

CEPAL

REVIEW



UNITED NATIONS

39

CEPAL

Review

Executive Secretary of ECLAC
Gert Rosenthal

Deputy Executive Secretary
Andrés Bianchi

Director of the Review
Aníbal Pinto

Technical Secretary
Eugenio Lahera



UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

SANTIAGO, CHILE, DECEMBER 1989

The Secretariat of the Economic Commission for Latin America and the Caribbean prepares the *CEPAL Review*. The views expressed in the signed articles, including the contributions of Secretariat staff members, are the personal opinion of the authors and do not necessarily reflect the views of the Organization.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area of its authorities, or concerning the delimitation of its frontiers or boundaries.

LC/G.1583-P

December 1989

Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

UNITED NATIONS PUBLICATION

ISSN 0251-2920

CEPAL

Review

Santiago, Chile

Number 39

CONTENTS

Latin American and Caribbean development in the 1980s and the outlook for the future. <i>Gert Rosenthal.</i>	7
Features and phases of the "Swedish model". <i>Olof Ruin.</i>	19
Comments on the paper by Professor Olof Ruin. <i>Adolfo Gurrieri.</i>	27
Sweden and Latin America: comments on the paper by Professor Olof Ruin. <i>Francisco C. Weffort.</i>	31
The incorporation of women in development policies. <i>Cecilia López M. and Molly Pollack E.</i>	37
An overview of social development in Brazil. <i>Sonia Miriam Draibe.</i>	47
Integration trends in the Brazilian labour market. <i>Cláudio Salm and Luiz C. Eichenberg.</i>	63
The United States government's Caribbean Basin Initiative. <i>Wilfred Whittingham.</i>	73
The technological potential of the primary export sector. <i>Mikio Kuwayama.</i>	93
On Argentine-Brazilian economic integration. <i>Daniel Chudnovsky and Fernando Porta.</i>	115
The centre-periphery system and unequal exchange. <i>Edgardo Floto.</i>	135

Latin American and Caribbean development in the 1980s and the outlook for the future

Gert Rosenthal
ECLAC Executive Secretary

Now that we are at the threshold of a new decade, what can be said about the one that is ending with regard to the development process in Latin America and the Caribbean? So much emphasis has been placed on the depth and duration of the economic crisis of recent years that little new can be added, at least in terms of the description of its origin, scope and consequences. Still, the 10-year time span offers us an extraordinarily rich perspective for taking brief stock and making some observations on future perspectives, taking into account the legacy which this decade leaves us, a decade described by some as "lost" as far as development is concerned.

This is certainly not the happiest of descriptions, since it implies a regression of every order and in all countries. What is certain, as is indicated below, is that this decade also witnessed some advances: partial and precarious in the economic sphere, substantial in the political. Still, if one measures the region's evolution by the most general and conventional of criteria —the evolution of per capita gross domestic product— the description is correct. Strictly speaking, at the end of 1989 the region's average per capita product will be lower than in 1980 by almost 10% and equivalent to the 1976 level. Moreover this is a widespread phenomenon: only in three or four countries of the region will this indicator improve in 1990 in comparison with its level at the beginning of the decade. Since in addition the deterioration in average income¹ was markedly regressive, it can be asserted that the 1980s marked a tremendous step backwards in the material standard of living of the Latin American and Caribbean population.

But this is only one of the final results of the period, which will surely mark a milestone or rupture in the region's economic history. The term "crisis" applies to the performance of the great majority of the economies and also to the efflorescence of age-old insufficiencies and failings of various kinds brought to light by the unfavourable economic circumstances.

When drawing up the balance-sheet of the decade it should be remembered that the main trends did not occur in all the countries with the same intensity or within one country at different times during the decade. Neither did they have the same effect on all sectors, strata and regions of a given country. Rather, as already indicated, positive phenomena did emerge within the generally adverse scenario: in all the countries there were companies which improved their international competitiveness, even within the framework of adverse circumstances; there were communities which increased their standard of living by strengthening their capacity for self-management; there was widespread discovery of what yielded positive results and what failed; human creativity was stimulated by the various kinds of restriction; in some cases —few up to now— there was a relatively successful structural adjustment (not without high social costs). Above all, we must point to a clear trend towards democratic openness, with more pluralistic, tolerant and participatory political régimes.

In any case, the decade's balance-sheet shows much greater liabilities than assets. Ten phenomena which exemplify the main events of the decade in the social and economic fields will now be described. The first two exhibit the main characteristics of what has rightly been called the "crisis of the 1980s", the others derive in one way or another from the first two. They all, of course, interrelate and interact with each other.

¹This was even greater than the fall of the product, owing to the negative trend in the terms of trade in nearly all the countries.

I

The loss of dynamism of traditional sources of growth

First, varying in degree from one country to another, the main sources of economic vigour in the three previous decades —an expansive export sector but one dependent on primary products, and manufacturing based primarily on domestic demand— tended to lose power or even to come to a halt. In the export sector, in the majority of the countries the value (though not the volume) of external sales of traditional products fell markedly owing to a drop in their unit prices; even total export value stagnated or fell in 11 of the 19 main countries of the region. Apparently, the decline in demand for commodities was not only due to a traditional cyclical downturn but also reflected important changes in the structure of domestic demand.² According to ECLAC calculations, a weighted real price index of 19 basic commodities exported by region, excluding fuels, reveals a decline of over a third between 1980 and 1988. If fuels are included, this decline rises to almost a half.

Where manufacturing is concerned the value added of output grew faster than the product during upswings, but its contraction also turned out to be greater than that of the product during recessions, at least in those countries geared primarily to meeting domestic demand. Thus in the 1980s the relative share of value added in the product tended to decline in the majority of the countries; manufacturing value added for the region as a whole grew by barely 0.5% a year, and the average level of manufacturing in the region therefore fell from 25.2% to 23.8% between 1980 and 1988. Consequently the manufacturing sector, instead of strongly boosting growth, helped to accentuate the recessionary situation.

The loss of dynamism of the two "motors" of growth immediately raises the question of whether they can be restored as driving-forces of growth; if not, it may be wondered what will supply the stimulus for the Latin American and Caribbean economies in the future. An inkling of an answer lies in the example of those countries which have performed relatively better in recent years —the very countries which have advanced along the path of the transformation of production. In some cases a greater degree of international competitiveness was achieved in manufacturing. For example, its relative share in Mexico's exports rose from 12.7% to 44.5% between 1980 and 1988; in the case of Brazil, this coefficient rose from 56.5% to 71.3% in the same period.³ In other countries, such as Colombia, the greater competitiveness of manufactures was combined with the incorporation of new commodities in the export sector. In still others, the growing incorporation of technical advances in primary activities —vegetables, seafood, forestry products— enabled the export sector to expand strongly, as for example in Chile, Costa Rica, the Dominican Republic and Uruguay.

²Beyond the known phenomenon of the low income elasticity of the demand for these products in the world market, many foods and beverages have been affected by changes in consumer preferences in industrialized countries; others have had to face competition from the frequently subsidized production of the industrialized countries themselves; and still others have been affected by technological innovations which tend to replace some minerals with substitutes which are lower in cost or whose production consumes less energy.

³It has been frequently pointed out that the recovery of exports of manufactures simply reflects the imperative need of businessmen to place their exports, given the deep cutback in domestic demand. However, while this phenomenon undoubtedly exists, it is not a sufficient explanation of the marked and sustained increase of sales of non-traditional products abroad.

II

The waywardness of macroeconomic imbalances

The macroeconomic imbalances which affected a great many countries of the region in the 1980s had certain features, both in themselves and in their consequences, which distinguished them from similar phenomena of previous decades. The first feature is that these imbalances were generally much more accentuated than before. Although many countries managed to adjust their trade balance to the new realities of the world economy, frequently by means of recessionary adjustment policies, very few managed to make progress at the same time in their attempts to fight inflation, to reduce the external deficit and also to grow.

One of the factors having the most influence on this situation was the impact of external-debt servicing on public-sector finances and the balance of payments of the current account. This phenomenon has been widely described in numerous documents and does not need any further elaboration here.⁴ It is enough to point out that the countries which were most successful in adjusting and at the same time stabilizing their economies were those where there was a direct link between the capacity to transfer resources abroad and to improve the financial situation of the public sector. Thus, when the value of exports produced by State enterprises rose (as occurred with copper in Chile), there tended to be a direct and simultaneous improvement in the balance of payments and fiscal accounts, thus allowing for greater growth and lower inflation. The opposite is also true: when the value of exports fell (as generally occurred in recent years with oil exporters), the fiscal deficit tended to widen and the external imbalance to become more acute.

There were other consequences worthy of mention which arose as side effects of these economic imbalances. They include, for example, the marked priority acquired by short-term economic policy over medium- and long-term measures; if you like, survival instead of development. For this reason economic policy tended to pay greater attention to correcting imbalances, and in particular to fighting inflation, than to growth and promotion of change. Finally, the reduced room for manoeuvre in the conduct of economic policy imposed by the new shortage of foreign exchange considerably weakened the State's capacity for action, as described in the following section.

III

The sharp decline in investment

A phenomenon which is closely connected with the gradual loss of vigour in Latin American and Caribbean supply in the 1980s is the marked decline in net investment in numerous countries. In preceding decades the expansion of production capacity —for exports and domestic supply— was based on a relatively high and rising level of private and public investment (between 22% and 25% of gross domestic product).

The situation in the 1980s was very different. The deterioration in the terms of trade and the external-debt service, generally accompanied by a decrease in the net inflow of foreign capital, substantially reduced the supply of net resources available for investment. Thus, the net investment coefficient for the region fell from 22.7% in 1980 to 16.5% in 1988. This phenomenon affected the majority of the countries and also reflected the generally adverse trend in public finances, for reasons explained below.

⁴See, for example: ECLAC, *Restrictions on sustained development in Latin America and the Caribbean and the requisites for overcoming them* (LC/G.1488(SES.22/3)), Santiago, Chile, 14 January 1988, especially pp. 3-9.

In addition, various modalities of financing the fiscal deficit had negative effects: they hindered private investment, reduced the public sector's room for manoeuvre in the financial sphere and generally had a feedback effect on the crisis. Thus, in some cases the availability of credit for the private sector was reduced by the use of forced-saving mechanisms, within a context of financial stringency which encouraged flights of capital. In others, public-debt bonds were issued under conditions in which they contributed to much higher interest rates, while at the same time generating expectations of future taxes. There were also cases in which money was simply printed, stimulating demand, inflation and a foreign-exchange crisis.

As a result of these developments, many countries are currently faced with the growing obsolescence of their production plant and an alarming deterioration in their physical infrastructure.

IV

The decline in the average material standard of living

Although the majority of the economies stopped growing, the population did not. At the beginning of the decade the region had 362 million inhabitants; at the end it had 448 million. Due to the demographic inertia of preceding decades and the gradual entry of women into the labour market, the economically active population grew on average by 2.8% a year during this period. The statistics generally show that although open unemployment increased, especially in urban areas, it did not grow in proportion to the contraction in the level of economic activity. Decline was avoided at the cost of increasingly lower productivity per person employed and rapid growth of the informal labour market.

The lack of economic vigour, the increase in unemployment and underemployment, and the rising levels of employment in informal sectors (accompanied by a decline in real wages in the majority of the countries), together with restrictions on public spending, contributed in one way or another to the higher incidence of extreme poverty. According to very rough estimates, in 1980 some 112 million Latin Americans and Caribbeans (36% of the total population) lived below the poverty line; this figure rose to 160 million in 1986 (38% of the total population). Furthermore, in the great majority of the countries there emerged pockets of production modernization, generally associated with the export of non-traditional goods, in contrast to the situation described above. It follows from this that the traditional segmentation of the labour market in Latin America and the Caribbean has become more acute in recent years and that the gap between upper and lower income groups has widened.

The marked deterioration in the standard of living of broad sectors of the Latin American population has frequently translated into situations of social tension. One of its many manifestations is the sharp increase in crime, particularly in large urban centres. Still, it appears that greater efficiency in current public spending for social purposes, has sometimes counteracted the effects of the reduction in funds allocated to this sector.⁵ There is no evidence, at least up to now, of a clear-cut decline in health and education indicators, with some exceptions.⁶ Nevertheless, it will be difficult to

⁵This phenomenon is due in part to the fact that the reduction in spending, expressed in nominal terms, is not reflected in a reduction in real terms. For example, the wages of teachers and health-centre workers may have declined without a reduction in the number of posts. This fact could, however, be pointing to a gradual deterioration in the quality of services, as better-qualified persons seek better-paid jobs, frequently outside the public sector.

⁶Attendance rates for primary schools had decreased by mid-decade in some but not in the majority of the countries of the region. The same thing happened in the case of population with access to drinking water, although a greater reduction of coverage in rural areas may be found in those cases where recession has occurred. In turn, child-immunization indicators tended to improve between 1981 and 1986, with a few exceptions. (Source: UNICEF, *The State of the World's Children, 1984*, Oxford, United Kingdom, Oxford University Press, 1983.)

maintain this trend in those cases where no expenditures have been made on health and education facilities, or in which there has been no investment in training designed to improve nutrition and health.

Lastly, another manifestation of economic and social decline in the region is the increasing volume of migration by Latin Americans and Caribbeans, particularly to the United States and Canada. This is in addition to migration caused by political and military conflicts, as occurred for example in the case of the displaced persons and refugees in Central America, who moved within the subregion or emigrated to other countries. It is estimated that currently 8% of the total population of that subregion has been uprooted.

V

The gradual decline in the relative position of Latin America and the Caribbean in the world economy

It is generally held that Latin America, as a region, has seen its relative position in the international economy decline, especially when its performance in the 1980s is compared with the South-East Asian experience. This assessment is certainly empirically verifiable, at least if its scope is limited to trade and financial flows.

Although the export sector has been vigorous in some countries, the region as a whole has gradually been losing its relative share in world trade, a trend which accelerated in the 1980s. In 1960 the total value of Latin American exports accounted for around 7.7% of world exports. Twenty years later it had dropped to 5.5% and in 1988 to 3.9%. In the case of imports, its share dropped from 7.6% in 1960 to 5.9% in 1980 and to 3.3% in 1988. The figures show not only a contraction of economic activity, but also a deterioration in the negotiating capacity of countries of the region *vis-à-vis* third parties.

The same can be said of the participation of Latin America and the Caribbean in the attraction of international financial resources. The region was traditionally a net importer of resources but it has become a net exporter. In 1970 18.8% of direct investment by United States companies abroad went to Latin America and the Caribbean. By 1986 this share had fallen to 13.2%. On the other hand, 12 out of the 17 most indebted countries of the developing world are currently found in the region.

VI

The weakening of the State

With very few exceptions the public sectors moved into crisis during the decade. Excesses had been committed in past decades, as reflected for example in bureaucratization, inefficiency and inappropriate allocation of resources, and they remained painfully evident during the serious financial restrictions which characterized the economic scene in the majority of the countries in the 1980s.

At first there was a drop in fiscal revenues as a result of the recession and fiscal reforms were carried out in order to counteract it. In addition, public service tariffs tended to fall behind during periods of inflation. On the other hand, current expenditure tended to grow, partly as a result of the

servicing of both foreign and domestic public debt. The financial burden of the foreign debt expressed in local currency, was magnified by successive devaluations and high international interest rates; the burden of the domestic debt was affected, more often than not, by exceptionally high interest rates. Faced with the growing current-account deficits which characterized the situation throughout the decade, the decision was made to cut back on public investment and social expenditure, which were considered to be more expendable areas, although their restriction bore a high social cost.

These financial problems underlined the existing scarcities and shortcomings and often, too, the need to reform and modernize the public sector and strengthen the State's capacity to govern. To achieve this, the decision was made to deregulate, to put concessions out to tender; and in particular to privatize public enterprises. In some cases —the fewest— this method was chosen in order to attain the explicit objective of reducing the size of the State; in the majority of cases, there was no choice but to scale it down, bringing it more into line with the financial constraints and ensuring that the actions undertaken on a smaller scale were carried out with greater efficiency and efficacy. Still, as was to be expected, the debate on the redefinition of the dividing line between public and private action has not been free from doctrinal bias.

VII

The degradation of natural resources and the environment

In the 1980s some of the phenomena already mentioned —the need to generate foreign exchange, ever higher levels of urban and rural destitution, the deterioration of the physical infrastructure— helped to highlight certain problems of the environment and the overexploitation of natural resources faced by many countries of the region throughout their history. Although lower agricultural growth in the first half of the decade was reflected in a minimal increase in the total agricultural area, which indicates that expansion of agricultural frontiers had all but stopped, the abject impoverishment of sizeable segments of the rural population and the need to increase exports in the shortest time possible led to greater overexploitation of resources; fisheries provide one of the most glaring examples. At the same time, the cutback in public spending reduced the possibility of adopting measures to conserve natural resources and bring environmental degradation under control.

In this decade the problems of industrial wastes —chemical and pharmaceutical toxins— and of environmental pollution in the big Latin American cities have also become extremely serious. In addition, there has been the realization of the onset of a process of climatic changes which, if it continues, could have particularly serious effects on Latin America and the Caribbean.

All of this is linked to the marked increase in the awareness and mobilization of public opinion with respect to the environment and the intensification of the search for and application of legal and institutional mechanisms for dealing with environmental issues. But new problems have also emerged. On the one hand, the need to make expenditures at a time of serious constraint. In addition, national investments in environmental protection often yield benefits which transcend the country's boundaries, but without the other beneficiaries sharing in the financing. On the other hand, difference of opinion as to the relative importance of the subject and of ways of dealing with it have introduced a new source of tension in the relations between industrialized and developing countries. Some Latin American countries figure prominently among the latter.

VIII

The deterioration of intraregional economic interdependence

Another distinctive phenomenon of the 1980s is that economic restrictions accelerated the gradual decline observed in the previous decade in the degree of compliance with integration commitments. This fact cannot help but be paradoxical. On the one hand, it might be thought that regional and subregional trade provided a means of easing or even reversing the fall in the volume of trade with the rest of the world, taking advantage of installed capacity and intensifying joint actions to solve common problems. On the other hand, the trend towards more pluralistic and participatory régimes was establishing a community of interests which certainly greatly facilitated reciprocal communication and trust between the governments participating in subregional integration processes.

However, integration in general did not play an attenuating role with respect to the recessionary effects stemming from the external sector; instead, the process itself became just one more victim of the crisis. The combination of exchange-rate instability, lack of foreign exchange, reduction of real incomes and lack of policies to absorb the impact of these factors on integration caused intraregional trade to plummet in the first half of the decade. In 1980 this trade accounted for 15.4% of total Latin American exports; the figure fell to 11.1% in 1985 and then recovered somewhat in subsequent years.⁷ There was also a weakening of the institutions responsible for promoting and monitoring the integration process, while at the same time the gap was widening between the objectives of formal integration commitments and national economic policies, which reacted to urgent short-term imbalances and frequently followed a path of adjustment and trade deregulation incompatible with past integration commitments.

In short, the type of commitment entered into in the 1960s and 1970s proved unworkable in relation to the issues of the 1980s. The slogan of the decade was integration with the rest of the world, rather than with neighbouring countries. Some countries sought to tighten their bilateral ties with industrialized nations, while others introduced general deregulation of their trade.

It should be stressed that this does not mean in the least that integration does not have a role to play with regard to the new realities of Latin American and Caribbean development. What it really boils down to is that the commitments will also have to be adapted to the new circumstances. Recognition of this fact produced some new arrangements in mid-decade, especially within the framework of bilateral agreements of limited scope. Agreements between Argentina and Brazil on the one hand, and Uruguay and its two neighbours on the other, heralded a renewed effort to explore the possibilities of integration. The weak recovery of intraregional trade in the last two years is due primarily to this factor.

⁷The coefficient for the intraregional imports for Latin America and the Caribbean rose from 13.7% in 1980 to 15.8% in 1983; it then dropped to 13.5% in 1986 and subsequently began to recover unobtrusively.

IX

The revision of economic strategies

In the crisis of the 1980s the questioning of the strategies of economic policy gained ground, especially with respect to the anti-export and anti-rural bias which prevailed for many years in the majority of the region's countries. This fact reflects in part the advance of certain conceptual positions in the industrialized world, particularly in the United States and the United Kingdom; it was also in part the natural response to the rupture of the trends of the past 30 years, which led to a deep and prolonged recession.

At times, the debate revolved around extreme positions: openness models versus import-substitution models; the "invisible hand" versus planning; and State management versus private enterprise. However, the situation is too complex and varied to accommodate these kinds of approach, since in the real world things are rarely black and white but rather various shades of grey. In any case, both development strategies and short-term policies came to favour the emergence of a new non-traditional export sector through greater external openness; this has meant the lowering of tariff and non-tariff barriers, together with a relatively smaller role for the public sector in the economy. In some cases these efforts form part of adjustment programmes supported by the main multilateral financing agencies.

X

The growing differentiation between countries

Many ECLAC documents begin by stating that, given the growing diversity of situations in the region, it is impossible to refer to Latin America as if it were a single unit; but having said that, they proceed to analyse trends in the Latin American economy as a whole. What made this apparently paradoxical procedure possible in the 1980s was the common denominator of the adverse conditions created by the international economy. In the first half of the decade it could be validly stated that the performance of *all* the economies was very unsatisfactory; in the second half this was true only for the *majority* of the countries. However, the manner in which the external factors affected various countries and the set of measures which they each adopted to cope with the situation have exhibited a gradual differentiation between the countries of the region.

To the traditional types (large and small countries, countries with greater or lesser degrees of relative development, countries with high or low export coefficients or degrees of industrialization, countries which are net exporters or net importers of oil, highly indebted countries and so on) is added today a new differentiation: countries which have made considerable progress in the implementation of adjustment programmes and those which have not. Perhaps it might be premature to forecast that the former have much more promising growth prospects (although it must be supposed that this is the case). Nevertheless, it can be asserted that the restrictions on development—and hence the content and scope of the various economic policies—differ very much from one case to another. In short, although the economic crisis of the 1980s continues to affect all countries, several of them are better placed than the others to overcome it. Accordingly, it is not so easy now to talk of trends which characterize the region as a whole, or to formulate universally valid proposals.

* * *

On the basis of a superficial assessment of Latin American and Caribbean experience in the 1980s in economic and social matters, what can be said of the development prospects of the various countries of Latin America and the Caribbean? Will recessionary inertia and the burden of the many liabilities carried over from one decade to the next, prevail in the 1990s, or will the sometimes shaky and partial advances which have begun in the last few years prevail, at least in some countries? Will the tendency for ever greater differentiation continue with a handful of countries recovering the capacity to grow and the rest sinking into age-old quasi-stagnation, or will the recovery manage to become a general one, based on the transformation of production processes in the countries of the region?

It indeed is difficult to make an assessment in this respect. Perhaps it would be tautological to point out that the prospects for the region's economies in the 1990s will depend on their capacity to overcome the two main constraints of the 1980s, i.e., on their capacity to transform their production systems and correct their macroeconomic imbalances. This capacity, in turn, will depend on factors of domestic and foreign origin. Any forecast of the scenarios of the coming decade will therefore have to be based firstly on hypotheses about the performance of the international economy, and secondly on certain assumptions about the possibility of adopting domestic measures to correct the macroeconomic imbalances and transform the production structures.

With regard to the first aspect, and without getting into the issue of the relative importance of external as against internal variables in the performance of the region's economies, developments in the main industrialized economies of the world and their impact on monetary, financial and trade systems in the world economy will doubtless play a decisive role in the construction of alternative scenarios for the future of the countries of Latin America and the Caribbean. Assessment of the path to be followed by real interest rates in international financial markets, the fate of commodity prices and the dénouement of the external-debt drama are just a few examples of the difficulties and risks involved in the business of forecasting today. However, there are no indications on the horizon that suggest that the main economies of the Organization for Economic Co-operation and Development (OECD), to which can be added some of the economies of the socialist world, will not be able to maintain an acceptable and sustainable level of economic expansion over the medium term. It remains to be seen, of course, whether the developing countries will have timely access to the markets of the developed world or whether protectionist pressures, which have recently gained strength, will break the surface.

With regard to the second aspect, the balance-sheet of the 1980s points to the need to explore three decisive and interrelated variables whose evolution will determine future prospects. These variables are the possibility of correcting the macroeconomic imbalances of the 1980s, the capacity to transform production systems with a view to achieving greater international competitiveness, and the possibility of attracting resources to finance sustained development. It is obvious that all of these variables are connected with the way in which the debt-service issue is resolved in the long term between the heavily indebted countries and the international private banking system; it is equally obvious that a single solution will not be sufficient to provide access to sustained development.

The experience of the 1980s taught important lessons on how to move closer to macroeconomic balance, and in particular on how to carry out a stabilization programme successfully. There are two reasons for thinking that progress will be made in this matter over the next few years. The first is the concrete experience of certain countries (for example, Bolivia, Costa Rica and Mexico), which shows that it is possible to beat inflation, although painful measures are needed, and to gain some access to external financing. The most successful countries have not limited themselves to cutting demand; they have also acted on supply and at the same time attempted to guide expectations and structural factors (by means of "pacts" on wage and price policies). The reduction of the budget deficit played a decisive role in all of this. The second reason is that hyperinflation is an eloquent warning of the high social cost of the failure to decide in good time to tackle the situation. In fact, anti-inflation

policy dominates the economic scene of 1989, precisely because the economic authorities have become fully aware of the imperative need for it.⁸

With regard to the transformation of production structures, there is once again a basis for hope. Even against the generally bleak background of the 1980s, some progress was made, although it differed in degree and scope from one country to another. As a matter of fact, the anti-export and anti-rural biases which characterized economic policy in past decades have tended to diminish or disappear in nearly all the countries. There is also greater awareness today that the transformation of production requires a complex set of actions in such diverse fields as the removal of institutional and organizational constraints, the availability of human resources, and physical infrastructure. This is not the place for an in-depth discussion on such a complex issue. However, it should be mentioned that to promote changes in production structure is a long-term task; this is why the results of the implementation of policies and strategies will not necessarily be felt in the early part of the coming decade.

There remains the important question of how to finance the modernization of production and greater social equity in the future. There is a dangerous accumulation of unmet demands: physical infrastructure in a dismal state of repair, increasingly obsolete capital plant, long delays in the provision of social services, minute allocations for technological research and its application to the production process, the need for industrial reconversion and to reduce environmental degradation, and many others. Moreover, although there are still some production activities in the countries of the region with idle capacity, sustained expansion of supply will necessarily have to be based on expansion of capacity.

However, it is unclear where the resources will come from to finance the necessary investment. This is why solving the external-debt problem is so important. This would not only permit a reduction of the current transfer abroad of a considerable proportion of domestic savings, but would also offer at least the possibility of establishing a "virtuous circle" which would facilitate the correction of macroeconomic imbalances and make it possible to reverse Latin America's transfer abroad of around 4% of its gross domestic product. To put it another way, if progress is made in the direction of easing the burden of external-debt servicing —and the first steps, albeit timid ones, announced in the Brady initiative offer a glimmer of hope in this respect— there would once again be grounds for facing the 1990s with greater hope. Needless to say, there is a vital role to be played in this effort by multilateral financial agencies, and in particular the Inter-American Development Bank.

In conclusion then, the prospects for the coming decade would improve if civil societies and governments took better advantage of the possibilities of economic integration. It should be remembered that the countries of the region, individually, will have to face economic macroblobs —Europe without frontiers and the expanded market of Canada and the United States— and the emergence of a new grouping of countries in South-East Asia. Why then not face these macroblobs together?

The subregional integration of Latin American and Caribbean countries and their vigorous involvement in the international economy are not necessarily contradictory proposals. On the contrary, the two proposals could strengthen each other. The emergence of new national development strategies based on deregulation, transformation of production and increased international competitiveness raises the possibility of regarding regional markets as sources of greater competition, which could contribute to the systemic process of learning and technological innovation necessary for exporting to other markets. Furthermore, some bilateral and trilateral sectoral attempts have been made, with strong political support, in such areas as technology, capital goods and agriculture, as is shown by the agreements between Argentina, Brazil and Uruguay referred to earlier. In addition, the joint position of the Central American countries *vis-à-vis* the international

⁸See ECLAC, *Economic Panorama of Latin America, 1989* (LC/G.1574), Santiago, Chile, September 1989.

donor community, as a result of progress in the peace process of the subregion, has opened up areas for co-operation which could facilitate the reactivation of intra-Central American trade and increase the existing interdependence in infrastructure and agriculture. If progress can be made in this respect, there will once again be a basis for facing the next decade with greater optimism.

To sum up, the balance-sheet of the 1980s itself provides some clues for the construction of a scenario of gradual economic expansion accompanied by improvements in the standard of living of the average Latin American. This scenario presupposes that there will be no major upsets on the international stage, and that, learning from the hard lessons of the 1980s, the governments of the region will move individually and jointly towards the removal of some of the main obstacles to development.

Accepting this assumption, the good thing is that in contrast to the past decade, the economies could now be reactivated. The bad thing, however, is that even with sustained annual growth rates of 4% during the first years of the decade the majority of the countries would be unable to regain before 1995 the real per capita income levels already achieved in 1980. In any case, it is plausible to maintain that the countries of Latin America and the Caribbean will overcome the crisis of the 1980s in the coming decade and that, like the legendary phoenix, will emerge perhaps stronger to face the challenges awaiting them in the next millennium.