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ILPES: EXTERNAL INSERTION, DEVELOPMENT
AND PLANNING

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- Proyecto PNUD/ILPES:** "Elaboración y Difusión de Nuevas Técnicas en la Planificación y Programación de Políticas Públicas"
- Project UNDP/ILPES:** "Elaboration and Dissemination of New Techniques in Public Policy Planning and Programming"
- Projet PNUD/ILPES:** "Elaboration et Diffusion de Nouvelles Techniques pour la Planification et Programmation des Politiques Publiques"

A. INTRODUCTION

1. The balance of the eighties allows for different interpretations. One, already very common, is that they have been lost from the point of view of development and, above all, of its per capita expression: there has been a return to standards lived ten years ago or more. Another, less common but more transcendent, is that the economic, social, political and cultural dynamics of the last years, when projected towards the future, show that Latin America and the Caribbean have jeopardized more than the next decade. This idea permeates the entire document, which is dedicated to examining the possibilities of the region becoming more dynamically reinserted into the world of tomorrow.
2. Policies deliberated for the reordering of external relations may help to reduce current vulnerability, but will unlikely be sufficient to eliminate it. In truth, the manner in which the region interacts with the exterior explains part of its problems - including some very serious ones - and conditions others. Nevertheless, it would be simplistic to explain its vicissitudes only in terms of external insertion. On the other hand, the very concept of region needs to be viewed in relative terms, due to its increasing heterogeneity.
3. During the eighties the region's output increased by 11.6% while its population grew by 16.1%. However, the deviation about the means should substitute nearly all averages. Demographic heterogeneity increased: 97% of the population today is concentrated in almost half of the countries (20), the remaining 3% in the rest (14 countries and 4 associate states). Working age population varies from country to country, from almost 50% to close to 65%. Life expectancy ranges from 52 to 72 years. The percentage of urbanization varies from 27% to 85%. Illiteracy rates go from 5% to 60% depending on the country.
4. Likewise, economic and social differences have increased. The highest per capita income (1986) is 16 times the lowest, while the highest gross domestic product (GDP) is 96 times the lowest. Only three countries

generate 77% of the value added by regional manufacturing (1985). In terms of income distribution, the top 10% of the population absorbs from 30% to over 50% of national income, depending on the country; the bottom 20% in all cases receives between 2% and 4% of national income. These few distribution indicators give us an idea of the extent to which averages can distort economic and social analyses of Latin America and the Caribbean at the end of this decade.

5. From 1980 onward, the region gave signs of enormous instrumental creativity, alternating policies of varying degrees of orthodoxy. Moderate reactivation impetus were followed by greater imbalance; then, efforts at austerity aggravated unemployment and accentuated social tensions. In the area of macrovariables, three ended up with irreparable damage: investment and expenditure in science and technology (Sc&T), and certain categories of social expenditure (education and health). In a globalized world, the opportunities for reinsertion by Latin America and the Caribbean are restricted today and will continue to be so in the years to come, as a consequence of this basic fact: short term decisions forget that each yesterday contained definitive conditioning factors for the future.

B. THE REGION'S PRESENCE IN THE EXTERNAL CONTEXT

6. It is known that in post World War II the internationalization of production, markets and culture deepened. Some of its peculiarities are noteworthy: concentration of capital in those enterprises undergoing said process was intensified; their specific company policies were also designed to be international in scope; consequently, a sizable part of what is commonly termed "international division of work" occurs today inside certain companies. Little by little there occurred a new and as yet little-studied articulation of the three conventional spheres of capital: productive, commercial and financial, and more recently, between them and a fourth one which has begun to be called "intellectual capital".
7. Thus a strategic change was witnessed in world economy dynamics, which put an end to the secular paradigm of industrialization based on stable models

of manufactures and on mass production. In this new context it became essential to associate real productivity and competitiveness, with being a sine qua non condition for penetrating and consolidating new markets. Simultaneously, another process of restructuring of the international scenario was witnessed, not completely independent of the previous one, which gave rise to new blocs of association among countries.

8. In this new and shifting power field one must identify opportunities for participation by Latin America and the Caribbean. Concurrently, the new polynuclear nature of the world should favour said opportunities. Herein lies the demand for fine-tuning between diplomacy and development policies geared towards reinsertion.
9. Since at least three decades ago, the different flows of external resources have also been undergoing important changes. Up until the end of the seventies, the region received close to 2% of GDP from abroad for Net Transfer of Resources. During the eighties, it remitted close to 4% of GDP. The "minus 6%" difference is doubly significant: it explains the systematic reduction in per capita income and also explains the drop in investment which will affect the near future.
10. This backdrop already reflects a progressive loss of regional influence in terms of multilateral development policy. Once again, the problem has remote roots. Exactly 20 years ago, the "Latin American Consensus of Viña del Mar" recognized the need to mobilize greater support for the region, "in particular from countries having greater weight in world decisions". Five years later, multilateral aid participation directed at governments of the region had already dropped 2/3, and the main bilateral aid in almost 9/10. As of 1980, Latin America and the Caribbean suffered with the "graduation", which reduced their priority in the distribution of Official Development Aid. This aggravated the availability of external resources which in previous years had already started to be provided through banking operations of a commercial nature. For all these reasons it is possible to state that the region's current external presence falls below the

requirements of its population, the virtual potentiality of its human and natural resources and its right to historical fulfillment.

C. CONTEMPORARY DEVELOPMENT HINDERS REINSERTION

13. The possibility of Latin America and the Caribbean finding fulfillment in the world of tomorrow implies a turn in perspective regarding the past. Contemporary development is best understood on the basis of certain distinguishable but closely intertwined phenomena: knowledge is accumulated, dominated by technological purpose; then, it permits the acceleration of productive and organizational innovation; which is why we witness today a proliferation of formal and informal specialization in the work area, which contributes to the generation of great complexity in structure and social interaction; which, in turn, creates new tensions in terms of governability and ability to govern.

1. Information Inputs and Accelerated Innovation

12. For some time now companies and governments of advanced industrial economies have modified their expenditure in science and technology, being more pragmatic in broadening and reorienting it. Knowledge destined to become technology and technology destined to become product and to broaden markets, both underwent increases in relative growth rate with respect to other types of knowledge and technology. In this way the touchstone was prepared for a new production paradigm: knowledge and technology converted to "information" would penetrate and dominate modern production relations. As a new critical input, knowledge converted to "information units" changes the proportion to which all other inputs are used and, little by little, introduces a factor of obsolescence in previous techniques of productive organization and entrepreneurial management.
13. Productive capital is partially freed from its physical and financial roots and takes the form of "intellectual capital". The accumulation of intellectual capital shifts, the frontiers of technological power ad infinitum; the latter is concentrated in political geography. Thus, high

technology is directed from its birth: first it inaugurates, then it diffuses the new technological and productive standard. To conquer it implies a cost in foreign exchange; to resist it a cost in historic marginalization and to become submerged in it a cost in sovereignty. One would have to assimilate it in a selective manner. This summarizes some of the concrete challenges of this decade's end.

19. This acceleration of innovation has been made possible only through prior growth in Sc&T and R&D expenditure. In this sense the region as a whole is incapacitated to proceed with an immediate restructuring of its productive apparatus, independently of the specific problems in financing it. During the recent past, four spheres of capital "dashed to pieces" the opportunities for restructuring and making the region's economy more dynamic: the rise in international interest rate (financial); acceleration of innovations using new and costly technology (productive); protectionism and a deterioration in terms of trade (commercial); and domestic delays in mastering knowledge and in R&D expenditure (intellectual capital). A strange historical coincidence which weakened regional opportunities for future development.

2. Work and the Informal Sector:

Fractionation and Proliferation

15. Contemporary economy produces "multivariation" in the division of work. Advances in the field of telecommunications, semiconductors, industrial and office automation, thus play a triple role in the creation of new work specialties: directly within each one of its own branches; having an impact on the capital goods industry; and, less directly, through the diffusion of these goods in other industries and in the production of services. It would be useful to point out that the "specialities' explosion" is not necessarily limited to the productive apparatus of each country, be it developed or not. The flexibility which the new technological and productive standard sponsors at an international scale, opens up new possibilities for developing countries. Active external reinsertion critically depends on the innovative and negotiating capacity of the

entrepreneurs of the region, backed up by efficient promotion of the State, which will also be responsible for correcting or compensating equity distortions, which productive modernization may provoke.

16. The multiplying of the informal sector is another facet of this third phenomenon - accelerated broadening of the work spectrum - in a mixture of expansion and greater diversity. Current policy on the informal sector is not sufficient in light of this new dimension of the problem. Knowledge today dominates production and innovation leads markets; within this framework, there exists an added risk for Latin America and the Caribbean: that "growth without employment" will amass those citizens which are less qualified, at the base of its social pyramid, as if they were superfluous.

3. Complex Society and the Crisis of Governability

17. In the world today no national society is exempt from the attributes of complexity. Of course the fractionating of formal and informal work is accompanied by a broader spectrum of income distribution, of values and social expectations, which make the behaviour of the various actors more unpredictable. In the external domain, a deepening interdependence is witnessed, which is a central phenomenon of contemporary societal complexity. In terms of time, its "open entity" nature is intelligible as a major indetermination of the future.
18. Vulnerability and uncertainty - those two undisassociatable traits of a complex developing society - always demand vigilance and the protection of certain basic domestic balance. At the level of inequality in force in Latin America and the Caribbean, said balance cannot depend exclusively on the market; neither can it be born from rigid intertemporal planning exercises. Complexity reduces the efficacy of all partial balance; on the other hand, uncertainty does away with almost all normative efforts at disciplining the future.
19. Vulnerability emerges as a kind of fingerprint of complex phenomena, all similar but each one very unique. As the concept is used here, external

insertion is almost equivalent to interdependence; from this perspective, reinsertion policies are a special case in the management of modern complexity.

20. To culminate, a fifth phenomenon is presented: the vulnerability of current society reduces its governability; accelerated economic and social change reduces the capacity to govern; and thus, the gap grows between the need for government and the capacity to govern. This gap is observed not only in modern states, but also in any large social organization which has the configuration of a complex system.
21. The decrease in governability in a developing society today, is explained by a great many elements, among these: the fractioning of social structure which implies extreme differentiation of aspirations; innovation concentrates power, then social heterogeneity also widens from this point of view; and the innovative stance clashes with inertia throughout the breadth of each society. Likewise, there are serious additional difficulties which undermine the capacity to govern, such as: information available on society is becoming increasingly insufficient in terms of that which is necessary for adequate decision-making; within and without national boundaries, financial matters have acquired greater relative autonomy in the face of commercial and productive matters; and the new strategic role of intellectual capital.
22. The conclusion is that inefficiency can penetrate into the performance of the governing function. Contradictorily, in the international ambit there are various high efficiency foci which promote the new technological standard, impulse modernity and accelerate history. Reinsertion policies should not ignore the real availability of the capacity to govern in the region. There are strong indications that it is decreasing because ungovernability is consuming it from below and management inefficiency is eroding it from above. Nevertheless, greater capacity to govern is not resolved with more power. The multiplication of social agents also generates greater interdependence among its conflicts.

D. THE PATHS TO REINSERTION GO THROUGH GREATER PRODUCTIVITY

23. The debate on the region's development in the eighties has centered, to a large extent, on export oriented policies and on the quality of international specialization. The external debt has forced exports to take on prerogative as a function of critical demand for foreign exchange needed to service it. Recent commercial evolution shows the heterogenous behaviour of products traded on international markets. The value of regional exports increased at a yearly average of 1.7%, equivalent to less than a third of the corresponding world value. Between 1984 and 1988, the region exported 100 in volume to receive 74 in value, while industrial countries exported 100 and received 124.
24. In effect, it is convenient to differentiate between competitiveness/price and structural competitiveness which pays greater attention to the evolution of world demand, to mastery over information and research in applied technology and to technological development. Competitiveness/price is relevant in concurrent markets and with scarce differentiation of products. However, the current trade struggle gives prerogative to competitiveness in innovation, economies of distance and to the quality of entrepreneurial management. For all these reasons, consensus is expanded on the basis of the existence of solid ties between incorporation of technical progress, industrial dynamism, increases in productivity and authentic competitiveness. From this perspective, the technological lagging of Latin America and the Caribbean is serious.
25. The possibility of competitive reinsertion may be strengthened if it produces an active process of domestic articulation and international negotiation, with complementary economies being generated between public and private action. "Negotiation diplomacy" will be essential both for exports and for effective import substitution". The articulation between enterprises and the State has been a key factor, in all successful cases of external reinsertion, in matters as diverse as: the opening up of external markets; public and private investment programmes; development of information and applied technology; basic infrastructure; and negotiation

and regulation of foreign investment. In any case, all these measures together are eluded in a vision focused on the short term. On the other hand, there is a role to be played by regional integration in the boosting of joint and complementary specialization projects and productive modernization, which will allow for the capture of international markets.

26. Within the nucleus of greater authentic competitiveness lies the increase of real productivity. For the period 1950-1980, the yearly average productivity of work in the region grew to more than 4% only in one country; in OECD countries, it is possible to detect periods of over a decade where this annual growth remained between 6% and 10%. In all, the eighties incorporated a decisive component to the region's external vulnerability: the deterioration of investment and productivity, which reduces the possibility of a more solid commercial reinserction in future decades.

E. INSERTION PROBLEMS AND THE FISCAL CRISIS OF THE STATE

27. The experience of the region in recent years has shown a reduction in the degree of governments' autonomy for designing and implementing public policy. It is urgent to regain past levels of investment, social expenditure and formation of new intellectual capital. In truth, the debt has stopped being only a problem of financing of international payments; its servicing has become a dilemma in the utilization of own savings between payment of the debt and domestic allocation. It is also worth examining the interaction between external adjustment, fiscal crisis and inflation levels. The main point is that the external debt in almost its entirety was absorbed by the State: over 80% of the total debt became public or public guaranteed.
28. Without a doubt, the region made bold efforts to contain budgetary imbalance; various of its troubles came about as a result of the perverse relation between public accounts and the external sector; among these, the volatility of expectations due to external and domestic uncertainty; the intertwining of different spheres of financing; and the incongruencies in temporal horizons for handling public imbalance. The three groups of

factors indicated ended up producing in some cases, a contradiction in the history of budgets: this instrument which was designed to be produced "ex-ante", sometimes ended up being determined "ex-post".

29. Gross domestic investment experienced sustained decline between 1980 and 1985 at an average yearly rate of 8.5%. To this contributed the decline in public investment, the permanent variable of adjustment to reduce programmable government spending and to draw it closer to availability of domestic financing. Private investment, for its part, also declined. Domestic financial markets were dominated by a short term rationality, with scarce availability of medium and long term financing. The drop in investment was also accompanied by deterioration in its quality. As a result, per capita gross domestic product in the region dropped by minus 6.6% between 1981 and 1988; once again the average hides a very broad spectrum of variation. During the eighties, handling the link between external restriction and the fiscal situation depleted the better part of public energy regional reserves. The State was weakened in its two roles: as an administrative apparatus and as political representative of the nation.

F. TRENDS IN PLANNING, REINSERTION AND DEVELOPMENT

30. During the nineties, two topics will gain importance in the theoretical and technical agenda of those responsible for planning, be they in or outside the State: the control of highly dynamic and little determined processes and, in connection with this, the pluriannual management of complex organizations. Necessary changes do not imply abandoning the traditional functions which NPA's currently perform. For the purposes of this document, it is useful to identify two areas of new activity related to external reinsertion policies: one, more or less directly supportive of them; the other, of development of certain tasks which are parallel and complementary, for supporting government in those areas of economic and social development which do not benefit directly from the effort of dynamic external reinsertion. Of course it is fitting to bear in mind certain peculiarities of the region mentioned before. Likewise, when mentioning the NPAs role

regarding "policies of external dynamic reinsertion", it is known that the range of possibilities varies throughout the region.

1. NPA Support for External Reinsertion Policies

31. To mention said policies as a central theme does not mean an automatic alignment with the thesis of modernization "at all costs". One thing is certain: productive segments which desire to conquer and maintain dynamic ground in future world economy will have to selectively incorporate the new technological standard. On the other hand, modernization of one or other productive branch aimed at the domestic market, will imply incorporation of technological innovation which will certainly be affected by the mode of external insertion of each country. Likewise, there will be modernization impulses - more cultural in nature, but which affect the formation of expectations and social needs or the profile of aggregate demand - which do not depend on how the national will of insertion is posed; internationalized communications diffuse them over and beyond economic or political map boundaries. The tasks which NPA's may assume are oriented in at least five directions.

- a) Support for the formation of intellectual capital.
- b) Exploration of long term strategic scenarios.
- c) Stabilization and control of basic balances.
- d) Follow-up of technological trends.
- v) Support of direct Diplomacy.

2. Other Functions Related to External Reinsertion

32. Globalized world economy makes all proposals for national self-sufficiency unfeasible; nevertheless, in extremely rare cases the dynamic achieved through sustained external reinsertion will be enough to correct accumulated deficits of employment, equity, organization and social participation and of safeguarding the region's cultural heritage. In this order of ideas, certain complementary functions could be assumed by the NPAs to help gover-

ments offset the unfavourable effects of insertion modes chosen or to effect activities oriented to the socio-economic integration of each country.

- a) Search for productive articulation and complementarity.
- b) Follow-up of the impacts of external reinsertion.
- c) Decentralization of governmental activity.
- d) Optimization of installed technological capacity.
- e) Follow-up and orientation of anti-cyclical actions.

3. Planning and the Capacity to Govern

33. It is worth insisting that planning in the near future will have little to do with planning concepts, methods, techniques and procedures practiced in the past. The complexity of current society weakens rigid plans right from the start; the acceleration of development invalidates them a few months prior to their eventual implementation, and growing uncertainty pulverizes good intentions as to regulation of the future. All this is especially significant for the purposes of generating deliberate external reinsertion policies. It has already been mentioned that these may only be concentrated over the medium and long terms, over and above episodic successes, subject to situations of high vulnerability. Coordinated long term policies imply a technical effort whose improved designation continues to be planning; but in this case the planning of policies destined to produce effects in an external world characterized by a polarized power structure and by the existence of multiple instances of regulations.

34. Given the acceleration of change and the growing complexity of societies of the region, the capacity to govern, considered over the medium and long

term, has two fundamental aspects, one structural and the other dynamic. The structural aspect resides in the consolidation of institutionalized negotiation mechanisms and in normative strength among the main actors which have to coincide in key aspects of development. The aim is to establish negotiation mechanisms as a function of new, very concrete objectives: greater productivity, selective and dynamic specialization, timely and competitive external insertion, redistribution mechanisms which are less assistance oriented and which foster greater participation in less modern sectors, technical training in strategic areas, greater resources for research and technological development, selective subsidy policies, etc. These mechanisms of negotiation should have the sufficient legitimacy to inspire a high degree of respectability and inviolability, which would allow them to become stabilized and truly operative.

35. The dynamic aspect, for its part, is based on the juggling of trade-offs between economic, social and political costs of medium term decisions. It involves "knowing", that is half rational and half intuitive, which would allow a weighing of costs from both sides. This is a dynamic aspect of the capacity to govern because the acceleration of change and the complexity of modern society, force continuous "reaccommodation moves" of the intertemporal gap (between the short and medium terms) and where each move often implies a reordering of the gameboard, which requires the capacity for rearticulating tactics and strategies on the move.
36. The structural and dynamic aspects of the capacity to govern are complementary in this approach. Only when one relies on a solid structure

of negotiation mechanics, can trade-off dynamics be synergistic and not entropic. In the order of ideas presented here, planning is not the antonym of market and it is nourished by "greater attention paid to the future". National planning in the next decade will increasingly coincide with the task of acting deliberately in multiorganizational social processes, in shared power situations and with little-known horizons of change. Technically there will be an approaching to corporate strategic planning already practiced in the most dynamic nuclei of the contemporary world. Insofar as substance is concerned, it is proximal to a new role on advisory services for the statesman of the future who will definitely have to be aware that to govern will mean managing complex systems with intertemporal coherence and that to orient a country's development will mean taking selective advantage of opportunities which open up within a process of accelerated and highly creative world change.