

CEPAL

Review

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President Salinas de Gortari has instructed me to confirm to you in the clearest possible terms that Mexico remains true to its historic commitment to the development of the Latin American region. Today, as in the past, we are deeply interested in further increasing our links with the whole of Latin America and the Caribbean. In this respect, we believe that in order best to respond to the changes in the international environment it is necessary to speed up our efforts at Latin American integration. The evolution of the world economy makes it extremely desirable to eliminate tariff and non-tariff barriers between our countries, to simplify the machinery for granting trade preferences, and to supplement them with an

agreement limiting the rates of protection of the Latin American economies. At the same time, it is desirable to facilitate transport and communications between the nations of our area and seek a gradual but determined opening-up of the region to the rest of the world so that we can promote our exportable supply.

On behalf of the Mexican government I wish to express my heartfelt desire that this twenty-third session of ECLAC may mark another fruitful stage in the promotion of Latin American cohesion, inspired as always by the goal of the future development of our nations and by the undying ideals of Sucre and San Martín, Morelos and Bolívar.

Angel Viñas

Director of Latin American Relations of the Commission of the European Communities

European co-operation can and must help the development of the region

For the European Commission, which is the executive organ of the European Community and is an observer of ECLAC's activities, it is a great satisfaction to be participating in the work of this twenty-third session.

ECLAC has been one of the boldest repositories of Latin American economic thinking, as the Foreign Minister of Venezuela reminded us yesterday.

Yesterday, too, the European Commission solemnly celebrated the fortieth anniversary of the declaration by Robert Schumann which opened the way for the establishment of the European Iron and Steel Community and, ultimately, set afoot the process which has resulted in the European Community of the present time.

Both Latin America and the Community are currently living in a time of challenges.

The report presented by the Executive Secretary of ECLAC at this session, entitled

Changing production patterns with social equity, identifies and classifies the challenges facing Latin America and proceeds to analyse them in detail.

The Community, for its part, has already begun to tackle the issues of the post-1992 era: in December of the present year, the Intergovernmental Conference on Economic and Monetary Union will begin its work, and it is likely that at a forthcoming meeting of the Council of Europe it will be decided to organize another conference, on political union. At all events, the developments in Eastern Europe and the imminent reunification of Germany have given rise to broad consensus in the Community on the need to speed up measures to achieve still greater cohesion, narrow the gap between economic integration and political co-operation, stimulate the overall growth of the Community and redefine the relative roles of its institutions so as to secure still greater and more manifest democracy.

This Community of the future, whose features are already beginning to take shape, is being courted at the international level, and some European countries have already asked to join it. The Community has assumed new responsibilities for helping to guide change in Eastern Europe. The exercise of liberalization, deregulation and greater openness which characterizes the internal market of the 1990s is accompanied by parallel activities aimed at strengthening the multilateral trade system and improving the international economic environment. Mr. Chairman:

How will the challenges facing Latin America fit in with this climate of change now prevailing in the European Community?

In the last few months, at least three notable documents have analysed in depth the challenges facing your region:

- The report prepared by a seminar of the Inter-American Development Bank in October 1989;
- The report of the meeting organized by the Institute for International Economics in November 1989;
- The ECLAC report which is before this session of the Commission.

All these reports have touched upon the problems facing Latin American development, placing them within the broad framework of the evolution of the international economy. Moreover, all of them (and especially the latter two) have referred to the notable change of attitudes and perceptions of Latin American policy-makers during the 1980s: the lost decade, as it has come to be called, or—in the words of ECLAC—the period in which there was a painful process of learning the national and international economic realities, already experienced by other recently industrialized countries, including my own.

Page 81 of the ECLAC document puts the matter very clearly: "Criticism of the substitutive industrialization process of Latin America takes two very different forms: one school of thought sees the slowness of economic growth as being the result of problems related to external factors (chiefly the trends in international trade and the external debt), while the other regards this lack of vitality as being the consequence of an inefficient structure developed during a wave of overprotectionism".

It is not surprising to find these two opposing viewpoints reflected at this twenty-third session.

On behalf of the European Commission I would like first of all to congratulate Gert Rosenthal and his team on having prepared a lengthy report which analyses the situation and makes proposals without lapsing into the Manichaeian simplifications so frequently found in polarized views.

At no time does this ECLAC document overlook the fundamental role which the external environment plays in the performance of the Latin American economies, but neither does it overlook the fact that the external conditions mingle with and strengthen others of domestic origin. This is why ECLAC places marked emphasis on the need to make internal efforts too, in order to reverse the effects of the crisis of the 1980s.

We have no desire whatever to fall into the temptation to shift specific responsibilities to the exterior, and in this connection I suggest a detailed perusal of page 61 *et seq.* and page 81 *et seq.*

As John Williamson noted in the summary of the November 1989 conference which I already mentioned, the great task facing Latin America in the 1990s will be to complete the transition from the State-oriented populism of the past to the new realism which has begun to make its way ahead in the region in the 1980s. In this respect, ECLAC is quite right to stress that now, on the threshold of the 1990s, there can be no question of slavishly reproducing the prevailing orthodox approaches of the 1950s and 1960s or those of the 1980s (see page 98 *et seq.*).

Among the many key issues, the ECLAC report raises one which is of importance to the European Commission in its capacity as the executive organ of the Community. Thus, ECLAC says: "The absence of even a single case in the region in which economic growth has been combined with social equity raises the question as to whether this state of affairs might not be consubstantial with recent industrialization and whether the exacerbation of the situation during the crisis of the 1980s might not be attributable to the international context".

ECLAC itself hastens to note, however (page 61) that there are other countries of relatively

recent industrialization (Spain, Portugal, Yugoslavia, Hungary, Korea, the People's Republic of China and Thailand) where the results have been different.

Inasmuch as the basic relations between the European Community as such and Latin America operate on the two vital planes of international trade and co-operation, it might be interesting to make a brief disquisition in these two fields.

Clearly, Latin America has lost some of its previous share in the international market and in that of the European Community. There is no disagreement about this diagnosis. There are disagreements, however, about the reasons behind it.

In 1970, Latin America's share in world exports was 5.6% if oil is included and 4.7% if it is excluded. By 1986, however, the figures had gone down to 4.2% and 3.6% respectively, according to the UNCTAD Trade Yearbook.

The composition of Latin America's exports is dominated by the food sector, although the importance of this has gone down somewhat. In the 1970s, minerals were the region's second most important export commodity. In spite of its diversification, Latin America's export model continues to be heavily dominated by basic commodities, which makes it extremely vulnerable to price fluctuations. In particular, Latin America has not managed to latch on to the dynamic growth pattern enjoyed by exports of manufactures. In 1986, only 31.7% of Latin America's sales involved these products, compared with an average of 61% for the developing countries as a whole (UNCTAD figures).

The level of allocation of resources to the Latin American manufacturing sector is high, however, and undoubtedly exceeds that for developing Asia as a whole or its subregions (ASEAN and South and South-East Asia).

If, on the contrary, we look at the proportion of manufacturing production exported, Latin America's figures are abysmally low compared with the newly industrialized countries of Asia or even the ASEAN countries as a whole. As ECLAC points out (page 21) "there is a basic discrepancy between the structure of demand, production and technology of the international economy and the composition of Latin American exports".

As far as the Community market is concerned, the percentage of Latin American exports of manufactures has gone down between 1970 and 1987, since in the first-named year 37.5% of the Community's imports from Latin America consisted of manufactures, whereas by 1987 the figure had gone down to 22%. Over the same period of time, the South and South-East Asian countries increased their exports of manufactures to the Community from 14% to 36%. This disparate performance does not have much to do with Community policy, which is applied in an even-handed manner to both Latin America and Asia.

According to recent studies made by the European Commission, even in sensitive sectors of the Community market the index of penetration of imports from developing Asia is much higher than those from Latin America. Indeed, 40% of Asian exports to the Community are concentrated in sensitive products.

With regard to the myth that the poor performance of Latin American exports to the Community is to be blamed on alleged protectionism, pages 82 and 84 of the ECLAC report are mandatory reading.

The European Commission wishes to emphasize in the most uncompromising manner the critical role played by external economic policy, and especially external trade policy, in development strategies. The policy followed by Latin America in the 1960s and 1970s has given unsatisfactory results, and the structure of Latin American incentives has had a marked anti-export bias.

Not long ago, *UNCTAD Review* published a study showing that the mean nominal tariff and para-tariff levels amounted to 66% in Central America and 51% in South America, while for manufactures the respective figures were 71% and 55%. At that same time, however (1985), the figure for Asia was of the order of 25%.

The effective levels of protection must have been much higher than these figures: indeed, in its report ECLAC says that in certain branches of industry levels of protection amounted to over 1 000%. It is hardly surprising that the effects of these strategies were particularly negative at a time when other countries were actively applying exogenous development strategies in direct competition with the same kind of goods produced by the Latin American economies.

As the great operational objective, Gert Rosenthal's team puts forward a priority which is also the alpha and omega of the recommendations made by the European Commission in our dialogue with Latin American decision-makers: *the need to strengthen the capacity of the Latin American system of production to fit in with the international economy.*

Now, it is obvious that such strengthening cannot be carried out by each country on its own. International co-operation can and must play a decisive role in furthering this task.

This is the second level on which the Community proper can help to facilitate the economic development of Latin America. Naturally, it is already doing so inasmuch as the action of the Community is a factor of growth and stability, strengthens the system of multilateral trade and reduces tariff and para-tariff barriers, and helps to solve problems such as those of the environment and drug abuse which have clear international dimensions.

So far, our work has been carried out in accordance with the guidelines laid down by the Council of Ministers on 22 June 1987 with regard to the strengthening of relations between the Community and Latin America.

Events affecting Latin America since that year can only serve to heighten the importance of those relations, reflected in many requests for co-operation and for aid in strengthening civil and political institutions. This very week, the Commission has just approved a communication to the Council of Ministers and the European Parliament on the main lines of its policy for co-operation with the developing countries of Latin America and Asia.

In doing this, the Commission has followed up the invitations made to it by both the Council and the Parliament after the presentation last year of two reports on the evolution and appraisal of the co-operation policy followed from 1976 to the present. It is the desire of the European Commission that both the Council and the Parliament should make a critical appraisal of this communication in order to formulate a set of operational principles around which Community co-operation can revolve in the 1990s: in other words, a vehicle for the implementation of the various instruments provided for in the Community's budget.

Attentive reading of the noteworthy report on changing production patterns reveals an exciting convergence between the ECLAC proposals and the views of the European Commission. Thus, for example, the report prepared by Gert Rosenthal's team stresses exports and investment as key factors in changing production patterns and identifies as urgent requirements the correction of the weaknesses in the process of incorporation of technical progress and the raising of the levels of training and development of human resources.

The European Commission feels that there are many other recommendations in the ECLAC report which fit in —except for a few points of detail— with our own proposals, such as:

- The need to reduce the ideological elements in the topic of public intervention in the development process;
- The need to link together the agents operating in systems of innovation;
- Strengthening of facilities for the creation of enterprises;
- The reworking of the links between the agricultural, industrial and natural resources sectors;
- Changes in the financial system;
- Promotion of efficiency and decentralization in the public administration;
- Refence of the environment and of natural resources in sustainable development schemes;
- The need for congruence between the form of insertion in the international economy and the freeing of inter-regional trade.

The Commission's document assigns great importance precisely to the new concept of advanced economic co-operation with the economic operators. This is an appropriate moment to quote the extremely interesting appraisal made by ECLAC:

"A process of change in production patterns whose aim is increased competitiveness must necessarily be accompanied by the participation of a growing contingent of entrepreneurs. These are the agents who directly seek new opportunities and turn them into concrete production activities; they develop new goods and incorporate innovations into the production processes. A weak entrepreneurial base, whether its weakness is due to the fact that the number of entrepreneurs is small or because the action of

those entrepreneurs is characterized by an aversion to risk of the kind implicit in innovation or in the establishment of new businesses, constitutes a paramount obstacle to the advance of the process of change. This, however, is the situation which prevails in the region, especially in the spheres of small and medium-sized businesses”.

In the view of the European Commission, the actions to be carried out should therefore have an impact in raising the competitiveness of businesses, improving the economic environment of the beneficiary countries, and securing the transfer of economic, scientific and energy-related know-how.

The Commission is well aware that, even in a situation where the European Community is increasingly being wooed on the international scene, assumption of the responsibilities arising from the changes taking place in the East cannot be effected at the cost of reduced support for the changes taking place in the West.

In both Central and Eastern Europe and in Latin America, the winds of freedom are now blowing, there is ever-keener anxiousness for reforms in production systems and institutions, and there is encouragement for a long-throttled process of modernization.

A more integrated, more modern and more cohesive Latin America which brings to bear its undoubted economic, political and diplomatic weight on the international scene is an indispensable partner for the European Community of the future.

The 1990s will be years of change for both Latin America and the Community.

In the dialectic between chance and necessity, it is no mere chance that, without any kind of prior contacts, ECLAC and the European

Commission have produced during the same period of a few months—the early months of the 1990s—two documents whose philosophy and orientation are strikingly similar.

Let us not speak of mere chance, then. On the contrary, this similar result of profound analytical reflections on the problems and trends of the world economy and of our two regions is due to the demands of necessity. It is the beginning of a solidly based exercise involving calculated wagers on the future.

ECLAC does not speak on behalf of the Latin American governments. The European Commission, for its part, has the right to take initiatives and is responsible for the execution of the Community's decisions. Other institutions will also collaborate in the final definition of these matters.

In this respect, as the representative of the European Commission, I can only hope that the recommendations made by ECLAC will be converted as soon as possible into the political and economic practice of the Latin American governments. Within the Community, the Commission also has a clear awareness of its responsibilities.

When the Uruguay Round is over, when the great single market is a reality, when the Generalized System of Preferences has been brought up to date, and when the scope of the policies of Community responsibility has been expanded, it would be gratifying to think that this twenty-third session and the changes in trade and Community co-operation policies had set afoot a process designed to cover in a mutually satisfactory manner the needs of both Latin America and the Community.

Meanwhile, may I offer my sincerest congratulations to Gert Rosenthal and his team.