

# CEPAL

## Review

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#### 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.

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# CEPAL

## Review

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## Twenty-third session of the Economic Commission for Latin America and the Caribbean

*Between 3 and 11 May of this year, ECLAC held its twenty-third session in Caracas, Venezuela. The following pages contain the texts of the addresses delivered on that occasion by the Executive Secretary of ECLAC, Mr. Gert Rosenthal, when opening the Ministerial-level phase of the session on 9 May; the President of Venezuela, Dr. Carlos Andrés Pérez, at the closure of the session on 11 May; the Minister of the Economy of Chile, Mr. Carlos Ominami, speaking on behalf of the Chilean delegation on 10 May; the Minister of Planning and the Budget of Mexico, Dr. Ernesto Zedillo, likewise on 10 May, and the EEC Director of Relations with Latin America, Mr. Angel Viñas (Spain), speaking on behalf of the Commission of the European Communities, on 11 May.*

*At the session, ECLAC presented two working documents, entitled **Changing production patterns with social equity and Latin America and the Caribbean: Options for reducing the debt burden**, which are summarized in the section "Recent ECLAC publications" at the end of this issue of CEPAL Review.*

*Gert Rosenthal*  
**Executive Secretary of ECLAC**

### **New circumstances, fresh challenges**

This is a most moving occasion for me. I remember that one of my first direct contacts with ECLAC was in May 1967, when I had the honour to attend the twelfth session—likewise held in Venezuela—as a government official of my country. Being here now at a new session, but this time at the head of the ECLAC Secretariat, brings the past back to me with a good deal of nostalgia, although of course the reason for this meeting is above all to explore the present and the future.

This is also a significant moment for our institution. ECLAC has kept up a considerable presence in Venezuela from that time up to the present, but it is twenty-three years since our supreme intergovernmental forum met here, in the native land of the Liberator, so this is a particularly happy reunion.

This new meeting is all the more propitious because of the solid backing we have always

received from the government authorities for our activities in general and for the organization of this conference in particular, to say nothing of the warm welcome we have been given. The support we have received from President Carlos Andrés Pérez, from you yourself, Mr. Chairman, from the Minister in charge of CORDIPLAN and from all your respective collaborators merits our undying gratitude.

This solemn ceremony is also a very appropriate moment to recall the memory of one of my illustrious predecessors who was also a distinguished son of this land, José Antonio Mayobre, as well as that great Venezuelan in whose honour this hall is named, Manuel Pérez Guerrero, whose life was also closely linked with the fortunes of our Organization.

Furthermore, this meeting is taking place at a moment of very special importance. The transition from one decade to the next—and

moreover to a decade which marks the threshold of a new millennium— is taking place against the background of the titanic efforts being made by the governments and societies of Latin America and the Caribbean to surmount the daunting restrictions on their development which emerged in the previous decade, the rapid changes taking place in our external economic environment, and now also the expectations generated by the transcendental changes occurring in the world. Thus, the countries of the region are not only faced with the urgent need to correct a mass of shortcomings inherited from the past but must also cope with events which a little while ago would have been considered unthinkable. How can we adapt to all these changes and even turn them to our advantage in order to improve the way Latin America and the Caribbean fit into the world around us? ECLAC's long-standing concern with this topic must now express itself within a context which is radically different from that of only a few short years ago.

It is worth looking more closely at some of these changes. With regard to the international economic order, we have been witnessing the gradual transformation of its very bases along lives very different from the way they were originally conceived soon after the war. Over the last decade, these changes have been taking place at a dizzy speed. In the field of trade, we have seen the increasing erosion of multilateralism, the frequent application of trade barriers (both tariff and non-tariff), the emergence of great preferential trade blocs, and a marked adverse trend affecting trade in the majority of basic commodities.

In the monetary and financial sphere, the disappearance of fixed exchange rates has been accompanied by the internationalization of capital markets, which, far from providing resources for our region, have come to be poles of attraction which often divert those resources to other parts of the world. In addition, there are serious fiscal and trade imbalances in the leading economies of the industrialized world, while a further problem is that of the external indebtedness of many developing countries and the oft-mentioned massive transfer of financial resources from the debtor countries to their creditors.

In the field of technology, for its part, particular mention must be made, *inter alia*, of the rapid advances in methods of organization and management, based on the development of the areas of microelectronics and computation, which have enormous implications for productivity.

Finally, momentous cultural and social changes are taking shape in the industrialized nations and are opening up fresh gaps between the new outlook of the North and that of the South. Merely by way of illustration, for example, the demographic phenomenon of population aging in the industrialized countries contrasts with the situation in Latin America and the Caribbean, where the population is predominantly young. As a result of the loss of relative importance of growth or employment as the dominant objective of social life in the industrialized countries, our region is suffering serious shortcomings and lags.

The changes in our external environment, however, go much further than the phenomena referred to above. They are also reflected in the profound transformations taking place within the group of countries which, up to only a few months ago, formed one of the two pillars of the world geopolitical order that emerged after the war. In some respects, these changes are reminiscent of one of the outstanding features of contemporary Latin American novels, in that truth is now more astounding and imaginative than any fiction could be. The transformations which have taken place in the political and economic model that prevailed in one of the great superpowers, together with the significant changes in its policy towards the countries closest to its sphere of influence, are bound to have incalculable consequences, especially in the field of international relations.

On the one hand, we are witnessing a breakdown of bipolarity which has dispelled the main source of tension in the international system, causing it to progress from the so-called "cold war" to a situation marked by political détente, disarmament, and the redefinition of alliances. This opens up new spaces for international relations.

On the other hand, a major utopia has lost the power to convince. For some, this means a final defeat at the hands of another utopia: the

proverbial "end of history". For others, it means a quest for new alternative utopias and the emergence of new contradictions. At all events, there can be no denying that change has also reached the world of ideas. In different areas and different societies, there has been a rediscovery of the virtues of pluralistic, representative and participative systems. This seems to confirm Winston Churchill's assertion that "democracy is the worst system of government there is — except for all the others". In the economic sphere, the view that the market should be the main means of allocation of resources is gaining ever-increasing legitimacy, even though this does not rule out an important role for the State.

In short, living through these months which mark the end of the 1980s and the beginning of the 1990s gives the impression that we are at a turning point in the history of mankind. Moreover, as in every process of rapid change, there is puzzlement as to its meaning, although in our circles two opposing feelings clearly prevail. On the one hand, there is a feeling that, all in all, these changes in the world political order are likely to have consequences that favour democracy, peace, prosperity and social justice, even though there may be no shortage of new problems such as those deriving from damage to the ecology and the environment. On the other hand, on looking at the changes in the international economic order, it is also usually felt that there is a blemish on this heartening picture, in that the favourable effects in question will not be felt with equal force in all parts of the world and by all its inhabitants, or —still worse— the developing world in general and our region in particular will run a serious risk of remaining permanently on the sidelines.

This is the context in which Latin America and the Caribbean are facing the complex challenges of the 1990s and beyond. The enormous changes which are taking place in the world involve risks as well as opportunities for the countries of the region. Only the future can tell which of these will prevail on balance. Here and now, however, our Secretariat stands up in front of the Commission to assert without hesitation that in spite of the extraordinary mass of demands that must be fulfilled in order to surmount the crisis, there *is* a way out for our countries, and the question of how to reach it is,

in the final reckoning, the reason why we are here.

This heartening picture is not just the result of a mere voluntaristic assertion, although a vital factor in it is the unremitting concentration of the will of peoples and governments. It has as its starting point the recognition that not all the legacy of the 1980s is negative. The marked trend towards pluralistic democratic processes, understood as the free election of governments and the consolidation of democratic institutions, was also a fundamental part of the history of the 1980s, and it has been further strengthened as the present decade opens. Even in the few months of the present year which have elapsed, we have witnessed orderly transfers of authority in Brazil, Chile, Costa Rica, Honduras, Nicaragua and Uruguay, and in a few weeks the same will occur in Peru.

At the same time, the 1980s brought with them painful but valuable lessons. Thanks to the sum of the main lessons taught by the economic crisis of the 1980s, there is now a much clearer awareness than before of the path that needs to be followed in order to adapt to the changing international setting and to surmount the constraints on our development. Albeit with ups and downs and differences of degree, a good number of Latin American enterprises have put their finances in order, raised their productivity, and begun to enter more confidently into world markets. Governments have followed the same path by putting their finances on a sounder basis, eliminating non-essential expenditure, and observing strict investment priorities. Moreover, the most painful social adjustments have now been assimilated, fortunately without affecting the advance of democracy.

In particular, there is a growing conviction in the region that we must set about all these necessary tasks ourselves, for if we do not, no-one else will do the job for us. In the light of this conviction, we have put forward three main lines of action in order to enable the countries of Latin America and the Caribbean to attain development.

*Firstly*, everything confirms that our countries will have to tackle the problems of international competitiveness and seek external financial resources primarily through their own efforts, either individual or collective. The

external environment is becoming increasingly competitive and complex as regards penetrating markets and attracting capital. There is intense competition among the main industrialized economies, and in recent years an increasingly long list of countries which industrialized at a later date have begun to compete too. Great economic blocs are tending to be consolidated in Europe, North America and the Pacific Rim. The restructuring process which is gaining force in Eastern Europe means that there will be new potential competitors for both markets and financial resources. In saying this, I am not over-dramatizing the situation but merely underlining the fact that, in view of the complex new circumstances prevailing in the external environment, the need for internal efforts is increasingly pressing. In this respect, it may be noted that that environment will undoubtedly condition the transformations in production patterns in our countries, but it can never become a pretext for avoiding changes.

*Secondly*, an international setting which is less tense and less ideologized creates a more fertile field for originality and creativity. The breakdown of the model based on the idea of a centrally planned economy, for example, has given rise to an apparent consensus on the need to heed the market signals, but there is as yet no sign of consensus on the conceptual approaches required in order to attain development. Contrary to the view held by some people that the use of "correct prices" will cause all problems to automatically settle themselves, there are still any number of long-standing dilemmas that need to be solved, but now within a new context. Thus, the effort to unite the objectives of efficiency and equity, or to reconcile the objective of growth with that of defending the environment, demands an innovative approach. The need for a dynamic and creative interaction between the public and private agents also points in the same direction. Thus, Latin America and the Caribbean once again have an opportunity to construct their own road to development in the light of the special features and circumstances prevailing in each of the countries. We would like to think that our proposals, which are inspired by the intense debate on development going on in the region and the many rich experiences contributed in recent times, will help to trace out that road.

*Thirdly*, joint action (including of course economic integration) continues to be a vital instrument for the countries of Latin America and the Caribbean. This is not only because greater economic interdependence diversifies the risks that each country must run in a highly competitive international economy, nor because integration serves as a defence when other great blocs of countries act together. Equally or even more important is the possibility of acting together to explore the limits of the new external environment, in the context of transition from a world organized on a bipolar basis to another whose form of organization is still in the process of definition. In this state of affairs, considerations of security will tend to lose importance as the guiding force behind the regional policies of the main power in our hemisphere, and this means that it will be necessary to explore, in a creative manner, the new potential offered to all parties by inter-American co-operation.

At the same time, Latin America and the Caribbean must demand a bigger share in the process of taking decisions that help to shape the world trade, monetary and financial order. There are encouraging prospects in this respect. Collective action will improve the region's capacity to influence world events. Moreover, it is to be hoped that a less rigid international order will give our region more room to manoeuvre in both international relations and in economic co-operation. Such greater leeway, I maintain, can only be exploited to the full if the countries of the region act together.

Finally, while emphasizing the importance of internal effort and intra-regional co-operation in tackling development in the 1990s, I would not like to leave the impression that the industrialized countries can evade their responsibility to support the efforts of the developing countries. Even though it is obvious that the traditional arguments in favour of international co-operation seem to have lost force *vis-à-vis* the public opinion and government authorities of the developed countries (especially at times of fiscal difficulties), international co-operation still has a crucial role to play in supporting the efforts of the Third World countries to urge forward their own development, as was confirmed at the special session of the United Nations General

Assembly held just a week ago. In this respect, the developed world must understand that the eradication of poverty from the face of the earth is bound to benefit all sectors of the world community.

If the foregoing idea really takes root in the world conscience, then it will mean that the potential for renovating international co-operation really does exist. Some of the changes which have taken place recently offer at least a possibility of reversing the negative resource transfer. There is now a possibility of diverting resources from defence to welfare —what has been called "the dividend of peace"— and economic and social development should be one of the leading beneficiaries of this. It should be noted that the "dividend of peace" is not something which is confined to the industrialized countries and hence only affects the levels of international financial co-operation: it will also have its counterpart in the developing countries themselves, where it will permit the reallocation of resources —hitherto spent on arms, for example— to the improvement of social services.

Moreover, if internal efforts to foster the development process are continued and strengthened and programmes like those suggested in the Secretariat proposal are further

consolidated, the countries of the region will win a new right to demand that the international community too should assume its responsibilities in the task of making the Latin American and Caribbean economic crisis of the 1980s a thing of the past. This approach includes, for example, our proposals concerning the elimination of the debt overhang, which is one of the major obstacles to the development of the countries of the region.

The above-mentioned topics form the central concern of our agenda. Despite the economic crisis of the 1980s, they bring with them a message of hope, as well as a warning that the road ahead of us will be long and arduous. In urging the governments and societies of the region to embark on a deliberate and sustained effort to change production patterns while safeguarding the seriously eroded cohesion of our societies, we must not lose sight of the enormous potential offered by intra-regional integration and co-operation. For our part—in the best traditions of the United Nations—we place at the service of the governments of our member States, both developed and developing, new mechanisms and renewed forms of international economic co-operation in order that this vision of peace, democracy, prosperity and social justice may truly.

*Carlos Andrés Pérez*  
President of Venezuela

### Five basic issues for the region

It is a pleasure for me to be participating with you today in the closing meeting of this event which has brought together those associated with the institution that has played the most significant role in the economic thinking and evolution of Latin America over the last five decades.

The Economic Commission for Latin America and the Caribbean—ECLAC—has been an extraordinary source of ideas, theories and proposals which, although in many cases

needing to be adjusted or modified in line with the changing international conditions and our own Latin American experience, continue to be indispensable points of reference for the development of theories and concepts at the regional level. It is the duty of all of us to do everything we can to strengthen ECLAC.

I should like to take this opportunity to pay an affectionate tribute to a man who was one of the greatest thinkers and promoters of that organization: Raúl Prebisch. The development



of his economic philosophy, his message and his unshakeable faith followed a path which led to an understanding of the more complex reality underlying apparently simple facts and situations. It is now our duty to continue this quest without fear or self-doubt, without any commitment to the past, and with a willingness to make all the changes that may be necessary in order to renew our ideas and practices so as to forge ahead.

This twenty-third session of ECLAC is being held in particularly momentous circumstances for Latin America and the Caribbean, for we are witnessing the end of a decade which has been described as a lost decade for the development of the region, and which I myself would go so far as to term a totally perverse decade.

It is enough to look at the most important economic and social indicators of our recent performance—which are all too familiar to all of us here—to conclude that during these years our difficulties and problems generally got worse. This was so in the case of the external debt, the fiscal deficit, unemployment, stagflation and critical poverty, to name only a few. However, although to experts in economic matters this might seem to be the most negative side of the 1980s, the fact is that—without wishing to belittle it—this evaluation falls short of reality.

The most dramatic feature of this perverse decade was in fact the abrupt resurgence of selfish national interests and the loss or deliberate abandonment of the will to integrate, callously discarding the efforts, schemes and policies achieved in the past. This led to the undermining of the vigorous and optimistic intentions and plans for Latin American and global concertation and integration which the developing countries had been pursuing, and weakened or helped to weaken not only our own incipient integration schemes but also such multilateral agencies as ECLAC, UNESCO and UNCTAD. The Group of 77 also suffered the impact of this perverse decade.

Now, however, at this meeting we are attending in Caracas on the threshold of the last decade of the present century, the circumstances are rather more special. It would seem that we have learnt a bitter lesson and that there is now renewed hope and a stronger will to progress because of the profound political and economic

changes that are taking place in the world. These changes, many of which would have been unthinkable only a few months ago, are truly impressive both in their depth and their rapidity.

It is the direction of these changes which gives rise to our optimism. Mankind is clamouring for democracy, and the developing nations are renewing their determination and faith to make up for lost time and get back onto the right road, but with a desire to take advantage of experience and correct the errors and omissions of the past.

We are witnessing a marked process of globalization of the world economy. The nations which until recently were known as the "Socialist bloc" are rapidly integrating into the world market, which is thus attaining the greatest dimension ever known in the history of capitalism. This is taking place simultaneously with the formation of great economic blocs, such as the European Common Market, North America and South-East Asia, which confront Latin America with the need to take truly transcendental decisions regarding our region.

As if these great changes were not enough, an intensive technological revolution is also under way which is radically altering modern production functions. This revolution is imparting increasing importance to human resources, their level of intelligence, and their capacity for inventiveness, adaptation and organization. Latin America should have nothing to fear from this new situation, however.

The challenges raised by the economic situation of Latin America and the Caribbean are the greatest in the recent history of our region. Faced with the economic totalitarianism that characterizes the activities of the transnational enterprises, we must design bold strategies to cope with the crisis, both at the domestic level (with regard to the production structures of each of our countries) and internationally (with regard to the role of Latin America and the Caribbean on this new world scene).

Gentlemen: the changes which are taking place in the world are truly spectacular, and our own economic and social performance in the last ten years has been too poor for us to pretend that we fully understand as yet that we are faced with

a historical need for a profound overhaul of all our existing concepts and practices with regard to growth and development.

If Latin America is to emerge victorious from the economic challenge facing us, we must be able to solve five fundamental issues which are closely linked with each other.

Firstly, we must transform our systems of production so as to make them more specialized, efficient and internationally competitive.

Secondly, we must link together our economic and social policies so as to achieve growth accompanied by equity and social justice.

Thirdly, the role of the State in the economy must be redefined in order to set free the whole productive potential of our societies.

Fourthly, we must find an external financing policy which relieves us from the external debt overhang and assures us the flow of resources we need for stable, non-inflationary growth.

Fifthly, we must set up a broad common market in the region which will allow us to achieve economies of scale and successfully face international competition: in other words, we must speed up the process of Latin American integration.

I should now like to refer briefly to each of these aspects in turn.

For many years —indeed, whole decades— we in Latin America believed that we could ensure economic development through intensive and prolonged protectionist practices which, it was claimed, would also make possible a process of industrialization through import substitution. We set out along this road, but when the time came we were not able to turn off it towards a more open type of economy which could adapt progressively to the very demanding conditions imposed by international competition.

There is no question today of denying the importance of import substitution as a valid option for generating industrialization, economic growth, employment and riches. What is involved is rather the need to approach such substitution properly as part of a global strategy, so that it is not practiced —as was often the case in the past— as an artificial way of sustaining artificial industrialization processes.

Import substitution is perfectly legitimate when it is practiced in areas where the country in

question has, or can attain, competitive advantages.

It must reflect real economic potential and advantages, as well as export possibilities, and must not depend on lavish fiscal incentives, severely undervalued exchange rates, or any other mechanism which is artificially created and is therefore not sustainable in time.

Transforming our structures of production means advancing towards greater specialization, without discriminating between domestic and external markets but with a firm determination to get rid of the anti-export bias which has characterized us in the past. The idea of autarkic and enclosed economies must once and for all be made a thing of the past.

This transformation of our structures of production will have substantial social costs. Industrial reconversion often means higher unemployment in the short term. The restructuring of the entire economy means dismantling those enterprises which were only able to survive with State aid, in its most negative forms of protectionism and unwarranted subsidies.

These social costs must not be allowed to become so high that they can stand in the way of the proposed changes, however. It is not possible to carry out any worthwhile changes in the midst of social chaos. The economic reform policy must be organically linked with broad social programmes aimed at three basic objectives: cushioning the impact of the adjustment; making a real effort to combat critical poverty (which is not an exclusively economic phenomenon); and developing our human resources, because they are the most valuable capital our nations possess.

We could not even dream of entering the developed world without first of all making very intensive and substantial investments in our human resources. In this respect, education is clearly the great strategic line along which we must advance, because it is the gateway to research, science and technology.

Despite the concern expressed in various regional forums to the effect that co-operation in scientific and technical matters is urgently needed, this is precisely the area where the most serious weaknesses are to be observed in Latin American actions. Most of the decisions which

have been adopted so far at the regional level have as yet failed to give rise to any concrete initiatives which effectively tackle the interaction between scientific knowledge and industrial development.

The adjustment and stabilization programmes through which the Latin American countries are having to pass must not mean a further deterioration in the conditions and potential for assuring our future. The people, their well-being, and their health and education must not be the main victims of the economic adjustment.

There must be close links between economic and social policies. It is recognized that the public sector accounts must be kept in balance, but this must be achieved, not by reducing social expenditure, but rather by effecting a full and integral repositulation of the role of the State in the economy.

It is a recognized fact that there has been over-expansion of the orbit of action of the State in our economies. What we need today is a State which acts much more strategically and selectively, strengthening its capacity for macroeconomic and sectoral regulation and gradually giving up its detailed administrative intervention at the microeconomic level.

We need a State which, if it intervenes in the economy, does so through market-compatible mechanisms. We cannot accept the concept of the State as the negation of the market. It is the State's responsibility to guarantee that the market does not indulge in monopolistic or oligopolistic practices which end up by distorting it. We must get away from the false dichotomy between the State and the market. At the same time, however, we must recognize that in our developing societies with their stunted economies the market is often governed by monopolies and oligopolies, and the State cannot stand by and ignore its responsibility, to regulate the market when necessary until it reorganizes its operations.

At the level of production proper, the State in our countries must gradually give up any involvement in the direct production of those goods and services which, by their nature, can be supplied by the private sector. This will give us a stronger and more flexible State apparatus, concentrated on those activities which it cannot delegate.

There is also now a consensus —extending even to the dominant actors in the world economy— that the external financing terms under which our countries have been operating make it impossible for us to get back on to the path of stable and healthy growth. Unless there is a reduction in the debt and its service, our countries will not be able to discharge their responsibility for their peoples' economic and social development.

This is the area in which we Latin American leaders feel most frustration. In spite of all the efforts which have been made, our nations still appear as a scattered archipelago of isolated small and medium-sized economies. Our common origins and our very similar problems have not been enough to bring us together. The lack of Latin American unity is a fact which we must unhesitatingly acknowledge.

I am convinced that this apparent failure of Latin American integration is merely an extension of our other misguided practices and cannot be tackled successfully unless we correct them too. The modernization of each of our economies is also the first real step towards integration.

We have tried to integrate economies running on artificial lines, but these efforts were naturally doomed to failure. We were trying to integrate economies that were too alike in their shortcomings —insufficiently specialized; over-protected— in other words, we were trying to integrate the unintegratable.

Today, there is a glimmer of light on a far-off horizon. Reforms are being made which aim in the same direction, and real, solid foundations are being laid for Latin American integration.

ECLAC can make a valuable contribution here, with its experience and its capacity for diagnosis, and it can act as a driving force in regional integration. The consolidation of the Latin American and Caribbean bloc in response to the creation of the decision-making centres of the industrialized countries is the only viable option for our nations from the political, economic and social point of view. The urgency of Latin American integration must be the guiding idea when formulating the new strategies for Latin America, and the planners must bear this clearly in mind. I have already said, and I repeat now, that a Latin American Economic Community must be consolidated

within this decade, and it must already be taking its first steps by 1992: a year which we must make the symbol of our continued vigour and will to progress, exactly 500 years after our first meeting with the Western world.

It is therefore a matter of great satisfaction to me that this session should have adopted the transcendental and historic resolution on changing production patterns with social equity, an issue analysed so responsibly and feelingly by the ECLAC Secretariat, together with the

resolution on the International Development Strategy.

The challenges facing us are clear. We must transform and modernize our economies, compete at the international level, further perfect our democratic systems, develop better and more effective policies for social solidarity, advance rapidly in the field of science and technology, and not delay one instant more the process of Latin American integration.

And now, to work!

*Carlos Ominami*  
Minister of the Economy of Chile

### Growth is compatible with social equality

The democratically elected government of Chile, headed by President Patricio Aylwin, is taking part in this twenty-third session of ECLAC with interest and high hopes. Our mandate stems from the Chilean people's decision to put an end to an authoritarian régime which has lasted for over one and a half decades, choosing instead a democratic road towards economic, political and social development.

Our basic objective is to restore democracy in our country. To this end, in addition to the indispensable need for the democratization of public institutions, we are striving to clear up the dramatic problem of human rights, to improve the living conditions of the poorest sectors of the community, and at the same time to progress towards the modernization of our social and productive structure.

We are also a government which is trying to re-enter the international community and which sets great store on the development of links of solidarity and co-operation among all the nations of this continent. In this respect, our government considers that the contribution which ECLAC has been making to the region's development for decades past is of the greatest importance.

Our government's economic strategy has been prepared on the basis of a judicious review of everything that has taken place in recent

decades. We take a positive attitude to the development of a climate of economic discipline in the country, the achievement of greater trade openness *vis-à-vis* the rest of the world, the emphasis on the development of exports, and the existence of an entrepreneurial spirit which takes as one of its goals the attainment of capacity to compete both on the domestic and the international markets.

At the same time, however, it is evident that these achievements have had enormous costs, associated with the profound restructuring of Chilean industry and of ownership in the agricultural sector. Up to 1984, there were many enterprises which went bankrupt, subsequently giving way to more technically advanced initiatives. This fact —aggravated by the world crisis— resulted in labour unemployment rates in Chile that exceeded 30%, with a drastic fall in real wages which has still not been made good.

Likewise, the poorest sectors were virtually abandoned in such vital areas as health, education, housing, family allowances and social security benefits.

This process was accompanied by a very marked concentration of investment in fields connected with primary export activities, thus causing some imbalance between the various sectors of production.

In view of these facts, our government is putting into practice policies designed to tackle these problems directly in a forward-looking manner. It would, of course, be absurd to try to turn the clock back in such matters as macroeconomic discipline, trade openness, the new awareness of the contribution made by the entrepreneurial approach, or the proper functioning of the market.

What we do want to achieve is to show that democracy is compatible with efficiency and that growth can go hand in hand with a major effort to increase social justice. In this respect, our strategy is based on three main pillars:

—Guaranteeing macroeconomic stability through fiscal, financial and exchange policies based on strict management of the public finances and the maintenance of a high real exchange rate, thus preventing upsurges of inflation and the appearance of an anti-export bias in the country.

—Restoring social justice by promoting an economic and social programme which will make it possible to significantly reduce the current levels of poverty and marginalization, while at the same time seeking an improvement in labour/employer relations.

—Developing the productive capacity of the country through economic policies designed to impart greater solidity to the various sectors of production, and especially those connected with international trade.

This latter challenge basically means increasing competitiveness. In seeking this objective, however, it is not enough merely to rely on the free play of market forces, because the market suffers from too many imperfections which prevent the proper exploitation of all the potential associated with our natural and human resource endowment. The policies which the government will put into practice are designed to make good these shortcomings, within the democratic context which we are striving to reconstruct.

Against this background, we have designed a modernization policy which covers three substantive aspects.

The first of these corresponds to the deliberate and systematic incorporation of technical progress into the nation's production processes. Although the country's research and

development effort has increased in recent years as a percentage of the gross domestic product, we still have a long way to go before reaching the levels of the fastest-growing nations in this respect.

Consequently, one of the government's central objectives is to substantially increase the capacity for technological innovation in the various production activities. We view this concept in a broad sense, as meaning any change in products, production processes, organization of production or use of inputs which is reflected in commercial applications.

To this end, a technological development fund will be set up to help provide financial resources for the execution of innovative projects. Likewise, the establishment of productivity centres for the various lines of activity will be promoted, with a leading role being assigned in them to the enterprises concerned. Another effort in this direction will be the provision of resources for the preparation of pre-investment projects.

As well as encouraging technical progress on the part of the enterprises, the government has also committed itself to further the training and recycling of the existing labour force. It will only be possible to aim at ambitious targets as regards world market shares if we can substantially increase the productivity of our workers, for this is the fundamental means of achieving a significant increase in our competitiveness.

Finally, we consider that a process of modernization of production aimed at attaining a greater presence on increasingly complex international markets must be based, *inter alia*, on an ever-broader base of businessmen and businesses, in terms of both number and entrepreneurial capacity. By doing this, we will be in a better position to cope in a decentralized manner with the challenges posed by rapid technological change, the dynamism of world markets, and the need to satisfy the more varied and sophisticated demands of a growing population.

We believe that these are necessary conditions for progressing towards development with social justice, in a democratic framework which is in the process of consolidation. As Gert Rosenthal, the Executive Secretary of ECLAC, already noted, there are

some who maintain that growth and equity are mutually antagonistic objectives. For the government which I represent, however, not only is it necessary to reconcile these two purposes, but equity must be seen as an intrinsic element in the sought-for changes in production patterns.

We have noted with great satisfaction the high quality and soundness of the documents prepared for discussion at this twenty-third session of ECLAC. I refer, of course, to the papers entitled *Latin America and the Caribbean: options to reduce the debt burden* and *Changing production patterns with social equity*.

As we embark upon a new decade, after one which has come to be known as "the lost decade", we are all faced with the shared need to take actions which will ensure an international environment that will facilitate our development.

The development process, which is difficult in itself, cannot be undertaken in a hostile environment in which serious financial problems persist and there is no guarantee of smooth access for our exports to the great international markets.

In our opinion, the document *Latin America and the Caribbean: options to reduce the debt burden* represents a good statement of the problems assailing the region in this field and the ways they could be tackled.

We agree with ECLAC on the need to seek ways to strengthen the Brady Plan and correct its shortcomings. We also agree that the developed nations must make a bigger effort to provide public resources for debt reduction and supply additional financing to the nations affected, for flexible allocation in the renegotiation of their commitments to the creditor banks. This effort to reduce the debt should also extend to commitments with the Paris Club.

Likewise, we believe that it would be an important step forward if measures were taken to eliminate the legal, regulatory, accounting and tax obstacles standing in the way of debt reduction.

We must, however, take care with regard to proposals which could give rise to certain rigidities in the conduct of some of the actors in this process, such as the IMF. We must also avoid any measures which could affect the flow of

development resources from multilateral agencies such as the World Bank and IDB.

With the same determination that we must show in trying to secure a less restrictive environment, we must also assume our own responsibilities in the creation of conditions and the definition of policies to improve our situation.

It is no use restricting ourselves to merely denouncing the international obstacles that stand in the way of our development. In this respect, we are in full agreement with the view, expressed in the document *Changing production patterns with social equity*, that development calls for a long-term effort in a number of directions.

These directions include the maintenance of macroeconomic discipline, the pursuit of social equity, concerted action by the various actors in the economic process, and of course an ongoing effort to increase our competitiveness. This in turn calls for the existence of a properly articulated production structure with great capacity to adapt to changing technological trends.

We consider that the ECLAC proposals make substantial contributions in all these areas. It is therefore important to disseminate and further develop them in order to adapt them to the characteristics of the different economies of the region. My country is particularly interested in working with ECLAC and the other member governments in this direction.

On behalf of President Patricio Aylwin's government, I wish to take this opportunity to officially confirm our offer that Santiago should be the venue of the twenty-fourth session of ECLAC in 1992.

We wish to join with the other countries of the region in a commitment to growth, modernization and social justice. We do not believe that a country can or should go it alone in seeking to integrate into the world economy.

It is our firm will to co-operate with the countries of Latin America and the Caribbean. However, we do not want to get bogged down in rhetorical pronouncements which serve only to bring new frustrations. Integration must be based on a quest for concrete results. The rapid industrial and technological changes which are taking place in the world undoubtedly offer

possibilities for both integration and co-operation at the regional level, and we must make every effort to take advantage of these.

The difficulties through which Latin America and the Caribbean are passing make it difficult to advance towards our great goals. Even against the background of its recent political and economic crisis, however, Latin America has achieved some useful results which could serve as a guide in our common quest.

In this respect, we are completely in agreement with ECLAC's view that integration should provide net benefits for all those participating in it, be reflected in the national political projects, and win the support of the various strata of the population.

A first aspect in which we have made some progress is that of achieving greater political homogeneity. Past experience of integration processes shows that they are more feasible when the participating countries not only share similar problems and geographical locations but also have common values and political objectives. Latin America's advance towards democracy at both the national and regional levels is the underlying foundation that makes possible the political co-operation and the dialogue which are essential for integration.

Secondly, I believe we are moving forward arduously but steadily towards the achievement of greater compatibility between our economic policies. If the nations desiring greater integration do not have proper control over their macroeconomic variables, if the conditions in which they carry on their domestic production are too disparate, and if there are still artificial

barriers between them which hinder trade and the free circulation of goods and services, then all the talk about integration will be mere empty rhetoric.

The adjustment effort in which our countries are engaged, each according to its own needs, represents the first step towards a situation where the economies are capable of being integrated at the regional level.

Thirdly, what has happened in the last few decades has served to give Latin Americans a greater sense of realism. The co-operation and increasing integration of our economies can only be based on real expectations of mutual benefits for all the participants. If the businessmen, transport firms, workers, exporters and bankers of our countries do not see clear benefits for themselves in integration, then integration will not take place, no matter what fine speeches politicians and intellectuals make on the subject. If it is to win support, co-operation must bring concrete results quickly, even though they may be only modest.

Our role, then, is not to design great plans for complementation but to use all our imagination to break down barriers, do away with red tape, and expand markets to the regional level. This will be possible in so far as we stabilize our economies at the domestic level, but it is not necessary to wait until then in order to set out on the road towards integration.

Only if we do these things will we be in a position to close the gap that separates our continent from the industrialized world and advance towards the twenty-first century in democracy.

*Ernesto Zedillo Ponce de León*

**Minister of Planning and the Budget of Mexico**

### **The mexican road to change**

On behalf of the Government of Mexico, I should like to express to the Venezuelan Government our heartfelt appreciation for its having offered this beautiful city, founded by Diego de Lozada, as the venue for the twenty-

third session of the Economic Commission for Latin America and the Caribbean.

Caracas epitomizes much of our common history: its foundation as a colony furthered the mingling of races and cultures of which we Latin

Americans are now so proud, while its location near the Atlantic coast recalls the gateway through which our Hispanic culture entered and points to the potential for the integration of the continental mainland with the Caribbean and the opportunities that the oceans hold out for us.

The ground of Caracas is permeated with the uniting force of Simón Bolívar, while the urban landscape of this capital city still reflects many of our virtues as Americans and quite a few of our long-standing problems. Some feature of every one of us is present in this magnificent city which is at once of the Caribbean and of the inland plains; a neighbour of both the Andes and the Orinoco; modern and yet colonial; a university town yet also a mighty industrial city; cosmopolitan yet tranquil; up to the minute, yet proudly conscious of its great traditions: in a word, a city which is a worthy reflection of Bolívar himself. It is with the deepest satisfaction that the Mexican delegation is participating in this meeting here in Caracas, at which the long-standing fraternal bonds between the countries of Latin America and the Caribbean will be further strengthened.

There is something both generous and miserly in the shared history of Latin America. Nature was bountiful indeed as regards the size of our continent and the richness and variety of its resources, and in the nineteenth century our just ambition to be independent came to a head, albeit in conditions which placed us at a disadvantage compared with those countries which had industrialized more rapidly. Thus, the process of building our Nation-States has had to face internal divisions and threats from outside the region.

The fate which the twentieth century reserved for us has been contradictory: while other continents had to settle their regional conflicts or clear up the dilemmas of their own development, here in Latin America we enjoyed decades of relative peace in which we applied models that seemed as though they would incorporate us into the booming contemporary civilization. However, these models were soon exhausted without having brought either full development or the elimination of poverty and inequality. In contrast, great industrial powers arose from the ashes of the European and Asian battlefields, and there, where it had seemed that

the world was being rent asunder and there was a climate of deadly confrontation, we now see a community of remarkably strengthened nations and the outlook is one of a level of integration without any precedent in world history.

With the end of the present century already in sight, Latin America continues to be marked by ambivalence. On the one hand, the democratic political processes which are under way in our societies are most encouraging, but on the other, the economic situation of the region continues to be very adverse. Thus, the report of this Commission on the economic performance in 1989 continues to reflect problems which were already present throughout the 1980s: low growth; decline of the per capita product; intolerably high rates of inflation and unemployment; a drop in real wages, and an increase in the region's external debt burden which, though a little less marked than before, nevertheless involves a heavy transfer of resources to the exterior.

The region's efforts to overcome its serious economic problems are still taking place in an unfavourable and inequitable international context: interest rates on the external debt are still very high; the terms of trade with the rest of the world are far from being at fair and equitable levels, and indeed, the prices of some of the region's export products have registered a steady decline. In Mexico, the movement in favour of social justice and the desire to build a solid and prosperous economy ran up against the exhaustion of the development model and the outbreak of a severe economic crisis. Only the force of our political institutions and the collective toughness of our people have permitted the maintenance of social peace, liberty, and the continued enjoyment of political rights.

In the space of 50 years, we had increased our per capita gross domestic product fourfold, and for several decades we kept up an average annual growth rate of over 6%. Our economic and social structure changed substantially: from being a fundamentally agricultural and rural country we became a predominantly urban society. Year by year there was a noticeable improvement in our indicators of well-being, and this further fuelled our optimism. The generalized progress of Mexican society, together with some particularly



outstanding achievements, attracted the attention of researchers of the most diverse schools, for the Mexican economy had grown to the point where it occupied the fourteenth place in the world.

However, limitations in the structure of production and serious social shortcomings remained. Our economy was excessively concentrated in just a few cities, leading to heavy costs for the provision of the necessary services; regional development and the development of the various sectors of production were very disparate; there were still areas of critical poverty, and for a long time our competitiveness was below par. The successes achieved in import substitution became a decoy which distracted attention from the need to make profound changes. Thus, attempts were made to compensate for the weakening of productive activities by taking some measures to increase demand, such as the proliferation of public enterprises in fields previously limited to the social and private sectors, or the acquisition by the State of private firms which were in financial difficulties. It was sought to relieve the structural weakness of the economy through the generalized application of all kinds of subsidies. Moreover, the population growth rate only aggravated the difficulties assailing the almost moribund economic model, for the population was increasing at the same time that the capacity of the economy to satisfy its needs was steadily shrinking.

The country began to register increasingly intermittent and ever-briefer periods of growth, followed by longer and longer periods of economic recession. At the same time, the sudden sharp adjustments of the exchange rate and of the prices of public goods and services which were applied every time the imbalances reached unmanageable proportions gradually undermined the stabilization capacity of the economy until rates of inflation with as many as three digits were recorded: something hitherto unknown in Mexico in this century.

Towards the end of the 1970s, it looked as though oil was the answer to all these problems. The income from oil exports, together with a huge injection of financial resources based on optimistic estimates of the probable evolution of hydrocarbon prices, was used to relieve the

distortions which had built up, thus putting off the necessary corrections of an outmoded structure. When the bright prospects of the oil industry did not materialize and the resource inflow was reversed into an outward flow, however, the Mexican economy entered a crisis situation characterized by over-indebtedness, extremely high fiscal and balance-of-payments deficits, and serious structural imbalances.

In response to this situation, the Mexican Government initiated a process of change designed to transform the production apparatus, raise the general level of efficiency of the economy, and build up an export sector capable of generating the resources needed for development. Measures were taken to put the public finances on a sounder basis, including the reform of the para-State sector. The economic stagnation and pressing social demands made thorough-going changes imperative, but these efforts had to be deployed against the background of the worst external conditions since the war and an unfavourable domestic situation made still worse by the earthquakes in 1985. Even so, however, our economy began to be more competitive, our public finances were placed on a sounder basis, and the size and productivity of the public sector have begun to be more consonant with the needs of growth and the gradual promotion of general well-being.

It is in this context that the country received the proposals for change made by President Carlos Salinas de Gortari. On taking power, the President called upon the people of Mexico to enter into three basic National Agreements to extend our democratic way of life, achieve economic recovery with price stability, and raise our standards of living on the basis of productive improvements. He also instructed the Ministry of Finance to seek a renegotiation of the external debt in line with the objectives of our economic policy.

The Mexican Constitution imposes upon the State the duty to organize a democratic system of national development planning which will ensure solid, dynamic, lasting and equitable economic growth on which the independence and political, social and cultural democratization of the Nation may be based. It was with these duties in mind that the National Development Plan for the period 1989-1994 was prepared.

This is the guiding document of our Democratic National Planning System, and for the six-year period in question it contains four fundamental goals:

- Defence of Mexico's sovereignty and promotion of its interests in the world;
- The extension of democracy;
- Economic recovery with price stability; and
- Raising the standard of living of the population on the basis of productive improvements.

In order to achieve these four objectives, the National Development Plan takes modernization as its general strategy. Modernization means changing our forms of organization to produce riches and well-being and distribute them in an equitable manner; taking an optimistic approach to the changing opportunities offered by the present situation, and liberating the energy of the whole of society so as to make it more efficient and productive. The modernization strategy assumes that there is a need for change and that such change must be carried out in directions and degrees which are in keeping with our ideals of sovereignty and peace, democracy and freedom, and well-being and justice.

The Development Plan which guides Mexico's efforts in this field, like the document prepared by the ECLAC secretariat, seeks to change production patterns while attaining greater equity. In this respect, I should like at this point to express our appreciation to the Executive Secretary for the effort which has gone into the preparation of the documents serving as the basis for the discussions of the present session. Mexico is pleased to note that the realistic, pragmatic and constructive tone of these documents shows that ECLAC is clearly capable of meeting the challenges facing Latin America and the Caribbean at the present time.

The necessary changes in production patterns will only be possible through the recovery of firm, steady growth based on economic stability, the expansion of the resources available for investment, and modernization of our economies.

Recovery of growth on an equitable basis will only be possible if we consolidate the reduction of inflation. Latin American experience has convincingly shown that high

rates of inflation concentrate income, divert the attention of the production sector to activities of little or no social value, lead to a deterioration in the role of money, seriously complicate production and investment decisions by distorting relative prices, and endanger peaceful social coexistence.

Mexico has made important advances as regards economic stability. Inflation has been brought down from 160% in 1987 to a little under 20% in 1989, thanks mainly to the great fiscal and monetary adjustment effort made since 1983. This effort really began to bear fruit in 1988, however, when it was combined with the social concertation which we are still pursuing. Thus, the reduction in the planned expenditure of the public sector, as a proportion of the product, amounted to 9 percentage points between 1983 and 1989; the financial deficit of the sector went down from 16.9% of the product in 1982 to only 5.8% in 1989, while the operating or real deficit on the public finances, which had reached a level equivalent to 10% of the gross domestic product in 1981, was less than 2% in 1989.

The fiscal adjustment effort made in Mexico has been a fundamental element in initiating and pursuing the changes which the country requires. It was clear that unless the public finances were placed on a sound basis, any efforts to secure a lasting reduction in inflation would be in vain. Such an effort is necessary in order for modernization of the economy to be successful and bear fruit, but it is not of itself enough. For this reason, the Government called upon the peasant, labour and business sectors to enter into a concerted agreement to reduce and control inflation while avoiding the cost of a severe economic recession. We Mexicans have found this concerted agreement to be a valuable instrument of shared responsibility which enables us to share out the burden of resuming growth with price stability. Through this concertation, the Government has also confirmed its legitimate authority for carrying out numerous measures of structural change and has strengthened its arguments *vis-à-vis* the country's international creditors in favour of the renegotiation of the external public debt.

Economic stability is an indispensable condition for ensuring that the resources of the

economy are assigned to productive investments. In Mexico, however, just as in other Latin American countries, the present situation demands that such resources should be expanded. Consequently, our country has applied policies designed to stimulate public and private domestic saving and increase the availability of external savings.

Public spending is now directed more precisely towards the execution of those tasks which are the strict responsibility of the State, while the new tax policy seeks to expand the tax base and further increase the equity of the tax system. The financial system, for its part, is being substantially reformed to enable it to recover and enhance its capacity to generate, retain and effectively channel the flows of savings of the population. The compulsory deposits previously required from the banks have been replaced by a system of liquid reserves of a preventive nature, thus eliminating compulsory credit for specific activities; bank interest rates have been freed, and other financial institutions have been given greater flexibility of action. All these measures have increased the level of competence and efficacy of the Mexican financial system.

A few days ago, the President sent to Congress a Bill proposing the restoration of a mixed-economy system with regard to the ownership of banking and credit institutions. The State takeover of the banking system in 1982 took place against the background of an acute financial crisis and a steady deterioration in the economy. Now, however, the circumstances have changed. Mexico has corrected its most serious imbalances and is making decisive progress in changing its production patterns. Today, the main foreseeable needs require the State to concentrate its attention on its basic, fundamental responsibilities, where its presence is not only a political obligation but also the will of the people.

If approved by the Legislature, this Bill will make it possible to assign additional public funds to the solution of broad social problems, while the capitalization and modernization of the banking institutions will open them up to society as a whole so that, in an atmosphere of co-responsibility, it can impart a new rhythm to their activities. There will be no departure from

the State's obligation to ensure that the banking and credit services comply with the objectives of national development and are in keeping with the public interest. Nor will there be any reduction in the attention paid to those production activities which require special credit conditions and technical assistance support, since in the case of the Development Banking System the majority ownership by the State will not only be maintained but even increased.

The resources obtained from the sale of the State's share in the banking system equity must be used to help strengthen the economic stability of the country, to increase the potential for lasting development, and to take care of the pressing demands of the least-privileged members of society. These additional resources will make it possible to reduce the fiscal deficit, relieve the external debt burden, and consolidate the economic recovery process. The Mexican State will increase the facilities for new investments in development infrastructure and for priority action in line with its social aims.

It goes without saying that an item of the greatest importance in establishing suitable conditions for reactivating and promoting development is the renegotiation of the external debt. The strategic importance of this is clear if we recall that for more than a decade Mexico transferred to the exterior resources equivalent to some 6% of its gross domestic product: indeed, the figure came to some US\$70 billion over only eight years.

It is worth looking carefully at the scope and complexity of the terms on which Mexico renegotiated its external debt.

The International Monetary Fund has recognized that external financial commitments must be subordinated to national economic growth objectives. It has also acknowledged that an excessive debt burden is an obstacle to economic growth with price stability. Consequently, the Fund accepted Mexico's proposal that its net transfers should be reduced in line with the country's economic growth objectives, and it authorized the provision of resources totalling US\$4 135 million over a period of three years, with the possibility of using part of this sum for debt reduction operations.

The World Bank also accepted Mexico's economic programme and offered credit of over

US\$2 billion per year during the period 1989-1992, likewise with the possibility of using part of this sum for debt reduction.

The Paris Club, for its part, agreed to restructure US\$2.6 billion dollars of capital and interest maturities over a period of 10 years, with six years' grace, and its members confirmed the availability of guarantees and/or credit for financing their exports to Mexico.

A package totalling some US\$48 billion, equivalent to nearly 50% of the Mexican external debt, was renegotiated with the commercial banks. Specifically, 42.5% was converted into 30-year bonds with a reduction of 35% in the principal; 47% was converted into 30-year bonds with an interest rate of 6.25% per year in dollars or the equivalent in other currencies, and the remaining 10.5% was committed for the contribution of fresh additional funds amounting to US\$1 091 million.

Economically and financially, the package renegotiated with the banks means a reduction of US\$15 billion in the principal of the Mexican external debt, so that, if we also take into account various other debt reduction operations carried out in 1989, together with exchange rate variations and amortization payments totalling some US\$5 billion altogether, the Mexican external debt finally went down from US\$100 billion in December 1988 to less than US\$80 billion on 31 March 1990. This is undoubtedly an amount more in line with the size of the Mexican economy, as it now represents 40% of the GDP and brings the annual net transfers abroad down to less than 2% of the product, compared with an average of 6% in previous years.

The results are beginning to be clearly noticeable in the country. Little by little, a climate of confidence and security has been growing up which has led to the repatriation of a substantial volume of capital.

Likewise, foreign investment is also beginning to take advantage of the important advantages offered by Mexico's domestic conditions, its close links with international markets, and its advantageous geographical location, all this being further facilitated by the updated regulations now adopted. The new rules make the mechanisms for the implementation of direct foreign investment projects clearer and

more flexible, while measures of expansion and liberalization have been taken with regard to the areas where such investments can be made as well as the possibilities for ownership by foreign investors.

Modernization of the economy is an essential requirement in order to attain the goals we have set ourselves. Not only is it necessary to obtain more resources and create the conditions for them to be effectively channelled to investment and growth, but they must also be used more efficiently.

Mexico has gone a long way in its process of structural change, and the process of trade modernization has been one of the main elements in this. This process of change is prompted by a desire to reach trade agreements which bring concrete benefits for the people of Mexico, strengthen national industry (especially small and medium-scale industry), and promote a sustained increase in real wages and employment so as to act as real vehicles of social development.

The kinds of trade agreements we are seeking are in line with the principles of multilateral international trade and aim to further cement our position in the Latin American sphere, with which we are united by our common origins and the similarity of our form of development. We also seek a fruitful combination of these agreements with the terms of our trade negotiations with other markets and financial, technological and industrial centres such as the European Economic Community, the Pacific, and North America.

With the aim of attaining conditions of reciprocity which will favour the development of our economies, Mexico has freed over 80% of the total value of its imports from the requirement for prior import licenses. Such imports are now subject only to *ad valorem* tariffs whose weighted average is less than 10%.

During the present administration, a review has been initiated of the domestic regulations affecting a considerable number of activities, with the aim of eliminating market practices which militate against productivity and competition. The areas thus being subjected to various forms of deregulation range from regulations on industrial packaging and on the acquisition of foreign technology to federal

regulations on public freight transport, and they extend from the operation of the coffee, sugar and fishery industries to the areas of telecommunications and petrochemicals. The task of promoting modernization in order to raise the efficiency of the productive apparatus is far from over, and there is ongoing examination and analysis of new areas where changes in the existing regulations could mean an increase in industrial productivity or the elimination of unwarranted privileges.

Another crucial aspect of the modernization process in Mexico is the privatization of public enterprises and bodies which were set up in the past when it was believed that increasing the direct activity of the State in the production of goods and services was of itself an appropriate response to the recurrent trends towards economic stagnation.

Past history teaches us that beyond any doubt the determined action of the State in the field of its primary functions is of fundamental importance for promoting development. More recent economic history also teaches us, however, that when there is a departure from the real priorities of State activity, this usually weakens the State's impact in those areas where it is socially indispensable. We have learnt that when the action of the State is diluted, it loses effectiveness and discourages the collective effort to further the development of the country as a whole, promotes economic weakness and fuels fiscal deficits and financial crises, and ending up by doing much deeper and more lasting damage which far outweighs the partial and transitory benefits it seemed to promise. In short, we have learnt that development cannot be achieved through a single sector, but only by the sum total of comprehensive efforts, which means respecting and stimulating the action of each of the sectoral components of the country.

In Mexico, the State is engaged in a profound redefinition of its functions. Until the end of 1982, the State participated in numerous sectors of the economy, through 1 155 public bodies. Now, however, 870 of these have been either sold, liquidated, eliminated or transferred to other sectors. Fiscal transfers to public enterprises have gone down from 8.1% of the product in 1982 to less than 4% in 1989. In all cases, the changes of status were carried out in

strict compliance with the relevant laws or other legal provisions. These measures have been particularly marked in respect of public enterprises in the areas of telephones, mining, iron and steel, air transport, shipbuilding, tourism and the secondary petrochemical industry.

The Government of President Carlos Salinas de Gortari, convinced that a huge and all-embracing State is not necessarily the same thing as a strong, just State, has pressed on with the process of bringing the size of the public sector in line with the demands of world change. The Mexican State, strengthened by its political pluralism, in no sense renounces its duty to lead the economy in the right direction, as laid down in our Constitution. On the contrary, it seeks to make its participation more efficient, flexible and just by promoting civil initiative and furthering the interests of the people.

My delegation has tried to express the domestic effort made by all the people of Mexico. All the other countries of Latin America and the Caribbean, in line with their own particular political, economic and social conditions, have been making similar efforts to further their development.

It is necessary to mobilize international co-operation in order to create the minimum conditions which will permit the success of each of the measures which the Latin American governments are applying and the overall set of efforts which are being made to secure changes in production patterns with social equity in the region. The International Development Strategy which is to be designed for the coming decade is a basic component in this co-operation. For economies which are in the process of opening up, the international economy becomes a critical variable in their development process. Stability of commodity prices, assured access to markets for their exports of goods and services, a positive resource transfer, appropriate solutions to the external debt problem, access to suitable technology in the fields of greatest importance for their international competitiveness, and support for their programmes designed to help the poorest strata and combat the narcotics problem are just a few of the basic requirements in this international component of Latin American development.

We have adopted a resolution on support for the people of Haiti, and we hope to adopt very soon another one on co-operation among the countries of Latin America and the Caribbean. We can therefore say that we have clearly shown that we of Latin America and the Caribbean believe that co-operation among the countries of the region is necessary in order to achieve development, and we hope that all the member countries of the Commission will show their willingness to carry out all the international measures of development co-operation that will be necessary.

As the documents before us at this twenty-third session of ECLAC make clear, economic change and growth in our countries must be propelled on the basis of equity and justice. Sustained economic development is necessary for the creation of more jobs with better wages, the eradication of poverty and the protection of the environment. Growth in a climate of stability and confidence is a necessary condition for correcting the structural distortions and doing away with the social lags which still persist in our countries, sometimes to a dramatic degree.

The social inequality and heartrending misery which still exist in some cases demand attention that cannot be delayed. Consequently, the Mexican Government has put into effect a National Solidarity Programme which seeks to bring immediate relief to the problem of extreme poverty in our country. Far from imposing the criteria of the central administration, this programme is closely adapted to the most pressing needs of the communities concerned, through their active participation in both the formulation and the execution of the projects. One of its aims is precisely to involve the communities in the solution of their own specific problems by providing not only for the contribution of financial resources but also for intense community participation in the execution of social improvement programmes. Thus, it is the members of the community themselves who are given the always welcome responsibility of taking part in assigning social expenditure and sharing in the effort. To put it briefly, the National Solidarity Programme is allowing us to reconcile the implementation of an ambitious social policy with the maintenance of balanced public finances.

It is obvious from the foregoing that the reforms introduced under the Mexican Government's economic policy are fully in line with the principles now proposed by ECLAC. It is a matter of great satisfaction to us to be engaged in the task of safeguarding the Latin American heritage of justice and equity while harmonizing it with the common concern to renew our structures of production in line with world realities of the coming century.

At the present time, the tendency towards integration is a phenomenon which is to be seen in the various regions of the globe. The structure of the international economy is undergoing changes which promote the creation of great economic blocs, giving rise to a more demanding and competitive market. Various examples of this phenomenon are taking place with great rapidity before our very eyes, both in Greater Europe and in the immense Pacific area, as well as along the mighty industrial frontier between the United States and Canada.

The Old World already has an exceptionally rich past history of integration, and it is expected that by 1992 it will have consolidated its position as one of the great poles for economic negotiations. A basic element in the European achievement has been the elimination of tariff and non-tariff barriers to trade in that region. This has stimulated trade and been singularly effective in bringing the more backward economies of the continent up to the general level of development.

In the face of this definition and consolidation of blocs which increase the economic might and strength of their members, Latin America must not lag behind. It is absolutely necessary to promote the integration of Latin America and the Caribbean in order to share in the potential offered by world evolution. It is therefore necessary to prepare a wide-ranging economic project for the region by joining together to identify the patterns and strategies which can hold out the greatest social benefits for our peoples. In this respect, ECLAC has carved out for itself a distinguished place in the systematic study of our common problems and the judicious and objective recommendation of the policies to be applied. ECLAC is therefore called upon to play a decisive role in facing up to the new challenges to Latin America and the Caribbean.

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.