different spheres of financing; and the incongruencies in temporal horizons for handling public imbalance. The latter refers especially to the difference in rhythm between external negotiation - which determines

the amount of resources to be transferred abroad - and the measures for controlling the public deficit. The three groups of factors indicated ended up producing in some cases, a contradiction in the history of budgets: this instrument which was designed to be produced "ex ante" the fact, sometimes ended up being determined "ex-post".

49. During the eighties, handling the link between external restriction and the fiscal situation depleted the better part of public energy regional reserves. The State was weakened in its two roles: as an administrative apparatus and as political representative of the nation. Aggregate investment (public and private) as a percentage of gross domestic product was reduced from a yearly average of 24.3% during the period 1973-1980 to less than 17% in 1985. To this contributed the decline in public investment, the permanent variable of adjustment to reduce programmable government spending and to draw it closer to availability of domestic financing. Private investment, for its part, also declined. Domestic financial markets were dominated by a short term rationality, with scarce availability of medium and long term financing. The drop in investment was also accompanied by deterioration in its quality.
50. Gross domestic investment experienced sustained decline between 1980 and 1985 at an average yearly rate of 8.5%. Its variation by country allows one to arrive at the following conclusions: out of twenty countries considered, in only four was the variation positive; in these cases, the increase was between 0.1% and 0.8%, while the negative rates were between minus 0.7% and minus 16.3%. As a result, per capita gross domestic product in the region dropped by minus 6.6% between 1981 and 1988. Once again the average hides a very broad spectrum of variation. In only one instance did per capita product grow by over 10% and in four

other cases between 1% and 4.3%. In all the rest the reduction varied from minus 2.8% to minus 38.6%.

51. A detailed analysis of the problems of public management of the region is beyond the scope of this document. In any case, administrative inefficiency has dimensions of "stock" as well as flow. To correct it in one or other sense is one of the most delicate tasks for reducing costs and controlling imbalances in main public accounts. Although there are major exceptions, the public administrative apparatus today lacks the training necessary for supporting development policies based on new strategies for external reinsertion. The eighties would only be a "lost decade" if this expression were to refer to the comparison of current economic indicators in the region with those of the latter part of the seventies. The loss is greater from two other points of view: the growing relative lag with respect to the industrialized world and, on the other hand, the deterioration of human resources (nutrition, health, education), whose negative effects will affect the region's development opportunities beyond the next decade.

Part F

TRENDS IN PLANNING, REINSERTION AND DEVELOPMENT

52. During the nineties, two topics will gain importance in the theoretical and technical agenda of those responsible for planning, be they in or outside the State: the control of highly dynamic and little determined processes and, in connection with this, the pluriannual management of complex organizations. Information gathered on National Planning Agencies for Latin America and the Caribbean, shows that a number of them have only prepared themselves in a limited way during the seventies for exercising an active role in conceiving, implementing and following-up the short term policies which dominated public decision-making during the eighties. It is probable that those which do not rethink their objectives, internal doctrines, methods and work procedures, will not be prepared either to carry out the new functions in the coming decade which the states of this region will demand.
53. Necessary changes do not imply abandoning the traditional functions which - to a greater or lesser extent NPA's currently perform. Budget and investment programming, public project banks and physical-financial follow-up methodologies, regional and local planning and coordination of social policies, are some of the functions whose continuity will also require highly efficient performance. Use of analogy is valid for functions of conjunctural analysis and preparation of forecasting models which various NPA's carry out, sometimes almost exclusively, within each government. ILPES has already focused on these functions in numerous reports, for which reason they will not be dealt with here. For the purposes of this document, it is useful

to identify two areas of new activity related to external reinsertion policies: one, more or less directly supportive of them; the other, of development of certain tasks which are parallel and complementary, for supporting government in those areas of economic and social development which do not benefit directly from the effort of dynamic external reinsertion.

54. Of course it is fitting to bear in mind certain peculiarities of the region mentioned before. Here reference is made to the region in the singular, but with a warning as to its heterogeneity, both among countries as within them. Likewise, one talks about NPA's, but it is also recognized that as a whole they are not homogenous; as a result, suggestions should be viewed in a relative light, from country to country. Finally, mention is made of NPA support for "dynamic reinsertion policies"; however, it is clear that the range of possibilities - also in this area - varies throughout the region. To mention said policies as a central theme does not mean an automatic alignment with the thesis of modernization "at all costs". One thing is certain: productive segments which desire to conquer and maintain dynamic ground in future world economy will have to selectively incorporate the new technological standard, whether at the production stage itself, or that of organization or trade. On the other hand, modernization of one or other productive branch aimed at the domestic market, will imply incorporation of technological innovation which will certainly be affected by the mode of external insertion of each country. Likewise, there will be modernization impulses - more cultural in nature, but which affect the formation of expectations and social needs or the profile of aggregate demand - which do not depend on how the national will of insertion is posed; internationalized

communications diffuse them over and beyond economic or political map boundaries.

F.1 NPA SUPPORT FOR EXTERNAL REINSERTION POLICIES

55. Once the risks of over-generalization have been perceived, the tasks which NPA's may assume with regard to deliberate external reinsertion policies are oriented in at least five directions.

a) Support for the formation of intellectual capital. The field here is broad and open. It necessarily includes support for the preparation of scientists and researchers in connection with Ministries or Secretaries of Education and other entities dedicated to Sc&T. It may also require programmes for retraining the industrial labour force in connection, in this case, with Ministries or Secretaries of Labour and corporative and labour organizations. It implies always protecting Sc&T and R&D expenditure - in the allocation of public resources - as "strategic preinvestment" and not as an "easily cut current expenditure".

b) Insistence on long term strategic scenarios. The recovery of private investment will be hindered if, at the level of each national society there is a lack of projects with the capacity to orient medium and long term development. The design of alternative scenarios cannot be reduced - as in the past - to the functional framework of the NPA; nevertheless, due to its multidisciplinary tradition and its proximity to real phenomena of development, their intervention will be fundamental in the teams which will be exploring future scenarios. Even if real interest rates were to be reduced in the near future, monetary balances available in the region would unlikely be

oriented to strategic investment unless each country had previously laid out its own gamut of possible development.

c) Stabilization of economic policy and control of basic balances. Indefinition in investment decisions - particularly those which point to the external world - will underlie every situation in which major domestic imbalances increase (inflation, acute deterioration of real wages, fiscal imbalance, depletion of reserves, open unemployment, among others). Various NPAs of the region may play a leading role, especially in those imbalances in which monetary and price elements are combined with real variables.

d) Follow-up of technological trends. NPAs can assume some responsibility in interpreting technological development trends at the international scale, in a multidisciplinary exercise which would articulate government sectors dedicated specifically to the topic with other governmental and non-governmental ones. Their task, in this case, should have an impact on allocation decisions of long term financing (be it with domestic resources or not), in order to minimize the risk of supporting - with concessionary credits - projects which are destined to undergo rapid technological or market improvement.

e) Direct diplomacy. Greater development of direct diplomacy is observed in the region, frequently at the presidential level - at a par with dialogue in specific forums. This new trend - which deepened during the eighties - demands advisory services at a more agile, more objective and as far as possible, more integrated level of government; i.e., which would not be limited to monetary aspects or to short term variables. Also in this sense there exists a

void which the NPAs are in a position to fill, in close collaboration with Ministries of External Affairs.

F.2 OTHER FUNCTIONS RELATED TO EXTERNAL REINSERTION POLICIES

56. One of the few certainties which this document has emphasized is that external reinsertion policies will not be sufficient to resolve the main economic, social, political and cultural problems accumulated in previous stages of the region's development. Globalized world economy makes all proposals for national self-sufficiency unfeasible; nevertheless, in extremely rare cases the dynamic achieved through sustained external reinsertion will be enough to correct accumulated deficits of employment, equity, organization and social participation and of safeguarding the region's cultural heritage. In this order of ideas, certain complementary functions could be assumed by the NPAs to help governments offset the unfavourable effects of insertion modes chosen or to effect activities oriented to the socio-economic integration of each country.

a) Search for productive articulation and complementarity.
NPAs are an adequate locus for articulating productive projects or those of physical and social infrastructure - be they public or private - both to expedite activities geared to the external market as well as to integrate them domestically. An even more far-reaching effect of this task would be the identification of concrete complementary opportunities to arrive at suitable agreements for intraregional integration, both in productive and infrastructural projects as well as in the energy field and in scientific and technological exchange.

b) Follow-up of the impacts of external reinserction. On the other hand, it is known that in situations characterized by concentrated income distribution, by high weighting of the informal sector and by scant mobility of production factors - all typical of this region - the signals arising out of the market may indicate "comparative advantages" which - although offering dynamic ties with world economy - may imply undesirable social costs or benefits. Other government bodies tend to be prepared to verify their effects on macrofinancial aggregates or in the domestic ambit of their own area of action; under these circumstances, NPAs may perform a more global function, which, at the same time, may be complementary and timely.

c) Decentralization of governmental activity. This topic is obviously broad, and ILPES has produced numerous specific works on it. The purpose here is to remember that the informal sector - already a majority in certain urban agglomerations of the region - will receive only partial and indirect treatment by active external reinserction policies. For this reason, "complementary action" become essential: to design and promote economic and social policies specifically oriented to this sector. Because of the tradition of the majority of NPAs in policy coordination and because of their relationship with local administrations - the closest ones to the problem and to its possible solutions - their task may be vital in this respect.

d) Optimization of installed technological capacity. It has been stated - hopefully in a convincing manner - that the world is tending towards greater diversification; which fact is also manifested in the region, both among countries and within them. The lack of internal uniformity weakens even the conventional classification of "developing countries": there coexist in their interior relatively

advanced areas, some in open expansion or emergence, several declining and others more or less stagnant. The penetration of new technological and productive standards will not be massively widespread in the various countries nor within them in their various regions. The spectrum of technological heterogeneity is broadened, but coexistence of a most diverse technological mixture is maintained. Some of the technology which is already mastered by the region becomes openly obsolete to the effects of dynamic external reinvestment; nevertheless, this does not mean that it depreciates completely as a productive resource. There is room for full advantage to be taken of installed capacity in the region, although the majority of it is removed from the spearhead of technology. It would be dubious to use them as a dynamic focus for more ambitious development projects; nevertheless, they may play an important role in generating employment and in producing goods and services. These would not only be destined for the domestic market; in the rest of the world there will also be other countries whose patterns of consumption, preference standards and income levels do not allow them to accede to "new" goods and services; for this reason, they are potential markets for production through less advanced technology. Development policies geared to these productive sectors may combine economic and social effects which are openly positive; therefore, they should simultaneously accompany deliberate efforts at dynamic external reinvestment. In this respect NPAs can perform another role which is doubly significant from the economic and social viewpoint.

e) Follow-up and orientation of anti-cyclical actions. On the other hand it is known that both external financing and internal movement of capital exhibit in general pro-cyclical behaviour: they cut down on investments in the periods of low economic activity and, at times, they are reactivated in

times of prosperity. An ideal vigilance with anticipatory power of the more serious cycles of the conjuncture, may contribute to determine public policy design. Much of the trial and error observed in the successive production of political and economic packages was due to insufficient prior knowledge of their possible impacts. NPAs have amassed some experience in the observation of real phenomena, in the follow-up of concrete projects and in conjunctural analysis. Thus, they can interact with other government sectors (basically Finance and the Central Bank) to help in adequately gauging the array of instruments which, at each instance, are decided on for application in an attempt to regain macroeconomic and macrofinancial balance. An adequate programming of packages would allow for stabilizing objectives to be more effective and would help to restore credibility to government actions, definitely one of the frequent victims of the crisis of the eighties.

F.3 PLANNING AND THE CAPACITY TO GOVERN

57 It is worth insisting that planning in the near future will have little to do with planning concepts, methods, techniques and procedures practiced in the past. The complexity of current society weakens rigid plans right from the start; the acceleration of development invalidates them a few months prior to their eventual implementation, and growing uncertainty pulverizes good intentions as to regulation of the future. All this is especially significant for the purposes of generating deliberate external reinsertion policies. It has already been mentioned that these may only be concentrated over the medium and long terms, over and above episodic successes, subject to high vulnerability situations. Coordinated long term policies imply a technical effort whose improved

designation continues to be planning; but in this case the planning of policies destined to produce effects in an external world characterized by a polarized power structure and by the existence of multiple applications of regulations. The international market is no longer regulated multilaterally but neither is it nor will it be an unregulated economic domain. The blocs of countries and bilateral agreements between the most industrialized countries signify in practice, the production of "partial regulation" agreements.

58. International regulations with greater multilateral content only reflect in a limited way the power of the region's decision making; the others, of bilateral origin, are practically exogenous in regional production of public policies. New planning of external reinsertion policies should rely on similar attributes to those of a great modern enterprise: flexibility, efficiency, production on a small scale, user-oriented, control of quality and results and above all strategic in approach.
59. Given the acceleration of change and the growing complexity of societies of the region, the capacity to govern, considered over the medium and long term, has two fundamental aspects, one structural and the other dynamic. The structural aspect resides in the consolidation of institutionalized negotiation mechanisms and in normative strength among the main actors which have to include in key aspects of development: State, public enterprises, private entrepreneurs, scientific communities, political parties, labour unions, professional associations and informal groups. The aim is to establish negotiation mechanisms as a function of new, very concrete objectives: greater productivity, selective and dynamic specialization, timely and competitive external insertion, redistribution

mechanisms which are less assistance oriented and which foster greater participation in less modern sectors, technical training in strategic areas, greater resources for research and technological development, selective subsidy policies, etc. These mechanisms of negotiation should have the sufficient legitimacy to inspire a high degree of respectability and inviolability, which would allow them to become stabilized and truly operative.

60. The dynamic aspect, for its part, is based on the juggling of trade-offs between economic, social and political costs of medium term decisions. It involves "knowing", that is half rational and half intuitive, which would allow a weighing of costs from both sides. This is a dynamic aspect of the capacity to govern because the acceleration of change and the complexity of modern society, force continuous "reaccommodation moves" of the intertemporal gap (between the short and medium terms) and where each move often implies a reordering of the gameboard, which requires the capacity for rearticulating tactics and strategies on the move.
61. The structural and dynamic aspects of the capacity to govern are complementary in this approach. Only when one relies on a solid structure of negotiation mechanics, can trade-off dynamics be synergistic and not entropic. In the order of ideas presented here, planning is not the antonym of market and it is nourished by "greater attention paid to the future". ILPES has also produced many reports on this matter, various of which have already been formally discussed in this very multilateral forum, for which reason they will not be dwelt on. It will be enough to reiterate that national planning in the next decade will increasingly coincide with the task of acting deliberately in multiorganizational social processes, in shared power

situations and with little-known horizons of change. Technically there will be an approaching to corporate strategic planning already practiced in the most dynamic nuclei of the contemporary world.

62. Insofar as substance is concerned, it is proximal to a new role of advisory services for the statesman of the future who will definitely have to be aware that to govern will mean managing complex systems with intertemporal coherence and that to orient a country's development will mean taking selective advantage of opportunities which open up within a process of accelerated and highly creative world change. To take advantage implies confiding in the opportunities which are chosen and likewise in knowing the opportunities which are discarded.