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Latin America and the Caribbean and the world economy

*Address delivered by Mr. Gert Rosenthal,
Executive Secretary of ECLAC,
at the opening of the twenty-fifth
session of the Commission, held at
Cartagena de Indias, Colombia,
20-27 April 1994.*

I should like to begin by expressing our gratitude to the people and Government of Colombia, and most especially to President César Gaviria.

First, for their unwavering support of the United Nations in general and the Economic Commission for Latin America and the Caribbean in particular, as evidenced by their active and constructive participation in our forums, their unfailing solidarity with the Secretariat, and their manifest spirit of international cooperation.

Second, for having worked so closely with the Secretariat in the substantive and organizational preparations for this meeting. The efficiency that marked the activities of the technical stage of this twenty-fifth session attests to the extraordinary enthusiasm and dedication of our hosts. Our sincerest thanks are due for the support which we have received from the Minister of Foreign Affairs, Noemí Sanín de Rubio, and from the Minister of Foreign Trade, Juan Manuel Santos, as well as from their staff.

Third, for their felicitous idea of inviting us to Cartagena, where the impeccably modern facilities of this Convention Centre blend with the aura of the past and the memory of all the epochs through which this crucible of history, the Latin American and Caribbean region, has passed. It is hard to imagine a more attractive setting than that which our Colombian friends have offered us, further enhanced by their characteristic warmth.

Accept, then, our deepest thanks to our hosts, and to President Gaviria for being with us today.

Four years have passed since the end of the decade marked by the great crisis in Latin American development. Among its many legacies is a fuller under-

standing of macroeconomic management and the modernization of production, but in contrast it has also left a backlog of accumulated social problems that affect a sizeable proportion of the population of our region. Our Secretariat has sought to take advantage of this legacy by providing policy makers with conceptual tools to help them weather the crisis and redress these social needs. This response of ours, which also first saw the light four years ago, is contained in the proposal entitled *Changing production patterns with social equity*. This, however, was just the beginning of a new series of reflections on how to take a systemic approach to the complex task of ensuring growth, distributing its benefits, protecting the environment and consolidating democracy, all at the same time, in so far as possible. We declared then, and we reiterate now, that the possibility of achieving all this hinges on the formation of stronger links between the Latin American and Caribbean countries and the world economy.

In launching that process of reflection, the Secretariat was not only responding to an objective need raised by the widespread perplexity occasioned by the questioning of development strategies challenged by new circumstances. It also sought to take up once again the institutional role that ECLAC –both through the Secretariat and through the Commission’s role as the region’s main intergovernmental forum– has traditionally played in pointing the way for Latin American and Caribbean development.

Much progress has been made in the past four years, both in clarifying ideas and in achieving concrete goals.

With regard to ideas, today we have a better understanding of the central elements of good macroeconomic management, the regressive effects of disorderly, recessionary adjustment, the importance of microeconomic policy, the links between development and the environment, and the nature of innovation and its application to the production process. We have also deepened our analysis of the complementary and opposing relations between policies that seek economic growth and those that pursue social equity.

With regard to achievements, the region’s economic situation has changed considerably in recent years. To varying degrees from country to country, the macroeconomic imbalances that characterized the previous decade have begun to improve; the transfer of financial resources out of the region has turned into a net inflow of foreign capital; the export sector has grown and diversified; and economic activity as a whole has exhibited a modest recovery, on bases qualitatively different from those in place just a few years ago. Thus, the sense of defeat that prevailed in the 1980s has given way to buoyant vigour in the 1990s.

Our institution, and especially this forum, has influenced these events –and has been influenced by them– by interpreting the nature of the events taking place, collecting the wealth of experience of the various countries of the region to make it available for all, and formulating proposals for action to help countries gain access to development and to promote intraregional and international cooperation.

However, just as the improvements in economic performance are as yet still insufficient and partial, the work of updating our conceptual framework is also far from over. Indeed, this task must be conceived essentially as an ongoing process, especially in view of the need to adapt economic thinking to the rapid changes which the Latin American and Caribbean countries have to contend with in the region and, even more importantly, in the rest of the world.

This is why we have decided, on this occasion, to continue our collective thinking with a topic of special relevance for Latin America and the Caribbean: the requirements that each country in the region must meet in order to interact dynamically with the rest of the world. This issue has already been tackled in the Commission's pioneering proposals and in many of its subsequent studies. Today, however, external economic linkages have taken on a radically different meaning in the context of economic globalization.

Our reflections follow two main lines: first, the interaction of each Latin American and Caribbean country with the others in the sphere of regional (and eventually hemispheric) integration; and second, the interaction of each of them with the broader economy outside the region. These topics are closely interrelated, since contemporary integration agreements can and must help to improve the international linkages of the countries of the region, while greater participation in the international economy will also tend to strengthen intraregional ties of economic interdependence.

During the technical stage, the Secretariat has had the opportunity to discuss the contents of the two principal documents submitted for consideration at this session. However, I would like to stress six points which we feel should be clarified. Not only are they crucial for the future development of the countries of the region, but they also concern an area that has not yet been sufficiently explored: the interface between short-term policies and medium- and long-term ones.

First, as we have been stressing since 1990, the achievement of international competitiveness –as an ineluctable requirement for sustained and sustainable growth and for improving the distribution of income– requires a systemic approach. In other words, multiple problems must be solved simultaneously, both within individual firms and within the socio-economic and physical system in which they operate. This is why the document we have prepared for this session on policies to improve the linkages of Latin America and the Caribbean with the international economy covers both macroeconomic policy and micro- and meso-economic policies, as well as the way in which these combine with trade policy. For example, in studying the region's wealth of experiences in the area of trade policy, we consider not only their specific content and short-term application, but also their linkages with other macro- and microeconomic policies.

Likewise, the modernization of trade policy is not confined to the progressive elimination of import restrictions: another essential element is the formulation of a strategy for integration into international markets and a set of coherent guidelines and measures for its implementation which, if applied with vigour and persistence, will favour the production of goods and services with export potential, facilitate the restructuring of the import-substitution base and enhance systemic competitiveness.

Second, another topic that has not yet been sufficiently considered in the aforementioned systemic framework is the link between trade policies and financial policies (or, if you will, between the current account and the capital account of the balance of payments), given the undeniable influence of capital inflows on the efficiency of resource allocation through two key variables: the real exchange rate in the foreign-exchange market and the real interest rate in the monetary market. Our conclusion is that, in general, trade and domestic financial markets should be liberalized before the capital account is opened up and that, in any case,

certain requirements relating to the overall coherence of macroeconomic policy and the regulation of financial markets should be met as a precondition for the latter.

Third, the reversal of net external financing trends has not always been duly reflected in levels of investment. In recent years, the growth of the investment coefficient has been significantly lower than the increase in the inflow of resources from abroad because part of the latter had to be used to offset the deterioration in the terms of trade, and another part was used to finance an increase in consumption, particularly of imported goods.

Fourth, the Latin American and Caribbean countries must be prepared to act in the international economy as it stands, and not as they would like it to be. Although it is clear that the export effort of the countries of the region would be facilitated by favourable external circumstances –i.e., an expanding international economy, an open and transparent trade regime and adequate access to financing and technology– this does not alter the fact that the content and scope of domestic policies to improve integration into the world economy also play a basic role in this. In other words, improving the international linkages of the region's economies depends on both the external environment –which we can probably influence only marginally– and national and regional efforts, which do indeed offer an opportunity to apply deliberate, concerted actions and strategies.

Fifth, by turning our backs on the old controversy in which the developing countries attributed their poor economic performance to an unfavourable international climate, while the developed nations blamed it on deficient economic management, we have increased the potential of the United Nations to contribute to international cooperation, because the climate prevailing today contrasts favourably with the environment created by that conflict and by the accusatory tone that went with it, which often led to a polarization of positions that ran counter to constructive cooperation.

Sixth, these considerations form the basis for our proposal on Latin American and Caribbean integration. Basically, in the proposal we have called “open regionalism” for Latin America and the Caribbean, we have tried to reconcile the objective of improving the countries' position in the world economy with that of taking full advantage of the potential for intraregional economic integration: for promoting a form of regional integration that also works in favour of international linkages. Since not all subregional or bilateral agreements meet this requirement, the characteristics of integration agreements must be considered very carefully.

I wish to clarify, however, that the kind of integration we propose is equally valid either in a more open and transparent international economy or in a world fragmented into blocs of countries. Obviously, we hope that the first of these scenarios will materialize, in which case integration agreements would become the building blocks of a world free of protectionism and hindrances to the exchange of goods and services. But if this should not come to pass, for reasons beyond the control of the Latin American and Caribbean countries, we propose that, at least, the region itself should form such a bloc in order to offset some of the costs of an even greater degree of isolation. The main point is that “open regionalism” would allow the region to prepare for an open and transparent international economy without giving up the option of using integration as a defence mechanism, if need be.

Before concluding, I would like to remind you that our agenda is not limited to the interaction of each Latin American and Caribbean country with the region and the world. It also includes other issues that relate more directly to our concern that changing production patterns should go hand in hand with social equity. We will therefore be considering at this session the possible ways in which the collective aspirations of the countries of the region should be presented at the World Summit on Social Development. The objectives of that meeting coincide with many of the priorities enunciated in the past by ECLAC, especially in the areas of social integration, job creation and the fight against poverty. I think that the Latin American and Caribbean region has much to offer the Summit, in terms of both analysis and practical experiences. Moreover, we hope that the outcome of the Summit will lend new legitimacy to the idea that social equity must be considered as an important variable in the development process.

In addition, we will be submitting for your consideration a preliminary draft Latin American and Caribbean Regional Plan of Action on Population and Development, which represents the fruit of several subregional and regional meetings held in the past six months. This document aims to complement the Latin American and Caribbean Consensus on Population and Development, adopted at the Latin American and Caribbean Regional Preparatory Meeting for the International Conference on Population and Development.

We have also continued our thinking on how to reconcile the objectives of growth and equity in a study prepared jointly with the Pan-American Health Organization, in which we analyse the links between health, changing production patterns and social equity. This study reflects our concern about investment in human resources, which we have already expressed in previous studies on education and knowledge, and we trust it will be instrumental in helping to reassess the importance of health in the development process.

Despite the many obstacles to development that still remain in Latin America and the Caribbean, an array of potentially favourable factors that could give development a significant boost is also in evidence today, including the progressive assimilation of the lessons learned in the effort to expand and diversify exports; the improvement in the quality of macroeconomic management; the chance to fill what has hitherto been a gap in public policy implementation in the region, by applying micro- and meso-economic policies to increase productivity in accordance with the best international practices; the renewed access to external financing; and the resurgence of intraregional economic cooperation.

Our debates, in which we will clarify our ideas and offer guidelines for action, will revolve around the possibilities for taking advantage of these factors and capitalizing on the considerable achievements of recent years. This meeting in Cartagena, then, provides the Secretariat with a further opportunity to interact with its member Governments and to help promote the development process and international cooperation alike. We are resolved to take another step in that direction today, inspired by the presence of such distinguished representatives of our member States and of the Government of Colombia.