

ECLAC Notes

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This publication is also available in Spanish on the Internet at: www.eclac.cl



United Nations

ECLAC

Economic Commission for Latin America and the Caribbean

SLOWER ECONOMIC GROWTH IN THE REGION

The region's economies, hit by the negative impact of both the Asian crisis and the El Niño weather phenomenon, are growing at a slower rate in 1998. This comes after a particularly successful year in 1997, despite the fact that governments responded swiftly and energetically to limit the damage, according to an ECLAC study.

The GDP will grow by 3% in 1998, less than the average for the decade so far, and considerably below the 5.3% achieved in 1997. Unemployment is expected to start increasing again. The current account deficit will widen to some US\$ 75 billion, although

capital inflows will continue to more than cover the shortfall.

This is the situation foreseen by the regional organisation in its **Economic Survey of Latin America and the Caribbean** for 1997 and the first half of 1998, although the survey does not take into account the latest fall-out from the international crisis, which is exerting renewed pressures on the economies of the region. (*Updated article on the crisis on page 4.*)

Last year was a very successful one for many Latin American and Caribbean economies, with increased investment and exports, an inflation rate of 10.4% and capital inflows of around US\$ 80 bi-

llion. But the two shocks that affected the region during the period under review, in conjunction with the policies that have been implemented to cope with the incipient disequilibrium observed in several countries, have prevented a repetition of these results in 1998.

The El Niño phenomenon had damaging effects on the agricultural, fishing, forestry and livestock sectors, and destroyed housing and infrastructure. The second shock originated in the financial crisis that blew up in Southeast Asia in mid-1997. Continuing stagnation in Japan exacerbated these problems.

(continued in page 3 ➡)

MEDIUM-SIZED CITIES: A DEVELOPMENT RESOURCE

Latin America and the Caribbean constitute one of the most highly urbanised regions of the world, and the increasing economic importance of the region's cities demands a matching degree of efficiency in urban management. ECLAC's most recent study on the subject, entitled **Ciudades intermedias en América Latina y el Caribe: propuesta para la gestión urbana**, focuses attention on the region's medium-sized cities, which are its fastest-growing urban centres.

The result of three years of work in six different cities, this book offers an analysis of a series of municipal issues and sets forth a num-

ber of proposals for improving urban management in the region. Why focus on medium-sized cities? At present 73.4% of the population of Latin America and the Caribbean lives in cities, and this figure is expected to rise to 85% by the year 2025. And of all the region's urban centres, its medium-sized cities are the ones that have grown the most during the past decade.

In the book's foreword, ECLAC Executive Secretary José Antonio Ocampo notes that "the region's cities have a vital role to play in the new international scenario of liberalisation and integration". Its medium-sized cities, in particular,

(continued in page 6 ➡)

TOWARDS A GLOBAL SOLUTION

THE ECLAC VIEW

BY JOSÉ ANTONIO OCAMPO

The current international financial crisis has generated instability in currency and capital markets on a scale seldom seen in world economic history, raising the spectre of recession and global deflation. Should this threat materialise, it could undermine many of the advances of recent decades, particularly the progress towards freer trade and the liberalisation of developing and transition economies.

In Latin America, the instability in international markets has generated speculative pressures that do not reflect the soundness of the underlying macro-economic variables of the region's economies, or the speed and efficacy with which their authorities respond. The measures they have been obliged to adopt in reaction to external speculative movements are far more stringent than the economic fundamentals would warrant and entail high costs to the Latin American economies.

The recent financial instability has revealed a basic problem in the global economy: the great asymmetry between an increasingly sophisticated and dynamic international financial market and the existing institutional arrangements, which are inadequate to regulate it. The imperfections of financial markets and the rapid expansion of speculative funds require not only new prudential regulations and adequate supervision arrangements, but also "lenders of last resort".

There is a great asymmetry between an increasingly sophisticated and dynamic international financial market and the existing institutional arrangements, which are inadequate to regulate it.

The lessons learned from past crises inspired the creation of national institutions to perform those functions, although not always effectively. But no corresponding institutions exist in the global financial market. The International Monetary Fund (IMF) has extremely limited resources for dealing with severe crises. The Bank of International Settlements has made progress in establishing uniform rules for the regulation and supervision of certain financial activities, but so far their scope is limited.

Apart from negotiations towards the creation of a suitable institutional framework for financial globalisation, other more immediate steps need to be taken. There is an urgent need, in particular, for the Group of Seven (G-7) countries to act in concert in giving out expansionary signals to counteract the threat of global deflation and in providing resources to support developing countries experiencing temporary difficulties, thus raising the costs of speculative attacks on their currencies.

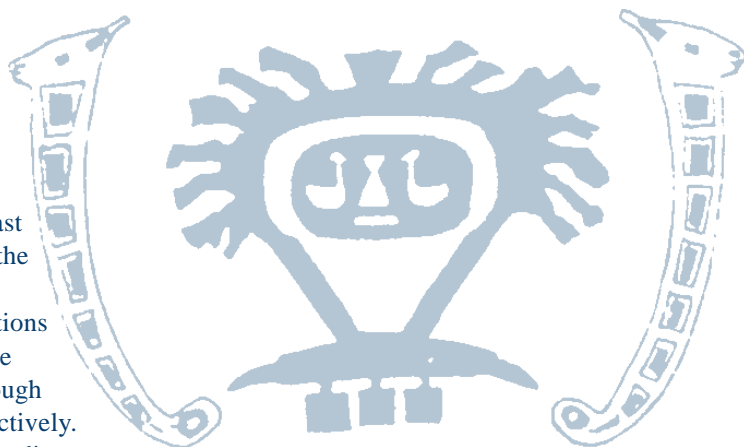
In a globalised world, it must be recognised that the economic policies of the industrialised countries have global implications. Institutional arrangements consistent with the new context of globalisation

would entail co-ordination of the macro-economic policies of the industrial countries - a co-ordination not so far achieved- bearing in mind their effects on the less developed nations.

The debate on liberalisation of capital flows cannot be resolved without the design of a new institutional framework to regulate financial globalisation. The possibility of expanding the IMF mandate to cover capital account convertibility depends on such mechanisms being in place. As long as the present situation persists, developing countries will have to preserve greater autonomy in capital controls, while persisting in their efforts to consolidate macro-economic stability and improve domestic financial regulation and supervision. They will have to develop new instruments to reduce their vulnerability to international financial cycles and thus avoid situations that are ultimately unsustainable. 

The author is the Executive Secretary of the Economic Commission for Latin America and the Caribbean.

The preceding is based on a statement delivered in Washington, D.C., in September 1998. The complete text in Spanish and English can be found at the ECLAC website: <http://www.eclac.cl> or <http://www.eclac.org>



ECLAC estimates that the Asian crisis will have reduced growth by between 1% and 1.5% in 1998. El Niño and the reduction in the price of oil are expected to reduce it by another 1%, and policies to prevent economies from overheating by a further 1%.

The policies that have been put in place clearly favour a reduction in demand, rather than the adjustment of relative prices and especially foreign exchange rates. This choice has negative consequences for regional growth, at least in the short term, although it moderates inflation.



A Cautious Approach

The Commission recommends a cautious approach because the crisis may be prolonged and it may even become worse and new problems arise. In 1997 and 1998, the macro-economic policy goal of countries in the region was to consolidate progress in the area of stabilisation. In 1997, the region had at its disposal abundant external resources which helped promote faster domestic growth than had originally been predicted. Governments adjusted their monetary goals to the increased demand for money, while fiscal deficits widened slightly.

The reverse side of this encouraging panorama was an accelerated appreciation of real exchange rates and unfavourable



trends in the balance-of-payments current account; however, international reserves continued to expand.

Nevertheless, as of October 1997, the possibility of relying on abundant, low-cost external financing suddenly vanished, with resulting volatility in external financing flows and doubts as to whether growth targets could be maintained. Macro-economic policy became more restrictive and further adjustments were made to reduce domestic demand and adapt it to the new external scenario of uncertainty.

The persistence of the Asian crisis obliged several countries to introduce fiscal austerity measures. Brazil reacted with an ambitious programme to reduce the deficit by more than two percentage points of GDP, although it has not so far been successful. Mexico and Venezuela, as oil exporters, and Chile, as an exporter of copper, cut their fiscal expenditures.

In 1998, currency overvaluation has been checked and, depending on each country's policies, the reaction of the foreign currency markets has resulted in a nominal devaluation or a loss of international reserves. On average, the nominal devaluation rate started to increase in the fourth quarter of 1997 and continued to do so during the first six months of 1998, which slowed down real appreciation in the region.

The Asian crisis abruptly reversed the trend towards a policy of greater money supply. Interest rates were increased significantly, the aim being to prevent the loss of international reserves, and measures were adopted to reduce inter-bank market liquidity.

In the financial area, banking reforms were stepped up in most countries and resulted in a strengthening of the regulatory framework for improving prudential norms and supervising financial activity.



Lessons from the crisis

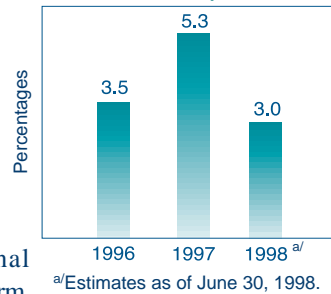
The main macro-economic lesson is the need to concentrate on managing the economic in periods of expansion, in order to provide greater opportunities for action than are possible once a crisis is under way. In order to grant more freedom to monetary policy, mechanisms could be used to prevent excessive inflows of capital, such as reserve norms, such as those introduced in Chile and Colombia, and taxes, such as those applied in Brazil. At the domestic institutional level, more attention needs to be paid to strengthening banks and adopting more adequate prudential and supervisory regulations.

The Asian crisis has revealed the continuing dependence of Latin American countries on a few commodities and has shown that developing and maintaining competitiveness should be a constant objective.

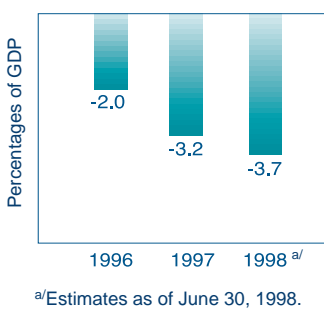
ECLAC believes that now is a good time to re-evaluate the existing international institutional structure. There is insufficient co-ordination among the industrialised countries, where the largest financial enterprises operate, nor is there an international institution with responsibility for co-ordinating and supervising these enterprises. The International Monetary Fund does not have the resources nor the mandate to do so. In the private sector, the credit rating agencies tend to accentuate, rather than attenuate, instability.

The most significant lesson learnt from the past 12 months is that, although external capital can make an important contribution to growth, there is a need to design and implement a set of policies to strengthen its positive aspects, while reducing its volatility to a minimum. 🌿

Latin America and the Caribbean:
Gross domestic product



Latin America and the Caribbean:
Current account balance



From **Summary, Economic Survey of Latin America and the Caribbean 1997-1998**, LC/G.2036-P. English and Spanish.

INTERNATIONAL CRISIS BRINGS NEW PROBLEMS TO LATIN AMERICA



BY BARBARA STALLINGS

Since the midyear cutoff date for ECLAC's **Economic Survey of Latin America and the Caribbean** (see summary on page 1), the international financial crisis has expanded in both scope and depth. Moving beyond Asia, it first struck Russia, and later even the United States and Europe began to be affected as the contagion spread. Not surprisingly, Latin American economies have not emerged unscathed.

As a consequence of the multiple waves of the crisis, projections for economic growth in Latin America and the Caribbean in 1998 have been continually adjusted downward. A year ago, it was expected that output in the region would expand by around 4.5%. In March, after the initial effects of the crisis had begun to manifest themselves, the figure was lowered to 3.2%. Now, ECLAC estimates that growth will only reach 2.6% this year. Already unemployment has begun to increase, and it is a virtual certainty that poverty will rise as well.

Worrying tendencies

A key focus of the problems has been the world's stock markets. In the case of Latin America, the average of the price indexes for the major exchanges had already fallen by 30% in the three quarters ending June 30, 1998. With the new round of selling between July and September, the losses reached 42%. The plunge in stock market prices was closely associated with capital outflow from the region, since both foreign and domestic investors wanted to exchange their Latin American holdings for dollars. At the same time, capital inflows of other types have also fallen off, especially through the bond market. Investors' lack of interest in Latin American paper is such that many governments and corporations from the region have postponed planned issues. In the few cases where bonds have been placed, the terms have deteriorated sharply.

These problems in the capital account come on top of difficulties in the current account. The prices of primary products, major export items for most Latin American countries, continue at record lows partly because of weak demand in Asia; falling petroleum and copper prices have been especially problematic. In some cases export volume is also down because of the El Niño phenomenon. Nonetheless, imports continue to expand at a very rapid pace (nearly 12% for the first half of 1998, compared to less than 3% for exports). Given the slowdown in economic growth, however, the rate of increase of imports will

surely fall in the second half of the year, thus providing some relief on the current account.

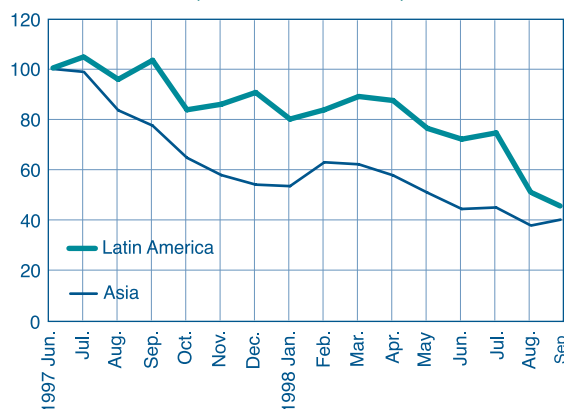
As a result of the outflows associated with the stock market, the lack of new capital to replace them and the growing trade deficit, international reserves have fallen from their high levels in mid-1997. Between October 1997 and the beginning of 1998 reserves fell by \$10 billion, but they later more than regained their initial level. In the quarter from July through September, there was a new fall of \$29 billion. In this latest period, Brazil and Venezuela have suffered the biggest outflows; Chile, Colombia, and Mexico have had significant but lesser declines, and some countries have experienced little change or even increases (notably Argentina).

The brighter side

Despite these worrisome trends, the lower inflows of foreign capital do not pose an immediate problem. Most governments of the region have already raised the large majority of the capital they need to cover current account deficits in 1998. More importantly, foreign direct investment continues to flow into the region in near-record amounts. Some projects have been postponed, but direct investors take a longer-term perspective and are less likely to flee in response to short-term fluctuations.

Moreover, Latin American countries were in a reasonably strong position when the crisis began last year. Budget deficits had been sharply curtailed, inflation was declining and at the single-digit level in more than half the countries, and the domestic banking sector had been

Stock market quotations
(Index June 1997 = 100)






strengthened. International reserves were high, and the debt profile had been lengthened so that short-term obligations no longer posed an imminent danger.

This macro-economic situation made it possible for governments to make tough decisions to deal with the new problems that confronted them. For some, the best solution was to raise interest rates to very high levels to defend a desired exchange rate; for others, a currency depreciation was preferable. While these strategies have been successful in preventing Asian-style crises until now, they cannot be pursued indefinitely since the costs -low growth or rising inflation- are too high. In particular, the fragile situation in Brazil must be stabilized, since the successful functioning of that huge economy is important not only for itself but also for its neighbours.

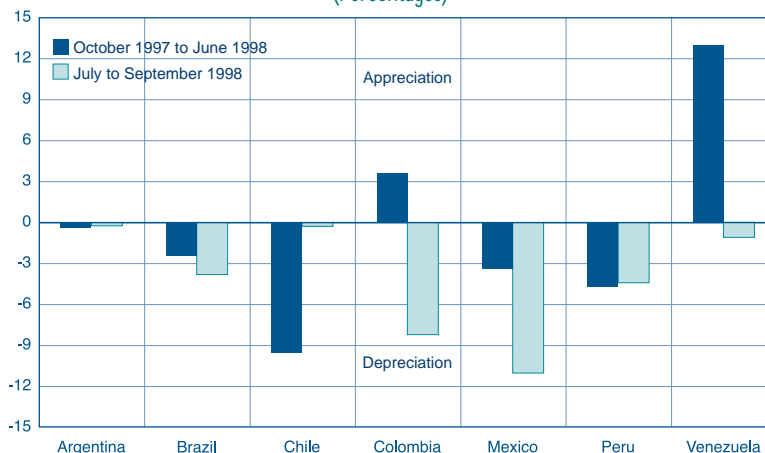


Hope for coordinated action

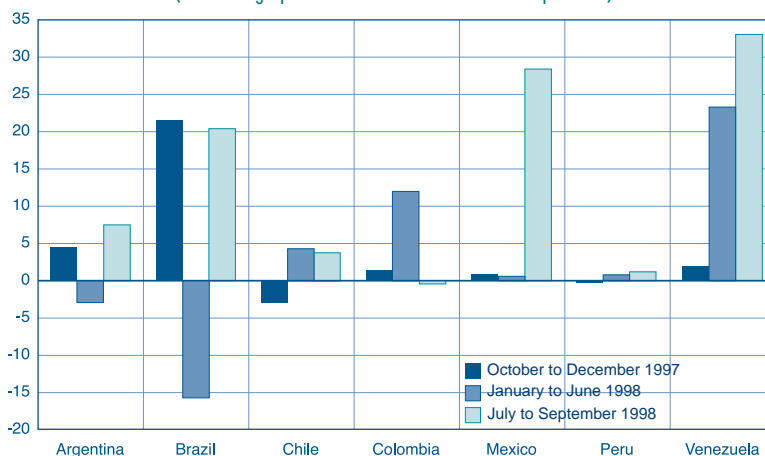
The global scope of the current crisis means that it can only be brought under control by the co-ordinated actions of the industrial countries and the multilateral institutions. Two main policy instruments are available: large credit lines to support economies that come under speculative attack and/or a reduction of interest rates to stimulate growth. Fortunately, both measures are in the process of being implemented. The central banks of the United States and of various European countries have already begun to bring down interest rates. At the same time, the International Monetary Fund recently announced supportive measures for Brazil. Although there is much left to be done, these actions indicate that it is possible to contain the damage that has been caused and continues to affect the economies of the region. 

The author is the director of ECLAC's Economic Development Division.

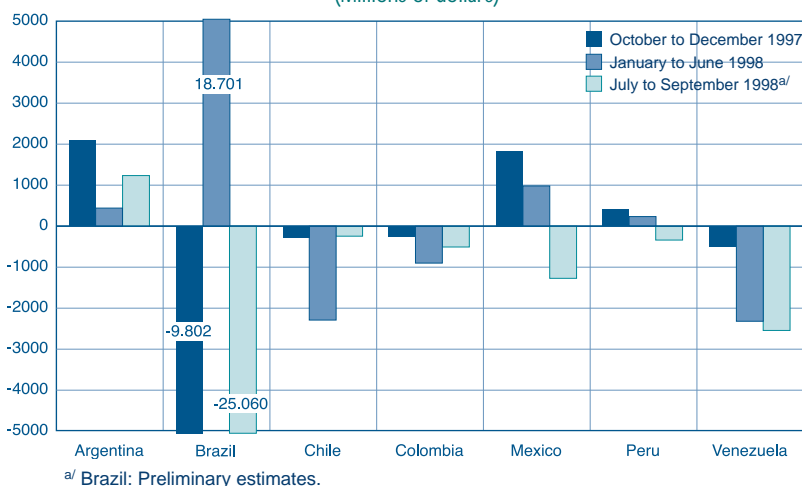
Changes in real value of local currencies
(Percentages)



Changes in nominal interest rates
(Percentage points of variation in different periods)



Changes in international reserves
(Millions of dollars)



Source: ECLAC, on the basis of official figures.

are not only “hubs of economic growth but also serve as a nexus for policies of pivotal importance for production activity in the agricultural, manufacturing and services sectors”.

The importance of local governments

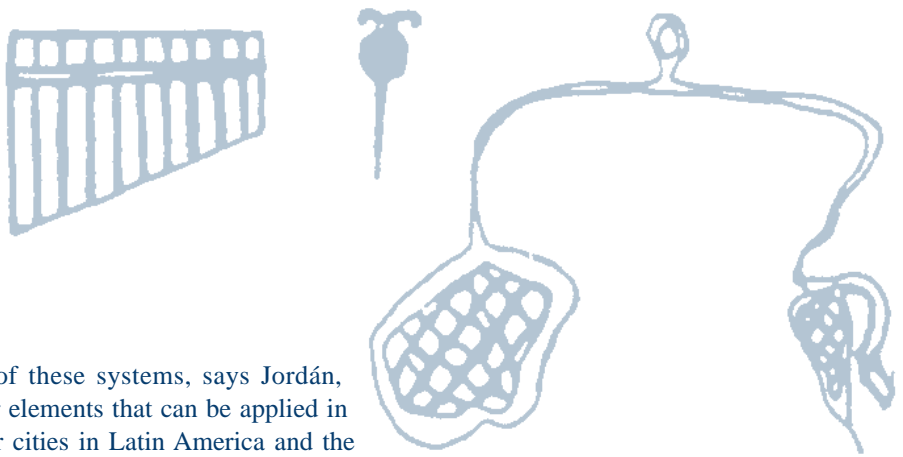
Urban functionality is an increasingly essential condition for a strong economy and an improvement in the population’s quality of life. Yet increasing the efficiency of urban management is not enough; municipal governments must administer the resources of the central government and play an effective part in promoting the local development process.

Ricardo Jordán, a member of ECLAC’s Environment and Development Division and project co-ordinator, explained that the project had four main objectives: to improve urban productivity as a factor in local economic development; to promote social development through increased community participation and the decentralisation of municipal programmes; to achieve the necessary balance among economic and social growth, the environment and the population’s quality of life; and to achieve greater equity both in a social and economic sense and in terms of human rights and democracy.

The study underscores the heterogeneity of the region’s urban management processes and analyses the scope and ramifications of the decentralisation programmes being implemented in the region. It also explores the context for municipal action generated by the globalisation, economic liberalisation and democratisation processes.

Local creativity

The book includes six case studies focusing on systems and procedures for improving critical areas of urban management.




All of these systems, says Jordán, offer elements that can be applied in other cities in Latin America and the Caribbean. The six cases are:

1. Cordoba, Argentina: A semi-public, semi-private development agency and a “city marketing” programme;
2. Cuzco, Peru: A strategic planning system for reorganising the municipality’s waste collection company;
3. Manizales, Colombia: A system for monitoring and implementing a development plan for the city and a public information programme aimed at increasing community participation in the initiative;
4. Ouro Preto, Brazil: A comprehensive public action system for implementation in outlying areas of the city;
5. Port of Spain, Trinidad and Tobago: An information system designed to increase the efficiency of the municipal government;
6. Valdivia, Chile: The design of a development agency to undertake strategic projects and the preparation of a proposal for rationalising decision-making within the municipal government.

An analysis of these cases raises new issues, as well as permitting the identification of a variety of common strengths and weaknesses. One of these issues is the increasingly important role being played by private economic agents in the delivery of services previously provided by the nation-

nal or local public sector, and the need for public regulatory systems to oversee these activities.

One positive development brought out by the study relates to civil society’s increasingly active role in urban management. On the negative side, the study points out such weaknesses as the piecemeal nature or discontinuation of many decentralisation programmes, the chronic shortage of technical skills and capabilities on the part of municipal employees and officials, municipal authorities’ heavy reliance on party politics, the preference exhibited by local political authorities for measures that will have an immediate impact, and the concentration of decision-making functions in the mayor’s office.

Issues such as urban land management, service delivery, housing, public involvement in the co-ordination of the urban integration process, the deterioration in the population’s quality of life, disaster prevention and management, public safety and new forms of poverty will continue to be priority items on the municipal agenda. 

From *Ciudades intermedias en América Latina y el Caribe: propuesta para la gestión urbana*, compiled by Ricardo Jordan and Daniela Simioni. LC/L.1117. Spanish only.

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The symbols used in this newsletter are taken from the outside of the main conference rooms at ECLAC’s headquarters in Santiago, Chile, and represent many of the indigenous cultures of the Americas.



LATIN AMERICA AND THE CARIBBEAN BEGIN TO AGE

The Latin America and Caribbean region is undergoing a demographic transition towards an ageing population. Argentina, Brazil, Chile and Uruguay, the Bahamas, Barbados, Cuba, Guadeloupe, Jamaica, Martinique and Puerto Rico, in the Caribbean, all already have low fertility and mortality rates and a population growth and age structure similar to those of developed countries.

None of the countries in the region, however, have what demographers would call “old” populations, such as those of Germany, Italy, Japan, Sweden or the United Kingdom, where less than 20% of the inhabitants are under 15 years of age.

With its high fertility rate, Haiti currently has the youngest population in the region, followed by Bolivia, Guatemala, Honduras, Nicaragua and Paraguay, which also have “young” age structures, in that over 40% of the inhabitants are under 15 years of age.

The statistics published in **Demographic Bulletin No. 62, Latin America: Population Projections 1970-2050**, prepared by the Latin American and Carib-

bean Demographic Centre (CELADE), support projections that the region’s population will grow to some 800 million by the year 2050 (compared to 500 million in 1998), roughly the same as the figure projected for Europe, but less than for Africa (1.5 billion) and far less than for Asia (nearly 5 billion).

Fertility rates are declining

The changes in life expectancy are impressive. In Chile, for example, between 1940 and 1998 life expectancy increased from 41 years for men and 43 for women to 72 and 78 years, respectively. In Mexico, life expectancy at birth, as recorded for the period 1970 to 1975, was 62 years; it is expected to increase to 77 by the year 2025.

Along with the reduction in mortality, especially infant mortality, there has been a significant decline in fertility rates. While in 1970, a women in Peru on average would have had six children, it is estimated that by 2020 the average will be two children. For the region as a whole, the current average number of chil-

dren per woman is approximately three; by 2025 it is expected to be down to two.

The age structure of population shifts as a result of these demographic changes. The trends suggest that by 2025 the number of those above 65 years of age will have increased by over 3%, while the 15 to 64 age group will increase by 1%, and the number of those under 14 will increase by a value only slightly higher than 0%.

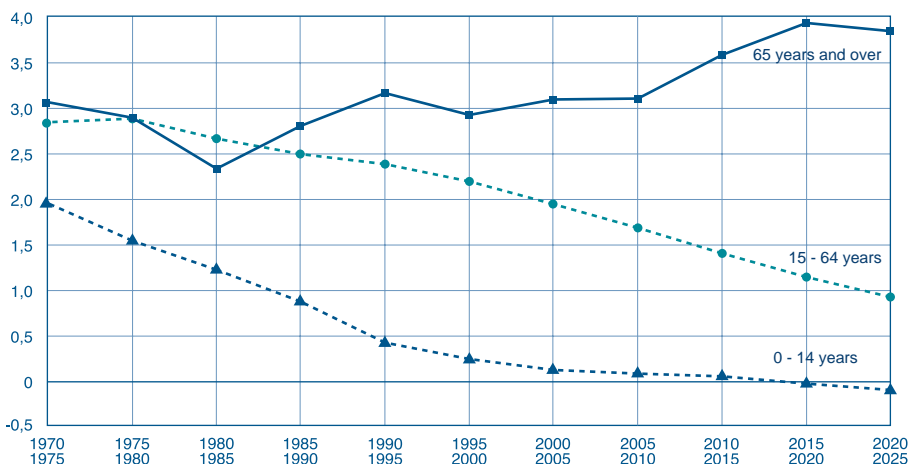
New policy decisions

The ageing of the Latin American population will have social implications for policy makers, according to Mr. José Antonio Ocampo, Executive Secretary of ECLAC, in his statement at the press conference held to present Demographic Bulletin No. 62.

In the first place, the heaviest burden in the region will shift from providing children with health care and education, to meeting the demand for health care, housing and social security for older people. The ageing process will have an impact on pension systems by increasing the number of retirees.

However, easing population trends may also benefit countries through the so-called “demographic dividend”. According to Ocampo, “we are at the stage in which the economically active population will have to provide less support as time goes on to children and older persons, and the result can be a higher level of development and greater per capita income”.

Latin America: Growth rates by age groups (Percentages)



From **Demographic Bulletin No. 62. Latin America: Population Projections 1970-2050**, CELADE. LC/DEM/G.180. Spanish and English.



1 **Revista de la CEPAL: CEPAL Cincuenta Años - Reflexiones sobre América Latina y el Caribe, LC/G.2037-P, Spanish.**

Special edition of the *Review* to commemorate the 50th anniversary of the Commission. It includes articles on ECLAC's history and the evolution of its ideas, globalization, regional integration and the interamerican system, poverty and equity, education, and culture and development. US\$15. [www](http://www.eclac.org)

2 **Selected Statistical Indicators of Caribbean Countries, Vol. X, 1997, LC/CAR/G.535, English.**

Statistics for the Caribbean subregion and countries for 1986-1996. Available from ECLAC's Subregional Headquarters for the Caribbean, 22-24 St. Vincent Street, 2nd Floor, Port of Spain, Trinidad & Tobago; tel. (1 809) 623 5428/5595; fax (1 809) 623 8485; e-mail info@eclacpos.org

3 **La educación de las mujeres: de la marginalidad a la coeducación, LC/L.1120, Serie Mujer y Desarrollo #22, Spanish.**

Analyzes the educational situation for women in Latin America and international experience in the field, and suggests some methodological guidelines to change women's education. [www](http://www.eclac.org)



4 **Restructuring in Manufacturing: Case Studies in Chile, Mexico and Venezuela, LC/G.1971, Serie Desarrollo Productivo #44, English.**

Investigation of changes in manufacturing firms' strategies as a result of trade liberalization, globalization and transformations in the economic environment in which companies operate.

■ **Chile: las inversiones en el sector minero 1980-2000, LC/L.1131/Rev.1, Serie Reformas Económicas #3, Spanish. [www](http://www.eclac.org)**

■ **Las reformas del sector de telecomunicaciones en Chile y el comportamiento de la inversión, LC/L.1137, Serie Reformas Económicas #4, Spanish. [www](http://www.eclac.org)**

■ **Juventud rural en Brasil y México. Reduciendo la invisibilidad, LC/R.1819, Spanish. [www](http://www.eclac.org)**

■ **Progresos realizados en la privatización de los servicios públicos relacionados con el agua: reseña por países de sudamérica LCR/R.1697/Add.1, Spanish. [www](http://www.eclac.org)**

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NOVEMBER	EVENTS	VENUE
10 - 13	Second Regional Workshop on Measurement of Income and Expenditure in Household Surveys, ECLAC/National Institute of Statistics and Censuses of Argentina.	Buenos Aires, Argentina
16 - 20	Workshop on Population, Reproductive Health and Poverty: Identifying Target Populations (CELADE).	Santiago, Chile
23 - 25	Regional Seminar on National Accounts Statistics and Economic Projections Division of ECLAC/ United Nations Statistics Division/ Brazilian Geographical and Statistical Institute (IBGE).	Rio de Janeiro, Brazil
26 - 27	Tenth Conference of Ministers and Heads of Planning of Latin America and the Caribbean and Ninth Session of the Regional Council for Planning.	Santiago, Chile
30	Regional Meeting on the Contribution of the Oceans to Sustainable Development in the Region, for the International Year of the the Ocean - 1998, ECLAC/Department of the Navy of the Republic of Chile	Santiago, Chile
30	Sub-regional Workshop on Disseminating Population Information via the Internet.	Santiago, Chile
DECEMBER		
2 - 4	Twenty-seventh Meeting of the Presiding Officers of the Regional Conference on Women in Latin America and the Caribbean, ECLAC.	San Salvador, El Salvador
2 - 4	Sub-regional Seminar-Workshop for Caribbean Institutes of Statistics, on Preparing for the Year 2000 Round of Censuses (CELADE/CARICOM).	Port of Spain, Trinidad & Tobago
10	Fiftieth Anniversary of the Universal Declaration of Human Rights, ECLAC/United Nations Association of Chile (ACHNU).	Santiago, Chile
14	Seminar-Workshop on Strategic Visions of Chile ILPES/Institute of Political Science of the University of Chile.	Santiago, Chile



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