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ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
 Subregional Headquarters for the Caribbean

CARIBBEAN DEVELOPMENT AND CO-OPERATION COMMITTEE

Meeting on Caribbean Development Issues and Policies  
 Port-of-Spain, Trinidad and Tobago  
 14 November 1986



NOTE BY ECLAC ON INPUTS TO  
 THE EXTRAORDINARY CONFERENCE ON ECONOMIC DEVELOPMENT  
Mexico City, January 1987



**UNITED NATIONS**

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
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ANNEX A

1. The President of the United States of Mexico, Dr. Miguel de la Madrid, in his inaugural speech at the opening of the XXI ECLAC session, proposed the convening of "an extraordinary meeting to promote the orderly analysis of ... four themes ..." The four themes mentioned are: the outlines for economic stabilization, a modality for global solution to the Latin American debt problem and the conformation of a new international financial system, the balancing of the production processes, and intraregional co-operation. In more general terms, he requested "an uptodate conceptual framework related to the problems of the region".
2. This proposal was accepted by the majority of the delegations attending the XXI session, although clarification on its possible reach and expected results was not achieved at this session.
3. What was clear in the origins mentioned and what was in the air during the last days of the XXI session was that the Conference discussed the same item which was the object of the seminar of April-May last: Crisis and development - how to overcome the crisis and how to achieve development. Of if desired, how to achieve a "soft landing" by the economies - or their majorities ... and how to reactivate them. It deals with preoccupations partially worked out and from different angles by the ECLAC Secretariat in the past three years, and which deal with the four themes identified by President de la Madrid in his opening statement.
4. ECLAC has insisted in the past that it is not offering examples, but looking to provoke and enrich the debate around some options which would facilitate the "soft landing" and the reactivation. This forces us to go into subjects dealing with internal economic policies (adjustment, stabilization, restoration of the capacity of production machineries) as well as into the ambit of intraregional co-operation (functional to the above-mentioned re-balancing); restoration of capacity and international co-operation (debt; refinancing; trade); it is correctly about the subjects mentioned or implied by the Mexican President in his statement and taken up again in the resolution on medium and long-term development. In brief, ECLAC would take to the Conference an opinion of the Secretariat on the salient points of the present development problem in Latin America and the Caribbean and some orientation on how to deal with it.

5. A second question consists of clarifying if what the Conference pursues is to provoke a better understanding between developed and developing countries on the items that will form part of the agenda, which would imply emphasizing north-south relations in the theme, and would designate a forum, with pre-negotiating characteristics, or if simply desired to reaffirm a Latin American position with regard to the present development problematic related to its economic development (based on the Secretariat's note, of course). Both ways to approach the meeting are not necessarily exclusive. If we succeed in having the governments of the region issue an opinion on the manner in which they perceive the options to resume development, based on orientations on some of the subjects mentioned before, there could emerge a fruitful dialogue which might contribute to a greater understanding between positions. This would mean that our document should carry a conceptual part as well as a pro-positive one, addressing the governments as well as the international community.

6. We are not in a position to carry out major new research, but to enrich and purify the ones we already have. In principle, it would be convenient to think along one note, relatively brief, which would recapture the theme tentatively presented in the Appendix. This outline, logically, would have to be enriched and modified according to internal discussions carried out around this subject, and only presented as an example. It is important to clarify from the beginning the content, reach and purpose of that note, as a guideline to all the contributions to be elaborated at the Secretariat with that purpose.

Preliminary Draft Outline of the Secretariat's Note  
to the ECLAC Extraordinary Conference  
Mexico - January 1987

1. Introduction

In this part of the document we would explain the scope of the Note. It is an opinion of the Secretariat on the nature of the dilemma faced today by the majority of countries in the region to regain the capacity to grow and stimulate their development and the variety of options they possess to overcome the crisis and reactivate their economies. The document begins with a characterization of the problems affecting, to different degrees, all the countries of the region, and from this characterization, examines the conceptual frame in which activities for reactivation could be formulated. In short, paradigms are not offered because the diversity of the situations presented in the region would not allow it. Rather, it should appeal to the pluralism in the answers to the crisis, in the frame of an object of mutual interest for the region to regain autonomy in the formulation and instrumentalization of economic policies.

2. The dilemma of the middle 80s

In this document we do not intend the elaboration of a conventional "diagnosis" because the Secretariat's point of view on the origins and consequences of the crisis is well known. Rather, what we aim is to characterize the problem which gave origin to this document - if so desired, an x-ray of the great restrictions of economic development faced by the countries - as reference for the following chapters. Among these, the following should be emphasized in a few paragraphs:

(a) The tiredness and even desperation that is beginning to prevail in some countries after many years of recession or stagnancy, together with unresolved disequilibria, although it may look as if this general feeling is accompanied by a fall in the level of expectations, which could facilitate the implementation of "realistic" policies and objectives;

(b) The unfavourable international situation above all, in the areas related to contraction in the levels of available external financing;

(c) The overwhelming weight of the external debt, which added to the aforementioned phenomenon, has contributed to a negative transfer of resources in the case of many countries of the region;

(d) The marked deterioration in savings and especially in investments;

(e) The obsolescence and lack of balance of at least part of the productive activity in the region, after five years of functioning in abnormal conditions of demand, with the lack of currency to finance imported inputs and with financial dislocations of different kinds;

(f) The deterioration in the level of economic interdependence among Latin American countries, reached during the previous years; and

(g) The amassing of accumulated balance in regard to economic and social welfare.

In short, it would be difficult to accept the thesis that the prolonged recession which the countries of Latin America and the Caribbean are going through is of a cyclical nature and that this recession will be followed by a quasi-automatic recovery phase. Rather, the countries of the region are facing today a series of obstacles and changes of structural nature in their development that need new answers.

It should be recognized that in the present situation there are also positive signs, among which are highlighted the recent democratic opening in some countries and the creative capacity which some of the governments have shown in facing the crisis with original responses.

### 3. Economic development: A re-examination

On the problem briefly described in the previous chapter, up to now there is only a guiding proposal: the neo-liberal one, which, as a rule, does not allow that the development of "backward" economies should be qualitatively different from the development of "advanced" economies. According to this proposal, the way to overcome the crisis is clear and well-known. It would be necessary to rely more on the creativity of the economy's private agents, on the wisdom of the market mechanism for an

optimum allocation of resources and on an adequate mix in economic policies to create the necessary environment for recovery. For those who postulate this conceptual frame, the debt problem would also tend to disappear, once exports are reactivated and the mobilization of external financing (direct investment and new loans, on the re-establishment of the country's "credit-worthiness") is revived.

In this Note we could argue that at least there are doubts over universal recipes of this type and we could develop this point of view. Although we are in no condition to offer alternative proposals - neither is it advisable at a time when we are appealing for a greater pluralization of focus in a region as heterogeneous as Latin America and the Caribbean - on aligning ourselves along a more pragmatic - and autonomous - view on economic development; we could make a precise contribution through the examination of specific and relevant themes which, as a group, would offer some orientation.

It is not a blind rejection of all the ingredients of the "new orthodoxy". It is difficult to disagree, for example, with the need to gain efficiency, or stimulate the export sector; also and independent from the "menu" of economic policies selected from one country to another, the main economic prices cannot be separated altogether from opportunity costs at the international level. However, a more selected and differentiated focus should be advocated, bearing in mind the heterogeneity of situations prevailing in the region and the need to find autochthonous answers to very particular situations. Characterizing and emphasizing this point of view would be the main piece of this chapter. It will be around the frame of this point of view - a type of neo-structuralism, so to speak - that themes contained in the rest of the chapter would be examined.

Finally, brief reflections on the role of the different agents in the economic process would also be included in this chapter. From the subsequent chapters would emanate a very explicit role for the State, independent from the role played by the market mechanism as the source for allocating resources. In this respect, the document would have a balanced vision of the expected role of the different economic agents in the development process.

4. Restrictions and potentials of the external sector

Aside from the debate which tries to distribute quotas of responsibility for the application of "faulty" internal economic policies in the face of adverse effects emanating from the international economy, there is no doubt that the principal cause of the recession during these last years has been and will continue to be the acute currency restrictions, or put in a different way, the low capacity to import. This external strangulation will persist in the foreseeable future even with optimistic hypotheses, given the weight of servicing the external debt and the high probability that the availability of new external financing would be lower than historical levels, at least for the remainder of the decade. So the value of exports could grow at historical rates but anyway, this would mean that the capacity to import would continue to be stagnant. Worse yet, it is not clear that there exists the conditions for the export sector to grow at rates comparable - or superior to those historically obtaining. In summing up, what should be questioned is the thesis that the recovery of the countries of the centre would be sufficient to carry the region's economies in a single dynamic continuum. This forces us to reflect on:

(a) How to function within the framework of international opportunities now more restricted than previously;

(b) How to expand those opportunities and lessen the adverse effects emanating from the international economies; or,

(c) A combination of both points of view, which would be the ideal strategy in contra-distinction to the passive acceptance of what the international economy could offer to Latin America and the Caribbean.

Such reflections could be grouped within three more concrete themes:

(a) The existing external debt, in which the obvious should be reiterated: the great obstacle posed to the countries of the region by the servicing of the present debt, both with regard to the capacity to import as well as the capacity to save. In the section on proposals, the alternatives which are being considered to alleviate that burden should be enumerated.

(b) External financing. Several works have shown that it is very difficult for the countries of the region to maintain the levels of growth necessary to create productive jobs for the emerging economically active population, without having available a quantity of additional external resources. This subject is obviously linked with the possibility to obtain relief in servicing the existing external debt, and is also linked with the possibility of lessening the currency restrictions in the short-term and of financing investment in the medium and long-term;

(c) Trade. How reliable are the proposals that the recovery of the economies of the OECD countries will rebound in an increase in Latin American exports? The elasticities of export (quantum, and especially, unit value) in comparison to products from those economies were rather low during the period 1983-1984 for the majority of Latin American and Caribbean countries and for the majority of basic products exported by the region. At the same time, as is known, there is a resurgence of protectionist pressures in the developed countries, and it is foreseen that those tensions will increase if all the Latin American countries try to follow the neoclassic recipe in the face of a limited demand. Then, the obvious should be pointed out: the reactivation of the region's economies needs access to external markets and the better insertion of Latin America and the Caribbean into the international trade currents is as much consequence of internal efforts in each country as of edicts at the world level.

5. The period of transition: policies for stabilization

The majority of the countries are still deliberating between an incomplete process; to correct imbalances - internal and external - and a halting or sporadic growth. Only with difficulty could reactivation be achieved without solving the imbalances emanating from important differences between demand and supply, a fact which forces the formulation of some efforts by the Secretariat on how to approach adjustment and stabilization. On examining recent experiences in the region (e.g. Argentina, Brasil, Bolivia, Costa Rica, Jamaica, Mexico and Peru) we arrive at a conclusion which could be summed up in one line: expansive or efficient adjustment is only feasible in those situations where a quantity of external resources



exist to facilitate the application of the adjustment in a gradual and selective manner. This has clear implications for economic policy in the internal situation as well as in that of international co-operation. With regard to stabilization policies, the works of the Secretariat place much emphasis on expectations as explanatory ingredients of the inflationary processes, and from there, on measures that draw upon expectations as a means of designing stabilization programmes. We could develop the work already done, based on the evaluation of recent experiences in Argentina, Bolivia, Brasil, Peru, Mexico and in the frame of exploring "heterodox options".

6. Restoration of productive activities

The key to the reactivation of the economies lies in giving a new impulse to supply. It is interesting to take advantage of the existing installed capacity, to achieve a greater linkage between primary and secondary activities, and to defend efficiency, not only for gaining access in more competitive conditions to the international markets, but for substituting imports, also in conditions of reasonable competition. What guidelines can the Secretariat offer the governments of the region to take better advantage, and more efficiently, of our productive capacity, and what guidelines can we offer regarding dynamic activities in the future? This part has an intimate relation with the environment of economic policies at the macro-economic level, but it also requires some reflections on concrete actions which could be unfolded at a level of sub- (branches of) activities. It would only be necessary to develop a more detailed work scheme to distill what the Secretariat has to say in matters of agriculture, industry, services and application of technologies. At the same time in this and in the eight following chapters, some work should be formulated on the need to develop labour-intensive activities. In summing up, when we refer to the need to restore the region's productive capacity, what do we have in mind?

7. Reinstating the capacity to finance development

In any case, it would be difficult to restore the capacity of productive activity if the investment coefficients are not raised, which at

the same time is inhibited due to the negative transferral of resources abroad which was the object of examination in 4 (a) and (b) above, and in general; due to the growing transnationalization of the systems of attracting savings and financing of investments. Besides stating the nature of the problem, the Secretariat could, in this chapter, prepare some studies on the need to gear the national financial systems to the new circumstances (the emergence of a theme susceptible to intraregional co-operation is possible here); to begin to adopt positions on the flight of capital and the possibility of encouraging its repatriation, and the re-examination, in the new context, of the possible role of foreign investment as a source for currency and savings. On the other hand, it is impossible to approach this theme without referring to public finances. It would be necessary to discuss in a brief chapter, the way to incorporate so many themes so that they would be coherent.

8. Intraregional co-operation: an essential instrument for reactivation

There is a wide knowledge, at least at rhetoric level, that today more than ever, intraregional co-operation constitutes a useful instrument to lessen or overcome some of the region's obstacles for development. There are also enough ideas on the table on how to give that co-operation a new impulse, at least in the area of reciprocal trade. However, the gap between rhetoric and implementation is growing greater and greater: as a fact, the degree of economic interdependence at the level of subregional integrational processes has deteriorated remarkably in the past four years. It would be our duty to identify the reason for this paradoxical situation, and to propose measures which place intraregional co-operation at the service of essential requirements for reactivation: taking better advantage of the installed capacity, improving efficiency, raising the levels of saving, etc. On the other hand, it should be reiterated and stressed that integration is not incompatible with the better insertion of the countries in the international market, but rather the opposite is true.

It is advisable from any point of view to reaffirm, emphatically, the same idea of intraregional co-operation as one of the few ways which the countries of the region have to expand, somewhat, their margin of performance vis-à-vis the world economy.

That general idea could be substantiated with some guidelines and concrete proposals.

9. The concern for equity

Concern for the welfare of the masses should be present throughout in the Note. Altogether, it should be convenient to examine, in the context of the conceptual frame which forms part of the document, the entire problem related to the preoccupation to achieve a more equitable distribution of the fruits of development. The background of this theme lies in the fact that if we did not advance sufficiently in mitigating poverty during thirty years of relatively dynamic and sustained growth, it will be so much more difficult after the damage caused by five years of recession and rates of growth visibly lower than in the past. Even if we have to recognize that we cannot mandate the simultaneous acquisition of universal development objectives to grow, to distribute, to gain autonomy, to democratize, there is no reason to ignore those objectives. In that sense, maybe the most promising focus would lie in the incorporation of this variable to the theme of restoration of supply, paying attention to those labour-intensive activities, including rural agriculture (in the widest sense of the word) as the essential ingredient in the restoration of productive activity, as well as in the structural reforms needed for a better distribution of wealth.

10. Recapping and conclusions

In this chapter, a synthesis of the "basic ideas" gathered in this document should be made.