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ECONOMIC COMMISSION
FOR LATIN AMERICA AND
THE CARIBBEAN

GERT ROSENTHAL
Executive Secretary

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Deputy
Executive Secretary

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.

References 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 the corresponding totals, because of rounding.

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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 understanding 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.

Foreign capital *inflows and* macroeconomic policies

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In recent years, a number of countries of the region have gained renewed access to international financial markets, thus passing abruptly from a situation of relative scarcity of external resources to one of abundance. This situation has given rise to considerable pressures on certain key variables of their economies, especially the real exchange rate and interest rates. In previous articles in *CEPAL Review*, the effects of opening-up of the capital account on monetary, exchange rate and stabilization policies have been analysed. The present article considers the dilemma faced by the economic authorities when they try to simultaneously achieve ongoing capital inflows, stability of the economic aggregates, a competitive exchange rate, and a stronger savings and investment process. An analysis is made of the experiences of Argentina, Chile, Colombia and Mexico in this respect, with their economic policy profiles distinguished according to three alternative options for intervention: in the foreign exchange market, in the monetary market, and in the capital market. It is argued that in view of the degree of volatility and uncertainty of external capital flows, policy instruments in these areas should be aimed at obviating the diversion of key prices from their medium- and long-term trends in response to short-term forces.

I

Introduction

In the 1980s, the economic policies of most of the Latin American and Caribbean countries, as well as their economic performance, were determined by the need to face up to severe constraints on the availability of external savings.[1] In the 1990s, however, this situation has undergone a considerable change with the inflow into the region of substantial foreign capital. On the one hand, this has helped to set in motion the economic recovery processes currently observed, but on the other it has presented the monetary authorities with new challenges. Thus, in 1992 the net inflow of capital was US$62 billion, and it is estimated at US$55 billion for 1993. These figures are equivalent to 5% of the 1992 regional GDP and 4% of the 1993 GDP, compared with 4.6% in 1981 and an average of 1.2% for the period 1983-1989.

The composition of these inflows is different from that observed in the period when the debt crisis was brewing (1976-1981). At that time, the main source of finance was commercial bank credit, but now there is a bigger share of financial investment –bonds, or American Depositary Receipts (ADRs), for example– and foreign direct investment. One of the lessons learnt from the crisis is that its impact on key variables of the economies of the region, such as the exchange rate, interest rates, and the level and structure of demand, depends to a large extent on the kinds of domestic policies adopted by the countries. In this respect, net capital inflows will have a positive effect on their medium- and long-term growth prospects to the extent that they help to strengthen domestic savings and investment processes. It is important that foreign capital should supplement –and not take the place of– domestic saving efforts, since the latter are crucial for generating the investments needed by the process of changing production patterns with social equity (ECLAC, 1990 and 1992).

Section II of this article suggests three strategic areas of intervention (the foreign exchange market, the monetary market and the capital account). Within these areas, domestic policies can act on the financial and macroeconomic variables so as to favour the generation of savings (including the procurement of external savings) and their intermediation towards productive investment which will strengthen systemic competitiveness: the essential basis for a form of incorporation in the international economy which will foster sustained growth processes (ECLAC, 1994). Section III identifies two extreme combinations of instruments in each of these areas of intervention which allow profiles of the policies applied to be established, and section IV situates the experiences of Argentina, Chile, Colombia and Mexico within these alternatives. Finally, section V presents some conclusions summarizing the resulting policy implications.

□ This article is based on material prepared by the authors for chapter XI of document LC/G. 1800, *Latin America and the Caribbean: policies for improving the region's place in the world economy*, presented by the ECLAC Secretariat at the twenty-fifth session of the Commission (Cartagena de Indias, Colombia, April 1994). In its preparation, the authors enjoyed the benefit of working discussions with their colleagues Alvaro Calderón, Robert Devlin, Ricardo Ffrench-Davis, Stephany Griffith-Jones, Gunther Held, Ricardo Martner, Gert Rosenthal and Barbara Stallings, who, however, bear no responsibility for the views expressed in the article.

[1] External savings are defined as the balance-of-payments current account deficit, of negative sign, whose counterpart item is the inflow of capital, less accumulation of reserves.

II

Options for intervention

Two possible effects of the inflow of substantial amounts of foreign capital into a country may be highlighted. The first, of a Keynesian nature, is reflected in greater effective demand, against a background of under-utilization of production capacity. It is also reflected in relaxation of external constraints affecting the country, with consequent reactivation of the growth rate of the product. If the capital inflow is only short-lived, then the Keynesian effect will be short-lived too.

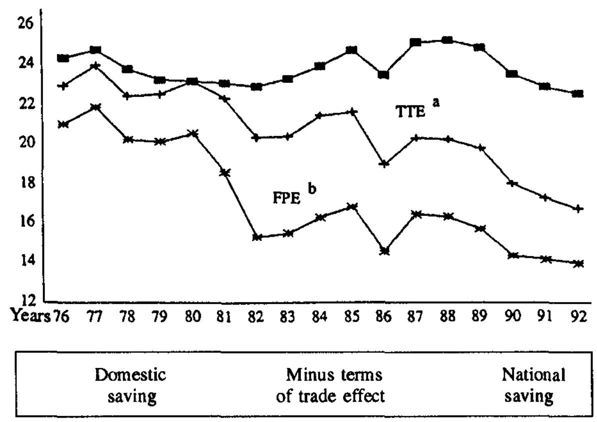
If the financing of demand is of external origin (external savings), aggregate expenditure will grow even more than the product. The risk involved in this situation is that if the growth of expenditure has been financed mainly with external capital, reversal of such capital flows can cause declines in the product and investment. Moreover, if this reversal is accompanied by adverse terms of trade –as have been registered for Latin America in the last ten years– the negative effects on the level and growth of national income and saving, as well as the severity of the external adjustment, could be still greater (figures 1 and 2).

Within this same context, in the phase of sharp increases in the inflow of capital, a tendency is produced towards appreciation of the real exchange rate, since the inflow gives rise to pressures for revaluation in the exchange market.[2] This situation affects the arbitrage conditions between the external and internal capital markets,[3] intensifying the inflow of capital and the tendencies towards exchange rate appreciation.

[2] The substantial appreciations in the real exchange rate observed in the period 1976-1981 were also associated with the use of the exchange rate as a stabilization tool in a number of countries of the region.

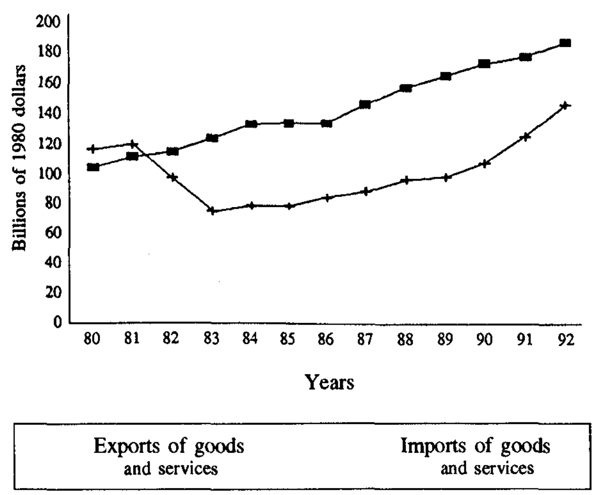
[3] In the absence of restrictions on international capital movements, capital moves towards investments offering the greatest expected international returns, taking into account the exchange expectations resulting from the different monetary denominations of the instruments in question, in the light of the expected variations in the nominal exchange rate (Zahler, 1992).

FIGURE 1
Latin America: Domestic saving and national saving



Source: ECLAC, Statistics and Projections Division, on the basis of official data.
[a] TTE = Terms of trade effect.
[b] FPE = Factor payment effect.

FIGURE 2
Latin America: Trade balance (goods and services)



Source: ECLAC, Statistics and Projections Division, on the basis of official data.

TABLE 1

Latin America: Macroeconomic Indicators

	Thousands of 1980 dollars						Percentages of GDP					
	1976-1981	1983-1989	1990-1992	1990	1991	1992	1976-1981	1983-1989	1990-1992	1990	1991	1992
1. Net capital inflow	32 536	7 781	33 318	17 971	32 639	49 345	4.9	1.0	3.9	2.2	3.8	5.6
2. Variation in reserves	6 423	-98	16 027	11 957	16 120	20 004	1.0	-	1.9	1.4	1.9	2.3
3. External saving (1 + 2)	26 113	7 879	17 291	6 014	16 519	29 341	3.9	1.0	2.0	0.8	1.9	3.3
4. Current account deficit of negative sign (5 + 6 + 7 + 8)	26 113	7 879	17 291	6 014	16 519	29 341	3.9	1.0	2.0	0.8	1.9	3.3
5. Terms of trade effect [a]	5 422	31 191	48 737	45 853	48 623	51 735	0.8	4.0	5.7	5.6	5.7	5.9
6. Trade deficit	4 338	-56 017	-53 425	-65 992	-53 156	-41 128	0.6	-7.2	-6.3	-8.0	-6.2	-4.7
7. Factor service	16 905	34 561	27 137	30 306	26 525	24 580	2.5	4.5	3.2	3.7	3.1	2.8
8. Transfers [b]	-552	-1 856	-5 158	-4 153	-5 474	-5 845	-0.1	-0.2	-0.6	-0.5	-0.6	-0.7
9. Total GDP	670 552	775 030	854 695	825 074	856502	882 510	100.0	100.0	100.0	100.0	100.0	100.0
10. Gross National Income (GNI) [c] (9 - 5 -7 - 8)	648 777	711 134	783 979	753 068	786 828	812 040	96.7	91.8	91.7	91.3	91.8	92.0
11. Consumption	512 595	587 107	659 563	633 328	661 572	684 790	76.4	75.7	77.2	76.8	77.2	77.6
12. Investment	162 295	131 906	141 707	132 765	141 510	157 000	24.2	17.0	16.6	16.1	16.5	17.8
13. Excess of expenditure over the product (9 - 11 - 12) = 6	4 338	-56 017	-53 425	-58 981	-53 420	-40 720	0.6	-7.2	-6.3	-7.1	-6.2	-4.6
14. Excess of expenditure over income (10 - 11 -12) = 4	26 113	7 879	17 291	13 025	16 254	29 750	3.9	1.0	2.0	1.6	1.9	3.4
15. Per capita GDP	2 044	2 000	1 998	1 966	2 003	2 025						
16. Per capita GNI	1 978	1 836	1 835	1 795	1 840	1 864						
17. GDP growth rate (%)	4.44	1.80	2.36	0.30	3.80	3.00						
18. Growth rate of exports of goods (%)	6.08	4.85	5.19	5.82	3.41	6.34						
19. Growth rate of imports of goods (%)	6.11	5.57	15.50	11.19	15.56	19.77						
20. Value of exports of goods	81 783	121 793	155 442	148 810	153 880	163 639	12.2	15.7	18.2	18.0	18.0	18.5
21. Value of imports of goods	79 559	69 267	105 413	89 344	103 242	123 652	11.8	8.9	12.3	10.8	12.1	14.0

Source: ECLAC, on the basis of balance of payments and national accounts data of the countries.

[a] Resources needed to cover the losses caused by price increases of imported goods compared with the prices of the goods exported by the region.

[b] Corresponds to private capital inflows in respect of donations and other registered non-official operations.

[c] GNI = Gross National Income.

prices– to finance that deficit (use of external savings), compared with 100% in 1980-1981.[6]

In this first level of intervention, the variations in the reserves reflect official purchases and sales of foreign currency and indicate the degree to which the Central Bank is intervening in that market. If there is no intervention at this first level (no extra reserves are accumulated), then the capital flows will not cause any changes in the international assets in the possession of the central banks, and the whole of the increase in such flows will exert pressure on the exchange market in favour of revaluation. The capital market is thus induced to help in financing the net increase in imports of goods and services.

When the authorities intervene at this first level by accumulating reserves, the effects on the exchange market are sterilized, but an impact is caused on the monetary market. In view of this, it is necessary to decide whether or not to sterilize the effects of the

[6] According to ECLAC estimates (ECLAC, 1990), in the light of this amount of external savings the achievement of an annual growth rate of 5% for the region would require domestic savings to reach US$190 billion at 1980 prices, which would mean an increase of 50% over the present level.

The second effect of capital inflows affects the country's production capacity, through an increase in investment in productive sectors which –directly or indirectly– improves the country's international competitiveness. If this occurs, this increases the country's capacity to cope with possible deteriorations in external debt servicing conditions and in the volume of external resource flows.

What happened in the region during the boom in the inflow of external capital in the period 1976-1981 indicates that on that occasion the right conditions were not created for ensuring the sustainability of the capital flow in a context of macroeconomic stability and strengthening of the saving and investment process (table 1). Quite to the contrary: the adjustment which was required involved an intensive recessionary cycle when it was necessary to cope with changes in international financial and trade conditions (Ffrench-Davis and Devlin, 1993).

Other studies on the situation in this period note that the short-term effects of the inflow of capital in 1976-1981 gave rise to excess expenditure equivalent to around 4% of GDP. In some countries of the region –especially Argentina, Chile and Uruguay– this was accompanied by serious financial "bubbles" of a speculative nature.[4] Thus, the value of domestic financial and real estate assets rose much faster than the product and income, while domestic interest rates remained above the levels registered in international financial markets. The financial "bubbles" were based fundamentally on two factors: the strong inflow of capital (stimulated by the big difference between domestic and international interest rates) and the exchange lag made possible by these flows. The serious problems faced by domestic financial systems during the debt crisis show that these factors were not sustainable over time (Ramos, 1986; Corbo and de Melo, 1987).

The region's experience also offers valuable lessons on the way in which a country's form of incorporation in the international financial markets must be accompanied by suitable domestic economic policy design, however. Relatively abundant capital inflows cause exchange rate appreciation which may not be in keeping with medium- and long-term goals. The authorities must decide on their economic policy in the light of four main objectives: maintaining stable capital inflows; sustaining an exchange rate which suitably furthers international competitiveness as the motor of the economy; ensuring the stability of the monetary aggregates and prices; and promoting saving, taking care that external savings do not discourage domestic saving, and channelling savings towards investment in sectors that strengthen the competitiveness of the economy.

Three possible levels of policy intervention may be distinguished, depending on the economic policy objectives pursued. A *first level of intervention* is in the exchange market. In this case, the aim of the intervention is to moderate tendencies towards over-appreciation of the real exchange rate, since this variable has become one of the main instruments for export promotion.[5] The objective is to give stability and credibility to an exchange policy that provides suitable signals for permanent and sustainable growth.

This point was recently underscored by the President of the Central Bank of Chile:

"From a macroeconomic standpoint, the potential effects of an "excessive" inflow of capital on the level of the real exchange rate are even more important than the effects of greater exchange rate volatility, for if the exchange rate remains below its equilibrium level too long, this has at least two kinds of undesirable consequences. Firstly, there is a risk of adversely affecting the tradeables sector of the economy. It is well known that most of the economies which have been successful in recent years (especially the small economies) have based their development on export growth ... Secondly, ... sooner or later the value of the currency must return to its long-term equilibrium level (or even exceed it for a while), and this will put pressure on prices, thus endangering the inflation control objective." (Zahler, 1992, p. 169).

Since the debt crisis, the countries have been taking a more conservative attitude with regard to the proportion of the capital flows used to finance the balance of payments current account deficit. In 1992 the countries of the region only channelled 60% of those inflows –that is to say, US$30 billion at 1980

[4] These countries were pioneers in the region in terms of the deregulation and liberalization of domestic financial markets (Akyüz, 1993; Held, 1993).

[5] This decision is not an easy one for the economic authorities, since in conditions of increased capital inflow exchange rate appreciation has often been due to the fact that exchange policy has had anti-inflationary aims.

accumulation of reserves, which in fact influences the degree of liquidity of the economy by increasing the money supply. At this *second* level, intervention involves choosing between an active or passive monetary policy (in terms of the management of aggregate demand) and its relation with stabilization. This latter is the result of intervention at the first level in order to keep the nominal (or real) exchange rate stable within certain limits. If this means accumulating reserves, then the Central Bank must make an effort to sterilize the monetary effects of exchange operations in order to maintain the real value of the exchange rate (Calvo, Leiderman and Reinhart, 1993). If this is done through an active monetary policy, open-market operations will be needed; in the contrary case of a passive approach, then the adjustment will take place through prices and interest rates, giving rise to bigger demand for imports which will neutralize the expansion of the money supply through foreign exchange sales by the Central Bank.

A *third level of intervention* concerns the nature of the openness of the capital account and is designed to regulate the composition of capital inflows in order to bring them more into line with the country's development aims. In this respect, most countries have opted for opening up to capital inflows and adopting only intervention mechanisms designed to avoid inflows of speculative short-term capital which do not aid the investment process.

To sum up, economic policy should be designed in the light of three main aspects: i) the degree of intervention in the foreign exchange market through the accumulation of reserves in line with the various exchange policy schemes; ii) the measures taken by the Central Bank to sterilize the monetary effect of the accumulation of reserves in order to influence the level and composition of aggregate demand; and iii) the type of regulation of capital movements in order to influence their level and composition so as to promote long-term flows.

III

Two patterns of intervention

After the lessons learned through the debt crisis of the early 1980s, the management of external resources now appears to be more cautious. This is reflected in the fact that more of the inflow of capital is used to build up the reserves, thus moderating the impact of these resources on the economies of the region. Nevertheless, just as in the debt crisis, we are now observing: i) an increase in the share of imports in the GDP; ii) a relatively greater increase in domestic spending compared with the product and income, together with a decline in the surplus on the non-financial current account and the overall balance of payments surplus, indicating that greater use is being made of external savings; and iii) displacement of national saving by external savings, as reflected in the fact that the growth in total investment was less than the increase in external savings (table 1).

During the time when the debt crisis was building up, the reduction in national saving was due to big increases in consumption, but now it is the result of a decline in income caused by deterioration of the terms of trade.[7] It has also been possible to reactivate economic growth –the annual average rate of which has risen from 1.8% between 1983 and 1989 to over 3% between 1990 and 1993– without an increase in investment.[8] This recovery has been due largely to the fact that the greater availability of external finance has made it possible to purchase more imports of inputs to increase the degree of utilization of existing production capacity, and this revives the levels of aggregate demand through its effects on the product and income.

The greater or lesser degrees to which the authorities have allowed the capital inflow to reduce the

[7] In the three-year period 1990-1992, this decline was equivalent to 5.7% of GDP in 1980 dollars, while external saving was equivalent to 2% of GDP. In the period 1976-1981, in contrast, the loss due to the terms of trade was equivalent to 0.8% of GDP while external saving was equivalent to 3.9% (figure 1).

[8] The use of the word "reactivation" refers to the fact that the external constraints under which the economies of the region were operating did not allow them to make full use of their production capacity. Once the level of production usable in the short term has been reached, however, the prospects for continued growth will depend on the saving and investment efforts and improvements in productivity.

external deficit and exert supply pressures on exchange markets have been reflected in differing tendencies towards exchange rate appreciation. Initially, these tendencies would appear to reflect the degree of recovery of aggregate demand, imports and the real exchange rate from the levels they had occupied as a result of the external constraints during the period 1983-1989. The problem lies, however, in ensuring future stability, since if the capital inflows are reversed, the levels of aggregate demand, imports and the exchange rate may not be sustainable in the medium and long run. The equilibrium values of these variables should reflect the domestic conditions of the goods and money markets, as well as the availability of external savings, which will depend on whether the capital inflows are permanent or transitory.

The renewed possibility of access to financial markets has found the countries in varying stages of their adjustment programmes.[9] Indeed, they have used a wide range of policy instruments to tackle the problems referred to. The instruments adopted have been aimed at what are known as the first and second levels of intervention. Some countries have also resorted to regulation of capital inflows in order to influence their composition so as to bring it more into line with their development objectives.

The possible combinations between the first and second levels of intervention result in different mixes of exchange rate and monetary policies in which two main intervention options may be distinguished. The first of these, favoured by countries which have preferred to use a passive monetary policy, is known as *non-sterilizing intervention.* It consists of defence of the exchange rate, with the accumulation of significant international reserves if necessary. The Central Bank buys the foreign exchange brought in by the capital inflows in return for national currency, without sterilizing the monetary effect of these operations, under a system of controlled exchange rates.[10] The extreme case of a fixed nominal exchange rate is equivalent to a monetary approach to the balance of payments. The aim is a compromise with a fixed exchange rate, but in this case, if the adjustment through an increase in imports does not take place with the necessary speed, the domestic monetary base may expand more than is desired, which is usually reflected in inflationary pressures, appreciation of the real exchange rate, and a tendency towards excesses and changes in the composition of expenditure.

The second alternative, used by countries which have decided not only to defend the exchange rate but also to apply active monetary policies, is known as *sterilizing intervention.* As in the previous case, it involves building up reserves, but at the same time systematically moving towards the second level of intervention by sterilizing the monetary effects of these operations. The aim is to insulate the money supply from variations due to the mobility of foreign capital. If this is effective, such sterilization will avoid a drop in real domestic interest rates. In economies which are using their production capacity to the full, it has the virtue of helping to control aggregate expenditure and preventing much appreciation of the real exchange rate. In this option, however, if differences between domestic and international interest rates persist, this will continue to encourage capital inflow. This gives rise to a need for further sterilization and may also cause quasi-fiscal deficits if the Central Bank puts commercial paper on the domestic market at interest rates higher than those received on its international reserves.

The sterilizing intervention option is not devoid of conflicts, especially when the economic authorities do not have sufficient flexibility in the area of taxation to offset the negative domestic effects that may be generated.[11] When there is a lack of flexibility in the management of fiscal policy, the problems arising in connection with sterilizing intervention stem from the dilemma faced by the economic authorities when they simultaneously try to

[9] Some countries were in a position where they needed to begin to seek or to strengthen macroeconomic stability; others, which had progressed further in stabilizing their economies but still had unused production capacity, were at a stage where it was necessary to promote reactivation of their production facilities; while others (the fewest in number), which had inflation under control and were enjoying signs of reactivation of their production activities, were strengthening their saving and investment capacity with a view to procuring financial resources which would enable them to increase their production capacity and achieve sustainable economic growth. Although these stages correspond to the components of an adjustment programme, they must not necessarily follow the sequence in which they are given above.

[10] The methods usually employed range from fixed nominal exchange rates and movable pegs to dirty floats within pre-set limits.

[11] The position today in most of the democracies of the region (and of the rest of the world) is that legislative approval is required to change taxes. This demands the formation of broad majorities for approving tax reforms, and this reduces the flexibility of the economic authorities.

control real interest rates (as a monetary policy instrument for the implementation of stabilization policies) and the real exchange rate (as a trade policy instrument for promoting the growth of activities producing tradeable goods). If the interest rate which is in keeping with the objectives in terms of inflation (through sterilization of the monetary effects of the accumulation of reserves) is higher than the international rate adjusted by the expectations of devaluation, then the capital inflow will continue to exert pressure in the direction of appreciation of the real exchange rate, to the detriment of the aim of protecting the tradeable goods sector. If, on the other hand, domestic interest rates are allowed to go down, then this will adversely affect both objectives, since the higher expenditure encouraged by the lower interest rates will put pressure on prices while also causing appreciation of the real exchange rate (Zahler, 1992).

Consequently, in practice sterilizing intervention has usually been combined with other policy measures with the aim of acting at the first level of intervention through: i) incentives for increased demand for foreign currency through liberalization of capital outflows during periods of excess funds (for example, through liberalization of the rules governing investments by nationals abroad, repatriation of foreign direct investments, and authorization for institutional investors to invest abroad and for certain debtors to make external payments in advance); ii) external trade measures designed to bring imports, the current account deficit and the accumulation of reserves into line with the exchange rate appreciation targets fixed for the country; and iii) the adoption of measures to promote productivity improvements in keeping with the level of exchange rate appreciation.

At the second level of intervention, action can be taken through: i) the introduction of mechanisms for regulating the financial systems so as to avoid distortions in the sector and to correct any weaknesses in the financial and cautionary regulation of the banking system; ii) fiscal discipline aimed at reducing additional demand pressures; and iii) complementation of exchange policy with social pacts regarding prices and wages.

At the third level, action can be taken through: i) measures designed to discourage the inflow of short-term financial capital, by generating uncertainty about the short-term evolution of the exchange rate; and ii) restrictions on capital inflows, which may take the form of adjustments in the reserve requirements (often without interest) for bank deposits and other external credits and various types of quantitative controls (requirement of minimum maturities and minimum bond issue volumes, ceilings on interest rates payable on foreign capital and regulations on the participation of foreign capital in the stock market).

IV

Concrete intervention experiences

The non-sterilizing intervention option has often been adopted by countries which give high priority to price stability as an economic policy objective. This is a strategy which acts directly on inflation and indirectly on the real exchange rate. When applying this mechanism, it is hoped that national interest and inflation rates will rapidly come into line with international levels. Ultimately, much of the success of this strategy depends on the confidence of the economic agents in the monetary authorities' capacity to maintain the nominal exchange rate: a situation which, in the final reckoning, means that the Central Bank must maintain high international reserves, thus affecting the structure of its assets and liabilities.

Although in practice the countries of the region have used various policy mixes, among the countries which have come closest to this intervention option, starting from high levels of inflation, is Argentina. In recent years, that country's authorities have taken a number of measures aimed at deregulating the various markets, including the Convertibility Act (which came into effect in March 1991), which fixes the nominal exchange rate at a 1:1 parity with the U.S. dollar and also establishes the legal validity of contracts denominated in various currencies. The explicit aim of this Act was to check inflation and guarantee the availability of foreign exchange at a fixed nominal value, thus contributing to the stability of the nominal exchange rate (Argentina, Ministerio de Economía y Obras y Servicios Públicos, 1993a and 1993b; Fanelli and Machinea, 1993).

Other measures taken in order to promote capital movements and generate confidence in ongoing monetary stability and convertibility of the currency include the Economic Emergency Act of August 1989, establishing equal treatment for foreign and domestic capital invested in productive sectors; the Fiscal Amnesty Act of April 1992; the deregulation of financial and securities markets, and finally the reform of the public sector. These have had considerable effects on capital movements, especially in the case of the Act on Reform of the State, which laid the bases for the privatization of public enterprises and debt/equity swap schemes. The amendments to the Articles of the Central Bank provide for the independence of that institution, prohibit monetary financing of the public deficit, and eliminate the State guarantee on deposits (Fanelli and Machinea, 1993; Argentina, Ministerio de Economía y Obras y Servicios Públicos, 1993a and 1993b). At the same time, the process of trade liberalization and openness, within a fixed-exchange-rate scheme, has made it possible to slow down the rate of increase in the prices of internationally tradeable goods and has thus backed up the anti-inflation efforts.

With regard to control of inflation, the policies applied as from the 1990s have permitted a sharp reduction in the rate of inflation. Thus, the consumer price index (CPI) went down from 1344% in 1990 to only 8% between November 1992 and November 1993. This reduction in inflation has been accompanied by marked appreciation of the real exchange rate (after heavy devaluation in 1990 which made possible a big surplus on the trade account), but this process gradually slackened as domestic inflation came closer to the international level. At the same time, the authorities have promoted the establishment of incentives for productivity increases.

The absence of mechanisms for sterilizing the effects of exchange operations [12] has given rise to a considerable increase in the monetization of the economy (compared with the low levels observed after the hyperinflation of 1989), and this situation, together with the greater use of external saving and the expansion of domestic credit, led to a sharp increase in aggregate demand and economic activity in the three-year period 1991-1993.

The sterilizing intervention option has been preferred by countries which have maintained an active monetary policy combined with a more cautious approach to the continued development of the tradeables sector, the generation of national income, and its channelling to saving and investment in that sector.

Among the countries which have used the active intervention option, Chile has done so most persistently, but other leading cases are those of Colombia and Mexico.

1. The case of Chile

Chile has been working for more than two decades on aspects connected with the liberalization of the capital account, through Decree-Law 600 on foreign investment (DL 600, 1974), which eliminated legal discrimination against foreign investors. In the mid-1980s chapters XVIII and XIX of the Compendium of Rules on International Exchange Operations authorized debt/equity swap operations for both Chileans and foreigners. More recently, in 1989 various firms were authorized to issue stock for sale on foreign stock exchanges (Chilean Investment Funds) and in 1990 American Depositary Receipts (ADRs) were approved as an alternative to the direct issue of stock and debt paper in the United States by Chilean firms (Ffrench-Davis, Agosin and Uthoff, 1993).

As from 1990, the authorities had to take measures to regulate capital inflows and sterilize the monetary effects of the accumulation of reserves, through intervention in the foreign exchange and money markets. [13] Basically, three instruments have been used for these purposes:

i) An exchange policy based on a dirty float of the exchange rate around a reference value determined on the basis of a basket of currencies. Chilean exchange policy has undergone substantial changes in recent times, however. In 1983, a moving peg policy was adopted under which a reference value

[12] In terms of months of imports, the reserves amounted to 15, 11 and 9 months in 1990, 1991 and 1992, respectively, compared with approximately 4.5 months in 1989.

[13] The Chilean authorities decided to intervene in order to influence the short-term determination of the real exchange rate, on the basis of two assumptions: i) the monetary authorities have a better knowledge of the prospects for the evolution of the balance of payments and its effects on the economy, and ii) their planning horizon is longer than that of the agents operating in the short-term markets (Zahler, 1992).

was determined for the U.S. dollar. In mid-1989, the buying and selling prices of foreign exchange were allowed to float within a range of variation around the reference value of the U.S. dollar. [14] As the inflow of capital was stepped up as from 1990, the official exchange rate was repeatedly close to the bottom of this range, obliging the Central Bank to step in: thus, it had to buy US$1.5 billion in 1990 and US$3 billion in 1991, as well as carrying out substantial open market operations to sterilize the monetary effect of the exchange operations. Later, the authorities decided that some of the factors contributing to the positive evolution of the current and capital accounts were of a more permanent nature, and they proceeded to take steps to adapt to those tendencies. [15] Subsequently, in order to reduce the effect of transitory factors, they took a number of measures which allowed them to mitigate pressures for revaluation. [16]

ii) Sterilization of the monetary effects of the accumulation of reserves. An important feature of the Chilean experience has been the Central Bank's use of the domestic financial market in order to offset the liquidity generated by the accumulation of reserves, which trebled between 1989 and 1993.[17] The national financial market has received a big boost from, *inter alia*, the reform of the pensions system. [18] This development of the capital market has enabled the Central Bank to sell very significant volumes of debentures, mainly with the aim of sterilizing the expansion of liquidity due to purchases of foreign exchange.

iii) The application of duties and reserve requirements in order to regulate the entry of capital and discourage excessive inflows, especially of a short-term nature. In order to discourage the latter –due especially to differences between the domestic and international interest rates– the authorities have sought ways of increasing the cost of undertaking indebtedness in foreign currency abroad. [19] Various important measures have also been taken to promote the gradual selective exit of capital. [20]

In general, the effects at this third level have been limited, since investment has continued to be more profitable in Chile. The only significant aspects have been investments abroad involving the purchase of firms under privatization processes and the purchase of stock on rising stock exchanges. These measures discourage the inflow of capital, thus reducing the pressures for appreciation of the exchange rate and helping to recover control of domestic interest rates and, through them, of aggregate demand and inflation.

2. The case of Mexico

Mexico's economic strategy has been based on two lines of action: macroeconomic adjustment and price stabilization, on the one hand, and structural reforms on the other. The latter have involved, *inter alia*,

[14] This range was fixed at more or less 5% of that value.

[15] This was done through two additional measures: i) a 2% revaluation in June 1991, supplemented with the reduction of customs tariffs from 15% to 11%, and ii) a further revaluation of 5% in January 1992.

[16] Some of the main measures were: i) in 1991 a compulsory 20% reserve requirement and a 1.2% tax on short-term external credits were applied; ii) in 1992 the floating range was increased from 5% to 10% of the reference value of the dollar, in order to generate more uncertainty with regard to the formation of short-term expectations; iii) this measure was supplemented in March 1992 by the Central Bank's decision to intervene at its discretion within the limits of that range (a dirty float); iv) in May 1992 the compulsory reserve rate was raised to 30%, and v) in July 1992 the exchange rules were amended in order to reduce the linkages of the monetary policy with that of the United States and increase its linkages with the policies of the country's other major trading partners. To this end, the reference exchange rate was linked to a basket of currencies made up of the U.S. dollar (50%), the German Mark (30%) and the Japanese yen (20%). These weightings reflect the importance of the various monetary areas in Chile's foreign trade; the sterilization of the monetary effects of the accumulation of reserves through open market operations, and the application of duties and reserve requirements in order to regulate the entry of capital and discourage excessive inflows, especially of short-term capital.

[17] In 1993 the reserves were equivalent to one year's imports.

[18] In fact, the rate of accumulation of pension fund resources has been greater than the increase in the supply of authorized financial assets, and they already have a majority share in the market for some specific instruments.

[19] For example, through compulsory reserve requirements (and taxes) in order to bring the cost of such indebtedness in line with the domestic cost, adjusted by the exchange risk assumed by agents wishing to operate in the country. The dirty float and the linking of the exchange rate to a basket of currencies also serve to make the inflow of capital more selective by increasing the uncertainty and costs of operators using short-term capital of a speculative nature.

[20] In 1991, the percentage of foreign currency deposits that commercial banks could use for external trade financing was increased; the formalities for foreign investment by national firms were eased; the time limit for remitting capital brought into the country through debt conversion operations was reduced, and the Pension Fund Management firms (AFPs) were authorized to invest part of their portfolios abroad in low-risk instruments.

greater trade openness; changes in the regulations governing foreign investment; privatization of public enterprises; domestic deregulation (in commerce, industry and finance), and strengthening of the public finances.

Within this context, and in view of the fact that the inflow of fresh capital, through its expansionary effect on aggregate demand, could make it more difficult for the economic authorities to reach their goals with regard to inflation, measures were taken at the various levels of intervention to reduce the impact of such capital flows on the economy (Banco de México, 1993; Guzmán, 1993). Firstly, exchange policy was made more flexible. The exchange rate is now allowed to fluctuate within a certain range in which the ceiling for intervention is lowered each day by a pre-announced amount, while the floor level remains constant. [21] The aim of this measure was, on the one hand, to provide greater flexibility so that the exchange rate would adapt to the greater supply of capital and, on the other, to widen the range so as to increase the exchange risk in an attempt to discourage the entry of short-term capital.

Secondly, the effect of exchange operations was sterilized. To this end, the monetary policy implicit in this exchange system (controlled evolution of the nominal exchange rate) corresponds to an endogenous money supply determined by variations in domestic credit and the balance of payments position. Thus, the main monetary policy instrument at the disposal of the authorities is the control of domestic credit, allowing interest rates to adjust freely to the exchange rate objective (Banco de México, 1993). Open market operations to sterilize the impact of capital flows have been used with caution. It is estimated that the cost of sterilization amounted to 0.25% of GDP in the three-year period 1990-1992 (Gurría, 1993).

Thirdly, limits were placed on the levels of external indebtedness of the commercial banks. In 1992 a limit was fixed for the total foreign-currency liabilities of the commercial banks: it currently stands at 20% of their total liabilities. At the same time, the liquidity coefficient of 15% was maintained, with the requirement that the resources corresponding to this coefficient must be placed in low-risk instruments (Banco de México, 1993; Gurría, 1993).

3. The case of Colombia

The inflow of capital into Colombia in 1991 was accompanied by changes in the exchange policy in June of that year. The aim was to strengthen the active policy of sterilization of the monetary effects of the accumulation of reserves, through open market operations. As a result of these changes, the Central Bank no longer pays for the foreign exchange it purchases in cash, but in exchange certificates ("certicambios"), which are non-interest-bearing dollar-denominated bonds with a current maturity of one year. The price in pesos for the redemption of these bonds (referred to as the official exchange rate) is fixed daily by the Central Bank. [22]

Although the exchange strategy permits the dilution over time of the monetary effects of the accumulation of reserves, the monetary sterilization carried out in this period was quite intense, and it is estimated that its impact on the quasi-fiscal deficit came to between 0.5% and 1.0% of GDP in 1991 (Cárdenas, 1993; IMF, 1993).

As from October 1991, efforts were made to bring down interest rates in the domestic financial system. The active sterilization policy followed in the first nine months of 1991 was abandoned, and monetary policy was aimed at the gradual elimination of the differential between domestic and international interest rates. The objective was to discourage the inflow of speculative capital, even at the cost of permitting an increase in the money supply greater than those observed in the previous period. In spite of this

[21] In November 1991, together with the abolition of exchange controls, the range for exchange rate fluctuation was widened, while permitting devaluation of the ceiling by 0.02 new pesos per day. In October 1992 the devaluation of the ceiling was increased to 0.04 new pesos per day (equivalent to devaluation of 4.5% per year). In mid-May 1993 the exchange rate was fluctuating within a range of around 6%, and it was expected that by the end of 1993 the difference between the floor and ceiling levels would be 9% (Banco de México, 1993).

[22] This price is not strictly an exchange rate, since it does not apply to an operation of sale or purchase of foreign exchange but reflects the settlement price of an instrument on its maturity. Thus, the "official exchange rate" corresponds to the settlement price payable in pesos by the Banco de la República when it buys back the "certicambio" (Cárdenas, 1993). At the time of their issue, these certificates can be sold on the secondary market at a discount ranging from 5.5% to 12.5%. The price of these certificates on the secondary market depends on the rate for the U.S. dollar, known as the representative rate.

increase, however, inflation went down during 1992 and 1993 (Carrasquilla, 1993; Garay, 1993).

Other measures aimed at reducing the inflow of capital were the application in June 1991 of a 3% tax on foreign exchange transactions in respect of personal services rendered abroad and other types of transfers, and the February 1992 decision of the Banco de la República to raise the commission charged on the purchase of foreign exchange from 1.5% to 5% (IMF, 1993).

Finally, in order to support the application of a non-sterilizing monetary policy, the tax reforms adopted in June 1992 included a measure to regulate the inflow of foreign exchange under the heading of services, as a means of influencing the inflow of capital, and at the same time the regulations regarding the outflow of capital were made more flexible.[23]

Tables 2 and 3 show economic indicators for the four countries studied. It will be seen from them that although the inflow of capital has shown an upward trend in all the countries in question since the beginning of the 1990s, its intensity and frequency have varied, with Chile and Mexico being the two countries where it represents the highest proportion of GDP.

In all four countries the inflow of capital has stimulated trends towards reactivation of the economy, appreciation of the real exchange rate, increased current account and trade deficits, reductions or only very modest increases in domestic saving, and varying degrees of success in combating inflation.

With regard to the real exchange rate, it may be noted that the countries which have adopted –and maintained– sterilizing intervention policies (without using the exchange rate as a nominal anchor) register lower rates of appreciation of the real exchange rate. Thus, in Chile this rate appreciated by 4% between 1991 and 1993. In contrast, the countries which do not engage in sterilizing intervention, or do so using the exchange rate for stabilization purposes (Mexico), or which abandoned this policy (Colombia), register a decline in the real exchange rate. Thus, between 1991 and 1993 this rate went down by 14% in Argentina, 12% in Mexico and 14.2% in Colombia.

The different types of evolution of the real exchange rate have naturally been reflected in the external accounts, and the countries with lower degrees of intervention tend to register bigger increases in the trade deficit and the current account deficit of the balance of payments.[24]

As far as the medium-term effects are concerned, the investment coefficient shows signs of recovery in all four countries. However, this reflects a different mix of national and external saving in the financing of investments. There is less displacement of national saving by external saving in those countries which have pursued active policies of sterilizing intervention. As a proportion of GDP, investment coefficients continue to be below the 1980-1981 levels. The country where they come closest to those levels is Chile.

With regard to stabilization processes, reduction of the rate of inflation has been most marked in countries which have preferred to use the exchange rate as an instrument of stabilization, while at the same time applying passive or moderate intervention policies. The other countries display greater inertia in their inflation, with inflation levels which, while moderate, are higher than in the first-named countries.

[23] In January 1992 all exporters were authorized to keep part of their foreign exchange income abroad: previously this was only permitted for the State oil and mineral exporting enterprises and for coffee exporters. In addition, residents were authorized to keep assets of up to US$500 000 abroad without prior permission. In February of the same year, the minimum maturity of foreign loans was reduced to one year (previously five years, with two years' grace). These loans are only permitted, however, if they are for financing working capital or fixed investments (IMF, 1993).

[24] Although in Chile there was a considerable increase in the trade and current account deficits in 1993, this does not seem to have been due to a sharp increase in imports but rather to a decline in exports.

TABLE 2

Latin America (four countries): Selected economic indicators [a]

(As a percentage of GDP, on the basis of figures in 1980 dollars)

	1976-1979	1980-1981	1982	1983-1989	1990	1991	1992	1993
				ARGENTINA				
Net inflow of capital	1.7	1.6	1.6	1.5	1.0	3.3	7.4	4.2 [b]
Variation in reserves	2.8	-2.5	-0.6	-0.4	2.4	1.6	2.6	0.8 [b]
External saving	-1.1	4.2	2.2	1.9	-1.3	1.7	4.8	3.4 [b]
Effect on reactivation								
Growth rate of GDP	3.9	-1.4	-3.1	0.1	-0.1	8.9	8.6	6.0
Imports of goods	5.2	7.9	4.8	4.0	3.0	4.9	8.2	8.2 [b]
Investment	25.2	23.7	19.2	17.0	13.3	15.3	18.5	...
Per capita GDP (1980 dollars)	3 932	3 961	3 641	3 599	3 278	3 527	3 787	3 969
Medium-term effect								
Domestic saving (GDP - C)	28.6	22.3	25.0	24.2	26.6	23.5	22.1	...
National saving (Y - C)	26.3	19.6	17.0	15.1	14.7	13.6	13.7	...
Exports of goods	8.3	7.8	8.7	9.7	14.9	13.5	12.4	6.5 [b]
Non-financial external balances								
Trade balance (M - X (goods))	-3.0	0.2	-4.0	-5.7	-11.9	-8.5	-4.2	...
Non-financial current account (M - X (goods and services))	-3.4	1.4	-5.8	-7.1	-13.3	-8.2	-3.6	1.7 [b]
				CHILE				
Net inflow of capital	6.1	15.5	4.3	4.7	7.9	3.6	8.0	7.1 [b]
Variation in reserves	2.0	2.7	-5.6	0.3	6.0	3.2	5.8	1.9 [b]
External saving	4.2	12.7	9.9	4.4	1.9	0.4	2.2	5.2 [b]
Effect on reactivation								
Growth rate of GDP	8.2	6.6	-12.6	5.0	2.0	5.8	10.3	6.0
Imports of goods	17.6	22.7	16.1	16.1	19.6	19.7	22.1	31.4 [b]
Investment	14.1	22.2	11.5	14.5	18.1	17.4	20.1	...
Per capita GDP (1980 dollars)	1 998	2 235	2 072	2 652	2 599	2 705	2 936	3 065
Medium-term effect								
Domestic saving (GDP - C)	14.2	15.0	15.7	23.8	27.6	28.6	29.3	...
National saving (Y - C)	9.9	9.4	1.5	10.1	16.2	17.0	17.8	...
Exports of goods	18.9	17.1	21.5	24.9	26.9	27.3	28.3	31.4 [b]
Non-financial external balances								
Trade balance (M - X (goods))	-1.3	5.5	-5.4	-8.7	-7.3	-7.7	-6.2	...
Non-financial current account (M - X (goods and services))	-0.1	7.2	-4.2	-9.3	-9.6	-11.2	-9.2	1.4 [b]
				COLOMBIA				
Net inflow of capital	2.5	4.5	6.0	2.2	0.1	-1.0	0.6	3.0 [b]
Variation in reserves	3.9	1.4	-2.4	0.1	1.2	3.6	2.3	0.2 [b]
External saving	-1.4	3.1	8.4	2.1	-1.1	-4.6	-1.7	3.2 [b]
Effect on reactivation								
Growth rate of GDP	5.7	3.3	1.0	4.2	4.0	1.9	3.6	4.5
Imports of goods	11.0	13.4	15.1	10.9	10.2	8.7	10.7	23.0 [b]
Investment	18.3	20.1	22.0	17.5	14.9	14.4	16.1	...
Per capita GDP (1980 dollars)	1 138	1 308	1 213	1 445	1 444	1 447	1 473	1 486
Medium-term effect								
Domestic saving (GDP - C)	19.4	18.2	17.0	20.0	22.2	22.8	22.0	...
National saving (Y - C)	19.7	17.0	13.6	15.4	15.9	19.1	17.9	...
Exports of goods	11.9	11.5	10.1	13.3	17.2	18.6	18.1	19.2 [b]

Table 2 *(conclusion)*

	1976-1979	1980-1981	1982	1983-1989	1990	1991	1992	1993
Non-financial external balances								
Trade balance (M - X (goods))	-0.9	1.9	5.0	-2.4	-7.1	-9.9	-7.5	...
Non-financial current account (M - X (goods and services))	-1.1	1.9	5.0	-2.5	-7.3	-8.4	-5.9	3.8 [b]
			MEXICO					
Net inflow of capital	3.2	7.6	1.4	-0.4	4.7	8.4	8.9	8.5 [b]
Variation in reserves	0.1	0.5	-1.8	0.1	1.3	3.1	0.4	1.3 [b]
External saving	3.1	7.1	3.1	-0.4	3.4	5.3	8.5	7.2 [b]
Effect on reactivation								
Growth rate of GDP	7.3	9.0	-0.6	0.7	4.4	3.6	2.6	1.0
Imports of goods	6.9	11.3	7.4	8.1	14.5	16.3	19.9	26.5 [b]
Investment	23.0	27.9	21.8	17.0	18.9	19.5	20.7	...
Per capita GDP (1980 dollars)	2 275	2 462	2 703	2 473	2 456	2 491	2 503	2 470
Medium-term effect								
Domestic saving (GDP - C)	24.6	25.0	27.4	27.0	24.1	23.1	20.4	...
National saving (Y - C)	19.9	20.9	18.7	17.4	15.5	14.2	12.2	...
Exports of goods	6.8	9.3	12.5	16.2	17.4	18.2	18.1	15.0 [b]
Non-financial external balances								
Trade balance (M - X (goods))	-	2.0	-5.1	-8.1	-2.9	-1.9	-1.8	...
Non-financial current account (M - X (goods and services))	-1.6	2.9	-5.5	-10.0	-5.2	-3.6	0.3	5.5 [b]

Source: ECLAC, Statistics and Projections Division, on the basis of official data.
[a] C = consumption; Y = gross national income; M = imports; X = exports.
[b] On the basis of figures in dollars at nominal prices.

TABLE 3

Latin America (four countries): Real exchange rate and rates of inflation

	1989	1990	1991	1992	1993
ARGENTINA					
Real exchange rate [a]	144.3	113.0	85.4	79.9	73.8
Inflation (CPI) [b]	492.3	134.4	84.0	17.7	7.7
CHILE					
Real exchange rate [a]	133.5	139.5	137.6	131.8	132.0
Inflation (CPI) [b]	21.4	27.3	18.7	12.7	12.2
COLOMBIA					
Real exchange rate [a]	152.7	172.5	173.0	154.8	148.3
Inflation (CPI) [b]	26.1	32.4	26.8	25.1	21.2
MEXICO					
Real exchange rate [a]	110.4	107.4	98.0	90.7	85.4
Inflation (CPI) [b]	19.7	29.9	18.8	11.9	8.7

Source: ECLAC, 1993.
[a] 1985 = 100.
[b] CPI = Consumer Price Index.

V
Conclusions

The success of economic policy should not be judged only on the basis of access to external capital flows, but rather in the light of the authorities' capacity to defend macroeconomic stability and incentives so that the agents can take decisions on the basis of medium- and long-term goals. In this respect, the need for intervention arises as an effort to manage the effects of capital flows, since these simultaneously affect two key prices for resource allocation: the real exchange rate and real interest rates. In the first case, they act through their effect on the exchange market, and in the second through their effect on the money market.

It is important to remember that external capital is extremely volatile. According to some studies on the internal and external factors that explain the recovery of capital movements in the region, external factors (especially the drop in United States interest rates) have been very important in the recent evolution of the capital account in Latin America, and in at least five countries of the region they have been the most important factor (Calvo, Leiderman and Reinhart, 1993). Indeed, access to international capital markets has provided financing both for reactivating the economies and for continuing the investments needed in order to put them on the path of sustained and sustainable growth.

Policy instruments must allow the authorities to keep a suitable balance between the benefits and costs of regulating and supervising capital inflows and their effects. The benefits are connected with the need to insulate the money and exchange markets from short-term speculative international capital movements; to ensure proper management of monetary policy when the aims of exchange and credit policy are threatened; to avoid the draining-off of the national currency to international markets when there is only a limited supply of external finance, and to bring the cost of foreign credit into line with reasonable criteria in order to avoid excessive private sector indebtedness and obviate the formation of destabilizing "bubbles".

The costs are connected with the fact that excessive regulation causes uncertainty which militates against productive innovation; regulations which continually run counter to the market forces end up by being ignored and lead to the formation of parallel markets. Over-restrictive regulations also limit the range of risks, liquidity and maturity terms open to creditors and debtors, reduce the opportunities open to financial institutions operating at the international level, and could even limit economic growth by cutting the country off from greater opportunities to procure finance for growth and for cushioning transitory short-term shocks.

Three levels of intervention may be identified: a first level at which the aim is to moderate the impact on the exchange rate through the purchasing of foreign exchange (which means the accumulation of reserves) by the Central Bank; a second level involving sterilization policies to reduce the monetary impact of the reserves accumulated at the first level of intervention; and a third level in which an attempt is made to influence the incentives for capital inflows so as to encourage the inflow of long-term capital which directly affects investment.

Generally speaking, governments have opted for either one or the other of two alternatives. Some have preferred non-sterilizing intervention, which involves the purchase of foreign exchange and the accumulation of reserves by the Central Bank without sterilizing their monetary impact. This option is based on liberalization of capital movements in the context of commitment to a nominal exchange rate which will follow a determined path, but without any control over the monetary aggregates. Others have adopted sterilizing intervention policies, under which reserves are accumulated in an attempt to keep the real exchange rate within certain limits considered desirable in the light of medium- and long-term objectives: an approach which involves a high degree of intervention in order to sterilize the monetary effect of the accumulation of reserves.

The sterilization option involves costs as long as the interest rates that the Central Bank must pay on its debentures are higher than those it receives on its foreign currency deposits, but these costs are not always of a permanent nature.

Most of the countries of the region have opted at one time or another for sterilizing intervention, but have been faced with severe conflicts between the management of their exchange and monetary policies. In order to mitigate such conflicts, complementary measures have been used: fiscal discipline in order to regulate aggregate demand; special funds to stabilize the prices of their main export products (e.g., copper in Chile and coffee in Colombia) and thus soften the impact of the price cycles of those products; incomes policies to keep relative factor prices in line with changes of productivity; and measures to change the composition of capital flows by encouraging those of a long-term nature (through intervention at the third level –reserve requirements or taxes– and exchange measures designed to generate greater uncertainty in the minds of those envisaging short-term capital operations).

Through exchange rate management it is sought not only to reduce the tendencies towards appreciation of the real exchange rate but also to do away with incentives for international interest rate arbitrage. This is done, in particular, by increasing the uncertainty over the evolution of currency prices through mechanisms that provide greater scope for intervention by the authorities, for example, by permitting a dirty float within a preset range around a reference value of the currency fixed according to the market conditions of the various trading partners.

By actively affecting the monetary aggregates, sterilizing intervention policies avoid excessive spending –especially of the private sector– by preventing artificial transitory surges in domestic expenditure which would cause a substantial drop in national saving.

The main differences between the results obtained by countries which have adopted one of these two alternatives are in the extent of the exchange rate appreciation and its effect on the makeup of the balance of payments imbalance; in the rapidity with which inflationary pressures are reduced, and in the effects on national saving and investment. The exchange rate appreciation and its effect on the trade and current account deficits of the balance of payments is greater in the case of countries which have not adopted a sterilization policy. The achievements in terms of reduction of inflation are much greater among these same countries, but in them national saving is displaced more rapidly by external savings, thus affecting overall investment levels.

(Original: Spanish)

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Financial repression *and the Latin American* finance pattern

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This article presents a critique of the theory of financial repression, in place of which it offers an alternative approach to development financing, based mainly on the Keynesian tradition. The concept of financial repression refers to the situation of a market suffering from institutional obstacles, both in terms of economic policy and administrative aspects, which prevent it from attaining an equilibrium position and thus jeopardize the rationality of the resource allocation process. The policy consequences that follow from a study of this theory mainly involve the liberalization of the financial sector as a contribution to the development process. The author seeks to identify the limitations of policy options based on the theory of financial repression and proposes other alternatives which fit in better with the structural conditions of Latin American financial markets and the place they occupy within the international credit markets. He concludes that it is necessary to develop new forms of credit creation and financial intermediation, and not just redirect the existing resources and institutions. The financial sector cannot be burdened with the exclusive responsibility for correcting the intrinsic features of a given development pattern, reallocating resources in given directions, or increasing the rate of investment. Consequently, in various situations the State has been obliged to use financial policy mechanisms that facilitate the industrialization process.

I

Introduction

In the foreword to his *General Theory*, Keynes said that the preparation of that work had represented a long struggle to set himself free, and that reading it should mean the same thing to most of his readers: a struggle to break away from the usual forms of thinking and expression. The ideas so laboriously expressed in it, he said, were extremely simple and should be obvious. The difficulty did not lie in the new ideas, but in getting away from the old ones, which extended their ramifications to all corners of the human mind (Keynes, 1985, p. 4).

In a way, I am returning to Keynes's debate with the liberals of his time concerning the role of financial institutions and financial markets in the process of capital accumulation and, hence, economic growth. The old ideas surfaced again in 1973 with the studies by McKinnon (1974)[1] and Shaw (1973) which sought to identify the links between monetary processes and capital accumulation in the developing world and represent a "financial approach to economic development" which became the new orthodoxy in United States academic circles and in the main international agencies that lay down basic policy lines for the developing countries (the IMF and the World Bank), and which was fully applied in the liberalizing experiences of the Southern Cone countries between 1973 and 1984.

McKinnon and Shaw worked out the concept of financial repression on the basis of a pre-Keynesian view of the relationship between saving and investment, heightened by institutional rigidity of the financial market due to State intervention. Here, repression is taken to mean the situation of a market suffering from institutional obstacles (of an economic policy and administrative nature) that hinder it from attaining an equilibrium position and therefore jeopardize the rationality of the resource allocation process.

For these theorists, the constraints on expansion of investment in the developing countries are due to the lack of liquidity of credit markets caused by repression in the banking sector and the capital markets. In other words, the main problem in under-developed countries is financial repression: i.e., the maintenance of interest rates below the equilibrium rate and the application of selective credit policies, which have harmful effects on the allocation of savings.[2]

Liberalization (increasing interest rates and deregulating banking activities) is seen as the way to stimulate saving, financial intermediation and investment. The core of the argument is the assumption that all investments not financed directly from the prior savings of the investor himself must be financed from savings deposited in the banks. The role of the latter is limited to centralizing savings and transferring them to investors, at an interest rate which matches the supply and demand of loan resources (i.e., savings and investment in equilibrium). This means that the financial institutions are merely intermediaries of savings, since the volume of funds available for loans is determined outside the system.[3]

In this sense, increasing interest rates is the fundamental element of the policy of financial liberalization: interest rates should be allowed to fluctuate until they reach the right levels for the elimination of the domestic savings deficit caused by artificially

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[1] Together with this new literature advocating the expansion of financial markets, the corresponding programme was set up in the OAS on the initiative of the United States Government.

[2] It should be stressed that the financial repression theory has the merit of being one of the few examples among orthodox currents of development theory –perhaps the only example– that deals with the role played by the financial system in economic growth or, more exactly, in development finance.

[3] In the 1930s, in a debate with Keynes, Ohlin (1987, p. 160) put forward similar arguments: "If an authoritarian government sets an interest rate much lower than the rate that would prevail on a free market, at all times savings and new *ex post* investment will nevertheless remain equal, even if it is observed that the amount of credit offered is less than that demanded, thus representing a kind of "rationing". It should be remembered that the credit market reacts in the same way as the market for goods when maximum prices are fixed". In reality, Shaw, McKinnon and Ohlin are associated with the tradition of the Stockholm theory of saving and investment, also known as Wicksell's theory of the natural rate of interest or theory of loan funds (Wicksell, 1978).

low interest rates. Increasing interest rates would lead to an increase in bank deposits –which would permit an increase in credit and investment funds– and savings would be freed from inferior uses, thus making possible improved efficiency of allocation. Moreover, higher interest rates would discourage over-investment in activities and speculation with real or risk assets.

The analysis of the initial theories and of the thorough-going criticisms and self-criticisms levelled at the "theory of financial repression" is designed to evaluate economic liberalization, carried to an extreme, as a suitable policy for the restructuring of production in a developing country faced with severe restrictions in terms of sources of finance for productive investment.[4] For methodological and objective reasons, in this article we will accept the validity of the theoretical hypotheses and the inner logic of the diagnoses and proposals.

II

Economic development financing and financial repression

It is important to analyse the relations which exist between financial accumulation and the accumulation of productive capital, since they form the basis of the arguments in favour of the "financial repression" theory. We shall therefore make a critical appraisal of the functions and institutional nature of loan capital and savings in the formation of productive capital, the real and financial dimensions of saving, and the processes that determine the levels of interest, saving and investment.

Keynes's view of the role played by credit in financing investment excludes the hypothesis that investment demands an act of prior saving, seen as a function of the interest rate. In Keynes's view, interest rates are not determined by *ex ante* equality between saving and investment. There would always be sufficient *ex post* saving to cover the investments made. Institutionally, interest rates are determined in the money market by Central Bank policy and the demand for money, especially by businessmen, and they reflect the particular stage of preference of the community for liquid assets.[5] Consequently, the two relevant variables for determining interest rates are: the amount of money in circulation (the money supply) and the form in which the agents decide to keep their monetary reserves (i.e., in the form of cash or in the form of securities), which Keynes called the "liquidity preference interest rate theory".[6]

Through the principle of effective demand, which posits a unilateral causal relationship between expenditure and income, Keynes demonstrates that investment is the dynamic variable of the economy, whose execution depends on capitalists' expectations of future yields rather than on a fund of prior saving.[7] "Saving, in fact, is a mere residual" (Keynes, 1948, p. 64),[8] since businessmen only

[4] For a general overview of the various currents of opinion critical of the theory of financial repression, as for example the neostructuralist approach, the theory of the rationing of credit, the role of regulation and supervision of the financial system and the sequence of liberalization, see Ferreira, Freitas and Schwartz (1992), especially pages 202-235. The authors demonstrate that the initial diagnosis by McKinnon and Shaw, centered on the defence of high interest rates and the elimination of public intervention in financial markets, is no longer tenable even if one accepts the most extreme liberal theories.

[5] According to Keynes (1987a, p. 151), "(...) interest rates are a monetary phenomenon, (...) in the sense that they balance the advantages of current possession of money against future right to possess it". In other words, the interest rate on an investment of a given quality and a given term is set at a level which, in the view of those possessing wealth, makes it more advantageous to exchange immediate liquidity for the prospect of increased wealth in the future.

[6] "(...) the *ex ante* interest rate applicable to an investment is that determined by the current supply of money and the current state of liquidity preference at the date stipulated for the finance demanded by the decisions" (Keynes, 1987b, p. 167).

[7] "(...) it is not the rate of interest but the level of income that ensures the balance between saving and investment" (Keynes, 1987a, p. 154).

[8] It consists of an income flow, registered in the national accounts, which corresponds to expenditure on goods and services for investment.

decide what they are going to spend, and not what they are going to save. Thus, credit and not saving is the financial motive force behind the capitalist process of accumulation of wealth, and hence the decisive role played by the financial system in supplying resources for the execution of investment expenditure is completely different, since it does not stem from the accumulation of savings but rather from its capacity to expand or reduce liquidity and credit in an autonomous manner.

To sum up, while it is true that fully developed financial systems play a fundamental role in the expansion of a capitalist economy, as is acknowledged by both schools of thought, the way these interrelations are conceived in theory has very varied consequences. From the Keynesian viewpoint, it would be an error to equate "saving" with deposits and with "financial assets" and to claim that the interest rate regulates the "supply and demand" of loan resources,[9] because not only are those liquid balances not automatically converted into investments, but, on the contrary, their recurrent rise in value in the financial circuit is seen as an investment alternative for enterprises, since if a growing positive interest rate is maintained, the tendency would be towards a drastic reduction in productive investment. Ultimately, the determinants of financial saving are different from those that apply to investments, and may even be in contradiction to them and display a form of feedback, generating more and more financial resources and less and less productive investment.

In other words, there is no *a priori* relation, as advocates of the theory of financial repression claim, between financial saving –corresponding to total financial assets which swell the liquid monetary balances of the agents registering a surplus, sometimes even as protection against erosion by inflation– and "real saving", corresponding to an income flow associated with an investment action. In the words of Keynes: "(...) while we may be tempted to see money as the beverage which stimulates the activity of the system, we should not forget that there may be many a slip twixt the cup and the lip" (Keynes, 1985, p. 125).

Decisions on the accumulation of capital goods depend on the expectations of future gain and are the sole responsibility of capitalists and the State. The latter takes such decisions either directly, through the execution of the public budget or through State enterprises, or indirectly, through the multiplier effect of public spending and the manipulation of the general conditions of prices, interest rates, exchange rates, wages, credit, etc., which condition the private sector's initiatives.

In capitalist dynamics, however, it is not enough for businessmen merely to foresee their gains in order to take investment decisions. They also need to have a suitable amount of capital (money) at hand, at compatible costs. Thus, if there is a marginal capital efficiency curve (a measure of the gains expected from a capital asset) and the banks maintain a suitably accommodating policy, finance will be equal to the liquidity needs of investors. As investment gives rise to a savings flow strictly equivalent to its *a posteriori* amount, it does not need any prior amount of saving for its execution, but it does need credit, and the expansion of the latter is prior to and indispensable for the generation of savings.

In short, according to the Keynesian view the expansion of investments and, hence, of income in a capitalist economy depends on: i) the expectations of the agents regarding markets, technologies, profits, projected idle capacity, etc.; ii) the existence of suitable domestic financing mechanisms; and iii) the availability of the foreign exchange needed to import raw materials and equipment and to cover the financial servicing of foreign capital. At this point, we need to go more deeply into the questions of domestic and external finance.

[9] It should be noted that the traditional theory of loan resources was severely criticized by Keynes (1948, p. 243): "I am now (in the *General Theory*) no longer of the opinion that the concept of a "natural" interest rate, which previously seemed to me to be a most promising idea, has anything very useful or significant to contribute to our analysis". According to Belluzzo and Almeida (1990, p. 64): "Keynes's objection to the "natural rate" is that businessmen's expectations are in a constant state of flux and cause sudden alterations in the hypothetical natural rate, that is to say, in the appraisal of the future, so that the system of asset prices would appear to change continuously, independently of banking and monetary policies. The extreme case is that of the "liquidity trap", in which the price system becomes insensitive to monetary stimuli. Thus, Keynes's contribution was that he demonstrated that monetary systems are not intrinsically secure and that the only way of operating in a stable manner is that the past should continue to reproduce itself in the present and determine future expectations".

1. The active role of credit in financing investment

Let us begin by looking at the importance of banks for bringing about growth and investment. In addition to their financial intermediation function, banks generate money to cover loan advances. [10] Money or credit is generated when a bank acquires assets and issues liabilities in the form of credit money in their place. In the next stage the banks are concerned for their liquidity positions (formation of passive reserves). The latter can be acquired in the Central Banks (which discount private paper in the hands of the banks), [11] in the inter-bank system (taking advantage of the inactive balances of other banks), or through their own bank deposits, depending on the interest rate paid. The value of this money depends largely on the future value of the money as foreseen by the agents and is therefore subject to the conditions of the financial market: i.e., it represents the prevailing liquidity premium. It also depends on the competition existing in that market for additional resources to cover loan positions already assumed by the banks.

Credit money is thus endogenous, since it is created by the banking system in response to the state of business and as a function of its forecasts and expectations regarding the performance of the economy. Monetary policy is not necessarily passive, however. The Central Banks –provided they have control over the monetary reserves through compulsory reserve requirements in respect of bank reserves, the rediscounting rate and open market policies– are in a position to regulate the expansion of primary liquidity: i.e., they can determine the monetary base.

Monetary policy consists of manipulation of interest rates and of the level of bank reserves in order to influence through them the volume and price of bank credit in the short term. In the long term, the amount of money is reproduced through the liability/asset ratios between the financial and non-financial agents. Variation in the amount of money is therefore a function of the requests for credit met by the banks, which subsequently have to look for funds to back them up. In aggregate and long-run terms, bank finance is self-financed. The banks make loans which return to the system in the form of deposits, and financing of reserves to cover new loans is the only current need of the banks.

In short, notwithstanding the degree of freedom of action of monetary policy, the fundamental cause of the variation in the amount of money does not lie in the possible short-term manipulation of these funds and their prices by the monetary authorities, but in the bank financing of the expenditure decisions of capitalists. [12]

In these circumstances, it is basically the dynamics of profit, through the ongoing expansion of aggregate expenditure, which guarantees the solvency of the economic agents: in other words, purchasing power is generated to pay off past debts. In the words of Belluzzo and Almeida (1989, pp. 121 and 122): "It is with these profits that they (the enterprises) service their debts, pay taxes and accumulate financial funds, thus enabling the banks to renew their financial stocks. It is therefore the continuation of the process of investment and indebtedness which makes it possible to service past debt. (...) the economy generates debt now so that past debt can be serviced". Consequently, "(...) from the macroeconomic standpoint a decline in investment necessarily means an increase in indebtedness, because it deprives enterprises of the capacity to service past debts. Furthermore, as contraction of investment depresses the internal accumulation of enterprises, it reduces their own capital and frustrates any attempt to reduce the

[10] These loans may be destined not only for financing the formation of fixed capital but also for current production, consumption, or the acquisition of existing real or financial assets for speculative or accumulation purposes.

[11] When it discounts private paper in the hands of the banks, the Central Bank fixes the price of its liquidity loans to the banking system (Keynes, 1971, pp. 43-69).

[12] "Additional investment is financed through what is known as the creation of purchasing power. There is an increase in the demand for bank credits and these are granted by the banks. The resources used by businessmen for the construction of new establishments affect the activities of the investment goods industries. This additional demand brings into operation idle equipment and unemployed labour. The increase in employment is a source of additional demand for consumer goods, and this, in turn, generates a higher level of employment in the respective industries. Finally, the additional investment expenditure goes –both directly and through spending by the workers– into the pockets of the capitalists (it is assumed that the workers do not save). The additional profits return to the banks in the form of deposits. Bank credits increase by an amount equal to the additional investment, and deposits by an amount equal to the additional profits. Businessmen who make additional investments "drive" into the pockets of other capitalists an amount of profits equal to their investments and become debtors to those capitalists in an equivalent amount, through the banks" (Kalecki, 1983, p. 24).

level of indebtedness. This means that if each unit tries to reduce its current deficit, the result for enterprises as a whole will be an aggravation of their wealth position and current commitments, because of the rigidity of the financial costs of the debt assumed in the past".

If we look at the system in dynamic terms, with investment and savings continually being replenished, the contribution made by credit to the process of capital formation is seen to be determined by the generation of surplus value: i.e., by profits. [13] If the flow of profits is not maintained, because of interruption of the productive investment feeding the active portion of capital, the dynamics of profit will begin to flag and the weight of the passive portion will begin to make itself felt. Consequently, if there is an unforeseen reduction in the growth rate, firms will have difficulties it meeting their commitments with the banking system. The alternative would be to renegotiate their debts by assuming further indebtedness, that is to say, by accepting a reduction in the ratio of their own capital to the total capital, sometimes on inferior terms as regards interest rates, deadlines and margins, thus increasing the financial fragility of the firm, or by seeking to restructure the pattern of ownership through the issue of new shares, the entry of new partners, etc. There is thus a problem of financial intermediation, of reconciling deadlines as a function of the aversion to risk of all the economic agents, in order to procure resources to consolidate investors' debts.

It is not necessary to think in terms of a situation of falling investments, however, to show that financial intermediation based on the procurement of medium- and long-term investments capable of ensuring the stability and operational solidity of firms is of vital importance. It has already been noted above that banks make temporary advances of purchasing power to cover the time-lags between investment decisions and their actual execution. At the macroeconomic level, loans taken out to cover investment needs in general are based on the spreading over time of the income associated with business projects, which is only produced once the new production capacity has been installed and is in operation. If for some reason it is necessary to pay off the credits owed before the investment project generates the expected income, however, or if the rate of yield of the investment proves to be lower than expected, investors will have to have recourse to the financial market in one way or another in order to find fresh finance. [14]

The most important conclusion to be drawn from this debate is that it is necessary to have financial mechanisms capable of lengthening the debt profile. If financial intermediation does not function properly, this may lead to default by debtors/investors, an increase in the financial fragility of the system, or transfers of ownership. On the one hand, the possibility of this "insufficiency", perceived *ex ante* by investors, may act as a constraint on investment activities. In contrast, a guarantee that the banking system will adopt an accommodating position and that the Central Bank will influence it in this direction will be a powerful incentive to invest.

Thus, mechanisms which make possible the conversion of short-term debt into long-term debt give greater stability to the investment process, since they reduce the risk of a change in ownership of assets when a profit-generating process comes to an end or when new production capacity has not yet generated sufficient income to pay off the debts assumed. [15] In other words, the lack of linkages between the short and long term in the capital market makes the system more unstable and harder to regulate. [16]

[13] With regard to the limits of the contribution made by credit to capital formation, see Zoninsein (1989).

[14] Tavares (1983, p. 110) emphasizes that it is perfectly possible to finance investments by increasing and continually renewing short-term debts, the soundness of which is guaranteed in periods of expansion by the rapid growth of production and the growing retention of profits. This conclusion is only valid, however, for increasing the capacity of sectors where there are no significant technical indivisibilities and the lead times are relatively short.

[15] It must be emphasized, however, that "instability is of the very nature of monetary economies" and that the endogenous creation of money by private agents (banks and businesses) is a way of stimulating and prolonging the expansionary phase of a cycle when the prospects of growing profits bolster the confidence of those agents, but it cannot avoid illiquidity when circumstances are unfavourable.

[16] "In an uncertain world, and in the absence of financial consolidation, banks would be obliged to lower their safety margins (liquid assets/non-liquid assets) or investors would be forced to refinance their long-term liabilities until the investments matured and came on stream. In both cases –in view of the nature of the banks' liabilities– the possibility of future changes in interest rates or credit terms would represent too much of a risk for both agents" (Studart, 1993, p. 110).

This is the background to the by no means concluded debate among post-Keynesians, begun by Asimakopulos (Asimakopulos, 1983, pp. 221-233, and Davidson, 1986), on the functions and institutional structure of credit and saving in the process of capital formation. For these theorists, on the basis of Keynes's debates with Hicks, Robertson and Ohlin it may be deduced that investment financing has two dimensions: first of all, there is investment financing with short-term credit provided by the monetary sector of the financial system, and secondly, there is the consolidation of short-term debts through the mobilization of financial savings in the long-term segment of the financial system and the capital market (Minsky, 1985, p. 318). In this case, saving –in the sense of accumulated income whose spending power is spread over time and is not the result of restriction of consumption– serves to repair the structures of assets and liabilities of the investing firms.

In the words of Keynes himself: "When a businessman decides to invest, he must be sure of two things: first, that he can obtain sufficient short-term resources until the investment begins to produce; and second, that he will finally be able to finance his short-term commitments through long-term issues on satisfactory terms. Sometimes he may be in a position to use his own resources or to make a long-term issue immediately. But this makes no difference to the amount of "finance" that the market must find altogether: it only affects the means by which the finance reaches the businessman and the probability that part of these funds may result from the freeing of funds by the businessman himself or by the rest of the public. It is therefore desirable to view the dual process –finance and funding– as the most typical" (Keynes, 1987b, p. 166). [17] Let us now take a brief look at each of these dimensions of the investment financing process: finance and funding.

[17] The following reservation must be added, however: "But the markets for new short-term loans and new long-term issues are substantially the same as for previous transactions, and the small anomalies which may exist are not important at the present level of debate (...)". Keynes seems to be suggesting that the structures of assets and liabilities with different terms, risks and guarantees can be reconciled within the financing system itself. In other words, the financial system would take care of the diversification of assets in terms of their divisibility, liquidity, profitability and safety. However, this does not do away with the need for a surplus of income which is temporarily available and can be freely managed.

2. The finance - investment - funding circuit

The existence of a system of commercial banks issuing fiat money and acting as intermediaries of finance flows frees investors from any need for prior saving, as already noted. The banks finance investment through a revolving fund –the finance fund– or, if this is not enough, by expanding their demand deposits. Investment is thus financed in the money market. The banking system increases credit independently of the anticipated procurement of money capital, as asserted in the financial repression theory, without compromising the self-sustainability of the accumulation process. [18]

Thus, finances consist of lines of credit or bank advances which make it possible to anticipate future resources (future income) in order to finance investment. They therefore precede investment and have nothing to do with saving. The banks create money, not savings, and can thus adjust the supply of funds to the demand for them, that is to say, they adjust saving to investment.

Belluzzo and Almeida (1989, p. 121) describe the demand for money to be provided by the banking system in the following terms: "(...) the increase in investment can only be effected at the macroeconomic level through indebtedness of the units making the expenditure. When this investment generates profits it restores the liquidity conditions of the loans: i.e., the generation of profits maintains the conditions for the renewal of the financial fund administered by the banks and originally generated through the issue of bank credit against their own resources in the light of the demand of those who are going to make the expenditure. The principle of effective demand (the level of income and employment of the community is determined by the capitalists' decisions regarding expenditure) only requires that a given expenditure decision should be endorsed by the banking system as the administrator of the money and financial funds of society. The banks sanction the capitalists' wager on the acquisition of new capital assets, and the profits derived from that investment sanction the wager made by the banks".

[18] According to Keynes (1987b, p. 168): "(...) finance consists basically of a revolving fund. It does not use saving. For the community as a whole, it is merely an accounting transaction. After being "used", in the sense of spent, the lack of liquidity is compensated automatically and the temporary illiquidity mechanism is ready to be used once again (...). For the most part, the flow of new resources required by *ex ante* current investment is supplied by the finance freed by *ex post* current investment".

However, nothing guarantees that businessmen will automatically be able to convert their short-term commitments into long-term debts. There is a risk in this process, and businessmen take their decisions on the basis of their expected profits: i.e., finance has a speculative component. In other words, in the question of compatibility between terms and rates there is always a risk that forms part of the speculative calculations inherent in any capitalist investment decision.

In order to reduce this risk, however, at the same time that they procure the short-term sources of credit businessmen begin negotiations with investment banks and other institutions of the capital market in order to mobilize the long-term funds needed for the financial consolidation of the investment: the process of funding.

The consolidation of the investment consists, then, of issues of long-term debt paper or shares on the financial and capital market. The debts can be served by the units making the expenditures, through the internal accumulation of profits or through the portfolios of financial intermediaries. In the latter case, part of the long-term financial assets maintained by the "saving" units take the indirect form of time deposits, pension fund contributions, insurance policies, share funds in banks, mutual funds, bonds without any specific guarantee, shares in the hands of banks, etc.

Thus, the component parts of the capital used in the process of consolidation of investments come from the channelling of real savings, i.e., accumulated income whose purchasing power was delayed in time. The mere existence of a given volume of savings is not enough, however. It is also necessary that these financial savings should be effectively channelled in order to meet the needs for funding. [19]

Notwithstanding the role played by the financial system in the ongoing functioning of the long-term securities markets, Baer notes that "(...) the actions of the financial agents (...) are of a residual nature, since savers must assume most of the burden of financial assets. In other words, there must be capacity for funding, and the role of the banks is to be ready to cover possible financial circulation needs in the capital markets" (Baer, 1983, p. 37).

In late-industrializing economies, government intervention designed to further the consolidation of investments takes place predominantly through State development banks, the establishment of compulsory financial saving funds, and discretionary mechanisms for the allocation of credit. [20]

To sum up, for our purposes it is important to remember from this debate that a necessary but not sufficient condition for maintaining the stability of capitalist economic growth is the development of financial instruments that will make possible the conversion of the wealth inherited from the past into various forms of assets, including long-term securities.

Clearly, the theory of financial repression does not take account of the distinction between the mechanisms of short-term finance and of the consolidation of investment. Thus, not only do long-term assets and ownership rights disappear, but also the capital and financial savings markets themselves. In reality, the financial market plays the role of the universal panacea of the market as a means of equalizing the rates of profitability of the economy.

3. The role played by external finance

Finally, it should be added that in the countries of the periphery, investment (or autonomous expenditure) must also be in keeping with the availability of foreign exchange, insofar as the national currencies do not circulate internationally either as reserve currencies or as convertible currencies, contrary to McKinnon's assumption. There is therefore a need for inflows of external resources to finance development, in the form of either short-term bank credits,

[19] See Baer (1993, p. 29): "(...) although investment and saving decisions are completely independent of each other at the level of the individual agents, there must be a certain minimum degree of compatibility between the total volume of investments to expand production capacity and the corresponding needs for long-term finance, on the one hand, and the volume of savings and the way they are invested as the basis for the process of provision of funds, on the other". It may be emphasized that the aggregate level of saving is related with the level and distribution of income as well as with the growth and consumption models of the economy, deriving from the structural characteristics of industrialization.

[20] Later on in this article we will see the inherent difficulties in promoting mechanisms for the consolidation and intermediation of financial saving and for ensuring complementarity between bank credit activities and participation in the equity of production enterprises in most of these economies.

long-term official and private finance, or even venture capital. The inflow of direct investment is particularly important in view of the fact that the generation and possession of new technologies is concentrated in the big transnational firms. [21]

In theory, the growing mobility of international capital flows and the greater integration of financial markets expand the facilities for gaining access to external resources, depending on each economy's potential for attracting international capital. This linkage with international financial flows has serious consequences, however. Just as resources are brought in more easily from abroad, in contrast there are new mechanisms for external portfolio investments and it is thus possible to channel resources abroad. In other words, even though the arbitrage process is conditioned by exchange risks, it may become globalized and limit the intervention capacity of the monetary authorities of a country which lacks the power (reserves) to intervene in the international market. Furthermore, the mobility of capital and the generalized spread of floating interest rates make the balance of payments of countries with a high degree of financial openness more vulnerable, since such countries are passively exposed to the repercussions of the monetary policies applied by the central countries (Baer, 1993, p. 32 and Baer, 1992, pp. 173-186).

III

Specific features of the Latin American system of finance: financial contracts under inflationary conditions

The foregoing theoretical considerations make possible an analysis of the axioms of McKinnon and Shaw regarding the theory of financial repression in the Latin American context: defence of liberalization –both internal and external– as the only way of attaining the so-called deeper development of financial activities, without taking account of the specific structural features of the late-industrialized (or only semi-industrialized) economies of the periphery, and the chronic nature of inflation, which makes it difficult to sign contracts, which are a basic institution in a world dominated by uncertainty. We shall try to show that the matter is more complex than the mere identification of repression of the capital markets: in other words, it is not a question of public policies which restrict the financial markets, but the supervision of money and credit in conditions of very great uncertainty. [22]

Keynes defined capitalist economies as "monetary economies engaged in production", since the basic condition for their functioning is the existence of a system of contracts fixed in monetary terms: "(...) money stands, in a broad field, between a real asset and the owner of wealth. The effective owner of the real asset obtained finance through a loan granted by the real owner of wealth. Moreover, this was largely arranged through the intermediation of the banking system. In other words, for a consideration the banks gave their guarantee and ended up as both the real grantor

[21] Calling on external capital may cease to be an indispensable and essential resource for economic development on the periphery when there are aggressive production strategies aimed at the international market, based on national entrepreneurial resources, which make it possible to satisfy the need for imported goods and services or other forms of association with foreign capital, such as the formation of joint ventures. See Canuto, 1991.

[22] "My conclusion is that the question of financial regulation or deregulation implicit in McKinnon's concept of repression is over-simplified. It is not possible to posit the existence only of money and capital markets which are either repressed or liberalized. Financial history, the national character, the evolution of institutions, and relations between businesses and financial institutions affect both the way financial markets react to changes –financial or real government regulation or deregulation– and the way capital markets effectively allocate resources among competing investments" (Kindleberger, 1987, p. 350).

and the real grantee of the loan. They gave their guarantee to the actual lender, and their guarantee is only good if the monetary value of the asset belonging to the real grantee of the loan is worth the money given by him" (Keynes, 1978, p. 47).[23]

Any transaction in the capitalist market is represented by a contract corresponding to a future responsibility between the parties involved, more exactly, because capitalism assumes the existence of a pattern for measuring values and fixing contracts with a certain degree of stability: "(...) money is simply what the State periodically declares to be a good legal instrument for settling contracts in money" (Keynes, 1978, p. 7, and Aglietta, 1990). Such stability is subject to temporary, reversible interruptions, however, since it is based exclusively on confidence, generated through conventions and beliefs, which is capable of guiding the rational and calculating behaviour of the agents in the market.

In this sense, the institutional arrangements which make possible the issue of long-term securities (resources available for the process of consolidation of productive investment-funding), which depend on the expectations of positive interest rates generated within the financial system, play a fundamental role inasmuch as they offset the uncertainty regarding the financing of long-term positions and reduce the risk of financial instability which could ruin the growth process. In conditions of relative price stability or "illusion of stable currency", there is a reduction in the premium demanded by investors to cover the market risks (risk of devaluation of assets) inherent in such securities. According to Davidson, "the institution of term contracts allows the agents to take action and control the effects of an uncertain future through repurchases and payments at a future date. The long-term contract is the way in which a free-market economy, in an uncertain world, establishes institutional controls of prices and wages over time. In such a world, contractual security regarding future events is a necessary condition for stimulating businessmen to carry out economic activities in a market economy" (Davidson, 1989, p. 17).

In economies with stubborn inflationary tensions, the effect of expectations of price variations is to make contracts impossible or to reduce their scope and time-length, since the uncertainty about the purchasing power of money is greatly increased.[24] The markets only operate in the short term, where costs and yields are more predictable by the agents, and moreover they can renegotiate the conditions laid down in the contracts in a shorter space of time. In reality, in such circumstances we are in the presence of a "fallacy of composition": each unit considers that it will run fewer risks by operating in the short term, but these individual forms of behaviour themselves cause increased fragility of the whole system in so far as they increase the number of firms that need to constantly refinance their liabilities and assets.

From our perspective, this is the fundamental question with regard to the atrophy of the financial system in developing countries: with the persistence of high rates of inflation and "(...) in the absence of formal indexing mechanisms, the national financial markets fail to develop. At the most, the government takes on the function of offering credits (...). The market is limited to very short-term money market operations and the capital market is practically non-existent" (Mendonça de Barros, 1993).

What is needed, then, is a way of finding mechanisms to defend the real value of contracts through a clause which varies their nominal value as a function of some external referent. Indexation of the value of securities issued by the financial system and of finance contracts, on the basis of the variation in a price index, is a means of regularizing debit and credit contracts and imparting viability to the functioning of financial intermediation and even of the public debt itself.[25]

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[23] In the final analysis, "(...) considered in terms of its most significant attributes, money is above all a subtle process of linking the present with the future, and without it we could not even begin to study the effects of changeable expectations on current activities" (Keynes, 1985, p. 204).

[24] In the words of Carvalho (1992, p. 209): "(...) through erosion of the purchasing power of the currency, inflation makes its value as a unit of account unpredictable and gives rise to unforeseen gains or losses".

[25] Even a generalized system of indexing, which makes possible term contracts in an inflationary economy, does not do away with all the risks. If the currency loses value there is still the risk: i) that the indexes fixed by the government do not follow the index of inflation, which means that there will be reduction in the time-lengths of contracts as a means of protection, and ii) that the prices or yields of assets do not follow the arbitrated index; the higher the inflation, the more serious this is, as high inflation increases the possibility of disparities between prices and yields (see Belluzzo, 1992, pp. 25-31).

To sum up, in situations where there are persistent inflationary pressures the owners of wealth will tend to shorten the terms of their financial investments because of uncertainty about the way prices will evolve. This gives rise to a central problem of some developing economies which the advocates of the theory of financial repression do not take into account: as there is a high demand for liquid assets, the financial system's capacity to supply short-term credit and oversee the continued functioning of the markets for long-term securities is limited.

The insufficient development of Latin American financial systems in terms of the volume, terms and conditions of medium- and long-term credit is not due strictly to "repression" but to the extremely high levels of instability and uncertainty and the lack of confidence on the part of savers and investors. Negative interest rates are due to macroeconomic instability –specifically the speeding-up of inflation– and not to public policies aimed at promoting growth. In reality, what is involved is a structural restriction on the full generation of financial intermediation. [26]

In the words of Keynes: "When inflation advances and the real value of the currency fluctuates wildly from one month to the next, all the permanent relations between debtors and creditors, which form the ultimate foundations of capitalism, become so completely disordered that they almost have no point, and the process of the acquisition of wealth degenerates into a gamble or lottery" (Keynes, 1978, p. 3).

This is one of the fundamental errors of the theory of "financial repression": the mechanisms of financial capitalization and indebtedness are not based on the existence of "prior savings" but of a set of financial and monetary institutions capable of multiplying all kinds of securities, with different degrees of profitability, risk and liquidity. In other words, the Keynesian conception of financial dynamics enables us to assert that the problems of underdevelopment are not due to mere public restrictions, but to the lack of financing mechanisms and the impossibility of deferring over time the spending of income accumulated in the past and channelling these resources to investment projects.

[26] Obviously, institutional rigidity, and particularly the application of upper limits on interest rates in a context of increasing inflation, prevents the creation and diversification of instruments for mobilizing finance and debt paper. What we want to stress, however, is that this is not due exclusively to State intervention. Generally speaking, this happens because those limits are not working, and the direction of causality must therefore be reversed.

Because of this restriction, the private financial markets of Latin America have never generated a flow of capital sufficiently great to support a significant rate of investment in production activities. How, then, can we create instruments and institutions capable of financing investment, production and consumption? How are we to channel capital funds (undistributed profits, resources accumulated by families, etc.) to these institutions? How are we to induce the private financial sector, which traditionally operates in the short term, to participate in lines of finance for the productive system, as well as liquidity credits? And finally, how are we to set up the apparatus for financing the economy?

Thus, it is not a question of reorienting existing resources and institutions, as desired by the advocates of the theory of "financial repression", but of working out new ways of creating credit and furthering financial intermediation. In the words of Baer: "(...) it is not the financial system which is responsible for proper resource allocation in an economy. This allocation is determined, a priori, by investment decisions, on the basis of which the demand is established for resources from the financial market, either in the form of finance or funding. The financial system's responsibility concerns its capacity to adequately satisfy the demands for finance: i.e., to provide short-term credits and create suitable conditions to persuade the holders of wealth to defer its purchasing power in time and place their resources at the disposal of economic units which have a temporary deficit in their cash flows". And he goes on to say: "Although the financial agents are not those who are responsible for resource allocation, (...) they can frustrate decisions if they do not co-operate in covering firms' financing needs. It is this unilateral capacity for denying credit which accounts for the power of the banks and the profound impact they can have on the accumulation process" (Baer, 1993, p. 37). In short, it is not reasonable to expect the financial sector to bear the responsibility for promoting the correction of the intrinsic characteristics of a particular development model, for reallocating resources in a given direction, or for increasing the rate of investment.

In these conditions, control of the system of finance by the State is of decisive importance, as this would make resources available for productive investment. Strict and effective public guidance, suitably coordinated and centralized, is necessary both for increased participation by public financial institutions in the procurement, supply and channelling of financial resources to priority sectors and firms and for the integration of private financial intermediaries in the explicit development strategy. In other words, "(...) experience seems to show that except when expressly "developmentalist" financial institutions are established under the control of the public sector, it will be very difficult for a country to solve the problems of the intersectoral (or spatial) transfer of resources to the most backward sectors or to new sectors or regions through the spontaneous development of its financial intermediaries" (ECLAC, 1976, p. 109).

This problem was encountered in the initial period of the import substitution industrialization process. The difficulties in mobilizing resources for public and private finance were not accompanied by significant changes in the domestic financial structure. There was not enough political capacity to institutionalize the procurement and transfer of private resources in the amounts and forms needed for financing the industrialization process or to establish new forms of fiscal and para-fiscal collection of resources to take the place of the traditional ones and those connected with the surpluses of the export sector.[27] In short, neither the private nor the public sector had the financial and fiscal instruments needed to carry out the programmes of expansion of productive capital.

The pragmatic solution proposed by ECLAC and reflected in the economic policies of most of the Latin American countries was the inflow of foreign capital in the form of risk investments, or else indebtedness with official or private agencies and the establishment of State development banks to finance investment projects in new and strategic sectors, leaving aside financial intermediation. In addition, the public sector was obliged to mobilize resources through exchange policies, exchange subsidies for imports of intermediate and capital goods, tariff protection to ensure high levels of self-finance for private import substitution firms, and forced saving mechanisms represented by inflation, compulsory deposits, etc. The expansion of capitalism in Latin America thus took the line of least resistance, consolidating a development model which never succeeded in solving the problem of long-term finance on a permanent basis.

Some further comments are warranted by the fact that, within certain limits, governments were able to manipulate inflation rates as another means of finance, in so far as they encouraged intersectoral resource transfers through abrupt changes in the relative prices of the main goods and services. "In this way, most of the countries began to use inflationary expansion as a way of balancing the simultaneous pressure of the public and private sectors on the financial system. In some cases, for more or less short periods of time depending on the particular features of each country, this became an effective means of forced saving which gave *a posteriori* sanction to the investment decisions of the sectors with the greatest possibilities but which, with the passage of time, lost all its effectiveness" (ECLAC, 1976, p. 128). Inflation loses its effectiveness as a mechanism for intersectoral resource transfers because the persistence of the inflationary process gives rise to quicker defensive reactions by the various economic agents and leads to a price system which is extremely rapid and flexible in terms of its expansion mechanisms.

In short, the lack of an active capital market[28] and a private banking system that backs up the industrialization process, together with limitations in the field of taxation, obliged the State to have resort to exchange and credit policy, inflationary transfers, efforts to attract foreign investment, and external indebtedness. Through State funds, programmes and financial bodies, in some cases it managed to assemble and provide the amounts of financial resources needed for large-scale projects with long lead

[27] In a 1956 study, Kaldor (1971, p. 541) very rightly says that "(...) the general impression is that the obstacles to proper development are not natural, technical or economic, but essentially political". In other words, the mobilization of resources to boost Latin America's economic development depends on social and political changes capable of altering the structures of ownership, income and consumption. According to Furtado (1992): "In order to escape from this style of development it would be necessary to (...) freeze substantial segments of demand for final consumer goods and greatly intensify accumulation in the production system: that is to say, set afoot a political process which, because of the magnitude of the interests it would confront, can only take place within a context of social upheaval. The easy way out would be to continue to rely on modernization, thereby simply reproducing underdevelopment".

[28] With regard to the active function of the financial system or the passive function of the State as leaders of the capital monopolization process, see Tavares, 1983, pp. 109-111).

times, especially in the areas of construction of economic and social infrastructure and promotion of heavy industry (Fiori, 1991; and 1992, pp. 76-89).

1. Control over finance and funding in conditions of chronic inflation

The specific dynamics of the Latin American money and financial markets, which display a high degree of demonetization, are basically associated, as already noted, with the level of inflation and lack of confidence in the monetary standard. The extremely marked reduction in the percentage of M-1 represents, in reality, a breakdown of the monetary functions, and the increase in quasi-money corresponds to the introduction of "indexed currencies", i.e., when "financial money" is corrected by a general price index or expressed in terms of a foreign currency. In the words of Mendonça de Barros: The defence sought for by permitting clauses varying the nominal value of a contract as a function of some external referent is in direct relation to the real value. In conditions of chronic inflation, the important point is the purchasing power of the currency associated with financial contracts during their validity (Mendonça de Barros, 1993, p. 2).

In chronic inflationary processes, the currency –the general instrument for contracts, trade and evaluation of private wealth– ceases to play the role of a suitable reference standard for prices and a store of value. "Demonetization is the counterpart of capital flight, for the private agents no longer see the currency as an asset capable of representing value through its mere possession. In extreme cases, the demand for idle money (the grounds for caution and speculation in the Keynesian triad) drops to zero, meaning the elimination of money from the list of assets and total impossibility of money management and regulation of interest rates by the State" (Belluzzo and Almeida, 1990, p. 65). These extreme conditions were to be observed in the second half of the 1980s in all the Southern Cone countries: the ratio of M-1 to GDP stood at around 7% in Argentina, 6% in Chile and 8% in Uruguay, while the ratio of demand deposits in commercial banks to the GDP was around 2% in Argentina and 3% in Chile and Uruguay. The replacement of the currency by another indexed asset (Chile) or by a foreign currency (Uruguay) represents a search for protection and a reference for wealth.

When the economic agents cannot make forecasts with a certain minimum degree of security, this causes decisions on financial accumulation to converge towards "indexed money". The various kinds of quasi-money gradually concentrate all the monetary balances, savings and financial wealth and extend to most of the agents, both individuals and producers, institutional investors, rentiers and speculators. Thus, quasi-money tends to increasingly absorb financial wealth, even that of agents whose resource structure includes venture or longer-term investments. All this greatly hinders the restoration of other dimensions of financial markets and the recovery of evaluation and risk patterns regarding the holding of the various types of assets.[29]

As the risk of loss of wealth as a result of unforeseen changes in prices, interest rates and exchange rates makes medium- and long-term investments inadvisable, indexed financial assets consequently tend to be favoured by most decisions regarding the holding of wealth and thus lead to diversion of resources from investment and production.

Ultimately, there is an almost complete shift of demand for money –for transactions, saving or speculation– towards very short-term indexed money, as a medium of protection and liquidity. Maintaining liquidity in order to be prepared for possible changes in the financial situation is the basic strategy of the agents, since the formation of positions with long-term yields may cause irreversible losses in view of the instability of the economy. In these circumstances, the various forms of quasi-money, especially in the form of "indexed money", become the only form of protection of the value of financial wealth and make the free movement of finance and funding by banks and other financial institutions practically impossible. Moreover, the latter do not expand either.

In principle, finance could be obtained from the financial liquidity accumulated in indexed investments. This does not take place, however, because in

[29] We hope that we clearly showed earlier that the financial system conditions the appreciation of wealth and the evaluation of net worth in two ways: on the one hand, it gives important signals for predicting the future yields of the various assets, and on the other, since the formation of active positions naturally presupposes their financing, the conditions as regards costs, repayment periods and access to resources defined in the banking system and the capital market are of decisive importance.

view of the high level of uncertainty the preference for liquidity is almost complete.[30] And there is no funding, because it is difficult to predict the yield to be expected over longer periods. Consequently, no institutional mechanisms are established which are capable of promoting the displacement of these monetary balances –financial liquidity– towards industrial or productive circulation through the market forces, and much less through the mere deregulation of financial markets. The idle (financial) money is not transformed into a means of finance and an instrument for the circulation of income. In this context, selective credit policies represent institutional arrangements devised precisely in order to make up for the lack of private sources of medium- and long-term finance.

To sum up, the volatility of the financial systems of developing economies shows once again that the problem is not so much the lack of savings as the lack of reliable selective mechanisms for channelling financial resources. Thus, unlike the rule initially formulated by the financial repression theory, we believe that "(...) when inflation is high, it is necessary to increase real interest rates, not so much by increasing nominal rates as by reducing inflation" (Akyüz and Kotte, 1991, p. 6).[31]

IV
Final considerations

After the failure of the financial liberalization experiments in the Southern Cone, McKinnon carried out an exercise of self-criticism. [32] In this, he leaned once again towards the experiences of South-East Asia (Japan, Taiwan and South Korea), which are marked by strict State supervision of the financial system, with limits on interest rates on loans and deposits, subsidies, and State guidance of credit and of special institutions.[33] In spite of this strong State intervention, however, the Asian financial system could not be described as repressed, since the interest rates applied were positive in real terms and were quite high compared with those of other developed countries. Financial repression, then, would appear to be associated only with the application of low real interest rates (especially negative rates), rather than with policies restricting the free functioning of credit markets.

The deregulation of the Japanese banking market, which was begun only in 1981, and the liberalization of interest rates (only since the late 1980s) provide an important lesson: "(...) only after substantial financial development of the non-banking institutions of the capital market –an increase in trading in primary stocks and in intermediation by finance and insurance companies, pension funds, etc.– did the Japanese authorities substantially relax (or consider relaxing) their control of what the commercial banks could do" (McKinnon, 1988, p. 19).

[30] Obviously, the banks can offer lines of short-term credit when there is a demand for this (generally associated with the maintenance of production flows), even if their liabilities are concentrated in the very short term. What we want to stress, however, is that pessimistic future expectations lead to a reduction in the marginal efficiency of capital and, hence, of investment. In other words, in conditions of high inflation and high uncertainty, wealth remains concentrated in liquid or venture financial assets. In this case, a forced issue of finance (through an economic policy decision) may not be channelled towards productive investment or, more exactly, will be shifted towards the financial appreciation circuit (of indexed money). In these circumstances, there are no mechanisms –financial or real– which will allow financial liquidity to expand investment and hence employment.

[31] This is the same as saying that the convention of stable prices, which is necessary in order to maintain the system of monetary contracts, depends on the struggle against inflation, not through monetary policy (raising interest rates) but in terms of the fixing of prices by producers.

[32] "In view of the serious distortions which had taken place in the Chilean economy up to 1973, these new policies of liberalizing international trade and eliminating domestic financial repression seemed very well-arranged, in a textbook sense. They were widely applauded by almost all the economists who were direct observers at that time. Thus, the many bank failures and the serious recession in the economy from late 1981 up to 1984, which left the economy with excessive indebtedness compared with a limited GDP, are a source of anguish not only for Chileans but for economists too" (McKinnon, 1988, p. 31).

[33] For a study of the Japanese financial system, see Torres Filho, 1992).

Diversification of financial instruments and intermediaries should be independent of liberalization policy. Indeed, it is desirable that liberalization should be carried out gradually, preferably after there has been considerable financial development: i.e., when the non-bank segments of the financial system are already fully established.[34]

Thus, the last pillar of the financial repression paradigm was removed by one of its founders, with the abandonment of the prescription of higher interest rates as a financial development strategy. What is even more important is that a liberalization policy would only be viable on the basis of a situation of relative diversification of financial markets. Indeed, avoiding high real interest rates becomes of fundamental importance for the viability of the financial system and economic development itself. In the words of McKinnon: "Sadder but wiser, we now realize that the incredibly high interest rates on loans in pesos largely meant the collapse of the (...) Chilean banking system" (McKinnon, 1988, p. 25).

In short, we are now a long way from the evaluations and policies recommended in 1973, when McKinnon and Shaw presented financial liberalization as the epicentre of a new theory of development. In reality, all that remains of the original formulation is the proposal that real interest rates must be positive. Thus, the defence of financial liberalization has lost its objective sense and is now based solely in the ideological field, since it continues to be recommended as the best and only strategic development option: "Financial liberalization (...), with deposit-taking and investment at high real interest rates, made possible by stable price levels, is not easy and is full of pitfalls. However, it continues to be the only game in town as far as economic development is concerned. This, of course, was the main message of my 1973 book, *Money and Capital in Economic Development*" (McKinnon, 1988, p. 45).

If financial liberalization should only take place in a stable economy with diversified financial markets (including capital markets and institutional investors), then we can infer that the financial repression theory has nothing to say either regarding economic development financing or regarding institutional policies for increasing financial intermediaries. In other words, economic development requires the definition of financial and credit policies to stimulate productive ventures in conjunction with industrial and social development policies. Past experience indicates that what is needed could be a policy capable of generating "financial development", and not just a policy of relaxing controls on financial markets.[35]

From this standpoint, a selective credit policy with differential interest rates, designed to stimulate priority sectors (new technologies, exports, agriculture, small and medium-sized enterprises, etc.), linked with medium- and long-term planning, represents an approach that, on the basis of its own maturity, will give rise to pressures for liberalization as the masses of capital increasingly begin to demand access to all possible forms of production and financial enhancement.[36]

[34] "Only after nearly two decades of extraordinary financial development, with price stability, has Formosa finally relaxed its rigid controls on banking activities" (McKinnon, 1988, p. 22).

[35] "Trade and financial liberalization is essential when, as in the case of Brazil, the aim is to continue to form part of the global market, but it must be accompanied, and if possible preceded, by adjustment policies and restructuring of the State to permit it to embark once again on industrial and technological policies for restructuring industry, accompanied by new and more efficient social policies" (Tavares, 1993, p. 20).

[36] "With the crisis (of 1973), the big firms acted to break the absolute domination that the banks imposed on the rest of the conglomerates (keiretsu). As well as having greater liquidity as a result of the reduction of their investments, the firms began to obtain resources on the international market. In order to do this, they simply bypassed the institutional limitations imposed by the law and the government authorities and began to make use of the opportunities offered by an international financial system which was rapidly expanding at that time. When they saw their market power reduced, the Japanese banks were also forced to innovate and began to compete for clients with other institutions operating in the Euromarket, including the "Big Four" (Japanese) securities firms" (Torres Filho, 1992, pp. 293-294). Basically, this change in the financing model of non-financial firms is one of the decisive factors in the changes –deregulation and internationalization– that have taken place in the Japanese financial market in the last two decades.

Premature liberalization of the financial system tends to exacerbate the speculative and short-term component and heightens the role of quasi-money and arbitrage in risk markets. Successful processes of market liberalization are related with complex decisions that order, condition, select and organize such liberalization, not as a function of abstract criteria on the supremacy of regulation by the "market" over State regulation, but in the light of the needs and limits of the entrepreneurial base starting from which these policies are defined.[37]

Thus, we reject the idea of applying a liberalization policy for its own sake without the prior achievement by the economic groups of suitable levels of financial integration and internationalization. In other words, the success or failure of financial liberalization policies depends firstly on the forms of linkages of the business groups –the linkages between financial institutions and the production and trade sectors– and ultimately on the role played by the State as the shaper of these linkages.

(Original: Portuguese)

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[37] For an analysis of the successful Korean liberalization process, see Akyüz and Kotte (1991, p. 15): "(...) Korea followed a gradual, cautious model in which financial liberalization only took place after the achievement of stability and a considerable degree of economic and institutional development. Structural trade deficits and shortages of foreign exchange had been eliminated through an industrialization process that was successful both in substituting imports and increasing exports; the rate of saving had increased considerably, especially because of a rapid and sustained increase in income; fiscal and monetary discipline and price stability had been achieved on a solid basis; and structural areas of fragility in the entrepreneurial and financial sectors had been reduced".

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Policies for *competitiveness*

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The progress made by the countries of the region in their stabilization processes has led policy-makers and entrepreneurs to pay increasing attention to the competitiveness of production activities and the factors and policies that determine it. The stability attained has clearly revealed the levels of some real variables which were hard to quantify in conditions of extreme price variations. This greater transparency of the market conditions, together with the growing competition resulting from the processes of greater trade openness, has brought out the strengths and weaknesses of the region's firms in terms of competitiveness and in many countries has led to renewed awareness of the need to apply policies aimed at reducing the cost of the microeconomic adjustment processes. This article reviews the current debate on the possible scope of such policies and suggests lines of action to strengthen the competitiveness of the region's enterprises, especially those engaged in manufacturing. Section I presents background elements, at the most general level possible, to gain an idea of the debate on competitiveness policies in the region. Section II suggests some policies needed in order to strengthen regional competitiveness, together with some lines of action to put them into effect in the areas of the generation and spreading of technology, which are the fundamental field of action for policies of a horizontal or neutral nature. Finally, section III indicates some analytical elements which are very important for the formulation and implementation of policies which will surely be in the forefront of the debate on competitiveness.

I

From sectoral policies to policies for corporate competitiveness

After the crisis suffered by industrial policies in the region as from the mid-1980s (Peres, 1993), in the early 1990s there was a marked renewal of interest in them, although in a form that gives grounds for believing that the new policies will hardly be a repeat of those of the 1960s and 1970s. Whereas most of the industrial plans and programmes of those years (especially in the biggest countries of the region) sought to create new production sectors, the policies proposed today tend to concentrate on improving the competitiveness of the existing sectors, after the adjustment of the 1980s. In most cases, the aim is to increase the efficiency of resource allocation or to make marginal changes in the original resource endowment, rather than giving rise to new sectors to complete the input-output table, as was so often claimed in the past.

Together with this change in the focus of the policies, there has been a growing tendency to recognize the key role of the present endowment of production resources in increasing the efficiency of existing activities and developing new ones. Although it is still felt that the creation of dynamic comparative advantages is the decisive factor for long-term competitiveness, the actions planned for the immediate future tend to be concentrated on improving the performance of highly imperfect markets, such as those for the development of human resources and technology (Katz, 1993). The gradual specialization by the region in the production and export of widely used inputs with a high content of natural resources but relatively little added value is a direct result of the priority given to current comparative advantages (Guerrieri, 1993).

Even in countries with stabilization processes that are very well advanced, such as Mexico and Chile, great difficulties have been experienced in securing a further increase in the added value of exports, and such comparative advantages as location, low labour costs and abundance of resources tend to be decisive for many export flows. The role of these advantages was heightened by the need to expand exports to meet interest commitments on the external debt which were not covered by the drastic reduction in imports, as well as by the bad experiences of many countries of the region with sectoral development policies in the late 1970s and early 1980s.

In the present context, policies of strictly sectoral scope have been concentrated on cases of indispensable restructuring due to the depletion of some natural resources (coal mining in Chile), changes in cost structures and in the availability of inputs and final goods due to processes of integration into world or regional markets (textiles and footwear in Mexico), or arrangements with the private sector, which have been carried out more efficiently at the local sectoral level than at the level of the industry as a whole (policy for the motor industry in Brazil).

It has been possible to carry out this limitation of the scope of sectoral policies more efficiently in countries where the market is not too small and the structure of production is relatively diversified. In countries with much smaller markets, in contrast, the definition of sectoral priorities continues to be an essential mechanism of resource allocation, even in the case of neutral-type policies. Thus, in a country like Jamaica, for example, with a small market and little diversification of the structure of production, it is necessary to establish priorities at the level of major sectors in order to decide what is to be done to develop human resources past the level of basic education and to further the spread of technology; otherwise, training would result in emigration of skilled labour and waste of technological dissemination efforts.

□ A large part of the content of this article was extensively discussed at the Seminar on policies for technological innovation, human resources development and international competitiveness, held at ECLAC headquarters in Santiago, Chile, on 2 and 3 December 1993. The author takes this opportunity to express his gratitude for the comments and numerous ideas put forward by the participants in that meeting.

Even in cases where it is sought to develop sectoral policies, it is noted that policy formulation tends to give fundamental importance to macroeconomic stability and that of the variables which determine it, such as interest and exchange rates. Macroeconomic stability, trade openness, privatization and deregulation form the basic context which appears to be indispensable for tracing sectoral-level lines of action. Although policy-makers consider these conditions to be absolutely necessary for economic growth, however, a good deal less attention tends to be given to defining what could be sufficient conditions for such growth.[1]

This lesser attention is the result of two phenomena. On the one hand, there are the difficulties in identifying such conditions in view of the fact that traditional analysis of industrial organization has serious problems in adapting to a context of trade openness in which industrial concentration does not necessarily mean greater market power. On the other hand, there is the lack of consensus about the point to which the enterprise as such can or should be a policy object. Although there is agreement that it is necessary to develop policies to correct market flaws,[2] and there is generally acceptance of restructuring or reconversion policies to deal with sectoral crises, there is no general agreement in the countries of the region regarding the desirability of acting at the level of specific firms, even though there have been some important examples of successful intervention, such as the technological management action carried out by the Centre for Technological Management and Industrial Informatics (CEGESTI) in Costa Rica or the experiments in flexible manufacturing furthered by the Jamaica Promotions Corporation (JAMPRO).[3]

The above-mentioned cases are just a few examples of a broad set of successful institutional experiences of the development of national science and technology systems, technological management, linkages between the universities and industry, nurseries for new enterprises, technology parks, local systems of innovation, and international cooperation. Many lessons can be drawn from them on policies for competitiveness which go beyond the mere field of innovation and the spreading of technology (Dini and Peres, forthcoming).

In spite of their rich variety, however, the institutional experiences of policy implementation have a serious weakness: the limited range of their impact. Their effect often extends no further than ten or a dozen firms of very little weight in the overall production and employment of the country in question. Thus, one of the main challenges for the formulation and application of competitiveness policies in the region is how to transfer past lessons and give them a generalized impact.

This points to what might be considered the main weakness of such policies in the countries of the region: insufficient implementation and little evaluation of the results other than in terms of the number of actions or projects carried out. The lack of implementation has been due both to the growing weakness of the relevant State bodies and to the complexity of the policies formulated, which rarely foresee the problems of their application. The predominance of bureaucratic attitudes in policy-making (designing something new in order to alter the power structure) or technocratic approaches (designing something new merely to show that one is technically capable of doing so) further complicates the situation and is a clear indication of the weakness of the existing institutions in this field.

[1] Taylor (1993) illustrates the concern to distinguish between what would be necessary conditions or sufficient conditions to ensure that technology policy plays a positive role in development.

[2] With regard to State intervention in specific markets, there has been a transition from an approach in which the flaws in the markets were emphasized and efforts were made to offset them with direct action –by setting up a public enterprise, for example– to an attitude in which, after acknowledging the failures of intervention, an effort is made to correct the market results, as far as possible, through other market mechanisms. Action is also taken in the form of market simulation or the creation of quasi-markets, as for example in the case of incentives for academic productivity which operate by means of competition.

[3] This uncertainty over how far to carry out direct actions in support of specific firms contrasts with the strong tendency to give firms social responsibilities which seemed far outside their purview only a few years ago. Thus, for example, explicitly or implicitly making firms responsible for basic educational activities (teaching reading, writing and arithmetic) seems to be due less to the non-interventionist virtue of the State than to its failure to fulfil some of its basic functions.

The very complexity of the policies means that in some cases the concept of structural change is not sufficient, and it is necessary to carry out what might be called a structural "revolution". Naturally, when a policy fails the first measure tried is to make gradual corrections in order to improve the results. However, the process of marginal changes may lead to the conclusion that the policy cannot be corrected and that the only solution is to do away with it entirely, no matter how extreme that approach may seem. Mexico's experience of doing away with the regulation and registration of private transfers of technology might be a good example of a structural "revolution" in respect of a policy which the authorities tried to correct several times before coming to the conclusion that its time had run out: in other words, that there was a limit to efforts based on the idea of the "hair of the dog".

In order to design radical changes in policy instruments which go beyond the mere destruction of past measures, it is necessary to achieve a suitable blend of the pragmatism which has characterized decision-makers in the region with a sound analytical base which is usually to be found in the bodies responsible for making macroeconomic decisions rather than those responsible for industrial competitiveness policies. The insufficiency of that base in industrial analysis is particularly noteworthy when it is necessary to progress from agreements on general non-operational principles (strengthening the role of the private sector in environmental protection, for example) to the adoption of action criteria (for example, how much pollution –i.e., how much output– to allow a specific sector to produce). The difficulty of weighing the static and dynamic advantages and disadvantages of adopting policies on competition or allowing mergers between firms in order to take account of possible synergies is another example of the costs involved in the analytical weakness in question.

II

Policies and lines of action

1. Policies

On the basis of this general analysis, a set of measures can be proposed for improving the formulation of competitiveness policies in the region and helping to solve the problems of the implementation and evaluation of such policies.[4]

a) *Preventing lags in the technological base due to adjustment policies*

Despite the recent recovery, most of the countries of the region have registered growth rates below those of the past, because of the effects of external shocks and domestic macroeconomic problems. Even more serious is the fact that this can have long-term effects. Thus, the technological and human resources development effort in the region is still far below that of its competitors; there has been a loss of domestic engineering capacity in a number of countries, and the innovatory response of firms is heterogeneous (dual) and insufficient to reduce the lag, so that it is essential to avoid sinking into a situation of slow growth and technological weakness. It would therefore appear to be necessary to reallocate many of the available resources to improving the competitiveness of firms and strengthening the institutions providing the systemic factors which determine that competitiveness. In this context, the liberalization and deregulation processes now under way can have opposing effects. If entrepreneurs perceive that there is a strong public and social commitment to competitiveness, they may be led to make greater efforts to win a place in the international economy. If, however, they feel that such a commitment does not exist or is only feeble, the process of greater openness and deregulation may discourage new production activities and cause capital to shift towards imports, services, commerce or financial activities. Naturally, an

[4] This section incorporates part of the experience gained in ECLAC/UNDP Regional Project RLA/88/039 in nine countries of the region (Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Jamaica, Mexico, Uruguay and Venezuela). A first version of this text appeared in Guerguil, Macario and Peres (1993, section B) and was subsequently included in ECLAC, 1994.

effective commitment in this respect must necessarily be reflected in clear signals of profitability for business activities that make an effort to strengthen competitiveness, regardless of the sector they operate in.

b) *Establishing policies to promote competition which go beyond mere trade openness*

The region has little or no experience in the application of policies designed to further competition, which may partly explain its technological lags even in times of rapid growth. In particular, when protection was reduced little attention was paid to the adverse effect exerted on competitiveness by the persistence of legal monopolies, the smallness of markets, the small number of competitors and the limited capacity for the international marketing of some products which were in fact only nominally tradeable. Policies to foster competition in the region must be aimed at preventing anti-competitive practices rather than combating certain market structures. The generally small size of the markets in the region could make a policy based on opposition to big business extremely inefficient; what is really needed is to prevent practices based on the power that accompanies relatively large size from being used to prevent the entry of new suppliers or suppliers of possible substitute products.

c) *Paying proper attention to supply, demand and linking agents*

A review of institutional experiences gives grounds for asserting that the policy lines proposed by ECLAC for developing the technological and human resources infrastructure (ECLAC, 1992) continue to be valid, especially as regards the need for an integrated approach that simultaneously takes account of the factors affecting the supply and demand of such services and the institutional agents which link them together. This would help to solve the contradiction between policy approaches which concentrate on the factors determining supply, while paying little attention to those that affect entrepreneurial demand, and others which consider demand almost exclusively, without giving proper attention to the strengthening of supply. The alternation between these approaches in the decision-making centres has led to a situation where there is only a small supply of technological and training services, but there is little or no demand by firms even for this limited supply.

d) *Improving the supply of systemic support for competitiveness*

This support, which includes the supply of electric power, telecommunications and transport infrastructure, is of growing importance because, as already noted, producers of inputs making intensive use of capital and economies of scale occupy an increasingly important place in the production and exports of the countries of the region. The supply of these services is obviously of the nature of a public good, due to the strong externalities they offer to production activities in general. The indivisibilities associated with the big volumes of investment involved mean that this supply takes place in conditions of increasing returns and with monopolistic or strongly oligopolistic structures of ownership and control. It is essential, then, to develop suitable regulatory frameworks which lay down rules for the dissemination of the systemic effects arising from the cost and rate of modernization of the infrastructure.

At the same time, the faster growth of investments in infrastructure, both to make up for the sharp drop in the 1980s and to reduce the gap in the per capita availability of services between the region on the one hand and the developed nations and some recently industrialized countries on the other, opens up substantial opportunities for furthering the national and intra-regional supply of the corresponding engineering services. This supply would have considerable secondary promotional effects on the industries producing inputs and capital goods for construction and heavy engineering.

e) *Supporting the formation of strategic alliances between major national firms and international leaders in technology*

Big firms (domestic and foreign) play a leadership role in industry in the region. Although governments have traditionally supported big domestic firms and eliminated most of the regulations which previously hindered foreign investment, only in a few cases have they given clear support to alliances between the two types of firms involving the transfer or development of technology. Recent experiences, such as those of Chile and Mexico, show the extreme importance of these alliances for shaping the industrial pattern which is to prevail in the future. A clear commitment by policy-makers to the task of promoting business alliances is one of the most important means for gaining a better place in the international market.

f) *Supporting entrepreneurs' efforts to modernize their associations*

Many of the business associations in the region developed at a time when their basic function was to guarantee their members high levels of protection and good access to decision-making bodies and public contracts. Their efficiency at lobbying was the fundamental criterion for measuring business representatives' success in the eyes of those they represented. In a new competitive context, however, characterized by greater trade openness and competition, such functions have lost importance and in some cases there has ceased to be any reason for some organizations' continued existence. Consequently, the most modern business associations have sought to turn themselves into suppliers of services for their members, especially in areas connected with the provision of information, consolidation of trade and transport efforts, and economic and corporate analysis. These activities are accompanied by important externalities, and must be supported because they promote higher levels of efficiency in the region. One mechanism which has shown itself to be particularly useful for achieving such purposes is the encouragement of mutual knowledge of modernization experiences among business leaders so that they can appraise options and gain access to suitable advisory assistance, as shown by the experience of some business associations in Venezuela.[5] Moreover, as business organizations modernize themselves, they begin to engage in activities similar to those that modern competitiveness policies should seek to promote, so that they thus transform themselves into potential agents for the implementation of those policies.

g) *Taking action in the light of the impact of the regional and subregional integration processes currently under way*

Evaluations of the possible effects of the agreements in question have tended to concentrate on those deriving from expected changes in trade flows. There are analytical results, however, which show that in certain circumstances the technological innovation and modernization efforts of a country may seize up when it enters an integration scheme, especially if the country in question is small and has an abundant supply of unskilled labour (Grossman and Helpmann, 1992). In such cases, the concentration of the benefits of the spread of technology in a particular country prevents an overall increase in the available stock of knowledge and may hinder innovation in the other member countries of the scheme. Consequently, the policy formulated should explicitly take account of the integration factor, as well as the coordination of policies on technology and intellectual property rights which limit the spread of those benefits, with a possibly severe impact on some sectors of production. In this respect, it is vital that every effort should be made, in pre-integration negotiations, to ensure that there is a balanced distribution of intellectual rights among the member countries of the scheme.

2. Lines of action

The foregoing guidelines can outline a broad set of policy actions in the areas of technology, human resources development, export promotion, and development of the infrastructure.[6]

The difference in total factor productivity between the average production practices of the region and those prevailing in the developed countries is so great[7] that in actions designed to strengthen the average technological competitiveness of the region's firms, the spread of technology has a more important role to play than the generation of new technologies (ECLAC, 1994). A number of actions are listed below which could be carried out in the current economic and ideological context of the region in order to promote innovation and the spread of new technologies: two essential areas for improving business competitiveness.

a) *Implementing programmes for expediting and generalizing the spread of state-of-the-art technology*

As was done in the European reconstruction process effected with the aid of the Marshall Plan technical assistance programme, it would be desirable to establish programmes for co-financing

[5] A successful example of such exchanges in the region is the modernization effort made by the Association of Industrialists of the State of Carabobo (CIEC) and the Venezuelan Association of Plastics Industries (AVIPLA). For an analysis of these efforts, see León, 1993.

[6] Guerguil, Macario and Peres (1993) and Macario (1993) present detailed action proposals for training and human resources development, export promotion, and development of the infrastructure.

[7] The difference is approximately 2.5:1 (Hofman, 1993).

medium-length visits (four to eight weeks) by businessmen, engineers, supervisors and trade union leaders from the various sectors of production to plants in other countries which use the best available technologies, so that they can later share what they have learnt with the other firms in their countries. [8] In the case of Europe, productivity increases of between 25% and 50% were obtained with very little extra investment, [9] at a very low cost (about US$20 million per country, at today's prices, for sending between 20 and 40 persons from each of 50 sectors). Similar or even greater increases could be expected if such a programme were carried out for the countries of the region, since the difference between total factor productivity in the developed countries and in the region may well be greater than that which existed between the United States and Europe in the late 1940s.

Since it is of low cost and favours increases in productivity, this type of programme has a high benefit/cost ratio. Furthermore, it can have a massive impact, because with the same multiplier as in the Marshall Plan [10] the knowledge obtained abroad would be passed on to between 5 000 and 10 000 firms in each country.

b) *Continuing to seek improvements in technological information systems and networks and in technological management*

The existence of efficient information systems which are of low cost to users is an indispensable complement to the efforts to improve and modernize management attitudes. It is also essential to develop an information infrastructure which permits the ongoing execution of sectoral studies to keep abreast of the changes taking place on the international technological frontier. Consistently providing the producers of the region with the information available at the international level helps them to keep in contact with the experience of firms using the best available technology and fits in with the proposal made in the previous section.

c) *Improving the arrangements for financing the technological development of production firms*

In most of the countries of the region, funds for the promotion of technological development do not have significant resources compared with the total requirements for the modernization of production. Even so, they can have a demonstration effect and show the profit potential that financing of investments in technology can have for the private banks, as well as serving to learn and teach how to appraise technological risk. The financing terms must clearly indicate their support for the external economies deriving from technological development. It is necessary to make an appraisal of the advantages and disadvantages of granting preferential terms as regards interest rates, on the one hand, or assuming all or part of the technological risk, on the other. At the same time, the intermediation spread charged by the commercial banks on technological credit operations should be reduced, since its high level reduces the demand for credit on the part of the business sector. In addition, the traditional mechanisms for financing prototypes and pilot plants should be strengthened so as to facilitate the transition by businesses from the pre-competitive research stage to that of the installation and operation of plants, with special attention to the needs and limitations of small and medium-scale firms.

d) *Providing direct fiscal incentives for the research and development activities of firms which make innovations*

One type of programme which has been successfully tried in Singapore (Lim, 1993) gives incentives to the first firms to introduce significantly new technologies in their line of business (whether to reduce costs or improve quality). This is because, in the final analysis, the firm which is the first to apply a new and appropriate form of technology in a country is in fact an innovator and generates externalities which the other firms can enjoy without having to pay the same costs or run the same risks.

[8] This idea is taken from a proposal made by Carl Dahlman of the World Bank (based on Silberman and Weiss, 1992), for the restructuring of the production sector of the former Soviet republics. In ECLAC, such a policy has been advocated primarily by Joseph Ramos, Director of the Division of Production, Productivity and Management.

[9] The co-financing could mean, for example, that firms would continue to pay the salaries of their workers while they are making the visits and preparing the corresponding reports, and the Government would finance the travel and subsistence and pay the administrative costs of the programme.

[10] In the case of the Marshall Plan, each member of the study mission passed on his experience to between five and ten firms in his home country.

e) *Promoting alliances between firms by simplifying the necessary formalities, facilitating access to information, and providing fiscal incentives*

The first two of these mechanisms are obvious choices if it is desired to promote a strategy of inter-firm alliances. With regard to the third mechanism, there is by no means general agreement, but it would nevertheless appear to be desirable as a signal that such a strategy is considered to be a priority means of modernization and that there is a willingness to make some sacrifices in terms of public expenditure, in view of its importance.

f) *Transferring to the operational level the experience accumulated by institutions backstopping the technological activities of firms in the region*

As already noted, extensive experience has been built up in this field, and although it is well known to experts on technological matters, it has not yet fully reached the policy-making bodies, especially in medium-sized and small countries. The real impact of industry-level technology centres, technological "nurseries", technology parks, forms of linkages between universities and business firms and alternative means of financing has not yet been well enough appraised or become sufficiently widespread to influence the taking of decisions. Out of all these activities, each country can select the elements that fit in with its resources, its capacity to absorb new technologies, its previous experience with each of these instruments, and the business climate and practices prevailing in the various sectors.

III

Elements for future discussion

The policy outlines set forth above may largely meet with general acceptance in the decision-making circles of the region. However, they are a long way from exhausting the possible scope of policies for promoting competitiveness, whose content could be further enriched by analytical efforts to devise new instruments and forms of action and by the acceptance in the future of lines of action which are used in other contexts but have not yet been accepted in the region for ideological reasons or because they run counter to the interests of some sectors. In the following paragraphs, some relatively controversial elements are mentioned on which the countries of the region are implicitly or explicitly taking a position or will need to do so.

Firstly, it would appear that many countries of the region do not have the instruments and still less the capacity to apply policies that will enable them to face up in a competitive manner to the challenges of a phenomenon as great as what has been called the "Third Industrial Revolution". Paradoxically, for example –though this is explained to some extent by the shortage of available resources– they announce their intention of giving financial support to the development and dissemination of new technologies, but state that this support will be given at interest rates two or three per cent lower than those charged to firms in their everyday operations, or else they say that they are going to allocate resources for these purposes which often amount to only a tiny fraction of the national product. Quite apart from the insufficiency in absolute terms of the resources allocated for improving business competitiveness, these procedures show a lack of any real commitment to the announced objectives, and this does not go unnoticed by businessmen.

A very controversial aspect which is nevertheless closely linked with the foregoing is the question of whether the State can or should occupy or recover a strategic leadership position. Although there is far from being general agreement as to whether such State leadership is possible or desirable, in a number of countries there are broad business sectors which clamour for the State to play a more active role in defining priorities, although this does not mean greater direct intervention at the production level. Such an attitude is to be seen, for example, in the repeated declarations of Brazilian business groups that the country needs a "national project", or the demands in Jamaica (likewise by business groups) that an industrial policy should be formulated and applied in 1994. In addition, there are the cases where the State plays a leading part in negotiating integration agreements which involve conditions that will affect the competitiveness of given sectors in various ways for a considerable length of time. All this shows that the debate on the scope of State action is by no means over in the region, especially in circumstances which make it urgently necessary to narrow the big gap between the productivity of the countries of the region and that of their international competitors who are making effective use of such State action.

With regard to the foregoing, it is also important to note that many of the countries of the region do not seem to have made a serious analysis of the real extent to which it is possible to give active support to business competitiveness. Although it does not seem politically or economically feasible for the countries of Latin America and the Caribbean to use mechanisms like those of the European Union for agriculture, or those of Japan and Korea with regard to the domestic market in general, it is by no means certain that all the available instruments are being used with the maximum "internationally acceptable" intensity. Indeed, there are few countries which are fully aware of the direct economic support for production activities provided in many developed countries through their provincial or local authorities. [11] Decisions in this respect will naturally have a direct impact on business competitiveness, especially of firms operating in branches that do not have major competitive advantages.

Although it was noted earlier that political decision-makers in the region have increasingly tended to center their attention on the activities with the greatest comparative advantages, it does not seem reasonable to put off concern for the creation of new sectors or new comparative advantages until such time as the present advantages have been fully exploited or even exhausted. That would be a particularly serious error in view of the current rapid pace of technological development. The failure of past policies should teach us to design better policies (more realistic, simpler and more operational) for generating comparative advantages, rather than abandoning public action in this field.

An equally crucial issue which should be given more attention in the debate is the relationship between productivity, employment and the evolution of informal-sector activities. In the past, industrial analysis in the region has often accepted Kaldor's thesis that for every percentage point that industry grows, half a point is due to increased productivity and the other half to an increase in employment (Kaldor, 1966). The economic recovery of the region has taken place in the course of a process of technological modernization which has broken this relationship, however. The increases in productivity in the formal sector of the economy are often enormous, whereas the growth of employment is insignificant or even negative. This is because the modernization of formal-sector firms has often been accompanied by de-verticalization and subcontracting of work to the informal sector, or has even consisted of little else. The consequent increase in unemployment, informal activities or underemployment provides only a shaky base for the development of systemic conditions favouring increased productivity (education, health, housing and nutrition of labour), and in the medium term it may bring to nothing the results of the current efforts.

Finally, it would appear to be important to acknowledge the effects of the paradoxical form of development that can take place in many sectors of production and to prepare to counter it effectively. An express objective of policy-makers in many countries of the region –shared by broad sectors of the business community– is to progress towards a product mix with greater added value and more dynamic technological and market aspects. This means turning towards sectors of production which make intensive use of technology and human capital and in which rising yields and externalities are of prime importance. If this objective is reached, the composition of the product of the countries of the region will involve more market flaws. Some of those flaws, especially those deriving from growing yields, could be offset through increased international competition and inter-firm rivalry. The imperfections due to externalities in general, and public goods in particular, however, will very likely tend to increase. In this context, competitiveness policies which include instruments to offset and correct market flaws, or which even simulate them when they do not exist, will undoubtedly enjoy even more acceptance than in the present-day world.

(Original: Spanish)

[11] See, for example, the case of the Canadian province of Ontario (Ontario, Premier's Council, 1988) and the overview of the developed countries in general given in OECD (1992) and Chudnovsky (1993). The latter study also contains an analysis of South Korea and Taiwan.

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Industrial policy *and promotion of* competitiveness

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The debate in the region on industrial policy is currently centered on policies to promote competitiveness in the context of open economies. It gives priority to the use of horizontal policies, is based on the market, and attaches great importance to the maintenance of macroeconomic balance. It continues to suffer from weaknesses in its treatment of sectoral issues, however, continues to be reluctant to assimilate the Asian experience of giving support to pioneering firms and seeking closer coordination between the public and private sectors, and still does not give sufficient importance to measures to strengthen the technological base and human resources. This article reviews the international events which have changed the notion of competitiveness and posits that the idea of production development policies is more appropriate than that of industrial policy as such. It maintains that changing production patterns in the 1990s are indissolubly linked with internationalization and the deepening of the export process, and looks at some possible policy instruments in the areas of export promotion, technology, productivity and training. It concludes with some reflections on the quality requirements in public management that stem from this approach.

I
Introduction

Industrial policy has been associated with the idea of direct public intervention in the structure of production in the light of certain more or less well-defined views of the future. As part of such policy, attempts have been made to identify and promote certain sectors, and sometimes even specific firms, considered to have greater growth potential. The traditional approach emphasized the flaws in the market as a guide for investment, because of the presence of externalities and economies of scale. Public action, it was implicitly assumed, could effectively cope with such imperfections. In practice, investment planning by firms was underestimated, while the microeconomic management capacity of governments was overestimated.

The most radical expressions of industrial policy have involved the practice of "picking winners", with very mixed results. As a reaction, those opposed to any form of industrial policy have seen this practice as an attempt to ignore the functioning of the market and to shape the economic structure on the basis of political considerations (Lambsdorff, 1993).

The most recent approaches, while still stressing the shortcomings of the capital, labour and product markets, nevertheless do not try to take their place in the allocation of investment resources. They seek to correct the flaws observed directly, in order to strengthen the allocative role of the market in production decisions. In addition to the generally known flaws of the capital market (adverse selection, moral risk, segmentation) there are also such flaws as lack of coordination, insufficient provision of public goods such as information, knowledge, dissemination of technology and training, and weakness of the associated learning processes (Stiglitz, 1989).

In open-economy strategies, changing production patterns and growth potential are more associated with exports, with greater emphasis on the development and spread of technology as a means for improving the position of local firms on the international market. [1]

Consequently, current production development policies are aimed:

i) at the development of as yet incomplete markets (for technology, human capital, long-term capital, foreign exchange) by overcoming such shortcomings as underinvestment in export activities (new products, new markets) and insufficient support for pioneer firms;

ii) at the achievement of rising yields and strategic forms of complementarity which foster systemic competitiveness;

iii) at the regulation of markets of crucial importance for competitiveness, such as the financial system, public telecommunications services, energy and other areas of the infrastructure (ECLAC, 1994a).

Nevertheless, the question of policies to promote production and technology in open economies is still a pending item in the regional debate: "For now, the prevailing attitude is to simply abandon such policies, regarding them as being more appropriate to closed economies, without there being any effective substitute for promoting competitiveness. Behind the argument for non-discriminatory policies may lie the naive and unsubstantiated belief that the mere functioning of markets is a sufficient tool for resolving issues related to technology, business, human resources, competitiveness and international standing" (ECLAC, 1994b, pp. 19-20).

[1] The notions of efficiency and international market position are analysed in ECLAC, 1992a, chapter V.

II

Changes in the concept of competitiveness

1. Globalization and technological change

Globalization and technological change are currently reshaping the international economic order through the dynamic growth of the international financial markets, foreign direct investment, and exports of services. As a result, economic dynamism has come to be a predominantly world-level matter, and the distinction between domestic and external economic policy has lost some of its significance, since the economic agents tend to operate in a way that gives the international setting most weight in their decisions. Thus, the main criterion for judging economic policies today is the extent to which they help improve the country's competitiveness.

In a context of marked globalization, the world product and trade grow more slowly than in the past, but greater trade openness and the gradual reduction of tariff barriers to trade increase the elasticity of world exports in terms of the product. Foreign direct investment (FDI), closely linked with the transnational corporations, is seen as one of the most dynamic factors in the promotion of growth and the spread of technology. In recent years, world FDI flows have grown three times as fast as the product, while the growth rate of exports has been double that of world output (CTC, 1991).

Economic and trade power is shifting rapidly towards the Pacific. A new map of world trade flows is being drawn, with the deliberate formation of trade areas, complementation agreements in the fields of production and technology, and processes of converging economic policies (Rosales, 1993).

These tendencies towards the regionalization of trade and the creation of great trade blocs further stimulate the process of concentration of FDI in the main economies, in order to minimize the risk of protectionist measures, concentrate research and development resources in the parent companies of the transnationals, and reduce technology costs by sharing them with partners and even with competitors through joint investments and other ways that place the emphasis on specialization and flexible adaptation to demand.

The rapid increase in flows of FDI has been accompanied by a change in their sectoral composition, with a growing proportion of services.[2] Within such services, the technological, information and knowledge component is increasingly important, so that the new services represent a crucial aspect of strategies for building competitiveness in the global economy. Both the rapid growth of trade in this field and the growing tendency to channel FDI towards it are indicators of the degree of internationalization of the economies (CTC, 1991).

The processes of financial liberalization and deregulation have accentuated the globalization of markets and are imposing new conditions as regards the determination of exchange rates and interest rates. Non-trade-related capital movements are several tens of times greater than movements connected with trade and FDI. Thus, capital movements have become the main factor of globalization and a major guiding force in the world economy (Drucker, 1993).

The technological transition increases the globalization of markets, the internationalization of production, and international competition. Decisive factors in such competition today are production-related scientific and technological research; the training and systematic updating of human resources; management techniques compatible with the global economy, and public and private forms of organization which stimulate innovation, flexibility and creativeness.

Within such processes, the underlying common feature is that knowledge –in the form of education, science and technology– has become the key to economic and social development and the main organizational code of society in these final years of the twentieth century. What counts in the current competition between nations is the quality of the goods and services produced and the calibre of the human resources involved in such production.

[2] Services absorbed a quarter of world FDI in the early 1970s, but they now account for half of the total FDI and between 55% and 60% of the annual flows of such investment (CTC, 1991).

As the importance of knowledge grows, it is only natural that there should be a decline in competitive advantages based on natural resources, low wages or unskilled labour and that such advantages should be transferred to new manufactures and services in which quality, design and the incorporation of advanced technology are of increasing importance (Lafay, 1989). The competitive advantages demanded by the world market are based on intelligence, technical change, innovation, and intellectual added value.

Consequently, commodity-based economies are tending to be cast adrift from the new global economy. Technological change has stimulated greater economy and efficiency in the use of energy and raw materials, thus reducing the income-elasticity of demand for primary commodities in industry and services, and this has been a hard blow to strategies based on the use of natural resources. Proof of this is that the recent expansionary cycle in the world economy –the longest since the war– has coincided with record low levels of commodity prices (Drucker, 1993). The deterioration of such prices has not led to a recession, as it did in the past. The predictions of shortages and high prices of raw materials have not only not come true, but in the food sector the opposite situation of over-supply is the most likely outlook, in view of the disappearance of great import markets (China, India, the former Soviet Union) and their gradual conversion into exporters of foodstuffs (ECLAC, 1992b).

2. Price-competitiveness and structural competitiveness

The traditional approach associates the promotion of competitiveness with real devaluation and the reduction of unit labour costs, either through increases in labour productivity or reductions in real wages (OECD, 1992).

This kind of approach can offer very convincing explanations in the case of competitive markets with high price-elasticity of world demand for tradeable goods consisting of homogeneous products, and where the qualitative factors influencing the trading capacity of a country remain more or less constant. Its capacity to provide such explanations goes down, however, if a substantial part of international trade takes place under conditions of imperfect competition[3] and intra-industry specialization based on product differentiation. In this case, policies of production specialization and technological development –with their impact on the quality and design of processes and products– are beginning to play a significant role in winning markets, while isolated considerations of relative prices are tending to lose importance as factors serving to explain the evolution of competitiveness.

In the case of standardized products, competition operates through prices and availability. With specialized products, however, the most important aspects are quality and service. They are followed by considerations of availability, and it is only if all the foregoing factors are equal that price is a decisive aspect. This does not mean that price and cost considerations are no longer of interest, but in the new competitiveness conditions prices have lost some of their relative importance (Pérez, 1988).

3. Elements of the new form of competitiveness

In the world of today, the competition is not between firms but between systems. The firm is the hub of competitiveness and innovation, but it is an integral part of a system of linkages which includes its suppliers of goods and services, the financial, educational, technological, energy, transport, telecommunications and other systems, the infrastructure, and the quality of the public sector and of relations within the firm itself.

Shortcomings in these areas all affect the competitiveness of the firm. Building systems of competitiveness therefore demands reasonably simultaneous advances in the network of contacts that defines the firm. This can be stimulated by systematically fostering cooperation between the public and private sectors and within the private sector itself, as well as promoting the capacity to form long-term strategic alliances, with special emphasis on export promotion, technology, education and training, along with flexible complementation agreements and shared internationalization strategies.

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[3] In this respect, recent trade policy approaches strongly reflect the influence of economies of scale, the advantages of experience, innovation and the technological learning process on patterns of specialization (Krugman, 1991).

This systemic approach to competitiveness goes beyond narrow concepts that limit its analysis to the exchange rate and the trade balance. As the "lost decade" vividly showed, it is all too easy to achieve big trade surpluses through severe real devaluations, with all that they imply in terms of compression of imports, reductions in real wages, and even cuts in social expenditure.

The real test of competitiveness, however, lies in measuring the capacity of nations to meet the challenges of world markets while at the same time increasing the well-being of their inhabitants. The most fully developed proposal in this respect involves consideration of four indicators: i) labour productivity; ii) real wages; iii) the real yield on capital, and iv) international trade position.[4] Although each of these variables is affected by a whole range of factors, analysing them as a whole gives a reliable idea of the evolution of national competitiveness.

Competitiveness now depends not so much on advantages in terms of wages or natural resources as on the quality of human resources and the capacity for the incorporation of technology. The promotion of competitiveness thus involves the application of policies for training human resources (educational and technical training) and strengthening the technological base. Decisive determinants of competitiveness in the overall context are also macroeconomic stability and smooth functioning of markets.

Maintaining the macroeconomic balances –low and declining inflation, fiscal saving, incentives for saving and investment, promotion of increased productivity and defence of the real exchange rate– is a basic requirement for competitiveness. Exchange rate instability, for example, raises transaction costs, increases uncertainty, and may block investment. From a broader standpoint, it is necessary to seek fuller incorporation in the international economy, while maintaining macroeconomic stability. This means taking further steps in the direction of trade diversification and financial openness, albeit subject to the necessary safeguards in terms of gradualism, portfolio diversification, risk coverage and stabilization funds, in order to obviate the transmission of external disturbances to the domestic economy.

In other words, the purview of competitiveness policies should be limited to improvement of the factors of production, and they should be subordinated to proper macroeconomic management and the application of good economic policies. Promotion of competitiveness is thus not a substitute for the latter, but only a necessary complement (Krugman, 1994).

Competitiveness also requires transparent competitive markets readily open to the various economic agents. Maintaining stable incentives and reducing search, transaction and information costs is a further way of supporting competitiveness.

Thus, the real significance of the guidelines presented below with regard to technology, training, infrastructure and internationalization of production must be understood in terms of the need to maintain macroeconomic stability and promote market competition.

4. Stages in competitiveness

No generally applicable suggestions can be made with regard to competitiveness and production development policies, whose relevance will depend to a critical extent on the specific features of each country. Factors of particular weight in this respect are the level and density of the industrial and technological base, the particular features of the country's form of incorporation in the international economy, the relative weight of foreign trade in the product, the degree of export diversification, the management and human resources base, the quality of public management and the progress made in the application of economic reforms. The range of possibilities opened up by the various combinations of such variables is also an indication of the variety of possibilities that exist for tackling the various stages of competitiveness.

Macroeconomic reforms –in such fields as price stability, fiscal discipline, trade reform and its consistency with macroeconomic policy, and the credibility of the reforms themselves– are the minimum basis on which national competitiveness can be built. After such reforms, experience shows the important contribution that can be made to competitiveness by institutional reforms in such areas as ports (ECLAC, 1991), labour legislation, modernization of customs and tax authorities, etc.

In economies which have progressed further with macroeconomic reforms and these institutional

[4] See *Report of the President's Commission on Industrial Competitiveness*, Washington, D.C., 1985.

reforms, there is also a need to make reforms at the microeconomic and mesoeconomic levels, covering such matters as bottlenecks in training, productivity and infrastructure,[5] as well as the challenges of technology and the internationalization of production (especially investment in production activities abroad).

III

Industrial policy or production development policy?

The current debate on industrial policy is centered on the promotion of competitiveness by increasing total factor productivity, improving the quality of goods and services, and promoting the generation and spread of technology.

The first comment that may be made in this respect is that these are really policies to promote production and technology rather than industrial policies proper. Narrow sectoral approaches have gradually been left behind. The challenge now is to strengthen the country's position in the world economy by guiding its structure of production in the direction of the most dynamic trends in world trade. To this end, it is necessary to increase the content of knowledge and technological value in each product, favouring the promotion of service and production linkages for export activities and stimulating production services, the development of suppliers, and the production of intermediate inputs and associated capital goods.

Modern industrial development, which is centered around chains of production, demands that attention be given not only to the production of material goods but also to the whole range of production-related services, such as those in the fields of repair and maintenance, industrial consultancy, technology, administration and finance, computer programmes, design and process engineering, etc. Modern policies for industry and related services cannot be divorced from other sectoral policies or isolated in sectoral approaches.

With the reorientation of development strategies in the region, a leading place in production development is occupied by support for new emerging industries, i.e., non-traditional exports. Firms able to identify a line of export products and place them on dynamic international markets on competitive terms have to shoulder the heavy initial costs typical of the penetration of difficult markets. Through their actions, they generate positive externalities –information, prestige, marketing networks, etc.– which are of benefit to other new exporters. This is why it is important to compensate innovative firms that bear the costs and risks of winning new markets (ECLAC, 1994a).

In cases where success has been obtained with exports based mainly on natural resources, it is necessary to consolidate the existing advantages by moving on to the areas of inputs, capital goods, technology and associated services. In this way, the export profile is gradually redirected towards products with greater added value and technological content which enjoy more dynamic markets and steadier prices, with less risk of protectionism, thus reducing the vulnerability of the overall range of exports.

This does not mean polarizing a conflict between primary commodities and industrial goods, since the important thing is the amount of knowledge and technology incorporated in each product, along with the promotion of chains of production and services for exports.[6]

In agriculture, for example, the conventional distinction between fresh (or unprocessed) and processed crops does not necessarily reflect greater or lesser incorporation of added value. In many cases, fresh products require quite complex processes of production, harvesting, selection, classification,

[5] For suggestions on policies to deal with the road infrastructure, see Schliessler and Bull (1992), and with regard to ports see ECLAC (1991).

[6] OECD imports grew at an annual rate of 5.7% over the period 1978-1987. Products with a high natural resource content grew more slowly than this, while those that incorporated a higher content of knowledge grew by over 10% or 15%. Imports of timber, for example, grew by less than 1% per year, while wood manufactures grew by 9%. This lends added strength to the argument that it is necessary to strengthen production systems using existing natural resources.

quality control, storage and transport. The final consumer markets for these goods tend to be demanding with regard to quality and presentation, so that various services are required in addition to the production process proper, which increase the added value and the content of technological knowledge (ECLAC, 1993a).

The appearance of faster-growing, less vulnerable lines of products with a higher content of knowledge and technology is not usually an automatic result of market forces. In some cases clear signals of the consolidation of leading national positions are needed, and in other cases public and private sector external promotion alliances to win market positions through the carefully focussed application of production and export development instruments.

There is room here for concerted action aimed at sectoral development. Thus, if emerging sectors whose growth potential has already been shown by their market performance and high export volumes encounter certain shortcomings in the areas of marketing, training, design, technology or infrastructure, public and private efforts could be joined in order to concentrate the existing horizontal instruments on those areas. At the same time, opportunities for lobbying can be minimized if there are non-State public institutions made up of business associations (including exporters), together with technological and academic centres, which operate in a highly transparent manner in the allocation of funds and the evaluation and follow-up of activities.

The public sector is no better fitted than the private sector to "pick winners", but it does have advantages (or can build them up) in the areas of the coordination of efforts and the encouragement of prospective views of the international economy and the corresponding markets. The public sector could listen to the demands of businessmen and foreign investors when defining its expenditure on infrastructure and human resources and its long-term financing policies, in order to maximize their effect on systemic competitiveness and the spread of technology.

A possible institutional expression of this could be the development of tripartite productivity and competitiveness centres –i.e., with the participation of the public sector (the government, universities and technology centres), business associations, and labour organizations– to follow up the evolution of competitiveness and of sectoral technological and commercial trends, approaching national issues with due consideration of the international aspects involved. Such a practice would strengthen global, outward-looking economic behaviour by stimulating cooperation among the economic agents.

IV

Internationalization and export emphasis

Today, production (and especially export) activity is carried on in line with the concept of networks. Export activities form an integrated network or circuit with various links: suppliers, production, transport, imports, distribution, marketing, financing for importers and clients, legal and financial services, etc. The competitiveness of a product will depend on the efficiency of each of these links.

Two policy considerations arise in this respect: first, it is important to promote the proper articulation of these production and services links by stimulating specialization and externalization of functions through strategic alliances with suppliers, with marketing and transport chains, with consumers, and even with competitors, and second, it is necessary to review the appropriateness of export incentives in order to take account of the importance of export chains.

From this point of view, the aim is to support all firms that are potentially competitive, whatever their size, by concentrating public support on the elimination of specific hindrances that limit the development of that potential and by strengthening dynamic linkages. Furthermore, support for small and medium-sized firms should not tend to develop them as watertight and sometimes "protected" compartments, but should be designed to create and strengthen their links with successful larger firms and facilitate their incorporation into export chains, where they could operate initially as subcontractors or indirect exporters. The main thing in each case is to follow up the competitive performance of the main export lines very closely in order to identify hindrances and opportunities and react to them quickly, in keeping with the available resources and through non-discriminatory policies.

The quality of international specialization is not just a commercial concern: it also has a direct impact on the possibilities of generating productive employment at higher wages. Specialization in low-growth products which have marked price cycles and are subject to protectionist practices can eventually affect the macroeconomic balances, while on the other hand, relying too much on natural resources with little processing, on low wages, or on substandard labour conditions makes it difficult to achieve systemic competitiveness.

In order to progress in the internationalization of production it is necessary to ensure closer collaboration between the public and private sectors. This is necessary, for instance, in order to promote greater national influence in global production, marketing and transport chains connected with exportable supply and in order to stimulate the formation of national marketing firms as part of a more active trade policy and closer public-private coordination.

The fundamental contribution of the public sector to improved export performance lies in: i) ensuring a climate of growth and economic stability; ii) giving incentives a global orientation which reduces anti-export biases and guarantees access to inputs on competitive terms; and iii) providing export activities with institutional support, especially as regards information, finance, export insurance and the promotion of exportable supply abroad. [7]

All the above, however, is not of itself enough to ensure progress towards a phase of internationalization of production and fuller and deeper export activities. This contribution must therefore be accompanied by investment abroad, participation in marketing chains, joint operations with local firms in the export markets, and redoubled attention to such aspects as promotion, quality and brand differentiation.

The experience of the Asian economies shows the strategic importance of these areas, especially: i) the establishment of combined marketing and export firms; ii) the installation of firms for importing national products in the main target markets; iii) the signing of export contracts with differential incentives according to commitments regarding the value exported, and iv) the promotion of investment abroad for marketing and participation in wholesale distribution chains. All these aspects are increasingly important for the internationalization of production and increased competitiveness (Rosales, 1994; ECLAC, 1994a).

The public sector could collaborate in these tasks, especially during macroeconomic periods when large inflows of foreign exchange into the economy tend to depress the real exchange rate and discourage exports. In these cases, consideration could be given to the possibility of using small, limited amounts of the international reserves (say 1%) for these external promotion initiatives, subject to the provision of matching sums by export groups. These resources could be used for the establishment of trade offices abroad or promotional expenditure which benefits all exporters. It may be noted that the Asian countries reward expenditure by firms on promotion abroad and technological activities by granting double tax deductions in respect of it (Annex 1).

Some salient aspects of the deepening of export activities are the following: [8]

i) *Stimulating national marketing firms*, as part of an effort to apply more active trade policy, and *improving the organization of exporters themselves* are other tasks belonging to the phase of the deepening of export activities. With regard to some agricultural and marine products, for example, a stage seems to have begun in which there are greater requirements in terms of quality, standardization, trade promotion, alliances with importers and coordination of supply, since the market is now more demanding and there are new competitors. It is therefore necessary to organize in order to export more effectively, by improving private promotion and marketing management and learning from successful experiences. [9]

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[7] ECLAC (1994a, chapter V) reviews fiscal and financial incentives for promoting Latin American exports.

[8] In this article, the concept of deepening of export activities comprises: product and market diversification; incorporation of knowledge and technology; establishment of export chains; greater incorporation of small and medium-sized firms; and introduction of incentives for improved product quality.

[9] Among the most outstanding cases of natural-resource-based non-traditional exports are fresh shellfish and crustaceans (Argentina and Panama), soluble meal and similar animal feed derived from marine species (Chile and Ecuador), frozen shrimps (Ecuador), salmon (Chile), grapes (Chile and Mexico), apples (Chile), pineapples (Costa Rica and the Dominican Republic), concentrated orange juice (Brazil), fresh chicken meat (Mexico), cut flowers (Colombia and Costa Rica), and sawnwood and railroad ties (Chile). See ECLAC, 1993a.

ii) *Competitive finance for non-traditional or pioneering exports* will continue to be an important pillar of export promotion. Expanding export insurance (or creating it when it does not exist), arranging lines of long-term finance for exporters of manufactures and services on internationally competitive terms, and creating the necessary mechanisms and incentives for incorporating the private banking system into this area are essential prerequisites for the deepening of export activities.

iii) With regard to *trade promotion*, it is necessary to get away from atomized, individual and sometimes ingenuous forms of action which are not in keeping with the importance of exports in economies which have opted for greater integration into international markets or with the degree of penetration that some countries have achieved in sophisticated markets. In this respect, it is necessary to increase the public resources assigned to promotion; to establish incentives favouring trade promotion; to persuade the private sector to invest more heavily in this task, and to improve public/private coordination in such areas as promotion of the country's image, for example.

iv) The promotional nature of *foreign investment policy* may also be reflected in a more active policy of strategic alliances with transnational corporations and stimulation of foreign investment in manufactures, services, and human resources training, through clearer signals of sectoral diversification. Facilitating such investment through the reduction of taxes on technology transfer, services and technical assistance and through bilateral agreements to avoid double taxation may be an advantageous line to take, especially in economies which have progressed further with structural reforms.

v) Improving coordination and appropriateness in the *design, application and evaluation of export promotion measures* involving the repayment of taxes and customs duties is generally a task that includes various public bodies (customs, inland revenue, the treasury, and the ministries of the economy, foreign trade or industry), thus sometimes making coordination more difficult and saddling exporters with costs that could be avoided. Such important areas as the import and export of services and the financing of export activities sometimes do not correspond to any clearly defined institution. In order to reduce red tape in respect of external trade formalities, it is necessary to improve information handling and the registration of exports and imports by using informatics and progressing towards a "single window" for exporters and their relations with the customs service. [10]

Here there is an ongoing challenge to reduce anti-export biases by reviewing regulations, making procedures more flexible, reducing formalities and red tape and raising the technical level of the staff.

vi) An area which has not been developed much in the region but which is gaining importance is that of *monitoring unfair competition* in external trade.[11] Special attention is being given in trade agreements, for example, to treatment of investments, services, anti-dumping measures, safeguard clauses, and dispute settlement machinery. The management of such a system must: i) be located at such a level as to ensure full knowledge of real sectoral conditions; ii) be in close contact with the private sector; and iii) have a high level of technical expertise and credibility, so as to avoid utilization of the system by vested interests with protectionist aims.

The public institutions responsible for the design and execution of export development policies have not evolved as fast as the growing process of internationalization of the economies of the region. This is why it is important to bring the rates of evolution and performance of the promotional bodies and the respective Foreign Ministries into line with these new challenges. Such adaptation should be carried out in concert with exporters' organizations so as to stimulate a stronger private sector commitment to the trade promotion, technological development and training policies.

vii) *Modernization of the management and institutions responsible for international economic policy* plays a decisive role in internationalization efforts.

[10] The continued progress of export activities is continually raising new challenges. Thus, for example, port management must be adapted to multimodal transport practices, incorporating technological changes such as the use of containers and electronic data interchange (EDI) (ECLAC, 1993b).

[11] The new Mexican External Trade Act, published in the *Diario Oficial* on 27 July 1993, contains precise rules on price discrimination, subsidies, damage or potential damage to domestic production, safeguard measures and procedures (Banco Nacional de Comercio Exterior, 1993).

It is a question of unifying economic and political criteria, giving greater weight to the economic component of international relations, and enhancing political and technical support for the tasks arising in international economic relations. To this end, it would be helpful to work out national strategies of a consensual nature, with clearly defined targets in terms of trade promotion and investments by regions and mega-markets, so as to enable the unified and timely handling of the tasks of trade promotion, penetration and defence of markets, and the quest for new technologies and business opportunities.

V

Dimensions of production development policies

The current debate in the region on industrial policies (or rather on the promotion of competitiveness) is mainly centered on technical and economic policy requisites.

With regard to technical requisites, such policies i) tend to be based on market institutions; ii) place emphasis on the dynamic efficiency of competitiveness; iii) make use of incentives which are limited in time, decreasing, provide for their own eventual elimination, and are linked to precise export goals; iv) have limited objectives and concentrate the critical mass of public sector measures on programmes which will have a decisive impact and are in keeping with that sector's technical and administrative capacity; v) promote decentralization of the administration and follow-up of incentives; and vi) are selectively concentrated on pioneering exports or those with a high content of knowledge.

With regard to economic policy requisites, production development policies must be public (but not State) policies and must be based on consensus rather than a technocratic approach. An orthodox counter-argument maintains that the massive surge of information in its present dimensions rules out any possibility of establishing production priorities, since there is no public authority or body capable of collecting such flows of information and processing them in a prompt and timely manner.

The truth is that this is applicable to any type of body, public or private. The main opportunity for public action here lies in sharing information, arriving at consensual diagnoses, and generating suitable institutions to favour flexible, informed and consensus-based development and reduce uncertainty.[12] The main competitive advantage of the public sector is the possibility of fostering this public/private process of sharing information and promoting consensus-based diagnoses and a range of instruments for following up, evaluating and correcting the processes of investment, export, training, infrastructural development and spread of technology.

1. Horizontal and market-oriented policies

The current form of production development has a horizontal dimension –i.e., it does not support specific sectors or activities– and also a factoral dimension, providing benefits which are distributed transversally to the various branches in support of the generation of markets and institutional systems that facilitate the development of the factors of production.

Production development may therefore be understood as being based on horizontal instruments which improve coordination within the private sector and between that sector and the public sector and reduce the risk involved in new investments by improving the supply of information and fostering ready access to existing instruments.

Consensus on industrial policies is reflected in policies that do not interfere with the market but seek to improve its operation by strengthening or correcting it, as appropriate. It seeks to secure positive adjustments based on the principles of the market and

[12] Paradoxically, the public sector's inability to effectively process technological, trade and financial information for deciding on production options may actually be turned into an advantage if practices of seeking consensus among the actors and institutionalizing dialogue, negotiation and a prospective view of the international environment are adopted on a regular basis.

competition, and assigns responsibility for structural adjustment to the firms themselves, concentrating public tasks on ensuring a suitable environment for private investment, stable growth, the pre-eminence of competition, and ready access to markets.

In analysing trade specialization strategies, it is no longer sufficient to distinguish between price-takers and price-makers: the real difference now is between passive strategies (which merely accept available factors) and active strategies (which create factors). Here lies the analytical distinction between "comparative advantages" and (nationally generated) "competitive advantages".

Making progress in terms of competitiveness, then, means building factors and competitive advantages. In view of the characteristics of current competitiveness, this means using horizontal-type policies which do not discriminate between activities or firms but are expressly directed towards solving a known shortcoming of the market, promoting a whole industry or a region in general, or promoting the development of inputs vital to systemic competitiveness, such as training and infrastructure (OECD, 1992).

2. Promoting competition

The competitive functioning of markets is one of the pillars of industrial policy. Promoting competition calls for a suitable regulatory framework, however.

In order to take full advantage of the potential of the market, it is necessary that markets should be competitive, transparent and readily accessible. Creating markets where they do not exist, strengthening them when they need improvement, and regulating them when they are of critical importance are natural elements of pro-market industrial policy. Democratizing access to markets, improving their efficiency and transparency, and reducing the tendencies towards economic concentration are also the modern way of raising efficiency, competitiveness and equity.[13]

In order to ensure the effective operation of competitive markets, it is necessary that the public sector should have sufficient regulatory capacity to take action both on the structure of markets, so as to do away with anti-competitive practices, and on the results of their operation. Generally speaking, promoting competition is the best policy for stimulating efficiency, but when this is not possible, timely regulation is the next best option. In many of the countries of the region there is a need to improve the institutions governing the financial, social insurance, energy, non-renewable natural resources, and public utility service markets, as well as to make suitable institutional arrangements for the monitoring of unfair competition.

The institutional framework for the regulation of competition should include measures to strengthen market discipline, boost the mobility of resources, and improve their availability (Atiyas, Dutz and Frischtak, 1992; Tavares de Araújo Jr., 1993).

Market discipline is strengthened through less protection, anti-monopoly policies, regulation and supervision of financial institutions, privatization operations, use of performance contracts in public enterprises, and safeguards for the interests of consumers and small shareholders.

Resource mobility is stimulated with measures that eliminate entry and exit barriers, make markets more flexible, reduce transaction costs, improve access to information, and do away with regulations that impede transfers of assets (bankruptcy laws, legal reforms). In the case of the labour market, such mobility is facilitated by improving information and favouring flexibility through such means as unemployment insurance, flexible working hours, and profit sharing.[14]

Resource availability improves along with increases in the flows of finance and information. Important factors in this regard are programmes of labour and management training, programmes to further the spread of technology, and measures to promote the inflow of technology and foreign investment. Other favourable elements are flexibility of financial restructuring arrangements in the event of business failures, the activities of bodies specializing in asset conversion, and policies to facilitate financial intermediation and deepening of the capital market, especially with a view

[13] Supplementing technology markets; easing access by workers to the training market; correcting cases of segmentation of the capital market; increasing the access of small and medium-sized firms to credit, and improving contractual relations between contractors and suppliers and between direct and indirect exporters are forms of market promotion which not only favour competitiveness but also have a positive impact on equity.

[14] Profit sharing strengthens the link between wages and productivity because wages depend on output; it discourages dismissals and encourages the hiring of labour, by making labour costs more flexible; and as it identifies wages with the economic results of the firm it usually helps to improve labour relations (ECLAC, 1992a, chapter VI).

to providing better facilities for small and medium-sized firms, new ventures, and investments in technology.

3. Criteria for retooling

The main aim of retooling as it affects both products and labour is to facilitate adjustment through market mechanisms that allow competitiveness to be generated or regained in various activities. This involves promoting the transfer of labour from low-productivity jobs to others which are more productive, with inter- or intra-sectoral reallocations of resources, specific subsidies, training programmes, tax rebates for investments in given regions, etc. What industrial policy must avoid is slowing or hindering the retooling process.

In periods of globalization, retooling forms part of the strategy for improving a country's place in the world economy and developing production, since the promotion of dynamic sectors must be complemented with the retooling of more backward sectors. It will be necessary to take steps in advance to ensure concerted retooling capacity in sectors or regions whose competitiveness is threatened; the measures to be taken must facilitate the reallocation of resources to activities with a more promising future, taking care to minimize the social cost of such reallocation and to preserve, modernize and realign labour and management skills.

Although horizontal policies represent a necessary basic framework, they do not appear to be sufficient for dealing with specific sectoral and regional aspects when these involve regions or sectors with a marked lag in terms of competitiveness or, still worse, with structural failings.

The most advanced examples of structural adjustment display successful cases of improved international economic positions obtained through sectoral policies (the motor vehicle and computer sectors in Mexico), but also cases where sectoral and regional difficulties have made their appearance (the Chilean textile sector and the coal mining sector in the Eighth Region of that country), reflecting a certain degree of exhaustion of horizontal policies as means of tackling such problems.

Retooling as public policy tends to become inevitable when sectors or regions of economic and social importance suffer from serious and persistent lags in terms of competitiveness. If these sectors have the capacity to recover, yet neither the market nor the existing promotion instruments offer sufficient stimuli to enable them to do so unaided, the public sector can step in to supplement the efforts at competitive adaptation. In cases where those sectors simply do not have the capacity to recover, then what is really needed is simply to minimize the social cost of withdrawal from the sectors.

In cases of retooling, it is necessary to focus the overall range of horizontal policies in order to give coordinated support to sectors or regions which are lagging behind in terms of competitiveness. Such policies aim to improve the factor markets, expand the supply of production externalities, improve access to trade and technological information, finance and technological support, and reduce transaction costs. It is therefore desirable that the financial support, technological development, technical assistance, labour training and retraining and unemployment benefit measures should be integrated with each other and should be closely linked with social policies and their territorial and local effects.

Thus, when retooling is involved, horizontal or factor-oriented policies (with regard to technology, training, export development, infrastructure) may have a sectoral focus. Such cases may be dealt with through special, highly specific and carefully focussed public programmes of limited duration which link together the efforts of the public and private sectors in a flexible and concerted manner.

It may be that more specific diagnoses may point to the need for intrasectoral changes, minor rationalization measures, or modernization, which will require public resources. The first thing to do in every case is to distinguish between lagging competitiveness and structural decline. The second thing is to distinguish between the firm or activity affected and the region involved. In the first case, a distinction is being made between policies for the recovery of competitiveness and policies of total withdrawal from the sector; in the second case, the distinction is between production development policies and regional development policies. In other words, reducing the social cost of the loss of competitiveness of a firm which is important to a region does not necessarily mean rescuing that firm at all costs.

4. Unified treatment

Emerging competitiveness involves above all systemic aspects: it is therefore not efficient if policies for promoting competitiveness are designed and managed as watertight compartments which fail to take advantage of the clear sectoral, regional and institutional interlinkages present in public action. Consequently, the coordination of policies on public investment, infrastructure, human resources training, export incentives, technological and financial support and technical cooperation is of the highest priority. Such coordination should be expressed in some institutional benchmark that can be evaluated in terms of the unified management of these policies. At the same time, such unified management reduces the demand for extra financial resources, since coherent action in various areas of public activities generates externalities and clear economies of scale which facilitate the focussing of administrative efforts and of resource allocation.

Emphasis on heightening competitiveness demands such greater coordination of production development policies and closer links between them and trade policy, for in open economies the development of production is linked with reduction of anti-export biases, overall promotion of exports in general, and selective special promotion of pioneering exports or those with a high content of knowledge. Moreover, the greater exposure of the domestic economy to imports is forcing the countries of the region to pay more attention to such matters as retooling and the treatment of unfair competition. Finally, the need to make more progress in the internationalization of the economies is raising challenges in terms of technification and updating in international economic relations. Naturally, production support options cannot be divorced from the question of advances in these fields in general.

Unified treatment of production development policies is also a natural corollary of policies on changing production patterns which seek to give the same treatment to economic and social issues. In so far as the reduction of poverty and progress towards equality of opportunity both depend on economic growth, on the modernization of production and on the generation of more and better productive jobs, it is obvious that in order to boost the advances in income distribution [15] it will be necessary to make complementary improvements in the efficiency of macroeconomic management [16] and in competitiveness. Thus, the gradual change in production patterns should be reflected in an economic policy which assigns growing importance to production development policies. The following section briefly describes four priority areas in this context: productivity (with emphasis on innovation and quality), development and spread of technology, training, and infrastructural policies.

VI
Promotion of competitiveness

1. Productivity: innovation and quality

Increases in productivity are linked to innovation, the promotion of technology, and the improvement of quality. Giving greater flexibility to working hours, contracts and activities, for example, may be a key aspect of productivity, especially as regards the elimination of redundant tasks, processes that are maintained merely through inertia, or laws and regulations that have not been adapted to new conditions.[17] Labour laws, for example, should be reviewed in order to provide more possibilities for innovation and consensus-building in firms. An important suggestion in this respect is that of the introduction of profit-sharing (ECLAC, 1992a).

[15] As far as social policy is concerned, this means expanding its coverage and improving its effectiveness; strengthening the links with production development policies by emphasizing investment in people, so as to improve their capacity to gain access to productive employment; and protecting the most vulnerable groups, all this with amounts of financial resources compatible with maintenance of the macroeconomic balances.

[16] In order to achieve such advances, it is necessary to add to the traditional aspects that of regulation, the main purpose of which is to ensure that markets operate more efficiently and are more transparent, thus reducing the possibility of economic concentration and giving access to them to all.

[17] Although the economies of the region have moved away from models based on a closed economy to strategies involving an open economy and closer involvement in the international economy, there are still substantial numbers of laws and regulations based on a closed economy which hinder the innovative efforts of the public and private sectors. The same is true of the processes of deregulation and privatization of some public services, which have not been accompanied by functional changes in the legislation.

a) *Innovation*

The various different views on technological change and labour relations all agree that the main obstacle to innovation is the existence of non-cooperative relations within a firm. Likewise, they stress the need for a skilled, flexible and motivated labour force, as an essential input for technological innovation. They also point out that most technological change is incremental, that is to say, marginal and workaday, and takes place in the interaction of the production process. This heightens the need for firms that operate in a climate of cooperation and are open to participation and innovation: an increasingly vital feature of competitive performance.

It is now generally considered that relations where there is a low level of cooperation among individuals and organizations act as obstacles to technological innovation and improved industrial performance (Solow, Dertouzos and Lester, 1989). Indeed, cooperation among competitors is part of the new rules and is a vital element in innovative performance (examples of cooperative industries are machine tools in Modena, the Italian textile industry, Danish furniture, and German industry in general, which was once described as "a group of clubs") (Jorde and Teece, 1990).

The traditional technological innovation model was conceived as a linear, predictable process beginning with research, continuing with development, design and production, and ending with marketing, sales and service. This model incorporated the experience of large-scale industries, but not the synergy of cumulative innovations which is the backbone of current technological change (especially in semiconductors, computers and motor vehicles).

Now, however, technological innovation is conceived as a systemic process of discovery, development, improvement, adoption and marketing of new processes, products, procedures and organizational structures (Jorde and Teece, 1990). It is also seen as a process that can be stimulated by strengthening the links and feedback mechanisms within firms, among them, and among technology centres and universities. Thus, innovation ceases to be a serial process, and it no longer begins with research, as the new form of operation of firms in a global context makes it necessary to give priority to the link with consumers and therefore innovate on the basis of after-sales service.

b) *Quality*

The growing demands for quality in international markets are causing the countries of the region to assign increasing importance to this aspect and to incorporate it in their production and export development strategies. Incentives for higher quality can also favour increases in productivity and gradual adaptation to stricter international standards.

The establishment of quality systems in firms makes it possible to modernize management techniques and, especially in small and medium-sized companies, to rationalize costs and take fuller advantage of the available incentives, which are often not used because of ignorance or shortcomings in business management. Stimulating the formation of private firms specializing in quality certification, for its part, favours competition and allows the public sector to concentrate on regulation and supervision; greater competition in this crucial market gives the public sector a wider choice when it is necessary to designate reference laboratories.

The international distribution channels handle goods and services for demanding consumers. The creation of demanding domestic consumers should therefore form part of quality promotion policies, which should seek to do away with the often very marked differences between export quality and the level of quality considered sufficient for the domestic market. Legislation on the quality of goods and services and on consumer protection is therefore an integral part of the promotion of quality and competitiveness.

2. Promotion and spread of technology

The market provides a sub-optimal supply of information and technology (Stiglitz, 1989). In such fields as technology and information, which are essential for the modernization of production, externalities are usually of decisive importance. The private use of technology and information does not terminate its availability for other agents (Romer, 1992), so that the social benefits exceed the private ones, and this justifies public action to generate more technological research and development activity than would result from the action of the market alone.

"Completing" the technology markets is thus a typical public task, in view of the externalities involved. In order to achieve this, it is necessary to strengthen demand, and the link between demand and supply, by fostering the access of small and medium-sized agents to information and technology.

The supply of technology does not of itself represent a restriction on increased productivity and technological innovation. The real obstacle is the lack of demand by firms in this field, due to imperfect information in the technology markets (Peres, 1993).

Mechanisms aimed at developing the *supply of technology* must cover both the public and the private supply. In promoting the *private supply*, it is desirable to emphasize development at the company level and promote closer links between firms and technology centres. A suitable instrument for this could be the incentivation of research contracts for innovation and adaptation of technology, thus increasing the private funds available for technological research and development activities, favouring such expenditure with tax-deductible status in the case of private projects or private contributions to technology centres.

In the case of the *public supply of technology*, the aim today is above all to link the resources more closely to results that can be evaluated in line with performance indicators. In order to strengthen this approach it would be desirable to increase private participation in the management and financing of public technology institutes and, as a counterpart to this, take steps to achieve greater flexibility in the budget management of these institutes, in their rules of operation, and in the numbers and types of projects that can be accepted in technological innovation support programmes.

Generally speaking, the resources assigned to public sector technology institutes represent most of the expenditure by the countries of the region on technology. To a large extent, however, this significant amount of resources is not subject to periodic performance evaluations. The move from the current system of more or less guaranteed financing of the public technology supply to a system where there is more competition for funds on the basis of projects that can be objectively evaluated should therefore lead to greater social profitability of these resources, greater dynamism of the production base, and more contact between the institutions and the latter.

In view of the features of greater competitiveness outlined above, such programmes should support, inter alia, the scaling of innovations, production and technological alliances, subcontracting operations, production chains, technology enterprises and the adaptation and dissemination of technology.

On the demand side, measures should be aimed at fostering initial demand by business firms and keeping up with its gradually increasing sophistication. International experience shows that industrial extension work plays a central role in inducing demand. The public sector could take on this task until the technology market matures, by developing networks of contacts among technological agents. When some firms begin to generate their own demand and need support abroad, the public sector should go along with that effort by including technological issues as an important element of economic policy.

As well as giving this greater importance to technology, steps should be taken to focus objectives in a highly selective manner, by way of a demonstration effect. Advancing in the field of technology means concentrating efforts on specific areas by giving express signals, through public policies, in respect of the technological priorities adopted and also linking together efforts and institutions in support of the effective technological mobilization of the economic agents.

The priorities to be adopted can be determined through a joint public-private effort in terms of fostering a dialogue, sharing information, reaching consensus on the diagnosis of problems, and dividing up tasks in a complementary manner in the light of the comparative advantages of each agent. Dissemination and extension should be foremost among technological activities and should be carried out through close cooperation between the public and private sectors and among business firms, universities and technology centres, with encouragement being given to the establishment and development of bodies for the dissemination and demonstration of technology.

In order to highlight the need for the inclusion of measures to disseminate technology among urgent national goals, ECLAC has been promoting the idea of tripartite visits to foreign plants which use the most advanced technological practices. The participants in such visits would be businessmen, technicians, workers and trade union leaders of various firms from different production subsectors. On their return, the participants would prepare detailed reports on the production processes, equipment, quality control systems and industrial relations observed in the plants visited and the possibility of applying them in their own firms. These reports would be circulated to business and labour organizations in order to make productivity and innovation leading concerns among workers, trade unions and businessmen (ECLAC, 1994a).

Through measures such as those described above, which are of low cost and are designed to link up the efforts of the various actors in the production process, it would be possible to design or consolidate instruments and mechanisms to make private sector spending on technology grow faster than that of the public sector. At all events, in order to maximize the effectiveness of public spending in this area it would be desirable for the resources assigned to public technological institutions –whether direct contributions or funds allotted on the basis of competition– to be made subject to performance indicators, while their administration should be made more flexible and easier to evaluate.

To sum up, then, the following actions could be taken as part of a technological development policy:

i) Defining public priorities in the field of science and technology with the participation of the scientific and technological community and business organizations;

ii) Giving suitable institutional status and rank to the transfer, adaptation, copying, dissemination and innovation of technologies;

iii) Improving the linkages between technology supply and demand, disseminating technological and trade information more widely, and supporting the formation of regional markets for technology and skilled labour;

iv) Increasing public research and development expenditure, subject to efficiency and performance criteria, and stimulating similar private expenditure through tax incentives;

v) Stimulating systems of risk capital for investments in technology by promoting greater private bank and multilateral participation in this area;

vi) Exploring the possibility of setting up guarantee funds for insuring investments involving some technological risk and a system of risk capital for such investments;

vii) Giving special incentives to exports of engineering services and design-intensive manufactures;

viii) Giving greater priority to policies for the dissemination of technology and the provision of industrial extension services. Encouraging the organization of visits by businessmen and workers to modern foreign firms and technology centres;

ix) Developing forms of subsidies for small and medium-sized firms to pay part of the cost of technological consultancy services to modernize management practices and industrial processes, standardization and quality control systems, preparation of investment projects, presentation of projects to private banks, and business travel;

x) Developing a more active policy with regard to the granting of post-graduate fellowships, as a function of national technological priorities;

xi) Incorporating criteria into public purchasing policy which facilitate the development of domestic suppliers in keeping with conditions of international competitiveness;

xii) Promoting commitments by foreign investors with regard to assimilation of technology and development of domestic suppliers of goods and services with a higher technology content;

xiii) Improving the incentives for the transfer of technology, services and technical assistance and promoting bilateral agreements for avoiding double taxation.

3. Training

"Completing" the training market should be another pillar of production development policy. Here, the main challenge is to put this issue in an important place on the national agenda in terms of both resources and institutional status. Once this has been achieved, it will be necessary to move on to the tasks in the areas of coverage, quality of supply, flexibility of the institutions, linkages with business firms, and adaptation of the duration and contents of the curricula to demand.

It is not a question of the public sector listing the courses and defining their contents, or providing them directly. The public sector does, however, have an irreplaceable linking role to play: it must improve the arrangements for identifying the training needs by sectors, regions and size of enterprises; it must stimulate and subsidize the formation of training firms, and it must establish indicators to permit evaluation of the results and quality of the training supplied. The task of the public sector, then, is to promote the harmonization of supply and demand, regulate the content, quality and relevance of training activities, and improve the incentives for the training of businessmen and workers. This task can be carried out more cheaply and effectively if the public sector acts on a tripartite basis in conjunction with business and workers' organizations and if it makes use of private consultants for specific tasks.

In order to improve the appropriateness of training, business firms must give stronger, clearer signals to the executing bodies. The links between the training system and technical and professional education are still weak, and in some cases there are no mechanisms for the official approval of curricula so that students can transfer from one system to the other. A measure which would help to solve this problem would be the establishment of a system of certification of qualifications, with the direct participation of private and public enterprises, so as to measure the skills acquired in line with standards recognized in the labour market. This would strengthen the links between training and the secondary and post-secondary technical education system through advances as regards the accreditation of skills and the establishment of modules to make possible the official approval of curricula.

In order to gain a full knowledge of business firms' training needs and thus ensure the suitability of the services offered, the design and financing of training courses could be linked to commitments by specific firms as regards on-the-job practice or steady jobs for students completing these courses successfully.

The experience of the National Training and Employment Service (SENCE) in Chile shows the importance of freeing the central structure of such an organization from routine operational and administrative functions (such as purchasing, payments and programme supervision) which can be carried out effectively by private firms. By farming out such functions, the central structure can concentrate on policy and programme formulation; on information systems for users of the labour placement and training services; on the promotion and dissemination of policies and programmes, and on the coordination of programmes and activities with those of other public institutions operating in the same field. This experience also shows the importance of fostering inter-agency coordination, seeking to improve the coherence of the various training policies, programmes and actions, and linking training more closely with policies for the development of production and technology and with unemployment insurance. In all these areas it is essential to promote the participation of businessmen and workers in order to strengthen the certification of skills, the timely identification of needs, and the ongoing evaluation of public training policies.

In short, it is necessary to stimulate spending by business firms on training by providing suitable tax and financial incentives. Public training institutions should also adapt their practices by increasing direct participation by firms and business associations in guiding their activities, encouraging the use of more market-based criteria in their management, and linking training programmes to technological priorities.

4. Infrastructure policy

There is a close link between the quality of the infrastructure and the competitiveness of an economy. Many of the competitive advantages built up by Southeast Asia are due to a crucial combination of quality of human resources and of the infrastructure. The development of new infrastructural systems, and especially their complementarity and integration with the existing international systems, is thus a strategic area of export development.

The sustained increase in export and import activity will put demand pressures on energy services, telecommunications, roads, railways, ports and airports. These pressures could affect competitiveness unless the necessary investments for the replacement, expansion and technological updating of such infrastructure have been programmed in advance.

The infrastructure makes a dual contribution to the promotion of competitiveness. On the one hand, it can reduce the costs and time needed for the transport of goods and services to their destinations. On the other, suitable institutional innovations which expand the field of action of private enterprise in financing and managing the infrastructure can:

i) increase the flow of resources to the sector by incorporating private resources;

ii) rationalize decision-making and thus secure efficient resource use;

iii) favour decentralization, and

iv) free resources which the public sector can use to give the lower-income sectors adequate access to basic services.

The linking element in all these objectives is the need to make users pay the real cost of the use, maintenance and operation of the public infrastructure, that is to say, to strengthen economic criteria which link use of the infrastructure with the costs involved, providing explicit subsidies when there are social reasons for doing so.

In addition to having healthy repercussions on the efficiency of resource allocation, by putting an end to the widespread belief that the public infrastructure is free, this also has favourable effects on equity, since it establishes a more direct connection between use and payment, thus freeing resources for the public sector which can be used for basic infrastructural works with a higher social content, such as basic sanitation infrastructure, drinking water, sewerage, paving of streets in lower-class areas, construction of fishing harbours, and minor irrigation works.

Thus, for example, financing the road system from general taxation represents a subsidy in so far as road users are exempted from paying for their effective use of it, so that there will always be an excess of demand. It is also an inequitable subsidy, since the lower-income sectors, and especially those who live in distant areas, contribute proportionally more to the financing of this system than would be justified by their use of it.

VII

Strategic consensus-building and the quality of public management

1. The consensus-building role

The degree of effectiveness of industrial policy is closely linked to its capacity to build basic consensuses regarding the development strategy and to the image in terms of production, employment and technology which is promoted as a national project.

Issues which must necessarily be reflected in such policy include the modernization of labour relations, a responsible attitude to the environment, and a global concept of the economy which reconciles competitiveness, flexibility, economic stability and equity. It must also take account of the debates on a new type of enterprise, greater market flexibility and the stimulation of cooperative relations within business firms, among them, and between private enterprise and the public sector.

In open economies, excessive inequality and the weakness of the established institutions in dealing with the resultant conflicts increase the inherent country risk and affect competitiveness. The promotion of competitiveness and advances in the internationalization of the economy must therefore be accompanied by national consensuses which give more attention to equity and distributive issues. The treatment given to these issues must also be in line with the conditions of competitiveness and flexibility demanded by open economies.

If approached properly, such concerns are not at variance with the objective of raising competitiveness. Thus, stimulating tripartite cooperation on training, productivity agreements, labour relations, quality and technological innovation, which are national issues, simultaneously serves the objectives of both competitiveness and equity.

Promoting "associativeness" and collaborative relations between public and private agents may be a decisive instrument for stimulating productivity and technological innovation through, for example, private centres for the creation and transfer of technology, aimed at specific sectors and supported by business associations and unions.

2. Linkages and strategic alliances

In the context of a global economy in which export activity tends to be organized into networks and strategic alliances, public policies should seek to help in the organization of private actors [18] and in improving the coordination of public and private efforts abroad, through clear national efforts of unified design.

[18] For example, it has been suggested that the public sector could grant tax rebates, limited to export firms which devote the amount of the rebate, plus a matching sum, to strengthening the activities of their trade associations. Such resources could be used to finance technical support to exporters' groups to permit them to improve their capacity of analysis in respect of technology, trade and international economic relations in general. This would help to give the public sector a better-documented counterpart with a clearer idea of its goals, thus improving the overall capacity for outlining external trade strategies.

For this purpose, the public sector should promote the preparation by the economic actors of shared long-term views on exports, investment and technology, bearing in mind international data and trends. The main function of the public sector would thus be to promote shared positions and reach agreement on the diagnosis made, the identification of the main national shortcomings, and the main policy lines.

The internationalization strategy must be shared by the various sectors concerned and be based on a consensus regarding the export-oriented nature of the national development project. The more solidly based the private strategies in this field are –adopted at the regional and sectoral levels, for example– the more feasible it will be to make progress with national strategies to enhance the country's place in the international economy, and the strengthening of private-sector organizations at the sectoral level will favour the public sector's relations with exporters. Such consensus, together with stability of the incentives offered, will make it possible to carry out a more active trade policy, with the sectoral ministries committed to the goal of promoting exports.

In order to progress towards an economy with greater capacity for innovation, institutional changes must be made both in business firms and in the public sector. Modernization in the technological field is an essential requirement in the present international setting. There are various ways of going about this, however. The greater the consensus among the various social actors, the greater will be the capacity for mobilizing resources, institutions and attitudes on behalf of production modernization policies. A technocratic-style modernization process may prove not to be viable and, still worse, it may waste good technical options for modernizing production and technology.

Team work, joint exploration of new scenarios, consensus-based diagnoses and the building of strategic consensuses among the actors are now frequent practices in international business, in the recent activities of transnational corporations, in joint ventures and in "virtual" companies. Incorporating these practices into political institutions and into social behaviour would appear to be the real challenge for attaining forms of changing production patterns with social equity. This is why there is an urgent need for innovation in institutions and in the behaviour of the social actors, in order to adapt to open economies with the aim of establishing social cooperation as a cultural requisite and participation as a requisite for efficiency in change.

3. The quality of public management

The quality of public management will depend on the coherence of the relevant institutions, clear delimitation of a limited number of objectives, the effectiveness of the instruments used, and the capacity of the upper and middle-level staff. This means that it is necessary to be highly selective in formulating objectives, in order not to overestimate the capacity of the government.

It is the quality rather than the quantity of public intervention in the structure of production that is important, and such intervention must be in keeping with the requirements for institutional innovation raised by the internationalization process.

In order to support the tasks of promotion of production, regulation and stimulation of quality and competitiveness, the public sector must be more highly qualified, it must enjoy strong social legitimacy in order to stimulate broad consensus on the new development tasks, and its performance must be transparent, subject to controls, and subject to strict evaluation criteria in terms of its results.

In order to achieve more ambitious objectives in the field of industrial policy, a more sophisticated public sector is needed. When there is no guarantee of this, the burden of proof must fall on those proposing innovations: when it is necessary to make innovations, the first step should be to build the necessary public and private agreements and institutional conditions to make possible the new form of operation of the public sector. In this, as in other fields, it is just as dangerous to underestimate the flaws in the market as it is to overestimate the capacity of the public sector.

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ANNEX 1

Instruments for promoting competitiveness: some Asian experiences

1. Hong Kong

Training. There is a tax of 30 cents on every thousand dollars of clothing and footwear exports. These funds are used for the training of workers in the same sector.

Follow-up of progress in competitiveness. The Industrial Development Council, which is made up of representatives of industry, government, the universities, technology centres and business associations, makes technical and economic studies of important industries, defines the future prospects and identifies obstacles in order to update the contribution of the State.

Productivity. The Productivity Council organizes study missions for local industrialists on foreign technology and techniques, provides training, advisory, technical assistance and laboratory services in various areas of industrial productivity, and also carries out activities in the fields of consultancy, training, industrial exhibitions, industrial information services, and liaison between technology centres and industrial firms.

Trade promotion. The Trade Development Council provides trade research and information services, as well as services in the areas of product and market diversification and improvements in product quality, design, presentation and image. It is financed with regular quotas paid by companies established in the country.

Modern technologies. The Industrial Estates Corporation was set up to support the establishment of technology-intensive industries which need large physical spaces, by providing building land and services.

2. Singapore

Training. The Training Promotion Fund, to which employers must pay 1% of their payroll, is open to all firms which require training or upgrading of their workers. The Fund also gives financial incentives to employers, through various programmes of training grants.

Internationalization. The Singapore Trade Development Board, which is responsible for export promotion, now encourages and helps firms to establish offices abroad, to improve product and packaging design, to market new products and services, and to participate in bidding for foreign contracts.

Tax support for exports. There is provision for partial exemption from corporation tax. Manufacturing firms which export over 60 000 dollars or more than 20% of their total sales per year are given partial exemption from this tax (in respect of 90% of the additional profits above the export base; the exemption period is usually five years and the export base is the average export profits for the last five years). For tax purposes, expenditure in respect of participation in fairs, exhibitions, trade missions, publicity campaigns, communications and maintenance of trade offices abroad is subject to double deduction from gross income.

Fiscal incentives for participation in the global economy. Incentives are provided in respect of technical assistance in research and development, improvement of product design and processing, improvement of standards and quality, and training of technical and management staff. There are additional benefits for being "pioneers", incentives for expansion, tax rebates on investments, foreign loans for the purchase of production equipment, and deductions for accelerated depreciation.

Aid for research and development. Subsidies to firms cover from 30% to 70% of the direct costs of suitable projects by firms. Tax rebates of up to 50% of fixed investments in this field may be granted.

Open regionalism *and economic* integration

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Economic integration in Latin America has entered upon a new stage, conditioned by new development strategies undertaken mostly by democratically elected governments, and directed at adjusting to a changed and increasingly demanding world economy, while attempting simultaneously to increase the Latin American countries' competitiveness. In the first section of this paper, the "stylized facts" of this new stage of economic integration are briefly reviewed, after which an explanation is given, in section II, of the main determinants of the significant growth of reciprocal trade and investment flows within the region that has taken place in the 1990s. Section III then explores the meaning of "Open Regionalism", a proposal put forward by ECLAC regarding economic integration in the region in the present circumstances. In the final section of the article, some of the obstacles likely to be faced by economic integration in the future are identified.

I

The stylized facts of economic integration in Latin America

There are two phenomena which characterize the process of economic integration in the 1990s: first, the proliferation of free trade agreements, especially at the bilateral level; second, the significant expansion of reciprocal trade and investment within the region.

1. Characteristics of recent integration agreements

With regard to the first aspect, at least ten bilateral free trade agreements have been signed between 1990 and 1993, in addition to 14 more that were signed between 1982 and 1990 (ECLAC, 1994, table II-5). Of these, Chile has been a partner in four and Argentina in three. Additionally, MERCOSUR (the Common Market of the South)– an integration agreement which includes Argentina, Brazil, Paraguay and Uruguay– was formed in 1991. [1] All these agreements share five characteristics.

First, the coverage of the new agreements of the 1990s in terms of liberalization, though still limited, tends to be greater than in the past. Specifically, only four out of the ten new bilateral treaties concluded between 1990 and 1993 have "negative" lists of products excluded from free trade, whereas the remaining six have more restrictive "positive" lists referring to the products which benefit from free trade. Nevertheless, this compares favourably to the recent past, since only one out of 14 bilateral free trade agreements signed during the 1980s had a negative list. Moreover, MERCOSUR includes a commitment to gradually eliminate all exceptions included in its negative lists.

Second, more recent agreements involve greater preferential tariff reductions than in the past. Whereas in the past tariff reductions were often of a partial nature, current preferences normally involve the complete elimination of tariffs.

Third, restrictive sectoral agreements are no longer very prominent, with the notable exception of automobiles. This involves a significant departure compared to the older integration agreements such as the Central American Common Market and especially the Andean Group, which included industrial programming efforts at a subregional level. There is, however, a danger that different national or regional content requirements (rules of origin) may become an increasingly important source of sectoral selectivity, through the establishment of conditions which in fact limit the expansion of trade.

Fourth, services are not usually covered by these agreements, with the partial exception of maritime and air transport. Most agreements still involve "shallow" rather than "deep" integration, that is, they refer almost exclusively to trade in goods. However, there is a growing number of agreements which include clauses on reciprocal investment, granting most favoured nation or national treatment to investment originating in partner countries. Since trade in services often involves foreign investment, these clauses in fact favour reciprocal trade in services.

Finally, the building or renewal of common institutions has not, in general, been part of this new wave of integration. Even though there has been a proliferation of agreements –including some ambitious ones like MERCOSUR–, a common trait has been the reluctance of governments to create new permanent supranational institutions in charge of promoting or monitoring integration agreements. This would appear to be due to greater informal contact between various actors (government officials, political parties, NGOs and enterprises) at a regional level, as well as greater realism concerning the role of institutions. More specifically, the greater skepticism concerning regional institutions would appear to reflect certain

□ This article is based on a presentation made at the conference "Latin America and the international economic system in the 1990s: macroeconomic adjustments and their alternatives", McGill University, Montreal, Canada, April 1994.

[1] More general integration commitments, including the association of groups of countries (Central America and Mexico, CARICOM and Venezuela, as well as the Group of Three formed by Colombia, Mexico and Venezuela) have also been signed.

frustration with regional institutions in the past, as well as the need to avoid premature institutionalization of a process of integration which is still in a state of flux.

2. The expansion of intraregional trade and investment

Together with the increase in the number of integration agreements, there has been a significant expansion of intraregional trade and investment. Intraregional exports as a proportion of total exports grew from approximately 11% in 1990 to about 17% in 1992 in the case of most of Latin America (i.e. the member countries of the Latin American Integration Association (ALADI). This proportion increased from 14% to 20% in Central America, and it remained constant only in the Caribbean. Most intraregional exports consist of industrial products, but agricultural products traded within the region also increased significantly between 1985 and 1991/92, as a proportion of total agricultural exports (ECLAC, 1994, table II-2).

Although information on intraregional investment is hard to come by, there is some evidence that it has increased significantly, shifting from the short-term capital flows of the past to more permanent direct investment at present, and including a growing proportion of regional foreign investment in services (ECLAC, 1994). There are also indications of a gradual process of rationalization of activities of subsidiaries of transnational enterprises, as they gradually adopt subregional or regional goals and perspectives instead of their older national approach that resulted from producing for relatively closed national markets in which an import substitution strategy had made itself felt.

II

The reasons for greater economic interdependence

The contribution of integration agreements, particularly of bilateral ones, to the expansion of intraregional trade and investment is not very clear. First, most bilateral agreements continue to be based on positive lists, in which reciprocal free trade is granted to only a limited number of products, thereby limiting the coverage of products subject to liberalized trade. Second, many pairs of countries without bilateral free trade agreements have experienced very high growth rates of bilateral trade: higher than between other countries which had integration agreements. For instance, in 1992 Brazil and Colombia, Brazil and Mexico, and Mexico and Venezuela experienced higher growth rates of reciprocal trade than many other pairs of countries which had signed bilateral or subregional integration agreements (ECLAC 1994).

A closer evaluation of trade patterns in the region leads to the identification of other, possibly complementary, explanations of the significant expansion of intraregional trade. First, the region's total imports have grown dramatically, increasing from less than US$100 billion in 1990 to almost US$150 billion in 1993. Second, this significant increase in imports can be attributed to lower levels of protection, stabilized economies which are experiencing signs of reactivation and, in an increasing number of cases, appreciating exchange rates. Intraregional trade has grown as part of this phenomenon. Significantly, intraregional imports as a proportion of total imports have not increased when taking the countries as a whole: they accounted for approximately 16% of ALADI members' total imports in 1990 but only about 14% four years later, in 1993.

Specifically, the growth of intraregional trade can be associated with more or less simultaneous unilateral liberalization processes. This has also allowed geographical proximity to become an important determinant of trade flows. Thus, neighbouring countries which have proceeded with unilateral liberalization, sometimes reinforced by integration agreements, have become major poles of dynamic intraregional trade expansion. These poles include Argentina and Chile, Brazil and Argentina, Colombia and Venezuela and El Salvador and Guatemala.

Furthermore, in addition to privatization, especially in the telecommunications and transport sectors (Devlin, 1993), most countries in the region have gradually reduced the number of sectors reserved for the State and for national investors, and adopted rules that do not discriminate against foreign investors (Calderón, 1993). And just as unilateral liberalization has contributed to intraregional trade expansion, deregulation and privatization has contributed to greater intraregional flows of investment, especially in services, where not only geographical proximity but also cultural affinity are important explanatory variables of these flows (United Nations, 1993). In addition to these factors, the process of economic restructuring in Latin America and the growing globalization of some of the most successful firms in the region has meant that they have begun to invest abroad, both in Latin America and beyond (Peres, 1993).

III

Towards open regionalism

Two phenomena would therefore appear to be promoting integration in Latin America. On the one hand, unilateral liberalization, deregulation and stabilization have created conditions which "naturally" or spontaneously favour greater economic interdependence between countries which share a geographical space and certain cultural characteristics. On the other hand, there are additional policies, of a preferential nature, which can further strengthen interdependence. Open Regionalism consists in strengthening the links between both elements, that is, between de-facto integration and policy-driven integration, in such a way as to enhance the competitiveness of the countries of the region and, in so far as possible, constitute a building block for a more open and transparent international economy (ECLAC, 1994).

For integration agreements to be consistent with Open Regionalism, they should meet the following requirements (ECLAC, 1994):

i) Provide for the extensive liberalization of markets in terms of sectors, including both goods and services, though without excluding different transition periods to allow for gradual adjustment;

ii) Involve broad liberalization of markets in terms of countries, which means that the entry of new members should be facilitated, especially in the case of important ("natural") trading partners;

iii) Be governed by stable, transparent rules, favouring those trade rules which are GATT-consistent and harmonizing standards in accordance with international agreements;

iv) Be adopted between countries which have managed to stabilize their economies, while strengthening regional institutions that provide balance of payments financing in order to minimize possibilities of macroeconomic disequilibria;

v) Apply moderate levels of protection against third-party competitors and favour the use of common external tariffs, phased in gradually if necessary;

vi) Eliminate or harmonize institutional arrangements (regulations, norms), facilitate the convertibility of currencies or adequate payments arrangements, and build infrastructure, all in such a way as to minimize transaction costs both within and between countries;

vii) Adopt flexible and open sectoral agreements which will favour the international transfer of technology;

viii) Include special measures to favour the adjustment of the relatively less developed countries or regions, including the *gradual* reduction of protection while granting fiscal incentives to favour intraregional investment;

ix) Favour flexible institutional arrangements, promoting widespread participation of the countries' different social sectors.

The justification for the first five conditions is quite orthodox. The first two conditions will facilitate the achievement of economies of scale and specialization and, together with stable multilateral rules (iii) and stabilized economies (iv), would help to create favourable expectations for investment, both national and foreign. Multilateral rules and harmonized standards (iii) will also reduce administrative costs and waste. The rationale for having wide membership is equivalent to that favouring "natural" partners (i.e., partners with a high proportion of reciprocal trade): namely, reducing the probability of having to purchase imports from more costly producers, while facilitating imports offered by least-cost producers: an outcome that will also be aided by low levels of protection against third party competitors (v). Larger markets will also promote greater investment. Common external tariffs (v) will discourage triangulation and contraband, and will avoid the need for strict rules of origin, which are increasingly being used as disguised instruments of protection.

The justification of the following conditions may be less well known or more controversial. The reduction of transaction costs (vi) may eliminate trade diversion resulting from preferences completely, since it can reduce the price of regionally produced goods and services below those of imports obtained from outside the region (Reynolds, Thoumi and Wettmann, 1993). Meeting this condition may need sizeable investments or substantial institutional reforms, requiring careful cost-benefit evaluations. Flexible sectoral agreements favouring the transfer of technology (vii) are part of a new division of labour with high information requirements, in which there is a growing de-verticalization of larger firms, geographical decentralization and subcontracting of productive activities, with an ongoing need for innovation and the diffusion of technology. These are also part of what can be considered as an innovation-led process of integration.

Allowing for gradual adjustment processes (viii) is based on the presumption that markets do not respond immediately to changing relative prices, especially in the case of imperfect and incomplete markets, both of factors and of final goods and services, above all in underdeveloped countries. Subsidies to favour intraregional investment in the less developed countries (viii) assume that those countries which gain most can compensate those which gain less or experience losses, and that the success of integration agreements can be undermined by member countries which do not benefit significantly from the integration process. Flexible institutional arrangements (ix) presume a process of integration which is still relatively "shallow" and in a state of flux, while greater participation of the different social sectors is a proposal which is in accordance with the democratic spirit prevailing in the region.

IV

Obstacles to furthering integration

Renewed interest in integration has been partly motivated by the recent wave of democratically elected governments in the region. The Rio Group, which is a forum for dialogue and coordination that includes South American countries and Mexico, was created in this context. Integration, correctly or not, has been adopted as an instrument intended to strengthen democracy and to strengthen links between democratically elected governments. This has often led to a gap between general declarations on the merits of integration and specific integration agreements, but there is no doubt that recent economic integration efforts are widely perceived as part and parcel of a new "ethos" associated with democracy at a regional level. In what follows, some of the obstacles faced by economic integration in this new context, and the reasons for this gap, are identified.

1. The dangers of "closed bilateralism"

The proliferation of bilateral agreements may entail different costs. These range from administering a network of agreements, or the wear and tear that governments undergo in the process of repeated negotiations, to the danger of making small countries adjust to conditions existing in a large neighbouring trading partner rather than to those of the world economy (Duncan, 1950). They also include the polarization of investment that may arise from "hub and spoke" situations in which the "hub" has access to more markets and cheaper inputs [2] (Wonnacott, 1991). Some of

[2] Colombian textile producers, for example, expressed objections to the G-3 integration agreement (Colombia, Mexico and Venezuela) because of Mexico's preferential access to chemical and cotton fibres imported from the United States. They have argued that in practice it would be difficult to determine the origin of inputs in cases like this.

these costs may be reduced to the extent that bilateral agreements are between countries which are major trading partners, but there is a danger that political expedience and common economic policies may favour agreements which do not necessarily coincide with this criterion. Thus, a rather limited "closed bilateralism" instead of open regionalism could then prevail, especially if balance of payments problems resulted in the application of greater protection *vis à vis* those countries which are not part of integration agreements.

2. Differing stabilization and adjustment patterns

Macroeconomic imbalances have been an important source of friction and of obstacles which have made it difficult to attain integration agreements of wide geographical coverage. Specifically, tensions are likely to arise when countries with very different rates of inflation try to integrate, since there will be continually changing relative prices at the bilateral level. For example, bilateral exchange rate variations have been a source of tension between Brazil and Argentina within MERCOSUR. Macroeconomic risks may also arise from the uncertain prospects regarding capital flows to Latin America, which in recent years have served to cover growing trade deficits while appreciating each country's exchange rates. Economic integration accompanied by highly appreciated exchange rates could give rise to all kinds of protectionist pressures and could eventually lead to a spiral of competitive devaluations. To the extent that stabilization processes are not consolidated in the region there is always the danger that integration could exacerbate intraregional conflict rather than promoting cooperation.

Moreover, differing progress in terms of stabilization and adjustment has led to the establishment of separate categories of relatively more successful and relatively less successful groups of countries, which do not coincide with the traditional integration groupings, in which geographical proximity appeared to be the determining criterion for association. In fact, differing degrees of progress in adjustment has become a divisive issue which in recent years has led to exploration of the possibility of creating alternative integration arrangements to those existing in the past.

To begin with, the conditions attached to entering NAFTA, even though not yet explicitly stated, tend to coincide with what is known as the "Washington Consensus" and with conditions existing in those countries, such as Chile, which have advanced most in terms of adjustment (IDB/ECLAC, 1993). This favours efforts for the individual accession of these countries to NAFTA, rather than having to wait for the remaining countries, which are members of older and more traditional Latin American integration agreements. Thus, on different occasions representatives of Costa Rica, Jamaica and Colombia have expressed the desire to accede to NAFTA individually, without having to wait for other members of the Central American Common Market, CARICOM or the Andean Pact.

Within Latin America, the countries which have advanced most in terms of controlling macroeconomic imbalances, especially inflation, have been those most prone to engage in integration agreements. This partly explains the initiatives by Chile and Mexico involving the conclusion of bilateral or trilateral agreements with other countries in Latin America, as well as the fact that Brazil is one of the countries with the least number of bilateral trade agreements in the region. Other countries like Colombia, Venezuela and Costa Rica, which belong to subregional agreements like the Andean Pact or the Central American Common Market, but which appear to have advanced most in terms of stabilization and adjustment, have also entered into negotiations to reach bilateral agreements with third countries, leading to some resentment and criticism on the part of the rest of the member countries. This has also favoured the multiplication of overlapping preferential agreements, in which older "historical" agreements, often kept alive mostly by political and geographical considerations, coexist with newer bilateral or trilateral agreements which reflect greater affinity in terms of economic policies.

Conflicting agreements may also be associated with factors that go beyond macroeconomic policy differences. For instance, an important example of conflicting arrangements involves Mexico, which as a result of its membership of NAFTA was forced to break one of the Latin American Integration Association (ALADI) rules. Article 44 of the Treaty of Montevideo whereby ALADI was set up establishes that any preference granted by a member to a third country must be extended to the other ALADI members, which would mean that Mexico would have to extend the same treatment that it extends to US exports to its imports originating in ALADI countries. This clause led to a request for an *ex-post* waiver by the Mexican Government, which gave rise to complex negotiations within ALADI, due mostly to Brazil's concerns. Furthermore, in what is still a tentative proposal, Brazil has recommended the creation of a South American Free Trade Area, reflecting both economic and geopolitical concerns.

In general, there would appear to be a pattern which involves the abandonment of wider integration schemes (often more formal than real) for geographically more restricted but economically more meaningful integration agreements. Political costs resulting from abandoning older agreements accompany potential economic benefits resulting from the newer agreements. The different degrees of progress in terms of stabilization and adjustment tend to reinforce this pattern, making it difficult to reach integration agreements that are both deeper and wider, as MERCOSUR aims to be. Furthermore, these different rates of progress in adjusting may also be a source of a growing gap between those countries which would enter NAFTA initially and those which would not, since the latter would be most affected by diversion of trade and investment.

3. Going beyond "shallow" integration

The overall adjustment costs of Latin American integration have not, at least until recently, been a major policy issue in most of the region's countries nor, therefore, a major obstacle to furthering integration in the region. On the one hand, unilateral trade liberalization generally took place before the new integration agreements were put in place; adjustment costs were mostly associated with opening up *vis à vis* the rest of the world, rather than with trade liberalization at a regional level. On the other hand, intraregional trade liberalization has advanced gradually, mostly through bilateral trade agreements among countries which historically have not been major trade partners, while the expansion of intraregional trade has been the result, to a considerable extent, of unilateral liberalization. This would suggest that a rather "shallow" form of integration has predominated.

Furthermore, with the unilateral trade liberalization that has taken place, there is a danger that newer instruments of protection will be used to avoid some of the effects resulting from the expansion of intraregional trade, especially when overvalued or appreciating exchange rates exist. Specifically, there is evidence of growing use of anti-dumping duties to block or reduce competition from greater intraregional imports, as the recent application of antidumping duties in Mexico against Chilean fishmeal illustrates (*El Financiero International Edition*, 1994).

An indicator of the difficulty in deepening integration in Latin America, and of going beyond "product integration" to "policy integration", is the absence of agreements which involve common external tariffs. A specific source of difficulty has arisen from the different degrees of earlier unilateral trade liberalization associated with the adjustment processes, with differences which are mostly of a sectoral nature. For example, in early 1994 the MERCOSUR members were not able to reach an agreement on a Common External Tariff, mostly because Brazil favoured higher protection in certain sectors (e.g. capital goods) in which it has higher average tariffs than the rest of the MERCOSUR members. Furthermore, there could be a trend towards including sectoral arrangements in other bilateral (e.g. Mexico-Chile) or trilateral (Mexico-Colombia-Venezuela) integration agreements, with special rules of origin and safeguards such as those already existing in the case of automobiles, thus effectively postponing reciprocal trade liberalization. Different domestic prices for oil and oil derivatives have also been a source of friction, since they may have effects similar to those of a subsidy.

In general, different sectoral priorities, and the desire to keep open the option of bargaining bilaterally with other parties, have meant that most integration agreements do not include the establishment of common external tariffs. The desire to keep open individual bargaining options has been an obstacle to reaching a Common External Tariff in Central America, in spite of the fact that the countries' structural adjustment agreements with the World Bank have led to a convergence of tariff levels that has created the basic conditions required to apply such a tariff.

Furthermore, as indicated earlier, most integration agreements in the region do not yet involve significant progress in terms of their coverage of services, investment and intellectual property. For instance, Chile's bilateral integration agreements have consisted mostly of agreements liberalizing trade in goods. When other themes such as investment and certain services (mostly transport) have been considered, they have usually been dealt with in clauses of a general nature, and potential agreements on more specific issues have been left for discussion in the distant future. When, on the other hand, issues such as intellectual property and government procurement have been included, this has led to prolonged negotiations, as Mexico has discovered. This probably explains why Chile has signed more bilateral integration agreements than Mexico.

4. Equity among and within nations, and institutional requirements

Agreements that discriminate implicitly against the smaller, less developed countries, either through the use of demanding rules of origin or by restricting the liberalization of trade in agricultural products, could become an important obstacle to integration. Specifically, the application of rules of origin with higher local content requirements favours more developed countries and discriminates against manufactured exports of the smaller economies, which usually have industrial sectors which are highly import-intensive, as well as against those countries with high proportions of foreign firms which utilize imported inputs. In addition to this, giving preference to the liberalization of industrial rather than of agricultural goods further discriminates against the relatively less industrialized countries. Both themes are likely to be major negotiating issues in Latin America in the future.

Furthermore, although there is growing recognition of the fact that non-reciprocity is no longer a very useful trade bargaining strategy, the smaller and relatively less developed countries in the region continue to request some kind of special and differentiated treatment, specifically longer adjustment periods in cases of reciprocal trade liberalization commitments. This is not an unreasonable demand, even though it also applies to all cases in which product and factor markets are imperfect or incomplete and is not restricted to the relatively less developed countries of the region.

Thus, although both the identification of Latin American integration with common cultural and historical traits, and the unilateral trade liberalization that has already taken place, tend to reduce opposition to integration agreements, the question of adjustment costs remains. These adjustment and transition issues resulting from economic integration can also be seen as part of a process leading to the reduction of transaction costs at a national level, favouring the vertical integration of markets in each country in addition to the horizontal integration of markets of different countries. This involves a challenge of an institutional nature, since reformed and liberalized product and factor markets need new forms of regulation and supervision, as well as requiring consensus to ensure effective implementation: one of the weak spots of the adjustment policies applied in Latin America (Naim, 1993). At the regional, Latin American level, this institutional challenge is less urgent, since it involves responding to conditions of integration which are only beginning to develop, although it must take into account the requirement for greater participation in keeping with the progress of democracy in the region.

V
Conclusions

A series of bilateral agreements and a new subregional agreement –MERCOSUR– mark the beginning of a new stage of integration in Latin America, mostly characterized by more pragmatic and less ambitious integration efforts than in the past. Actual integration is also being fuelled by non-discriminatory policies such as unilateral trade liberalization and deregulation, which have favoured the growth of reciprocal trade and investment within the region.

Open Regionalism, as proposed by ECLAC, involves the interaction of both elements, that is, of policy-led integration and of *de facto* integration encouraged by non-discriminatory policies, in such a way as to facilitate the development of the Latin American countries' competitiveness while constituting a building block for a more open international economic system. The prospects of Open Regionalism in Latin America will depend on how different obstacles facing integration are dealt with, including problems arising from the existence of different degrees of stabilization and adjustment of those countries wishing to integrate, as well as tensions resulting from the existence of sectors which are more sensitive to trade liberalization than others, especially in the presence of underdeveloped markets or overvalued exchange rates. To the extent that stabilization and adjustment processes advance, these problems may become less important. However, this also requires significant progress in terms of institutional reform, mostly at a national level, whereas the still relatively "shallow" and *ad hoc* process of integration currently underway would not appear to require the creation of ambitious institutions for the time being.

(Original: English)

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Changes in the *urban female* labour market

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This article seeks to make an orderly summary of the information on urban female labour in Latin America in the 1990s and thus make a contribution to an updated diagnosis of the female labour market to help serve in the formulation of policies for women. It looks at the past evolution of female labour, analyses the effects of the crisis of the early 1980s on this sector of labour, and reviews the changes that have taken place in it, which have undermined the validity of some myths on this subject. It also looks at some critical aspects of female labour, such as income, occupational segmentation, the segregated incorporation of women into jobs involving new technology, and the reduction of the stability of female employment, as reflected in the increase in homeworkers and own-account workers. Finally, the author analyses the situation of domestic workers, who have traditionally enjoyed little stability or social protection. The statistical information presented comes from the 1980 and 1990 household surveys for thirteen countries which account for over 80% of the population of Latin America. On the basis of the analyses, policy guidelines are proposed regarding the labour market, the educational system and the family and society, with a view to improving the situation of working women and making better use of female human resources against the background of a new regional setting which assigns increasing importance to technical change, innovation, intellectual added value, and flexibility in adapting to this new situation which will permit really effective participation in development.

I
Introduction

Social policies are formulated on the basis of the knowledge and hypotheses of real social conditions which are obtained from research. Policy design is tested in real conditions, or rather, the hypotheses concerning those conditions are verified, while at the same time it influences and modifies them. These changes must be recorded if it is desired to develop effective and efficient public policies. An up-to-date diagnosis of the real conditions is therefore of fundamental importance for the formulation of economic and social policies, and moreover public policies must be formulated from the standpoint of societies made up of men and women who behave in different ways in different stages of their life-cycle, taking into account the needs arising from such conditions.

On the basis of special tabulations of household surveys, this article gives an ordered compilation of the information on urban female labour in Latin America in the 1990s. It seeks to prepare an updated diagnosis of the situation as regards female labour and the main changes observed in it between the 1980s and 1990s, as a contribution to the formulation of policies for women.

Section II looks at the evolution of female labour and analyses the effects of the crisis of the early 1980s. Section III reviews the changes which have taken place in the female labour sector and which have shown many of the assertions hitherto in vogue in this area to be pure myths. Section IV reviews the aspects of female labour which give rise to the greatest concern, namely, income, occupational segmentation, the segregated incorporation of women into jobs involving new technology, the reduction of the stability of female employment, as reflected in the increase in homeworkers and own-account workers, and the situation of domestic servants, who have traditionally enjoyed little stability or social protection.

The statistical information presented is based on household surveys carried out in 1980 and 1990 in thirteen countries which account for over 80% of the population of Latin America. These surveys were processed and standardized by the ECLAC Division of Statistics and Economic Projections. The author was responsible for the design of the special tabulations and their final preparation. As most of the surveys did not have national coverage, in order to make them comparable with each other only the urban areas of the countries were taken into account. For the same reason, the economically active population considered is that consisting of persons of 15 or more years of age.

The analysis of this information suggests various policy lines regarding the labour market, the educational system, the family and society. It is not only a question of improving the situation of working women, but also of achieving more efficient use of female human resources. This aspect is of central importance in a new regional setting in which technical change, innovation and intellectual added value will increasingly affect the labour market and flexibility to adapt to these new conditions will make possible really effective participation in development.

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II

Changes in women's employment: the crisis and its effects

Gender-based relationships are strongly affected by the State and the market, in accordance with the various movements of the existing cultural substrata. These institutions create the material bases which organize people's daily life. In the region, deregulation and the greater role played by the market in resource allocation are having a pronounced effect on the functioning of the labour market and labour relations, as well as on the lines of employment, wages and social security policies. Here, we shall look at some aspects of the labour market and its effects on women during the period of crisis and structural adjustment.

The main changes due to the crisis and the adjustment policies took place at the household and the production levels and affected men and women differently. At the production level, there was an increase in the participation of women in the labour market and in the number of hours they devoted to paid work. In spite of the crisis –or, indeed, because of it– more women entered the labour market (with an anti-cyclical form of behaviour). The female participation rate rose and so did female unemployment, especially among the younger women. Moreover, as much of the female labour force works in sectors which are not clearly structured and have low levels of productivity, women are affected not only by actions aimed specifically at women workers but also by those aimed at the sectors in which they work. In this respect, the reduction in the size of the State meant a decline in State employment for women, so that not only was the pre-existing inequality a cause of the differential effects of the crisis on men and women, but at the same time the most far-reaching consequence of the crisis was the perpetuation of that inequality.

The subsistence needs of the lower-class sectors had various effects within the family. The need for the reproduction of the family unit strengthened the interdependence of its members, while the family structure underwent some quite complex changes which do not display any clear trends, since in some cases the family shrank, while in others it expanded with the arrival of "allegados" who contributed to the subsistence of the family group. Observations in various Latin American countries indicate that women increased their participation in the labour force, as did children and young people.

A study on Mexico shows that the restructuring of the Mexican economy after the debt crisis, with the consequent adjustment policies, also forced the restructuring of daily life. Most families survived the crisis by making an enormous effort in which all their members participated through new combinations of work for home consumption and work to earn an income. There was thus an increase in the participation of the family members in work for the market, but at the same time there was an increase in work on reproductive activities, the result being an unequal distribution of responsibilities within the household, where the women had to bear most of the burden. The paradoxical aspect of this strategy is that it made possible the continuation of adjustment policies involving great social costs (Benería, 1992).

Another of the most obvious effects of the crisis was the growing unemployment among the population in general, but especially among women, and above all among young women. Although female unemployment in the region is in line with a long-standing trend, the effects of the crisis sharply accentuated it. The greater female unemployment in Latin America is due to the following structural factors: insufficient economic growth to absorb the increasing labour supply, further accentuated by the crisis; the difficulty of finding jobs for women because of the occupational segmentation of the labour market, which limits the number of jobs for which women are eligible; the generalized view of employers that female labour suffers more interruptions because of pregnancy and child-rearing, and the mistaken idea that the contribution made by women is not vitally important in the family income. The data for the 1990s indicate that in 12 countries of the region rates of unemployment among young people were almost double the overall unemployment rates, while the rates among young women were higher than those of young men, except in Chile and Paraguay, whose economies were in a growth phase (ECLAC, 1993). Even so, however, the information for 1992 indicates that in Chile female unemployment rates for the 15 to 24 age group were higher than those for men (SERNAM, 1993).

With regard to the effects of the crisis on non-wage-earning domestic work, studies made in various countries of the region indicate that female work increased in order to make up for the absence or reduction of family income and to cope with the rise in the prices of foodstuffs and vitally needed goods and the reduction in social service budgets, which was reflected in the deterioration of health, education and housing services. A world study based on information for 17 countries –among them Argentina, Brazil, Chile, Colombia, Jamaica, Mexico and Peru– shows that the application of structural adjustment policies has caused a marked deterioration in the male/female ratio at all levels of education, but especially in secondary education, and above all among girls from rural and marginal urban families; it also reveals, on the basis of some case studies, that there has been a bigger increase in the incidence of malnutrition among girls than among boys (United Nations, 1989).

An aspect which has not been analysed much is that of the changes caused by the crisis within Latin American societies in the dividing lines between the areas of action of the State, society at large and the family. For many years, there was a tendency to transfer functions from the private to the public area: a good example of this is the care of small children, which has tended to be transferred from the mother to a kindergarten attendant. With the crisis, however, many activities formerly carried out by the public authorities were "privatized", so that with the cuts in such areas as the education and health budgets the responsibility for this care was given back to the family and hence to women in their homes. Likewise –to continue with the same example– the decline in family income and the chronic insufficiency of public resources for free preschool care has obliged families, and especially mothers, to look after small children themselves once again or to seek community or individual solutions for the problem of child care. As a result of the shortcomings of the State in looking after preschool children, some interesting initiatives have emerged,[1] which have also had some unexpected side effects: women's need to organize themselves to deal with these problems has meant that they have broken out of their isolation and there is a new-found awareness of their potential, while their work is now more visible. These changes in the borders between the public and private spheres, which vary from one country to another, are a little-explored area of the relations between the sexes. An integrated approach would be needed to gain a clearer view of these movements.

III

Women in the 1990s: myths and concrete facts

Along with the great changes that have taken place in the macroeconomic indicators and the effects of the crisis and the adjustment, structural trends have also changed the life of Latin American women through their longer life expectancy, their higher level of education, and the tendency to have fewer children. These aspects have affected their participation in the labour force, which has steadily increased and has been reflected in an increase in the number of years of economically active life of the female population. Thus, between 1970 and 1990 the life expectancy of women in the region increased by seven years, their global fertility rate went down from 5.0 to 3.1, and their economically active life increased by rather more than five years (CELADE, 1989 and 1993). At the same time, many women migrated to the cities in search of paid employment, thus joining an urban population which rose from 58% of the total population in 1970 to 73% in 1990 (CELADE, 1991).

[1] For example, the Association of Community Mothers in Colombia (AMColombia). For more details, see Mujer/Fempress, 1994.

Although these data do point to a substantial process of change over these twenty years, they do not express the full magnitude and nature of the changes to which women have been exposed. Perhaps there are grounds for maintaining –as has been done in the case of Spain (Garrido, 1992)– that there are two different social biographies for the region, covering two very different worlds: that of the population over 50, and that of the people who have not yet reached that age. The distance between two generations of women –mothers and daughters– is seen to be very great even if only two indicators are considered: level of education and participation in the labour force. The cut-off point between these two worlds would appear to be in the 1970s. Methodologically, in this context the age variable and still more the generational dimension take on enormous importance as explanatory factors. The cut-off point in question raises some uncertainties about labour trends, however, for if the structural trends towards increasing female participation continue, this generational dimension will lose importance.

Among the most evident of the new phenomena in Latin American societies is the growing presence of women in the labour market. This tendency is particularly marked among young women, whose rates of participation (and also of unemployment) are among the highest. The participation of middle-aged women also increased appreciably during the 1980-1990 period. Nevertheless, despite the generalized increase in female participation (except in urban areas of Panama), and although male participation has gone down or remained unchanged, the gap between the sexes continues to be very considerable. Information from household surveys (table 1) shows that rates of female activity in urban areas range from 34% in Chile to 50% in Paraguay, whereas male participation rates range from 73% in Bolivia to 84% in Paraguay and Guatemala. Panama registers declines in both female and male participation in the labour market, probably due to discouragement at the very high rates of unemployment: around 22% for women and 17.2% for men.

Information for urban areas shows that the highest rates of female economic activity are between the ages of 20 and 54. In the group of women between 25 and 29 (the group with the highest proportion of economically active members), participation rates ranged from 45% in Mexico to 71% in Uruguay. Women over 55, and especially women between 60 and 64 (who reflect a historical tendency towards non-participation), and very young women under 20 (who may still be in the educational system and have difficulty in finding jobs) are those who have the lowest rates of participation in the labour market. In other words, rather than trying to establish a direct link between participation and age, a distinction should be made between the activity of two generations of women.

Conventional wisdom and some studies for the 1970s in other regions or in Latin America have given rise to various assertions on female labour participation which, according to the information collected for urban areas of the region in the 1990s, are now mere myths (that is to say, beliefs which serve as the basis for prejudices although they have no foundation in reality).

These myths have arisen as the result of two gaps: a time-gap between the knowledge of a fact and the occurrence of changes in that fact, and a context gap due to the application to one context of an empirical observation made in another. Some of these myths are examined below.

Myth No. 1. Female participation has the shape of a "U"

A very common belief –based on the experience of the developed world– is that female participation has the shape of a "U", with two points when it is at its maximum: thus, participation is allegedly greatest before the birth of the first child, and after the youngest child starts school.[2] An analysis of female participation by age groups which makes it possible to gain an idea, through the age cohorts, of the labour participation trends of different groups of women shows that in the 1990s, in 13 urban areas of Latin America, female participation has risen steadily in the 15 to 54 age group but has fallen sharply among older women. This indicates that urban women who enter the labour market do not withdraw from it when they have children, but remain economically active throughout the period of greatest reproductive work. This tendency became more marked between the 1980s and the 1990s (table 2), with the biggest increases in female participation taking place in the 25-34 and 35-44 age groups.

[2] See in this connection the stylized curves for the industrialized countries and for Latin America prepared by Psacharopoulos and Tzannatos (1992, p. 17).

TABLE 1

Latin America: Participation rates, by sex, 1980 and 1990 [a]
(Percentage)

Country	Female economically active population		Male economically active population	
	1980	1990	1980	1990
Argentina	32.4	38.2	75.6	75.7
Bolivia	...	46.6	...	73.3
Brazil	37.2	45.1	81.5	82.5
Colombia	41.8	45.7	79.3	79.2
Costa Rica	33.6	39.1	77.6	77.6
Chile	...	34.0	...	73.2
Guatemala	...	42.9	...	84.4
Honduras	...	43.4	...	80.2
Mexico	...	35.9	...	77.3
Panama	44.5	42.8	76.2	75.6
Paraguay	...	49.7	...	84.2
Uruguay	37.3	43.8	74.6	74.7
Venezuela	31.2	37.5	78.4	77.9

Source: ECLAC, Social Development Division and Division of Statistics and Economic Projections, on the basis of special tabulations of household surveys for the respective countries.
[a] Urban population aged 15 or more.

TABLE 2

Latin America: Rates of female economic activity of selected age groups in urban areas, 1980 and 1990
(Percentage)

Country	15-24 years		25-34 years		35-44 years	
	1980	1990	1980	1990	1980	1990
Argentina	44.9	41.1	45.4	52.5	42.7	52.9
Bolivia	...	33.8	...	56.7	...	62.0
Brazil	42.9	48.1	43.9	55.7	42.3	55.3
Colombia	42.4	41.2	52.1	61.2	49.2	56.8
Costa Rica	33.2	39.2	45.6	52.6	44.4	51.8
Chile	...	26.4	...	46.1	...	46.8
Guatemala	...	42.1	...	50.1	...	50.0
Honduras	...	34.5	...	53.8	...	57.2
Mexico	...	36.4	...	44.6	...	42.3
Panama	40.0	35.5	63.3	58.7	58.3	60.6
Paraguay	...	50.6	...	62.8	...	61.4
Uruguay	43.2	46.5	56.6	69.3	54.5	65.7
Venezuela	25.7	24.8	42.6	50.8	42.0	53.7

Source: ECLAC, Social Development Division and Division of Statistics and Economic Projections, on the basis of special tabulations of household surveys for the respective countries.

A recent study carried out in Argentina tends to confirm this trend, since it shows greater growth in the labour participation of married women than in that of single women (Montoya, 1993). The same phenomenon is to be seen in Mexico: there, on the basis of fertility surveys, it is concluded that labour force participation by married women or common-law wives between 20 and 49 increased by 62% between 1976 and 1987 (García and Oliveira, 1993). In Uruguay, the category of women which most increased its share was that of married women and common-law wives, followed by divorcees, separated women and widows, with single women coming in last place (Filgueira, 1992). These changes also entail substantial modifications in the organization of the daily life of households and in the amount of work needed inside and outside the home.

Myth No. 2. Female workers are a secondary labour force

According to another very widespread myth, female workers are a secondary labour force, subject to the cyclical fluctuations of the labour market, to which they only resort at times of crisis, in order to supplement the family budget.

Since the 1980s, the percentage of households headed by women who are the sole breadwinner has reached very substantial levels: between a quarter and a third of all households. [3] There are also households –not detected in population censuses or household surveys because of the definition of "head of household" used– where the woman's contribution is equal to or greater than that of the male head. A study carried out in the metropolitan Buenos Aires area which went into this matter in detail found that the proportion of households where a woman was the main breadwinner had risen from 19% in 1980 to 25% in 1989 (Geldstein, 1992). Moreover, in the countries where the stabilization process is beginning to take hold more strongly and employment conditions have improved for men, there is no evidence of any withdrawal by women from the labour market, as would occur if women really were a secondary labour force.

Myth No. 3. Women earn less because they have a lower level of education

There is a widespread belief that women earn less than men because they have a lower level of education or less experience. Some qualitative studies which have analysed career paths show that men and women with similar levels of qualifications start off at similar income levels, but as their careers progress the paths of men and women tend to diverge, as men quickly rise to positions of greater income, prestige and power, while women remain at the levels where they started. Recent studies show that even for the same number of hours worked and the same level of education and training, there are very substantial differences of income between men and women for which there is no valid explanation (Psacharopoulos and Tzannatos, 1992).

Statistical data show that on average, women in the labour market have a higher level of education than men. Both in the 1980s and now, women's wages are markedly lower than those of men for all levels of education. In the 1980s, the income gap between men and women tended to improve in four countries and got worse in two (Costa Rica and Uruguay), but if the educational variable is introduced the situation changes. At the lowest level of education (less than three years' schooling) the gap narrowed in all cases, but at the highest level of education (over 13 years) the gap between women's wages and those of men widened again in urban areas of Costa Rica, Uruguay and Venezuela. Thus, when the 1980 data are compared with those for 1990, the biggest income difference corresponds to the highest levels of education (table 3).

It is a surprising fact that even when women with high levels of education earn wages far below those of men, female participation in the labour force still remains almost the same as that of men for the highest educational level (over 13 years). This finding raises doubts about the neoclassical analyses of cost and benefits as determining factors regarding women's "option" to work. It would be very interesting, in this respect, to study women's labour behaviour by economic and social groups and household characteristics, as it is only in the highest income-groups that women can view work as an "option". Perhaps a more detailed analysis should be made of the segregation of the labour market, which restricts women to a limited number of kinds of jobs: a situation which some authors interpret as a "preference" of women for certain types of work.

Myth No. 4. Most Latin American women are housewives with a large number of children

Among the stereotypes of the region is the myth that Latin American women are mostly housewives and, as they have a large number of children to look after, they cannot work outside the home. The

[3] In 1980, the percentages of households headed by women were as follows: Barbados 44%, Chile 22%, Cuba 26%, Dominica 38%, El Salvador 22%, Grenada 45%, Guadeloupe 34%, Guyana 24%, Honduras 22%, Jamaica 34%, Martinique 35%, Netherlands Antilles 30%, Panama 22%, Peru 23%, St. Kitts & Nevis 46%, St. Lucia 39%, St. Vincent and the Grenadines 42%, Trinidad and Tobago 25%, Uruguay 21% and Venezuela 22% (United Nations, 1991). The information from the 1990 household surveys gave the following values for urban areas: Argentina 21%, Bolivia 16.7%, Brazil 20.1%, Chile 23.2%, Colombia 22.6%, Costa Rica 22.6%, Guatemala 20.8%, Honduras 26.6%, Mexico 17.7%, Panama 24.7%, Paraguay 19.7%, Uruguay 25.2% and Venezuela 22.1%.

TABLE 3

Latin America: Income differences, by sex, for selected levels of education, [a] 1980 and 1990
(Percentage)

Country	Total		0.3 years education		13 or more years education	
	1980	1990	1980	1990	1980	1990
Argentina	63.5	68.8	...	...	...	...
Bolivia	...	57.4	...	58.4	...	46.0
Brazil	46.3	56.0	41.0	45.8	38.8	50.7
Colombia	56.1	66.7	51.0	58.8	55.0	60.4
Costa Rica	80.6	71.0	48.2	51.3	86.4	64.2
Chile	...	59.2	...	67.7	...	41.9
Guatemala	...	65.8	...	45.4	...	64.2
Honduras	...	57.9	...	49.9	...	51.5
Mexico	...	68.2	...	63.8	...	61.2
Panama	...	77.0	...	46.1	...	68.4
Paraguay	...	56.7	...	64.0	...	47.1
Uruguay	53.9	44.3	46.6	50.1	44.0	37.3
Venezuela	67.8	72.7	56.3	64.0	71.1	68.0

Source: ECLAC, Social Development Division and Division of Statistics and Economic Projections, on the basis of special tabulations of household surveys for the respective countries.

[a] Average female income as a percentage of average male income for urban population aged 15 or more.

information from the household surveys of the 1990s, however, gives quite a different picture. First of all, the proportion of women in 13 cities and urban areas of the region who describe themselves as housewives varies widely, ranging from 20% in Montevideo to 49% in Santiago, Chile. [4] Only from the age of 45 onwards do the majority of women describe themselves as housewives. Moreover, the fertility rate (for both urban and rural areas) has gone down in the region, and the estimated fertility rate for the five-year period 1990-1995 is 3.1 (CELADE, 1993). The decline in urban fertility is greater than this, as this estimate covers the countries of the region as a whole and hence also covers rural areas, where fertility rates are much higher.

Myth No. 5. Latin American working women mostly have domestic servants

A myth which is complementary to the preceding one is that the growing female participation in the labour force has been made possible by the existence of domestic servants. Although it is true that, compared with developed regions, the proportion of Latin American women who are domestic servants is much higher –between one-tenth and a quarter of total female employment, depending on the country–,[5] the total proportion of working women is much greater still. Furthermore, many domestic servants are employed by housewives who do not work outside the home. Finally, the proportion of women working as domestic servants is going down, while women's participation in the labour market is increasing, especially in the case of married women with children. Thus, although there is indeed a certain proportion of households where the housewife works outside the home but has a domestic servant or servants to look after the family, there are more and more women who are not in this position and have to play the dual role of worker and housewife. This has important consequences which should be taken into account in the design of policies for working women.

To sum up, then, the statistical information for the 1990s shows that most Latin American women, and especially those between 20 and 45, participate in the labour market, and that they have high levels of education but are paid much less than men, whatever the educational level in question. It also shows that the changes which have taken place in the female labour market are doing away with some myths regarding working women.

[4] The figures for urban areas are as follows: Argentina 37%, Bolivia 29%, Brazil 41%, Chile 49%, Colombia 39%, Costa Rica 42%, Guatemala 46%, Honduras 40%, Mexico 48%, Panama 36%, Paraguay 36%, Uruguay 20%, and Venezuela 46%.

[5] With regard to domestic servants, see section IV, subsection 4 a).

There are still many other similar beliefs, however, which the information from household surveys cannot prove or disprove, so that it would be interesting to investigate them by other means in order to see whether they are true or not: for example, the beliefs that absenteeism among women workers is more frequent because they need to look after their children; that women work fewer hours than men, and that the cost per woman worker is higher than for men because of the cost of day nurseries and pre- and post-natal leave. This latter belief does not appear to take account of the fact that the wages of female workers –married or single, with or without children– are much lower than those of men. The dynamism of the situation of female workers makes it more and more necessary to verify this and many other assertions empirically.

Most of the quantitative studies of women's labour participation determine the effects that such participation has on their lives, but little research has been done on the new feelings of women entering the world of work and the changes to which women give rise when they enter it. It has been suggested that women's abrupt transition from the home to the outside world means moving from a family-oriented, domestic outlook to a new commercial rationale. The most interesting point, however, is that when women enter the world of work they also bring with them some criteria from the private, domestic world, along with values such as affective attitudes, which they display in line with the degree of labour satisfaction they derive from the treatment and recognition given to them. This attitude that women have towards their work, and their conscious or unconscious attempts to modify some of its rules by bringing in concepts from their private, domestic life, reflects a criticism of the separation between life and work which offers considerable political potential for change (Aranda, 1991; Darcy de Oliveira, 1989). This general assessment must be tested, of course, in the light of the different positions that women occupy in the world of work (the degree of power they attain), the type of jobs they work in (more or less traditionally feminine, more or less modern) and the form of work chosen. In the latter respect, a more detailed analysis of own-account work –which has increased in recent years– would make it possible to confirm whether they choose this kind of work because of the more flexible working hours it offers or because it is the option most similar to the kind of work women do as housewives, thus facilitating their transition from the home to paid work.

Some elements derived from qualitative studies made in business firms show that when women begin to work in previously male workplaces there is a change in the workers' language, although in the modernization process the "culture" of the firm is maintained, and the only things changed in it are the forms of reproduction of discrimination against women. This phenomenon takes place in particular through the firms' practices of selecting, hiring, evaluating and promoting staff (Hola and Todaro, 1992). The male stamp is so strong that if a woman who enters the firm wants to be listened to and understood, she has to make a special effort to express herself in a language that fits in with the model prevailing in that social environment, rather than in her own normal way of thinking and feeling. In modern firms, however, proposals are being made for the recovery and enhancement of "feminine" elements which could lead to more efficient organization of the firm, such as negotiating capacity, better personal relations, greater commitment and fulfillment of tasks, etc., although in other contexts these same elements have been used to justify the exclusion of women from certain posts.

Through in-depth studies it could be possible to find out if the concentration of women in "female" sectors is determined only on the side of the demand for female labour or if, on the contrary, part of this concentration represents a choice by women themselves because of the obstacles they face in seeking to enter jobs that are not seen as "women's work". Among these obstacles are firms' recruitment practices, their rank and salary structures, the way they evaluate job performance, and the access they provide to training and upgrading (Rico, 1994). In order to break with sex-based occupational segregation and move towards unbiased labour participation it is necessary above all to clearly identify the obstacles women face in their working life, but also to identify elements that favour greater female participation. On the one hand, increased female participation has been favoured by the increase in the number of jobs in the tertiary sector, where women have traditionally worked on a large scale. It remains to be seen if the growing demand for versatile human resources may become a positive factor for well-educated women entering the labour market.

IV

Critical aspects: income, occupational segregation, new technologies, and the growing precariousness of some female jobs

1. Income

The greatest inequalities between men and women in the labour market are in income. Of the difference in income between men and women, the percentage attributable to sex discrimination varies, depending on the country, from 10% to 85%, and it tends to be greater than 50% in the developing countries. Some studies suggest that occupational segregation and the resulting differences in income are much more extreme in the region than in developed countries (Barbezat, 1993). Estimates of the effects that occupational segregation has on women's income likewise vary greatly. With growing female participation in the labour force, both the income disparities and the percentage of them attributed to discrimination tend to go down with the passage of time. This latter trend, which it has only been possible to measure in the developed countries, is linked with government policy initiatives or trade union efforts through collective bargaining, but these have been less successful in countries with highly decentralized labour markets, such as the United States (González, 1992).

In the region, the income differences between men and women confirm the existence of wage discrimination against women. In no country do men and women with the same level of education receive identical wages. The wages of young or adult women are usually less than those of men, whatever the level of education in question, and discrimination is present in all occupational groups. The relative disadvantage in terms of hourly pay between adult women and men is equivalent to some four years' formal education (ECLAC, 1993). If we look at what happened in the 1980s, the statistical data show that in the five countries for which information is available, the wage difference between men and women improved between 1980 and 1990 in the case of the lowest levels of education, but at the higher levels the disparity increased in three cases and went down in only two (table 3). A probable explanation of the smaller wage difference between men and women at the lowest educational levels is that the wages received by women with this level of education are so low that it is impossible to reduce them further.

More precise information on Costa Rica shows that the wage difference increased during the crisis and stabilization period (1980-1983) but went down somewhat with the recovery (1983-1986). The increase in the disparity between male and female wages during the recession (1980-1982) was due mainly to the increase in the labour participation of less educated women who entered the labour market in response to the drop in the real income of heads of families. These women mainly entered sectors of the economy which paid the lowest wages (Gindling, 1992).

A study recently published by the World Bank concludes, on the basis of information on 15 countries of the region for the period from 1950 to 1985, that only 20% of the differences in income between men and women can be explained by differences in their human capital: the rest is due to factors of discrimination. After correcting this estimate to take account of the selection that women make themselves with regard to the labour market (their work options), it is estimated that a further 20% is due to women's smaller capacity to generate income, so that finally the unexplained portion of the income disparity between men and women amounts to 60%: much more than the level determined for more advanced countries (Psacharopoulos and Tzannatos, 1992). This unexplained 60% corresponds mainly to cultural aspects which segregate the labour market and establish a limited number of jobs considered to be suitable for women.

The information available for the 1990s on 13 urban areas of the region shows that the average income of women is only between 44% and 77% that of men. This disparity is even more marked in the

TABLE 4

Latin America: Differences in average income, by sex and household status, [a] **1980 and 1990**
(Percentage) [b]

Country	Wome/Men		Heads of household	
	1980	1990	1980	1990
Argentina	63.5	68.8	70.5	69.6
Bolivia	...	57.4	...	56.0
Brazil	46.3	56.0	40.2	53.2
Colombia	56.1	66.7	59.2	62.1
Costa Rica	80.6	71.0	63.3	64.7
Chile	...	59.2	...	56.4
Guatemala	...	65.8	...	62.6
Honduras	...	57.9	...	51.3
Mexico	...	68.2	...	65.9
Panama	...	77.0	...	64.2
Paraguay	...	56.7	...	54.7
Uruguay	53.9	44.3	52.5	45.0
Venezuela	67.8	72.7	59.2	65.6

Source: ECLAC, Social Development Division and Division of Statistics and Economic Projections, on the basis of special tabulations of household surveys for the respective countries.
[a] Urban population aged 15 or more.
[b] Average female income as a percentage of average male income for all employed persons and for those who are also heads of households.

case of heads of households: the average income of female heads of households is only between 45% and 69% that of their male counterparts (table 4). This information points once more to the need for special social and employment policies for such women, who suffer from the highest levels of poverty.

2. Occupational segmentation

Sex-based occupational segmentation is a common denominator of the labour markets of both industrialized and developing countries, and it has persisted through the decades and across international frontiers. In a number of countries the indexes of segregation increased in the 1980s, and in some cases there was even resegregation of occupations, with marked vertical segregation within occupations and firms (Barbezat, 1993).

In the region, sex-based occupational segregation in the labour market is reflected in the concentration of women in a small number of jobs culturally defined as suitable for women (horizontal segregation). On top of this, there is vertical segregation, since women are concentrated in the lowest ranks of each occupation, meaning that their jobs are the worst-paid and the most unstable (Abramo, 1993). A study made in Peru revealed that each industry followed an organizational principle involving strict division of labour into male and female jobs, although there was a wide variety of different situations among the firms studied (Guzmán and Portocarrero, 1992).

The information available on 13 urban areas of the region reflects a process of growing tertiarization, since women continue to be concentrated mainly in the services sector. Between 1980 and 1990 this sector grew steadily and absorbed between 42% and 65% of the female labour force.[6]

The occupations with the largest numbers of women are professional and technical posts, saleswomen and domestic servants. The information for 1990 also shows that a higher proportion of women than of men work as professionals and technicians, while a higher proportion of men work as managers and manual workers. Among workers in the services sector, there are two or three times as many women as men, depending on the country. In Venezuela, one out of every four employed women is a professional or technician (table 5).

[6] The values for the various urban areas are as follows: Argentina 66%; Bolivia 43%; Brazil 64%; Chile 57%; Colombia 47%; Costa Rica 53%; Guatemala 42%; Honduras 44%; Mexico 52%; Panama 65%; Paraguay 55%; Uruguay 61% and Venezuela 61%.

TABLE 5

Latin America: Distribution of economically active population [a] among selected types of occupations, 1990
(Percentage) [b]

Country	Professionals and technicians		Managers		Service worker		Manual workers	
	Women	Men	Women	Men	Women	Men	Women	Men
Argentina	...	...	...	...	...	...	...	...
Bolivia	13.8	13.5	1.8	4.7	23.3	6.3	12.4	52.9
Brazil	15.9	6.2	5.0	10.2	33.2	16.6	14.6	38.2
Colombia	13.6	13.3	...	...	30.8	8.7	17.6	47.0
Costa Rica	20.2	14.6	3.4	6.2	26.1	9.9	18.8	39.9
Chile	14.7	7.1	2.6	5.5	32.1	7.8	11.6	46.1
Guatemala	13.9	10.1	4.8	5.9	25.1	5.5	19.1	41.1
Honduras	13.9	9.4	1.9	4.3	30.3	8.5	18.9	47.0
Mexico	17.7	11.7	1.7	4.5	23.5	7.9	13.6	48.3
Panama	20.2	10.8	4.0	7.8	31.4	12.0	7.8	34.8
Paraguay	13.7	8.9	1.3	4.6	36.3	9.9	12.3	44.5
Uruguay	17.7	6.9	1.6	4.7	31.0	9.8	16.2	47.5
Venezuela	24.5	10.0	2.2	5.3	26.6	10.0	10.1	43.2

Source: ECLAC, Social Development Division and Division of Statistics and Economic Projections, on the basis of special tabulations of household surveys for the respective countries.

[a] Urban population aged 15 or more.

[b] Percentages of total number of employed persons of each sex in each category.

[c] "Professionals and technicians" also includes "Managers".

It has been noted that in Venezuela the rapid growth in the number of workers with university education has not been accompanied by a similar increase in the demand for such workers, thus leading to greater unemployment, a deterioration in real wages, greater internal differentiation, and growing frustration among professionals. Female university professionals have suffered most from this situation, as they tried to enter a market in which they had not been able to consolidate their position earlier when it was expanding slowly. Women gained access to education in similar numbers to men, but the credentials they obtained were not enough to ensure them jobs (Bonilla, 1992).

Generally speaking, women work in a smaller number of occupations than men. A study made in Chile shows that women are more concentrated in certain types of jobs and certain economic sectors than men. Thus, a single occupational category (personal services) absorbs over 70% of all the women working in the financial sector, while for all sectors taken together it accounts for 31.3% of the female employees (Hola and Todaro, 1992). When an index of occupational segregation by sex was constructed for the manufacturing, commerce and services sectors in Mexico, it was found that the greatest degree of segregation was in manufacturing plants, followed by services and finally commerce (Rendón, 1993). In Greater Santiago (Chile), it has been confirmed that in the manufacturing sector women are segregated from three angles: i) by size of firm: as the size of the firm increases the participation of women is lower; ii) by industrial branch: women are concentrated in the textile, clothing and leatherware, and foodstuffs, beverages and tobacco industries; and iii) by occupational category: women are concentrated in the areas of administration, sales and services (Abramo, 1993).

3. The new technologies

Various studies have found that no systematic effects of the new technologies are to be observed as regards the definition of jobs and the divisions between them, since these technologies have given rise to movements of male and female workers both into and out of the labour market and between different types of jobs. Their short- and long-term effects therefore need to be analysed.

The effects observed in some countries of the region show that there has been an increase in women's participation in banks, insurance and financial establishments, in which substantial technological changes have taken place. This process of incorporation of women into "modern" high-technology occupations has not meant any decrease in occupational segmentation, however, for it would appear that the modern jobs into which women move are promptly redefined as "women's jobs", and although they involve the use of complex technology the wages paid to women are lower than those earned by men in the same branches. It is therefore necessary to make an in-depth study of the changes due to the incorporation of new technologies in production processes and the trends towards greater or lesser occupational segregation brought about by such incorporation.

In financial establishments, banks and insurance companies, modernization has been an ongoing feature in recent years. In the 13 urban areas of the region already referred to, female participation in this branch varies from 28% of the total number of employees in Guatemala to 40% in Venezuela and has been increasing since the 1960s. [7] In Brazil, a study of technological change and its effects on the division of labour by sex reveals various ways in which female qualifications are not properly recognized in the microelectronics sector. They include the payment to women of wages far below those warranted by their educational level; failure to recognize the skills acquired by female workers in terms of socialization and domestic matters; failure to give proper credit to the greater discipline and obedience of women, and finally, failure to acknowledge the experience acquired in previous jobs (Hirata and Humphrey, 1986, quoted in Rangel de Paiva Abreu, 1993).

A study carried out in Chile shows that female employment has increased considerably in the financial sector. In 1990 the proportion of women in this sector (33%) was higher than in all sectors taken together (31%), but men nevertheless monopolized the posts of managers and directors to an even greater extent than in the economy as a whole (Hola and Todaro, 1992).

A study made in Brazil in the printing industry reveals that the labour force associated with the new technologies is younger and better educated than the employees of the industry as a whole, but here too there is a marked difference between the sexes. Thus, the average income of scanner operators (who have a lower level of education and are mostly men) is equivalent to 14.1 minimum wages; for photocomposition operators (who have a higher level of education and include a substantial number of women) it is 5.22 minimum wages, and for keyboard operators (who have the highest level of education and are largely women) it is only 4.7 minimum wages (Rangel de Paiva Abreu, 1993).

4. The growing precariousness of women's jobs

During the crisis of the early 1980s the growth of the informal sector was the main variable in the adjustment of the Latin American labour market. The increase in unemployment and informal sector activities was accompanied by sharp drops in labour income and rapidly growing instability of employment; temporary and part-time work increased, and at the same time its quality went down. In 1989 over 50% of non-agricultural employment corresponded to micro-enterprises or informal activities (compared with 38% in 1980), to say nothing of precarious work (García, 1993).

One of the trends in the region which has already been referred to is the increase in non-wage-earning work. The crisis and the new pattern of restructuring of production has led to an increase in jobs –a great many of them done by women– which may be defined as precarious in terms of their discontinuity in time and the lack of regulation regarding labour laws (failure to sign proper contracts), wages (failure to comply with the minimum wage), working hours, social security, and health protection. Among these jobs are traditionally precarious occupations such as domestic service, but also new forms of home work, own-account work and work in micro-enterprises, some of which are virtually clandestine activities. We thus see how three factors: the crisis, which caused medium-sized and large firms to reorganize their activities and reduce the number of workers; the restructuring process, which led to the replacement of permanent staff with subcontracted small enterprises; and the various survival strategies of the sectors most affected by the crisis, all converged to foster the emergence of small production units. In view of the growing heterogeneity of production units, their various degrees of precariousness need to be investigated

[7] The 1990 values for the 13 urban areas are as follows: Argentina 38%; Bolivia 29%; Brazil 35%; Chile 32%; Colombia 36%; Costa Rica 20%; Guatemala 27%; Honduras 35%; Panama 36%; Paraguay 30%; Uruguay 36% and Venezuela 40%.

in greater depth. In general, however, it can be said that in Latin America there is widespread deregulation of labour and loss of the labour advances won by the workers in the past.

In measuring women's participation in the informal and precarious sector, the general problems encountered in measuring female labour are greatly aggravated. Many of the activities carried out by women which could be classified under this sector are not recorded in any way, as they are considered a normal part of women's domestic duties. Nevertheless, it can be confidently stated that the poorest working women are in the urban informal sector, and if those employed in domestic service are added to them, then women's share in total employment in the sector exceeds 70% in most cases. In some countries of the region, according to data from household surveys, women make up between 8% (Panama) and 64% (Cochabamba, Bolivia) of the informal sector (Pollack, 1993).

The characteristic difficulties in measuring informal activities are compounded by the wide variety of definitions and indicators used in such measurement, which partly explains the differences in the estimated size of the informal sector. The visibility or invisibility of this type of work is a very important feature, since the labour activities of a substantial proportion of women are not registered. A study of the informal sector made in Guatemala City shows that in this sector there is a greater relative presence of women, old people (it is seen as a suitable place for prolonging a person's working life), migrants, Indians, and above all people with low levels of education (Pérez Sáinz, 1992).

We shall now take a brief look at the situation of female workers in some types of new and traditional occupations where there is a high proportion of women. The main feature of these occupations is their unstable, precarious nature. They comprise domestic servants (on whom most information is available), home workers, and own-account workers (on whom there is less information, and such information as is available is more patchy). This list is not exclusive, since broadly speaking all these workers can be included in the informal sector, but in fact not all belong to it, as in the case of some own-account or home workers.

a) *Domestic servants*

According to the United Nations, if housework were taken into account it would make up as much as 40% of the gross national product of the industrialized countries. In spite of the great technological advances made in order to lighten this work, women in industrial countries still work an average of 56 hours per week (United Nations, 1991).

With regard to paid housework, or domestic service, and especially that carried out on a live-in basis, the following characteristics have been identified: workplace identical with dwelling, in the case of live-in maids; labour relations which are close to servitude and in which labour relations proper are mingled with affective and personal elements; and elasticity of supply in the case of live-out maids (ECLAC, 1990). Domestic service is a dead-end job, since a rise in status can only take place by changing jobs or, in a few cases, by changing from live-in to live-out status. Because of the solitary nature of this work, domestic servants are out of the circuit where other employment opportunities may be found (Montero, 1992).

Up to the 1980s, domestic service was one of the occupations which absorbed most female labour, but in 1990 women working as paid domestic servants in the urban areas of 13 countries of the region represented between 7% (Venezuela) and 24% (Paraguay) of total female employment. Among the countries where information is available for 1980 and 1990, domestic service has tended to decline as a women's occupation in Brazil, Colombia, Costa Rica and Uruguay, while it has increased slightly in Argentina, Panama and Venezuela. In the latter country, however, although the proportion of women working as domestic servants went up between 1980 and 1990, it is still less than in the other countries. This tendency towards the decline of paid domestic work in general terms and as a women's occupation has been noted in several studies, although it has been suggested that the impact of the crisis and of the adjustment programmes may have tended to reverse it.

Although there may be some under-recording of the number of domestic servants, as this is a job which is looked down on and is of low status, the figures indicate that it is still very important for women as a way into the labour market.

According to some special tabulations of household surveys for the years 1989 and 1990, most domestic servants are young, single, have a low level of education, and work on a live-in basis. There is a tendency, however, towards a move to live-out employment, especially in the countries with a higher level of development. At the same time, there are big differences depending on the country in question and the type of work: live-in or live-out. The vast majority of live-in maids are single, under 30, and have a somewhat lower level of education than live-out maids. Live-out maids have a rather higher level of education, receive lower average wages, are older, and are mostly married or common-law wives (table 6).

One of the most serious problems faced by domestic servants is the isolation in which they work, which makes it difficult to organize them and engage in a joint struggle to improve their labour conditions. They also suffer from the fact that they are not covered by the regular labour laws, on the grounds that they do not share a common workplace, do not produce tangible goods, and receive part of their wages in the form of board and lodging. In countries (such as Peru) where legislation has been passed ensuring them eight hours' rest, this has had the opposite effect to that desired, since employers have interpreted it as a licence to demand 16 hours' work per day (Chaney and Castro, 1993). Nevertheless, a substantial change is taking place, since domestic servants have managed to organize themselves into a regional confederation covering 11 Latin American countries (the Latin American and Caribbean Confederation of Household Employees). Although this enormous organizational effort does not include all those working in the sector, it nevertheless represents an important awareness of their position as workers.

TABLE 6

Latin America (seven countries): Characteristics of live-in and live-out domestic servants, 1990 [a]
(Percentage)

Characteristics	Bolivia [b]	Brazil	Colombia	Chile	Guatemala	Uruguay	Venezuela
Unmarried	89.8	...	88.6	87.7	76.2	77.4	85.8
10-29 years of age	87.7	78.5	76.4	55.2	77.2	52.8	69.9
No education	9.7	41.2	6.1	...	...	3.8	6.1
Primary education	51.9	12.8	69.5	...	...	67.0	67.1
Average income [c]	47.4	38.0	91.1	...	48.7	84.1	44.7
Unmarried	52.8	...	40.5	40.1	28.8	33.8	39.1
10-29 years of age	63.0	58.0	46.2	33.9	48.8	37.2	61.3
No education	8.8	33.1	10.5	...	58.2	3.8	13.0
Primary education	52.1	27.7	64.6	...	7.9	63.6	67.2
Average income [c]	...	35.7	...	...	27.4	29.5	22.1

Source: ECLAC, Special tabulations of the 1989 and 1990 household employment and unemproyment surveys carried out by Rosa Bravo for the Second Meeting of the Latin American and Caribbean Confederation of Domestic Workers.
[a] Urban population aged 10 or more.
[b] Urban population aged 15 or more.
[c] Average income of live-in and live-out domestic servants, as a percentage of the average income of all employed persons.

b) *Home workers*

The existence of home workers stems from the quest for cheaper production arrangements, especially in the case of labour-intensive tasks. Home work helps to increase the flexibility of the labour supply to meet a demand which is not subject to regulations on working hours or time worked (Benería and Roldán, 1992). This work does not involve much use of tools or machines, but instead makes intensive use of labour; it requires very little investment and can easily be carried out at home. It generally represents a phase or step in the production process involving simple, repetitive, monotonous tasks. The increased geographical flexibility made possible by the adoption of new technologies offers potential for reorganization which can have a considerable impact on women's labour participation.

Home work forms part of a modern flexible production strategy which can permit greater accumulation for capital and an income generation strategy for workers (Benería and Roldán, 1992). It is a possible alternative to traditional forms of work for people who have family responsibilities (as is the case of most of the women who work in this way), suffer from some physical incapacity, or simply need greater independence. When the unemployment rate rises, it is also a way in which those who cannot get a steady job can obtain some income. Women who work at home represent the cheapest form of labour, and at times of crisis and adjustment this also makes it possible to solve the dilemma of increasing the family income while doing more housework. The activities in which home work is mostly concentrated are of a traditional nature: clothing, textiles, leather, footwear, tobacco products, etc.

There are not enough regional-scope studies to show how this sector of workers has evolved, but it is obvious that their labour conditions, like those of informal-sector workers and domestic servants, are either not subject to any regulations, or if they are, then those regulations are not complied with. There is extreme dependence in the case of home workers who are subcontracted, since the negotiations on prices and continuity of deliveries are carried out through third parties who act as intermediaries between the workers and the enterprise. As this is a form of activity in which the technical and production decisions are taken by the employer, however, it could well be considered as a wage-earning job and thus be subject to the relevant regulations, the only differences being that the work is carried out outside the firm, at the worker's home, that there is no stability over time, and that payment is on a piece-work basis.

One of the general conclusions reached after a comparative analysis of home work in developed and developing countries is that this activity appears to be "regulated" by an extensive collection of laws in the various countries. The fundamental problem, then, would appear to be the lack of real application of those laws. Thus, "...home work is seen to be a dispersed and isolated phenomenon, subject to little or no control: the truth is that if there is an appropriate term for describing this phenomenon in general, it is undoubtedly the word 'precarious'" (Vega, 1992, p. 19).

c) *Own-account workers*

The sector of own-account workers is a category that displays great diversity in censuses and household surveys, as the occupations it covers may range from independent professionals such as doctors or dentists to street vendors whose activities may even be of a semi-clandestine nature. What distinguishes own-account work from wage-earning employment is the form of payment, which does not come from an employer but is the result of the operation of an enterprise or the independent practice of a profession or trade. For women who are not independent professionals, the precarious character of this category takes the form of the absence of social security, paid holidays, maternity or sick leave, and other benefits received by wage-earners. Information from household surveys shows that the category of own-account workers grew between 1980 and 1990. The numbers of men and women who engage in own-account work are fairly similar, except in Bolivia, where over half the working women do so in this category. [8]

In the 1980s, both men and women increased their participation in this form of work in all the countries of the region. It has been noted, however, that women participate as own-account workers to a larger extent in countries with a large Indian population: Bolivia, Guatemala, Honduras and Paraguay. Another occupational category which is very small in numbers but receives very small incomes is that of family workers (paid or unpaid). Consequently, in order to make a really thorough evaluation of the precariousness of own-account work in the informal sector it is necessary to make a more detailed analysis than that permitted by household surveys, that is to say, one which also covers the number of hours worked, the income received, and the past labour background.

A study carried out in Buenos Aires reveals that own-account workers have increased in recent decades. When compared with wage workers, it is noted that own-account workers are older, especially in the case of women, more of whom have migrated and who also display a greater degree of informality in terms of the type of work they do (Gallart, Moreno and Cerrutti, 1990). The same conclusion has been reached regarding female informal-sector workers in Chile, who are less educated and older, both in comparison with the rest of the labour force and with men working in the urban informal sector.

Attempts have been made to favour own-account workers through various measures, such as special systems of credit, training with a view to the development of entrepreneurial capacity, support for the creation of small enterprises, etc. It is also necessary, however, to consider the adoption of special measures for female own-account workers, who have both special skills and also special difficulties due to the gender-based system prevailing in the region.

[8] According to data from the 1990 surveys, the percentages of urban women who are own-account workers or unpaid family workers are as follows: Argentina 26%; Bolivia 55%; Brazil 24%; Chile 22%; Colombia 24%; Costa Rica 18%; Guatemala 37%; Honduras 39%; Mexico 21%; Panama 14%; Paraguay 30%; Uruguay 21% and Venezuela 20%.

IV

Final comments

1. Summary

Latin America has partly overcome the short-term adjustment stage following the external debt crisis of the early 1980s and is now in a stage of restructuring marked by opening up to external markets, in which it is trying to incorporate itself into international trade on competitive terms. This process has brought great dynamism to the labour market, expressed in changes in the role of the State, in the regulation of labour relations and, more generally, in employment, wage and training policies.

These changes, which have included the reorganization of production processes, with the incorporation of new technologies, have altered the composition of the labour market, and they have had strong effects on women's labour participation. Among these effects, the most noticeable has been the so-called "feminization of the labour force" or the "silent revolution". This phenomenon has been taking place since the 1960s, and although its pace has been slackening in recent years, it still continues.

Although the increase in female participation is tending to bring it close to male levels, the patterns by gender are different, and there continues to be a wide gulf between the two. On the labour supply side, there are differences in terms of age and civil status (which are tending to diminish), and in terms of the educational level of women. On the side of the demand for labour, women are employed in a smaller number of occupations, they are paid far less than men, and there is majority female participation in the informal (and more precarious) sector. There can be no doubt that in the 1980s substantial changes took place in the situation of female workers which involve a change in the perceptions regarding female labour held in the past. The trends which have been observed in this respect display both continuities and breaks which tend to make many past or existing assertions obsolete.

The information from household surveys on the urban areas of 13 Latin American countries shows –as do many studies made in the region– the growing female participation in the labour market, especially by middle-aged (25-45) and married women. Together with this feminization of the labour force there has been a process of tertiarization of the active population (new employment opportunities have opened up for women in the services sector) and growth of small-scale economic activities. This increase in the economic participation of women in the region shows the ambivalence of the change, since at the same time there is still a highly segmented labour market and women's employment is increasingly unstable and precarious, as reflected in income levels markedly below those of men, unemployment rates which are generally higher, and an increase in own-account and informal-sector work by women.

2. Methodological suggestions

Some methodological comments are called for here with regard to the analysis of the labour situation. Above all, it is important to analyse gender-related aspects of the labour market. Failure to do so tends to bias analysis of the labour sector, since opposing trends for men and women cancel each other out when considered as a whole.

It is also important to maintain some degree of continuity in evaluating the changes which are taking place, in view of the speed at which the labour sector evolves, especially with regard to such sensitive variables as activity rates, employment and unemployment, average income, etc.: assertions which were valid at the beginning of the crisis no longer hold good in phases of economic recovery.

Analysis of the situation indicates that in order to fully understand the processes of change in the countries, it is necessary to have a clear knowledge of the context in which the crisis occurred and in which the adjustment policies were applied, since this is of enormous importance for understanding the different reactions of the labour market and of the social actors, both men and women.

Such processes back up the idea that the effects of external changes and social actions should be continually evaluated. The undesirable effects of the legislation on domestic servants' rest periods (referred to earlier), or what happened when legislation was adopted on the need for day nurseries in firms, are a warning on the need for continuous monitoring, not only to check the application of legal measures but also to avoid evasion of the spirit of the rules.

Finally, it may be concluded from an analysis of the features of female employment that the growing labour participation of women should not be viewed as the only key dimension: at the present time there are also other aspects which are important for evaluating the labour situation of women, such as working conditions, the expansion of work options, and the elimination of occupational segmentation.

3. Significance of the changes

A challenge which still remains to be faced is that of elucidating the mutual relations between the dimensions of female participation in the economy and the effects that may be observed in other areas, such as the family, social, political and cultural spheres. It is well known that the evolution of these dimensions takes place at uneven rates, but it is also known that their interrelation means that when changes take place in one dimension, the others will necessarily be affected too: consequently, the magnitude and direction of these changes should be closely analysed. A query also arises in this connection: does female labour participation, which is a basic requisite for women's independence, lead to independence on other levels too, or does it merely mean an increase in their responsibilities and an overload of work?

In the new development proposals, especially the ECLAC proposal for changing production patterns with social equity, improving the skills and qualifications of human resources is one of the key elements. There can be no doubt that highly qualified female labour is a resource which is currently misused in the labour market: women are not paid in keeping with their level of education, and they are segregated in a limited number of occupations. The labour market could make better use of women's qualifications, however, if their work opportunities were expanded and the rigid vertical and horizontal segmentation of occupations were eliminated. Changes in the organization of the system of production offer women opportunities of which they must take advantage. Whether these potentials strengthen or weaken occupational segregation, for example, will depend on the bargaining power that working women achieve. From the standpoint of the labour market, the greater flexibility of highly educated female labour could become a highly attractive feature within the new development pattern.

From the point of view of their social background, the labour situation of women is more complex and heterogeneous than that of their male counterparts. In the future, they will have greater potential and possibilities for following working careers different from those of their own age-groups and generations, in accordance with their greater flexibility as human resources.

The fact that a third of the region's labour force consists of women has a new and different significance in the cultural image of the region. Firstly, in sheer numbers working women represent a factor that cannot be ignored or denied. Secondly, it has a major demonstration effect on society as a whole, since now there is no longer any doubt that paid work is a valid option for women. What remains to be cleared up is whether the future new context will tackle the "ambiguity" that prevails as regards the recognition of women's right to work, not in the legislation itself, but in unwritten social practices (Aguirre, 1990). This ambiguity is reflected in the lack of social support services, lack of family backing, and a feeling of guilt among women themselves for not fulfilling their "natural" duties. The acceptance in the received social image of the idea that women with small children may work outside the home should be reflected in more support services, especially for the care of pre-school children (creches and day nurseries) and children who are attending school (extension of school hours to coincide with the working day).

With regard to the relationship between work and the family, the changes in female employment undoubtedly have effects on the family. A woman naturally has more influence within the family when she has an income of her own, but it is well known that the distribution of labour by gender within the home remains largely unchanged. If, as the data show, the greatest increase in female participation is among married women with children, while at the same time the proportion of domestic servants is going down, then the consequences in terms of an overload of work for women are beyond doubt. This fact further heightens the need for policies designed to provide much-needed aid in child care.

With regard to the labour market, on the other hand, there is ample scope for improvements in such areas as regulating the working hours and pay of home workers, whether own-account workers or subcontractors, and raising the status of female labour in the eyes of employers. Society still needs to recognize the domestic work, and especially the child-raising duties carried out by women, as socially vital tasks that could well be carried out by both sexes.

(Original: Spanish)

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Water management *and river basins* in Latin America

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The sustainability of development remains an academic concept unless it is linked to clear objectives that must be attained in given territories and to the management processes needed to achieve this. Management of the natural resources located within the area of a river basin is a valuable option for guiding and coordinating processes of management for development in the light of environmental variables. In order to turn environmental policies into concrete actions it is necessary to have suitable management bodies, which are normally very complex. The establishment of such bodies means generating a public/private system which is not only financially independent, socially oriented and sensitive to environmental aspects, but must also act in a democratic and participative manner. In the past, the idea of establishing bodies to guide the management of the natural resources of a river basin (especially water, of course) has aroused the interest of the countries of the region, with varying results. This interest has now become an urgent necessity, in view of the greater competition for multiple water use and the need to check pollution and manage the environment correctly. This article considers some of the essential elements which must be taken into account when proposing to set up such bodies, puts forward some concepts on management at the river basin level and identifies the various ways in which the subject can be approached, and offers some recommendations for improving policy formulation and the functioning of integrated systems for the management of water resources and river basins.

I

Sustainable development and river basins

One of the biggest concerns at present, at least to judge from policy statements, is to find viable development options based on equitable and lasting economic growth. The latter consideration has gained in importance in recent years because of the realization that many alleged advances, especially in terms of changing production patterns, have been outweighed by the damage they cause to the environment.

The greater awareness and understanding that now exists of mankind's interaction with the environment, and the vulnerability of forms of development which do not take this into account, have been made more explicit by the addition to the word "development" of the qualifying adjective "sustainable". Since sustainability should be implicit in the very concept of development, this adjective should be only a transitory addition that will be needed only until the vital importance that development should be of a lasting nature is definitively incorporated in the concept.

On the other hand, the sustainability of development remains only an academic idea or abstract aspiration unless the concept is linked both with clear objectives that must be attained within a given area that contains the natural elements and resources needed for the subsistence of the human race and with the management processes needed to achieve those objectives. Political intentions must be transformed into concrete policies for implementation, and it is here that the greatest challenges arise.

In the Latin American and Caribbean region, there has been widespread reference to environmental problems, theories have been put forward on environmental issues, laws have been enacted, and even some Ministries of the Environment have been set up. What has not been done, however, is to lay the necessary bases for the management of each of the natural resources –water, soil, forests, fauna, minerals and energy– or of certain key natural areas such as coastal strips, river basins and deserts.

This means that very broad goals have been set without deciding on the necessary steps for reaching them. Territorial organization for the management of each resource and later of the environment in general; organization and training of the population; research on ecosystems; the establishment of systems of management for given areas; the strengthening of public institutions (especially the municipalities) to provide support for environmental management; awareness and heightening of the economic value of natural resources; the keeping of natural heritage accounts, and the preparation of operating manuals and rules are essential aspects for making real progress in the management of natural resources and the environment in general.

The management of natural resources in the context of the dynamic evolution of a river basin, more generally known as river basin management, is one of the possible options for organizing the participation of users of natural resources within the process of environmental management. A river basin is uniquely fitted to serve as the basis for the coordination of the actions of all those involved in the use of a shared resource –water– and for the evaluation of the effects of environmental management measures on that resource. Water quality largely reflects the environmental management capacity within the basin in question.

A first step towards river basin management is to limit action to the management of the water resources existing within the area of the basin. Water management is a complex process designed to control the cycle of a natural resource whose availability is erratic and irregular over time and space. Furthermore, water is vulnerable to the treatment it receives, since it can easily be polluted, thus affecting all its actual or potential subsequent uses.

The aim of this process is to solve conflicts among multiple users who, whether they like it or not, depend on a shared resource. Consequently, even though they may have water use concessions or rights, they nevertheless affect and depend on each other. The supply usually comes from a common system, to which surpluses and effluents are returned. Surface, ground and atmospheric water resources, together with the areas of evacuation, thus form a single unit.

The actions taken have enormous repercussions on human health, the environment and production, so that they must be approached in an outstandingly technical manner. The high cost of the works involved, together with the long lead times of water projects, make it all the more necessary that management should be in the hands of experts whose tenure does not depend on political changes.

Finally, the water management process requires that many different agents should act in a coordinated manner in spite of their differences of approach and the fact that some of them are not aware of the effects of their decisions on the hydrological cycle. This is why it is so important to have stable coordination mechanisms and, at the very least, a permanent river basin centre or authority.

II

Characteristics of water and watersheds

A watershed is an area which is defined by nature itself,[1] essentially by the limits of the run-off areas of surface water converging towards a single watercourse. The watershed, its natural resources and its inhabitants have physical, biological, economic, social and cultural qualities which endow them with their own special characteristics.

Physically, a watershed represents a natural area of collection and concentration of surface and ground water and therefore has an essentially volumetric and hydrological connotation. At the same time, both the watershed and, above all, the water collected in it represent a source of life for mankind, though it can also be a source of danger when extreme natural phenomena take place or it is affected by pollution.

In mountainous areas, river basins are natural arteries for communications and trade integration, either along the rivers that run through them or the peaks that separate them. In other words, there are close-knit mechanisms of interaction among their inhabitants which endow them with special economic and social conditions.

In river basins with a big flow of water and wide, relatively flat valleys, the line of the river also becomes an area of interrelation of the inhabitants, especially through the use of the river for navigation, transport and communications.

The territory of the river basins facilitates relations among those who live in them, even though they may be grouped together in different communes or other politico-administrative subdivisions, because of their common dependence on a shared water system and road network, and because they face common dangers. When there are no systems for reconciling the interests of the various actors who depend on a river basin, there are bound to be conflicts among them.

All this is particularly true in inhabited mountain watersheds, but it is also true in broad river basins where there are water use projects that benefit the inhabitants as a whole and thus create a sense of interdependence among them.[2]

In river basins, it is all too easy to see the negative effects of human actions on the environment, especially in the form of water pollution. This is recognized, for example, in the explanation of the reasons for the establishment of watershed agencies in France: it is noted that water is an element which serves as the home and sustenance of the animal and vegetable kingdoms, and that watercourses or bodies of water and their banks form a very special biological whole. Thoughtless human actions affecting any one of their component elements upset this

[1] In the words of Guillermo Cano and Joaquín López, "God established the watersheds as natural limits of river basins. For their political and administrative needs, however, men have traced other dividing lines which generally intersect and do not coincide with the natural divisions" (Cano and López, 1976).

[2] A problem in Spanish is that there are no generally accepted terms which distinguish clearly between watershed and river basin, which are usually represented by the same term, "cuenca", possibly qualified by some clarifying adjective.

precarious balance, and the entire natural environment suffers as a result. Consequently, harmonious management of water resources requires: i) above all, recognition of the fact that a watershed or hydrogeological basin forms a single unit; ii) awareness that recognizing and preserving this unity is an essential condition for satisfying in the best possible manner the water demands of the different users; iii) definition of specific objectives appropriate to each area or territory, and execution of the works and actions needed to attain such objectives; iv) acceptance of the idea that all users have a legitimate right to water and that, consequently, each of them is also subject to corresponding even-handed limitations on their own water use.

A river basin is a natural unit which lends itself well as an administrative area for the coordination of management processes designed to ensure sustainable development. Water management processes, however, involve their own forms of complexity.

III

The river basin as a territorial option for directing environmental management processes

The territory covered by a river basin is not, of course, the only area within which development actions can be directed and coordinated in order to take account of environmental considerations. The limits of the surface waters which form the river basin do not necessarily coincide with those of the ground water, obviously do not cover the areas of the seas and oceans where much of the hydrological cycle is generated, and are not so relevant in relatively flat areas or extremely arid regions.

The use of the territory of a river basin for environmental management purposes is therefore merely one option, whose validity will depend on the geographical characteristics of the environment. It is an important option from the environmental standpoint because, as already noted, it furthers coordination among the users of a single shared resource, such as water, and above all facilitates monitoring of progress in pollution control, through its effects on water quality. This does not mean, however, that the territory of a river basin is the only space needed for management of natural resources or the environment in general.

This observation is important for doing away with the mistaken belief held by some persons that the entire development of a region or its environmental management can be carried out solely on the basis of limits corresponding with those of river basins. It could be said that taking account of the limits of river basins is a necessary condition for incorporating environmental aspects, especially those relating to water and its "associated" resources, but it is not sufficient as an area of jurisdiction for managing human development.

In this sense, it is vital that all management projects at the river basin level should be carried out with due regard to their relations with management systems that operate on the basis of other limits, especially political and administrative ones, among which the municipalities are of prime importance. It must be clearly understood that in order to carry out river basin management processes successfully it is essential to coordinate the actions of the various public and private authorities operating in the area of the basin.

Thus, river basin management projects which take account of the municipalities, such as that carried out with the participation of 74 such authorities in the River Chicamocha basin in Colombia (Acero Suárez, 1993, pp. 13-17), have a much greater chance of success if the municipal authorities are responsible for the execution of some actions in the project. Likewise, a municipal programme to improve the environment or prevent negative effects on it must also take into account the influence of river basins partly or wholly corresponding to its area of jurisdiction.

At the level of larger river basins, the same relationship should exist between the authorities of areas with political and administrative limits and those of areas with natural limits. Thus, for example, those in charge of a project for the development or integrated management of a major river basin should coordinate their activities with the authorities responsible for the development of the broader region in which the river basin is located. There have been many cases in which the lack of such coordination has resulted in one of the two authorities (i.e., the river basin or regional authority) absorbing the other, or else there has been a situation of permanent conflict between the two.

IV

Definitions and scope of management processes at the river basin level

Management at the river basin level has made a great deal of progress in the region, but in spite of these advances there is still no consensus on the name to be given to such management. The lack of clear concepts in this respect still militates against the exchange of experience among countries, leads to overlapping of functions, and above all hinders the formulation of policies and laws on this subject.

Table 1 summarizes and orders the concepts and terminology used in dealing with the subject of management at the river basin level in Latin America and the Caribbean. It has been laid out as a matrix relating the stages in such management with the objectives of that process, defined in terms of the amounts of elements and resources covered by the management. In this way, it seeks to facilitate understanding of the actions that can be coordinated in a river basin and the objectives pursued through such coordination. It has also been considered useful to try to clarify some additional difficulties raised by certain differences in terminology between English and Spanish, for which purpose some terms are given in both languages. It is hoped that this attempt to clarify the terminology will help to secure a clearer understanding of the concepts behind river basin management objectives.

TABLE 1

Management at the river basin level: stages and objectives

	Objectives of management		
Management stages	Use and management of water resources of the basin	Use and management of all natural elements and resources of the basin	Integrated use and management of all elements and resources and of man-made infrastructure for the development of the basin
Initial stage	Studies and formulation of plans and projects	Studies and formulation of plans and projects	Studies and formulation of plans and projects
Intermediate (investment) stage [a]	Water resourcesdevelopment *(Desarrollo o aprovechamiento de recursos hídricos)*	Natural resources development *(Desarrollo o aprovechamiento de recursosnaturales)*	River basin development *(Desarrollo de cuencas)*
Permanent (operational) stage [b]	Water resources management *(Administración de recursos hídricos)*	Natural resources management *(Manejo de recursos naturales)*	Environmental management *(Gestión ambiental)*
Watershed management *(Manejo de cuencas)*			

Source: Prepared by the author.

[a] Investment in order to develop the basin with a view to using and managing its natural resources to promote human development.

[b] Operation and maintenance of man-made works and management and conservation of natural elements and resources.

The bodies responsible for each of the management actions in question may be known as corporations, companies, agencies, commissions, authorities, programmes or projects, directorates, organizations, boards or associations. The general functions and legal attributes of each of these forms of organization are laid down in each country's legislation, to which must be added the specific organizational requirements of management processes and suitable provisions for facilitating public and private participation.

V

The evolution of management systems at the river basin level

The subject of river basin management has been associated historically with the main cultures and civilizations which have evolved –and sometimes disappeared– thanks to the availability or otherwise of water. City dwellers, who make up most of the population in many countries, have gradually been losing sight of this dependence on water and watercourses, to such a point that they have come to ignore it completely because they always have ample water at their disposal all the time. They have also fallen into the habit of demanding that the supply of water be increased, instead of seeking to reduce water consumption through more rational use. Nor do they really understand that water is a scarce resource whose availability fluctuates over time and whose control demands great investments that must be planned years ahead.

Every so often, however, a flood, a prolonged drought or some flagrant instance of water pollution remind them of this dependence, but the effect does not always last long enough to cause them to organize themselves and take action to balance water supply and demand in the long term, and above all to establish stable management systems with guaranteed financing.

Due partly to these fluctuating perceptions of the value of water, the evolution during the present century in Latin America of the approach to management for the coordination of actions in a multi-purpose river basin has been neither stable nor uniform. Management systems have been changing more and more, in an irregular manner, and in some cases –at least as far as water is concerned– organization tended to be better in the past than it is now.

To begin with, the coordination of activities at the river basin level was limited. Work was done at this level in order to deal with short-term problems or specific or sectoral demands for water: permitting or improving navigation, supplying water for population centres or irrigation, controlling flooding, alleviating droughts and building hydro-electric power stations.

The next step involved operating and maintaining the works thus constructed. This form of management was limited to the actual systems constructed, and there was little interest in multiple water use or "river basin management" (i.e., managing the natural resources of the basin). Thus, various systems of water management at the river basin level arose in the region, most of which were only interested in the sectoral uses of the water, as in the case of irrigation (through, for example, Supervisory Boards in Chile and Irrigation District Technical Administrations in Peru).

Beginning in 1940, commissions (in Mexico) and corporations for the integrated development of river basins (i.e., for regional development at the river basin level) were set up. These corporations set out from the construction of water projects to embrace extensive areas under their jurisdiction and make investments in a number of sectors.

Much more recently (1970), the concept of "watershed management" appeared on the scene, mainly with the aim of reducing the deposition of sediment in existing dams and controlling landslides or flooding. Only in a few cases does this type of management cover all the natural resources of the river basin –flora, fauna, forests and land– with a view to their use and conservation. Mixed agricultural/forestry/stock-raising projects have aided progress in this direction, but they do not make up for the lack of a coordinated system of management of natural resources at the river basin level.

The environmental dimension began to be taken into account in Latin America somewhat later (five to seven years after the 1972 Stockholm meeting). First came studies of the impact of various factors on the environment, and later environmental analyses. To a large extent, environmental management at the river basin level has not progressed past the stage of studies, and if natural resources (especially water) are not managed in a coordinated manner, it will be impossible to achieve true environmental management.

To sum up, then, coordination of action at the river basin level in Latin America has taken place in the following chronological order:

i) the question of water control and use in river basins is approached through the construction of water projects (water resources development);

ii) the question of the management of water in river basins is tackled (water resources management);

iii) there is then a direct transition to river basin development;

iv) the question of watershed management is taken up, especially with a view to controlling the erosion that affects existing dams, preventing landslides, and controlling spates;

v) there is then a direct transition to consideration of the question of environmental management.

What stands out in this evolution is that there has been an abrupt decision to coordinate (at least on paper) environmental management at the river basin and regional level, [3] without yet having fully coordinated the measures for the development and management of at least some of the main natural resources of a river basin, such as water.

The question of river basins has currently taken on new validity. It is hoped that the classification of this matter and its review in the light of the past will further the proposal of suitable bodies for carrying out the management duties in each case, learning from valuable past experience.

In the 1990s, the combination of greater concern with the environment, the increasingly serious effects of natural disasters such as floods on man-made works, and the appearance of epidemics such as cholera seem to have shaken up people's ideas to some extent, not only for social or environmental reasons but also, and above all, for economic reasons. The 1993 floods in the United States and Europe caused heavy losses, and the possible pollution of some lakes in Southern Chile could be a disaster not only from the ecological or emotional point of view, but also because it would cause serious economic losses (we thus see that this issue can affect less developed countries too). It would appear that it will be economic considerations, rather than environmental ones, which will finally induce politicians and Executives to progress from ideas to action.

These concerns, however, have not yet been reflected in Latin America and the Caribbean in the establishment of adequate water management organizations. Generally speaking, the question of water management (at both the national and the river basin level) is favourably viewed by many persons and institutions but has not yet been reflected in the actual creation of solid, stable systems (be they public, private or of a joint nature), except in a few cases and in respect of some river basins where big investments in water projects have already been made for some reason.

VI

Recommendations for avoiding failures in water and river basin management processes

In order to deal properly with the various factors that affect environmental management at the level of river basins, natural resources, or that of water alone, it is necessary to refer to the current debate on the roles of the public and private sectors. It is also necessary to take up the question of water policies and their links with economic policies and democratic participation. Only then will it be feasible to determine which are the most suitable management systems for the environment in general and for water as a part of it.

Failures in the establishment of management systems for water and river basins usually occur

[3] This is confirmed by the establishment in Colombia of Autonomous Regional Corporations (31) under the Ministry of the Environment (Act No. 99 of 16 December 1993). The function of these Corporations is to execute national policies on natural resources and the environment.

because of the relative lack of due consideration in the presentation of proposals for the establishment of the corresponding bodies, be they public enterprises, corporations, committees, agencies, etc. Generally speaking, the aim is to endow them with holistic qualities: they must be economically efficient, self-sustaining and competitive; they must have a social orientation, must promote equity, and be environmentally responsible; and they must be made up of representatives of both the public and private sectors, must permit community participation, and must be of a conciliatory and non-authoritarian nature. In the final analysis, all this means that what is sought for is a super-agency that will promote sustainable development. Creating such an agency is like trying to use genetic science to create an animal that not only provides meat and milk but also lays eggs and gives wool, while at the same time being pleasant and tolerant, in order not to cause political problems, and not eating much, so that it is cheap to maintain.

Experience shows that it is possible to move gradually towards the formation of a body which at least fulfills some of the basic functions, such as avoiding, reducing or solving conflicts between water users. In order to do this, it is necessary to be well informed from the start at least on the following aspects: i) economic and water-resource policies; ii) the characteristic features of water resource and river basin management; iii) the characteristics of water management systems and the actors involved in them; and iv) the most suitable forms of operation of a public or private body responsible for managing the water and natural resources of a river basin.

According to Irving Fox (1970), [4] there is no consensus on what is to be understood by "water resources policy". He notes, however, that such policies are usually characterized by three elements which determine how those resources are managed and used in a given society, namely: the basic rules, the organizational principles, and the basic procedures.

Fox does not actually define each of these characteristics: he merely gives examples. Thus, he considers that the basic rules may deal with such matters as assignment of water rights and user priorities, where appropriate, and the like. With regard to organizational principles, an example could be the stipulation in a policy on water use that there should be a single body at the level of each river basin, made up jointly of users and the State, with broad attributions and autonomy for directing regionally integrated multi-purpose water resource projects: in other words, in policy formulation it would also be necessary to consider the organization of the management system for applying that policy. Finally, basic procedures would concern the means, steps or bodies for putting actions into effect: for example, it could be laid down that before granting water rights proof must be presented that the water resources actually exist, that there are no conflicts over use with other users, and that the water will be used for a given purpose and within a given space of time.

In order to be complete, then, a water policy should be as much one of intention as of execution, regardless of whether it falls under one or the other category. Thus, the difference would depend not so much on the content as on the detail in which it is spelt out.

In addition to the three characteristics mentioned by Fox, there is the need for policy declarations to be accompanied by the establishment of priorities and the indication, at least in outline form, of the policy instruments for putting the policies formulated into effect.

Policy declarations can also be analysed in terms of the methodological sequence selected to guide management procedures for sustainable development (prepared by A. Dourojeanni and included in ECLAC, 1993). This sequence is useful for guiding the formulation of water policies along lines which are a good deal stricter than those usually followed. It maintains that in order to carry out actions effectively it is necessary: i) to determine what actors are involved in the management process; ii) to find out what the criteria of those actors are (policies, principles, functions, etc.); iii) to identify the problems they raise in the light of those criteria; iv) to determine what their objectives are; v) to delimit the areas within which it is aimed to achieve those objectives; vi) to find out what obstacles stand in the way of their attainment; vii) to propose solutions for overcoming those obstacles; viii) to decide on the strategies to be followed in order to secure those solutions; ix) to design and evaluate programmes and projects for carrying out the selected strategies, and x) to carry out the programmes and projects.

[4] This study was presented by Professor Irving Fox, Associate Director of the Water Resources Center of the University of Wisconsin, at the meeting of the panel of United Nations experts in Buenos Aires (1970).

In accordance with this sequence, policy formulation is carried out primarily at the time when it is necessary to establish the action criteria and objectives of the actors. These criteria are mostly declarations of intentions. In contrast, execution policies can only be formulated when the solutions and strategies have been designed. Thus, the formulation of water policies is a process which must be carried out step by step, in a systematic manner, in order not to overlook aspects which are essential for their successful application.

The formulation of water policies in the countries of the region has rarely followed a strictly defined path. They are generally formulated because of short-term situations, without following any set procedure. As already noted, water resources policies in the region have in some cases favoured the formulation of plans as the mechanism for their implementation, in others the reformulation of an existing Act (not as the culmination of a process of formulation of water policies but rather as the beginning of that process), in other cases the establishment of new agencies, and so forth. It is a source of concern, however, that the great majority of these proposals do not fit in as they should, although systems of organization, laws and plans –to name only a few components of a policy designed to be executed– should interlink properly with each other.

In these circumstances, what is done is to adopt measures that are of a piecemeal nature or are simply designed not to clash with an economic system; to boost the application of other Acts (as in the formulation of the General Water Act in Peru, which was designed to support the 1969 Agrarian Reform Act); to settle specific and sometimes transitory conflicts between users; to satisfy certain electoral groups, or to fit in with some regionalization project. In these conditions, water policies are normally formulated in a subsidiary and incomplete manner.

Although these policies must back up national development policies, it must be remembered that both water resources and the processes of their use have their own special characteristics which cannot be ignored without entering into serious contradictions. Already in 1970, Irving Fox warned of the problems that are likely to arise when it is sought to associate water management with a free market economy without taking the special features involved into account. The special features of water as an economic resource demand –if not the leading participation of the State, as maintained by Fox– at least joint management by the State and users in order to administer its supply at the level of a river basin or interconnected system (see annex 1).

In a water system shared by various users, the services for satisfying different demands may be in private hands (drinking water, agriculture, hydropower, etc.), but the management of the supply of water in the basin (including all possible forms of reuse) must be in the joint hands of users and the State. This is the only way of settling the conflicts that may arise, providing resources for avoiding common problems such as pollution and flooding, and controlling externalities (such as the effect of river flows on coastal strips adjacent to the mouth of the river). This principle also holds good with regard to the organization of a commune: although there are properties run by private individuals, there must also be a municipality which governs the shared areas and prevents private properties from giving rise to externalities which affect the rest of the inhabitants.

In some countries, regionalization has given rise to serious contradictions between development policies and those governing water resources. In Peru, for example, there have been a number of cases where the regionalization measures adopted by different governments have meant that some river basin authorities which previously came under the central government found themselves subject to two or even three regional authorities because the river basins they administered were intersected by the limits of several regions.

It is not easy to say in what way and to what extent the policies of a country condition water management processes. Since the effect that the prevailing policies have on water resources management is often not recognized, it is difficult to propose ways of improving them. In other words, if it is not known how the application of the policies currently guiding water use really works (cause and effect), it is not feasible to propose properly founded improvements.

In many countries there is no compendium of the laws governing the management of water resources and watersheds. Sometimes there are no registers of users by river basins or water systems either, nor is there any inventory of the studies made in either of these areas (Gómez and Dourojeanni, 1991). It is easy to find out the contents of policy declarations, organizational charts and official regulations on functions, but it is very difficult to know how far they will be put into practice. A large number of public departments do not have sufficient resources to fulfill their tasks properly.

For the present, most water policies derived from changes in economic policies are no more than declarations: that is to say, policies of intention. It must be remembered, however, that very often, without any real in-depth analysis, policies of intention have been turned into laws –likewise merely of intention– resulting in serious gaps, especially as regards instruments for putting them into practice. In a number of cases there is no relation between the spirit of the policy, the letter of the law, and the final results of its application.

The purpose of a river basin management body forms part of the State's responsibility for watching over the natural heritage of the nation. A body of this type may be public, private or mixed, and it may assume various legal forms, but it is essential that it should operate efficiently and effectively, that it should serve its users while at the same time watching over fulfillment of the national environment laws, and that it should carry out its management functions with the participation of the various actors involved, including the municipalities located within the area of the river basin.

With regard to economic policies, river basin management bodies usually obtain their financing through the appropriation of part of the economic rents generated by the use of the natural resources of the region. The generation of these rents depends partly on the biological, physical and chemical characteristics of the natural resources which permit them to increase their biomass and maintain themselves through their natural cycles. The use of hydropower, for example, represents the appropriation of a natural resource.

The natural resources economy is still an incipient field which, with time, will allow sounder decisions to be taken on the definition of sources of financing for management. As the World Bank (1993) points out, for example, water as a good takes on different connotations depending on the capacity to consume it or not (subtractability) and to deny a user access to it or not (excludability): it may be a public good if there is free access to it and is not consumed if one person's use does not prevent use by another, but it can also be a private good (for example, if it is in the swimming pool of a private house). It can be a toll good, as in the case of water for navigation; an open access good, or a merit good, as in the case of drinking water.

These different characteristics of water can give rise to different kinds of income for a body responsible for coordinating its use for multiple purposes. In order for this to take place, the body must have registers which enable it to measure the various uses of water and evaluate their profitability, and instruments for collecting income.

From the theoretical point of view, payment for use of the resource should not alter the rationale of the capitalist calculation of production nor distort the formation of the prices of the goods produced in the river basin. Since water is a factor of production, its use should be reflected in real terms in production costs. If this is not so, its long-term use becomes impossible, as there will be a tendency towards its depletion and destruction.

VII

Recommendations for improving policy formulation

There are some basic considerations that must be respected if it is desired to formulate policies for the management of the environment, of natural resources, or of water alone which have a modicum of coherence. If the policies themselves are not coherent, then neither will be the actions of the management bodies responsible for putting them into practice.

In principle, it is obvious that not every declaration of principles necessarily qualifies as a policy, whether of intention (politics) or of execution (policy proper). In order for it to qualify as such, it must contain certain basic rules, organizational principles, and basic procedures.

It is also necessary that a declaration of proposed changes or the announcement of new policies should take clear account of the advantages and disadvantages of the application of the existing policies. In no event should a new policy make the situation worse or undermine the effectiveness of another recently announced policy.

It is also important that the hypotheses which form the basis for a policy of intention should be proved with rigorous exactitude, using for example the methods described in the sequence of management procedures for sustainable development (ECLAC, 1993). Fulfillment of this requirement is essential in order to move from mere politics to real policies.

In environmental matters (including water and other natural resources) it is necessary to understand the restrictions imposed by the behaviour and needs of the environment in general and water in particular, and to incorporate them in the declared water policies. The natural system does not change its behaviour simply because human society decides to change its type or form of government or its economic or trade system.

Beyond all doubt, declarations of environmental policy, and especially of water policy, must take account of the prevailing economic policies and the functions of the public and private sectors. This is vital for determining the policy instruments to be used and the type of organization needed to apply them.

In policy declarations concerning the environment in general, the management of natural resources, or that of water alone, it is necessary to specify what system of organization will be applied and above all what economic instruments will be used to make that system work, whether it be public, private or mixed.

One of the conditions demanded by the environment is continuity of action: environmental management systems must last longer than the term of office of a particular government. It is therefore necessary that policy declarations should be accompanied by a draft Bill or rules designed to give the management system the necessary continuity and ensure its financing, effectiveness, adaptation and legitimacy.

In order for environmental policy to be successful it must be understood by the population at large. In this respect, it is important to give the public details of those who took part in the formulation of the policy and those who will be involved in its subsequent application, as well as the way in which decisions were taken. Clear details should also be given of the role of each actor and his relative part in the process of application and observance of policy instruments.

At a time when there is a trend towards the application of a social market economy, it is essential that the economic and environmental objectives should be mutually compatible. Both types of objectives can be attained at the same time, provided that the behaviour of the economic and ecological systems is clearly established and that suitable harmonization mechanisms are designed.

In order to enlarge on this latter point with regard to a single element, such as water, some ideas put forward in a study by Erhard-Cassegrain and Margat (1979) are reproduced below.

First of all, when dealing with water resources the reasoning applied with regard to the optimum economic yield differs from that corresponding to water use: the optimum economic yield in a market is obtained by giving full play to competition and rivalry, but the optimum economic yield in the multiple use of water resources is obtained through a calculated and reasoned objective process involving the participation and agreement of the actors taking part in it, including the State.

This does not mean that the application of economic instruments is not useful and highly important for attaining the objectives of optimum water use, especially at the sectoral level. Such instruments serve to correct and promote the efforts of users as a whole, and above all to obtain resources for combatting the effects of natural phenomena that affect all users, such as floods and droughts, for draining away rainwater from urban centres, for reducing pollution, and for avoiding misuse of the territory and its resources.

Demand for a natural resource such as water has a dual effect on its supply. On the one hand, water is extracted from the environment (rivers, wells) and used in various ways, while on the other hand it is returned to it in different amounts and qualities (to the same or another river or to the water table). This dual interaction does not apply to all the resources traded in the market, so that in the case of water it is not enough to consider only the efficiency of its extraction and use: the efficiency with which it is returned must also be taken into account.

As noted earlier, water management involves the handling of conflicts among users competing for the same resource, many of whom have no idea of the way they interact and thus mutually benefit or prejudice each other. Environmental management, and that of water in particular, must help to forestall and avoid such conflicts as far as possible by studying the interrelations of the actors and suggesting negotiations or environmental trade-offs among them.

In the formulation of environmental policies, especially with regard to water, a natural system such as an ecosystem or river basin or a resource such as water is often arbitrarily split up, for management purposes, by user groups; by the sectors responsible for its control; by consumptive or non-consumptive types of use; by the source where the water is obtained (surface or ground water); by sections or stretches of rivers, or by other criteria.

The natural system is thus arbitrarily split up, leading to the likewise piecemeal management of a naturally integrated system. According to Erhard-Cassegrain and Margat (1979), it is not enough to rationalize the delivery of water to each user in terms of quantity and quality: it is also necessary to take into account the way in which the user will return it to the environment (quantity, quality, place and time). The return of the resource can have negative as well as positive effects and vice versa: for example, a large flow of domestic waste water will reduce the concentration of chemicals due to liquid industrial effluents and will also serve to transport them.

The concept of "water economy" does not depend automatically on the reduction to the minimum of the amount of water extracted from the system or used in a given process. If the water is re-used in other processes, it may be more economical to use more water in the first process. Thus, for example, in some areas the use of little water for irrigation will result in higher costs and increase the content of salts in the ground, but if the water can subsequently be collected, treated and re-used, it could be more economical to use more water in the first process.

It is not enough merely to assign water use by sectors (domestic, agricultural, industrial): it is also necessary to take account of the interactions involved, since there is a conflict between each type of demand and the supply system (ground water for irrigation, river water for industry, sections of rivers for irrigation associations, extraction of materials from the river bed for municipalities). This means arbitrarily splitting up the physical units of the supply system as a function of the different uses, as in the case of dividing up a river into sections assigned to different user groups but ignoring the implications of their interdependence along the whole river. In this type of approach, water demand is sometimes projected only in terms of types of resource supply (demand for ground water for the cities, demand for river water for industry).

Demand is almost always evaluated in terms of quantity and not quality, as though the two could be separated. It is forgotten that the two factors interact at each of the points where water is returned to the main system, and it is also forgotten that extracting or returning water involves changes in its quality and in the capacity of the environment to absorb certain pollutants.

The value of water as an input in a production process is usually assigned without taking account of the interactions that exist between its extraction, use and return. When a value is placed on water, for example, no cost is fixed as a preemptive measure to take account of the pollutants that will be emptied into a watercourse when a certain amount of water is returned, and no charge is made for the use of water as a vehicle and sometimes as a diluent for wastes in addition to its use in production processes.

The costs of negative external effects or externalities, such as the contamination caused by the use of water as a vehicle for wastes, are ultimately internalized in accordance with the principle that the polluter must pay. Usually, however, this rule is applied when an industry has already been damaging the environment for several years and users begin to complain. In order to avoid this situation, preventive actions are needed both in terms of collecting payment and in applying anti-pollution measures. Between the time when water is polluted and the time when action begins to be taken to cleanse it, there tends to be a period of inaction. What happens is that the authorities do not take into account from the beginning that the user is not only employing water in his production processes, but is also using it as a vehicle for his wastes. This use could be calculated and charged for from the beginning, for example by estimating the alternative cost to the factory of using trucks instead of water and watercourses to carry away its wastes.

This problem is getting worse and worse because water supply management systems, which are also fragmented, have no coordination machinery. Some bodies (such as Ministries of Health) deal with water quality, others (such as the municipalities or ministries responsible for the mining sector) deal with the extraction of aggregate for construction purposes, others are concerned with river defences, others with ground water, still others with the granting of water use rights, and so forth. The lack of coordination leaves many gaps in the management. The situation is also explained by the fact that many plans prepared by these bodies merely extrapolate the fragmentation in question. For example, each sector projects its own demand, but it does not consider the effects that this demand will have on the river basin, on supply, or on the various other demands. Consequently, very few proposals for reducing demand come from sectors which prepare their plans independently. All the sectors demand the maximum, and if they can they pre-emptively appropriate as many water use rights as possible. They fight not only for what they need today, but also for what they might possibly need tomorrow.

Thus, hardly any sectoral policy seeks to change demand trends by, for example, relocating industries to more suitable places: it merely tries to satisfy the demand. No provision is made for possibly acting simultaneously on both supply and demand, because there is no integrated management system which depends primarily on the users themselves and which can put forward measures that will be of benefit at the individual and collective level in order to achieve economies of scale.

When there are no integrated development policies, the technical rationale is confused with the economic one, which in turn is confused with the financial rationale. Instead of adopting a criterion with regard to the selection of objectives which serves to solve situations of competition (it should be recalled that water management is basically conflict management), in the end criteria are adopted which are useful and sensible for individual sectors but make no sense for the whole, to such a point that they may end up causing bigger losses for the sectors themselves (higher costs for water regulation and catchment, for the control of extreme phenomena and for combatting pollution).

Efforts to maximize the economic and water-related benefits of each sector independently of the others militates against the achievement of maximum benefits for the whole, and the final result is economic, social and environmental losses for all. The situation becomes confused if the water economy is understood as a "material economy" of this resource. It would seem rational to save water and thus reduce consumption, and it would also seem rational to select the water supply solution which is cheapest in the financial sense, but these two concepts are contradictory and sometimes incompatible when seen as part of a single objective.

When there is no integrated management system it may also happen that the benefits generated by one actor for other water users (such as reduction of the effects of floods or droughts thanks to the construction of a hydro-electric power station dam) are not recognized or paid for, although those affected complain and sometimes obtain compensation when there are negative effects. Thus, water management and economic management must be considered from the top down, in an integrated manner and not piecemeal. If the analysis is only carried out in respect of separate parts, it may mistakenly be concluded that materially optimizing each separate water use will lead to optimum economy. In practice, however, the best economy will be obtained by analysing the system as a whole.

The most suitable economic management instruments can only be selected by taking account of this integrated nature of the system.

VIII

Recommendations for improving proposals for the establishment of river basin management bodies

In principle, it is possible to correct the disjointed and poorly based manner in which management solutions for improving natural resource use are usually put forward. Since this article deals with bodies at the river basin or watershed level, the most salient aspects relating to these management systems are presented below.

The main factors conditioning the structure of a natural resources management body at the river basin level are: i) the size and the ecological, climatic, geomorphological and physiographic features of the basin; ii) the organization and level of development of the municipalities, the main types of users and their political power and representativeness, and their form of participation in local government; iii) the degree of knowledge of the natural elements and resources of the basin, the length of time that water records have been kept, and the level of knowledge of the functioning of the ecosystems; iv) the prevailing organization of management in the basin, by management levels (scientific-environmental, economic-productive, technico-regulatory and politico-social); v) the endogenous and exogenous actors operating in the basin (their number and socioeconomic features); vi) the legal aspects of the possession or use of the natural resources, properties, etc., and the way in which users are currently grouped in the basin; vii) the level of equipment of the basin in terms of roads, communications, transport and other forms of services infrastructure; viii) the possibilities for the participation of other bodies in management and the degrees of coordination and operational capacity (with the legal system, the police, research and training, laboratories, the construction sector, etc.); ix) the level of public and private activity in the basin (existing bodies and functions of both endogenous and exogenous actors); and x) the economic enhancement of the natural resources found in the basin, as well as the variety of natural elements not yet economically valued (bio-diversity, scenery, exclusiveness).

The aspects which are influenced by the above factors and which also give its special nature to a river basin body include the following:

i) the functions of the body (coordination, supervision, planning, execution, administration, consensus-building, consultation, control), together with other attributions connected with whether or not it has the faculty to impose decisions for the settlement of disputes among water users in the basin; ii) the sources of finance to which the management body has access: property taxes, water charges, fines for pollution, public treasury, regular payments, project funds, donations, sale of services, etc.; iii) the location, size and equipment of the management body (offices, transport equipment, computer facilities, information systems); iv) the type and number of staff and the internal organizational chart, which will reflect the complexity and type of management conflicts encountered in the basin; v) the rules for its operation and functions and the annual budget required for the functioning of the body and for investment in projects; vi) the degree of autonomy with respect to the State and the Board of Management of the body, to which the head of the body must be answerable in respect of the management results; vii) the degree and form of participation of the actors involved in the management of the basin or affected by such management (Water Parliament, river basin committee, etc., in respect of which it is important to know their composition and the relative weight of their participation); and viii) the status of the body as compared with the other bodies operating in the basin: its capacity for coordination and control and its leadership potential.

The size of a body responsible for directing integrated actions in a river basin must be determined in accordance with the above factors. This by no means exhaustive list of aspects that must be taken into account seeks to avoid situations where the formulation of proposals to improve the work of public or mixed bodies responsible for the management of the environment, natural resources or water alone is based, as has been customary in the past, on hunches, makeshift measures, emotional reactions or political expediency rather than on rigorous analysis.

For example, customary actions include proposing the establishment of a committee to study the situation and issue findings; putting forward a plan –preferably a "master plan"; changing the names of the relevant public bodies; separating or dividing institutions or parts of them; moving offices; changing the heads of departments every time there is a change in the top authorities; creating new posts or authorities of trust; ordering a commission which enjoys the confidence of the top authorities to change the legislation in force; placing all the responsibility for management on the shoulders of users and abandoning the responsibilities of the State, or vice versa; requesting support from some international agency or bilateral aid through a project; requesting a line of soft credits or bilateral donations; inviting groups of experts to attend workshops or seminars to discuss the salient questions and engage in lobbying; modifying the scope of environmental management, and decentralizing or centralizing management authority.

Each of these measures may be potentially excellent, but in order for this excellence to become a reality it is necessary to comply with a number of requirements, and this is rarely done. These requirements include the following:

i) Recommendations must be properly based on analytical studies which take account of the existing situation and all the aspects involved in making a change in the management system; ii) the moment at which the proposal is made must be politically suitable and must be decided upon in accordance with the interests of the country; iii) the actors participating in the water management systems must be aware how important and necessary it is to cooperate in order to ensure that that resource is managed in an integrated manner; iv) the users themselves must be capable of financing the management process with their contributions; v) specific tasks must be assigned, and the agreements reached among those involved in the various levels of water management must be perfectly clear.

In order to assist in the correct formulation of proposals for the establishment of river basin management bodies, it is suggested that the questions posed in annex 2 should be answered first, as these are the kinds of questions that need to be settled before proposing the establishment of any watershed management body or putting forward solutions regarding bodies which have been set up but are not yet operative. In Latin America and the Caribbean there are many items of legislation which have become a dead letter because they were not fully or properly prepared, and the lack of clarity has given rise to negative reactions even before the system has come into being, especially when the relevant functions and attributions have not been properly spelt out.

IX

Future tasks

The most obvious strategy, when there is a lack of collective interest –either because of ignorance or because of fear of suffering the effects of yet another bureaucratic system– and there is a shortage of resources in the initial stage, is to establish river basin authorities on a step-by-step basis.

Thus, a start can be made by setting up authorities to manage the water of a river basin rather than river basin authorities proper, since fully-fledged river basin authorities have broader functions which are harder to reconcile with those of the regional development authorities. Water authorities are only concerned with the management of the water and associated natural resources of the basin, and will therefore have fewer conflicts of authority with national or local bodies.

The water authorities of a river basin should therefore only be responsible for the management of multiple water uses and of the natural resources of the river basin, in order to protect and conserve water quality and forestall and control extreme phenomena. In practice, they should manage the supply of water resources in the basin. The actual establishment of each river basin water authority should be carried out gradually, under the terms of a general law, so that efforts and scarce resources can be concentrated to assist the organization of users in some river basins of priority importance, while experience is being gained in the matter.

Water users must participate from the beginning in the formation of the water authority of the basin to which they belong. This authority must be made up of users themselves and representatives of the local and State governments, and it must be backed up by a permanent technical team that will serve as its secretariat. The State can begin its activities by organizing relatively small water management bodies for priority river basins. These bodies would have the features described earlier, but at the beginning of their operations they would have a steady source of income, based perhaps on a landed property tax (for example, 50 U.S. cents per year for every US$1 000 that a property is worth).

Such a body, which might be called an agency or corporation, should call upon the users to organize themselves by watercourses and canals in order to be registered as users and potential members of the water board or committee of the basin and to become eligible for technical support and loans. The formal registration of users, with details of the volumes of water involved, quality, location, flow regime, etc., could be carried out by private consultants technicians and lawyers, suitably trained and recognized by the State. The formal registration of current uses of water and the establishment of water balances should be prior requirements for the granting of water use rights.

Decisions on special charges and investments will be taken by the user representatives in conjunction with the other members of the water board of the basin. As the measurements of water quantity and quality become more complete, it will be easier to determine the best ways of levying charges, exacting payment for pollution, and allocating the costs and benefits of each project. With the funds collected in this way, the water authority of the basin, in coordination with the public and private sectors, should gradually equip the basin with systems for measuring the quantity, quality and periodicity of the water, as well as carrying out studies and helping users in technical and financial matters.

ANNEX I

Private enterprise economies and water management

In countries which rely largely on private enterprise for the production and distribution of goods and services, it is generally assumed that market competition allocates resources and distributes goods and services in line with the general public interest. If this is so, then why should the governments of these countries need to establish a water resources policy? The answer is that even in cases where the private market works reasonably well as a resource allocation mechanism there are still a number of reasons which make necessary government action to ensure suitable investment in water resources and guarantee adequate supply and distribution of water and water-related services.

This is because *it is more difficult to determine ownership rights in the case of water than in the cases of most other resources*. The precise determination of such rights, however, is essential for the proper functioning of economic institutions under private enterprise. As water flows from one place to another (lawyers call it an "elusive" resource), and as this flow varies according to the changing hydrological conditions, the determination of ownership rights over water has raised knotty problems. In areas where water and its use are highly developed, it has been necessary to establish precise legislation governing water use rights. In order for such legislation to serve the public interest, it is necessary to take account of national aims and scales of values, and the legislation must be formulated in such a way as to serve those principles and values. To put it in a nutshell, legislation on water distribution must serve the aims of national policy.

Another reason why a private enterprise economy is not likely to lead to optimum results through the free play of market forces where water resources management is concerned is that *there are big economies of scale in water use and development*, so that competition among various units engaged in the handling and distribution of water is anti-economic.

Thus, for example, there is no room for companies or other bodies which compete with each other in the supply of water for family or agricultural use, and it is against all economic logic that there should be navigational canals or even electric power systems which compete with each other in the same region. In an unregulated private enterprise economy, however, competition is essential if reasonably good results are to be obtained.

A third factor that militates against the proper functioning of an unregulated private enterprise system in the area of water resources is *the importance of what could be termed the "external" effects of water use*. A dam located at some point in a river basin naturally influences the water flow and thus affects the costs and benefits of downstream locations. In order to derive the greatest benefits from hydroelectric power, the dams within a river basin should be planned and managed in such a way as to take these interrelationships into account. When a water flow is used to dispose of wastes, these "external" effects (pollution) may be harmful. Where various private enterprise units are involved in the use and management of a river system, these "external" effects, whether positive or negative, may not be taken into account unless government action forces this to be done, yet if they are not taken into account it will not be possible to achieve efficient results.

There is also another reason why a private enterprise system is not in a position to attain optimum results without government action, and this reason is that *some of the services deriving from the use of water cannot be split up into units for purchase and sale in a competitive market.* Thus, for example, when a construction project is carried out to control the effects of spates, it will protect all property owners in a given stretch of the river, so it will not give owners the option of deciding whether they want to buy that protection or not. Likewise, in the case of the recreational value of bodies of water, this value will benefit the public at large and cannot be bought and sold on the market.

The net result of the multiple physical and economic features of water resources is that, even in a private enterprise economy, a large measure of public intervention is needed if it is desired that water use and management should serve the aims and scales of values of society. In turn, government intervention must be subject to a number of policies and rules relating to social objectives on the one hand, and to the physical and economic characteristics of water resources on the other.

Source: Irving K. Fox, Problemas de política hídrica, *Recursos hídricos*, vol. 1, No. 3, Buenos Aires, 1970.

ANNEX 2

Some questions that must be answered in designing proposals for the establishment of river basin management bodies

- What type of body is it proposed to establish, according to the classification given in table 1? Who is proposing to set up this body, and why?
- What kind of development has there been of other bodies at the river basin level in the country? What are these bodies, and what has been their experience?
- What would happen if some system of coordination of actions within the river basin were not established?
- Is it necessary or not to carry out some kind of coordination of the actions taking place in a river basin? Which actions should be coordinated? What actors are involved?
- Who is currently responsible for carrying out actions in the river basin that need to be coordinated?
- What would the actors concerned gain if there was coordination of some important actions in the river basin, such as multiple water use? Would the present situation change, and if so, how?
- What would the actors lose if a system were established for coordinating important actions in the river basin?
- What are the main obstacles currently preventing the introduction of a system of coordinated management of actions in the river basin?
- What kind of arguments do the various actors put forward in favour of or against the establishment of a system of coordination of actions in the river basin?
- What type of system needs to be set up for coordinating these actions? A formal authority (corporation or agency), a technical office or secretariat, or a mere coordination committee?
- What functions and attributions would such a system or body have? What would it do? How would the users of the river basin be represented? What legal weight would the various actors have in the decisions?
- What bodies currently exist, inside or outside the river basin, that can support the work of the proposed body (e.g., the legal system, the police, and rural extension and training services)?
- What system of financing would be established for the proposed body? Who will provide the resources for coordination: when, how much, and how? What system of collection will be used? What will the funds collected be used for?
- How will the body be organized? What type of information system will it use?
- What type of legal attributions will it have for enforcing the agreements reached on coordinated intervention in the river basin? Can plans be put forward for the execution of coordinated actions? How will their application be ensured?

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Public policies and *the competitiveness of* agricultural exports

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This article analyses the behaviour of the region's agricultural exports in the period following the onset of the debt crisis and makes some recommendations regarding public sector action with a view to improving the competitiveness of such exports. Section I describes the main trends which have been shaping international agricultural markets in recent decades and which have also marked their future trends. Section II shows how the region's agricultural supply has reacted to these changes. Finally, in section III –on the basis of a stylized representation of the behaviour of agricultural products in international markets– some criteria are laid down for the design of policies aimed at promoting the development of medium- and long-term competitive strategies for exportable agricultural supply, especially in order to facilitate the incorporation of the agricultural sectors with least capital (small and medium-sized producers) into the benefits of a development strategy aimed at integration with the rest of the world. As far as public intervention is concerned, the implicit thesis of the analysis is that although the adjustment and greater openness have brought some progress towards macroeconomic stability and some export growth there are still flaws in domestic markets –due rather to microeconomic factors– which hinder the incorporation of lower-income producers into the benefits of export agriculture.

I

The formation of international agricultural markets

An understanding of the functioning of international agricultural markets in the light of the trends which have shaped them will be very useful, in the following sections, for appraising the competitive behaviour of Latin American export agricultural supply (especially in the period since the reform processes) and analysing public sector participation in the design of a medium- and long-term competitive strategy to approach international markets more efficiently.

1. The impact of economic development and of changes within the household on food consumption habits

Since the end of the Second World War, the high-income countries have undergone a process of economic growth which has been accompanied by major changes in the structure of households and has thus also affected household lifestyles. In the member countries of the Organization for Economic Cooperation and Development (OECD), which represent around 75% of the markets for Latin American agricultural exports, since the war there has been a steady increase in per capita income, [1] the average number of persons in each household has gone down, [2] and there has been increasing incorporation of women into the labour market. [3]

These three features associated with economic development have had direct or indirect repercussions on food consumption habits and have thus also affected demand for agricultural products. A first effect which should be noted is the empirical observation that as individuals' income increases, the share of food in their expenditure structure goes down in relative importance, although in absolute terms spending on such items may increase (a phenomenon known as Engel's Law in the economic literature). Together with this reduction in the proportion of income spent on food, there is a qualitative improvement in the diet of the better-paid inhabitants, since generally speaking as income rises there is also increased concern for suitable nutrition and good health.

The increase in real income makes it possible to use spare time for activities unconnected with daily work. Holiday travel brings people into contact with new kinds of foods (especially fruit and vegetables considered exotic by dwellers in the Northern Hemisphere), and on their return tourists demand them in their home areas. The sports practised in their free time have also helped to improve the diet of high-income persons, since such sports are associated with the consumption of healthy products of low fat content (generally fruit and vegetables).

□ The author is indebted to Emiliano Ortega and Geraldo Müller, with whom he had many valuable discussions at various stages in the preparation of this article. He also wishes to express his gratitude for the comments and suggestions made by Martine Dirven and Rinske Warner, of the ECLAC Agricultural Development Unit, and by the editors of *CEPAL Review.* Any errors, omissions or misinterpretations are of course entirely the responsibility of the author.

[1] According to World Bank figures, the per capita gross national product of the high-income countries (expressed in constant 1990 dollars) went up from US$10 828 to US$19 590 between 1965 and 1990: i.e., it almost doubled. At the present time, the per capita product of those countries is nine times that of the Latin American and Caribbean countries (World Bank, 1992).

[2] Between the early 1960s and the early 1980s, the percentage of large households in the total number of households went down in countries such as Germany (from 14% to 8%), Sweden (from 13% to 6%), France (from 20% to 15%) and the Netherlands (from 27% to 13%), while the percentage of single-person households increased (Schwartz, 1988).

[3] Thus, for example, in the United States female participation in the labour force has been increasing steadily from 32% in 1947 to 39% in 1965 and 51% in the early 1980s (Bustillo and Barrett, 1993).

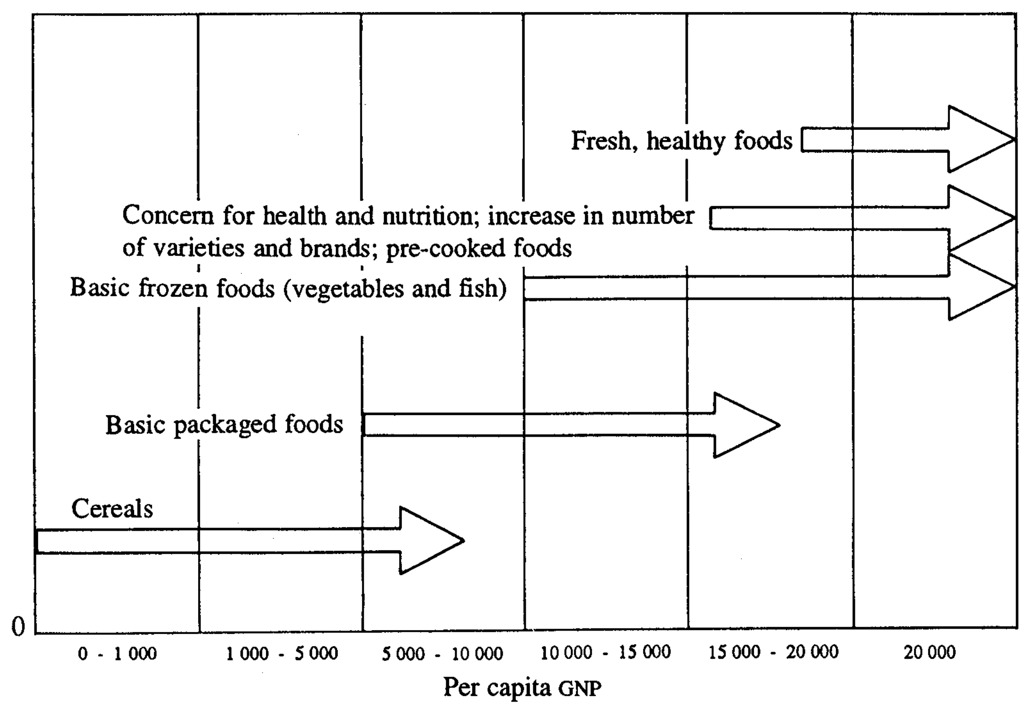
The improvements in income, together with the tendency to form households in which there are only a small number of persons and the increased incorporation of women into economic activities outside the home, have endowed food consumers in the industrialized nations with two further characteristics. The first is higher spending on meals outside the home, and the second is the desire to consume foodstuffs which are of high quality but can be easily and quickly prepared.

These changes in the conduct of consumers in the most highly industrialized countries have caused food consumption in the main markets for Latin America's agricultural exports to display the following trends: [4] i) replacement of fresh foodstuffs by prepared products (dehydrated soups, instant purée, frozen foods, precooked dishes, fruit juices and pulps, etc.); ii) an increase in the consumption of fresh tropical fruits and out-of-season vegetables; iii) an increase in the demand for foodstuffs corresponding to a single portion (250-300 grams). Thus, in the particular case of fruits, those of high unit weight, such as pineapples, are mostly consumed at times of public holidays, when guests are invited to the buyers' homes; iv) reduction in sugar consumption; v) reduction in consumption of beef, an increase in that of white meats (especially chicken), and a recovery in the demand for fish; vi) reduction in the demand for liquid milk (except that of low fat content), an increase in the demand for milk products (yogurt, cheese, desserts), and replacement of butter by margarine; vii) an increase in meals eaten outside the home (especially in fast-food establishments), [5] with an upward trend in the number of vegetarian restaurants and the introduction of salad bars in restaurants.

Generally speaking, these trends tend to spread as countries increase their per capita income (figure 1).

FIGURE 1

World: Level of development and food consumption trends



Source: The Economist, London, 4 December 1993.

[4] These trends have been noted by the Commission of the European Communities (1991), Jones Putnam (1991), Reig (1992) and Lutz, Blaylock and Smallwood (1993).

[5] In 1954 only 4% of total spending by average Americans on meals outside the home corresponded to fast-food establishments, but now the figure is 34% (*Food Review*, vol. 14, No. 3, July-September 1991).

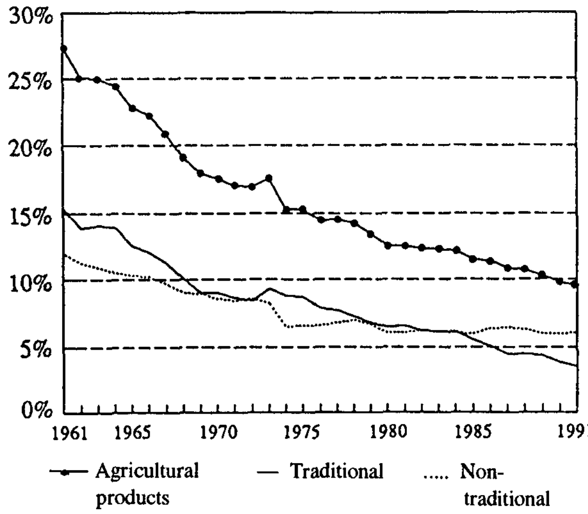
At low per capita income levels (less than US$5 000 per year) food consumption typically consists of basic foodstuffs (such as cereals) with a minimal level of processing and without any marketing strategies that seek to differentiate between brands and qualities. When a country's per capita income is over US$5 000, the presence of packaged foodstuffs beings to be noticeable, although in a rudimentary manner. At higher per capita income levels, food demand begins to come closer to the consumption patterns described earlier. It is important to note, however, that these consumption patterns characteristic of the industrialized economies tend to be imitated by the higher-income segments even in less developed countries.

2. The evolution of the world market for agricultural products

If we look at the evolution of world imports of agricultural products as compared to total imports of goods over the last thirty years (figure 2), we immediately note the steady decline in the relative importance of agricultural imports within world trade in goods. Thus, whereas at the beginning of the 1960s world agricultural imports represented over 25% of world purchases of goods, their share is now less than 10%. It may be noted that the decline in the relative importance of agriculture in world trade should not come as a surprise in a world which is advancing in terms of economic development: if the share of foodstuffs in personal spending patterns goes down as income increases, and if a certain percentage of spending on food is imported (to make matters simpler it will be assumed that this percentage is constant), then it is only to be expected that as countries develop, their agricultural imports (which reflect their spending on food) will lose relative weight within total imports (which reflect the aggregate spending of countries).[6]

FIGURE 2

World: Imports of agricultural products as a percentage of total imports of goods



Source: Prepared by the ECLAC Agricultural Development Unit on the basis of information from the AGROSTAT data base of the United Nations Food and Agriculture Organization (FAO).

The second feature which is worth noting is the change in the structure of world agricultural imports. It may be seen from figure 2 that the agricultural products considered as traditional in Latin America have been losing ground to non-traditional products in the structure of world agricultural imports.[7] Thus, in the 1960s traditional products averaged 54% of world agricultural purchases, but their share is now only 37%. The changes in consumption patterns on world markets, together with government intervention in agricultural markets, have played a leading role in these trends in world agricultural imports, depressing demand for traditional products and boosting the development of non-traditional markets.

[6] Nevertheless, the specialized literature tends to consider that this downward trend has been excessive in recent decades because of the high levels of government intervention in international agricultural trade. See, for example, World Bank (1986) and ECLAC (1993a).

[7] Traditional agricultural products are those which, in various sub-periods of the period between the two great economic crises of the twentieth century, formed part of the list of products accounting for over three-quarters of Latin American exports. Non-traditional products are the remainder. For a fuller analysis of these concepts, see ECLAC, 1993a, chapter II.

II

Latin America's response to the changes in international agricultural markets

The competitiveness of a product on a given market is usually measured through the evolution of its share of that market. According to calculations made on the basis of the FAO's AGROSTAT data base, the share of Latin American[8] agricultural products in world trade has gone down from 9.6% in the 1960s to a little over 7% at the present time.

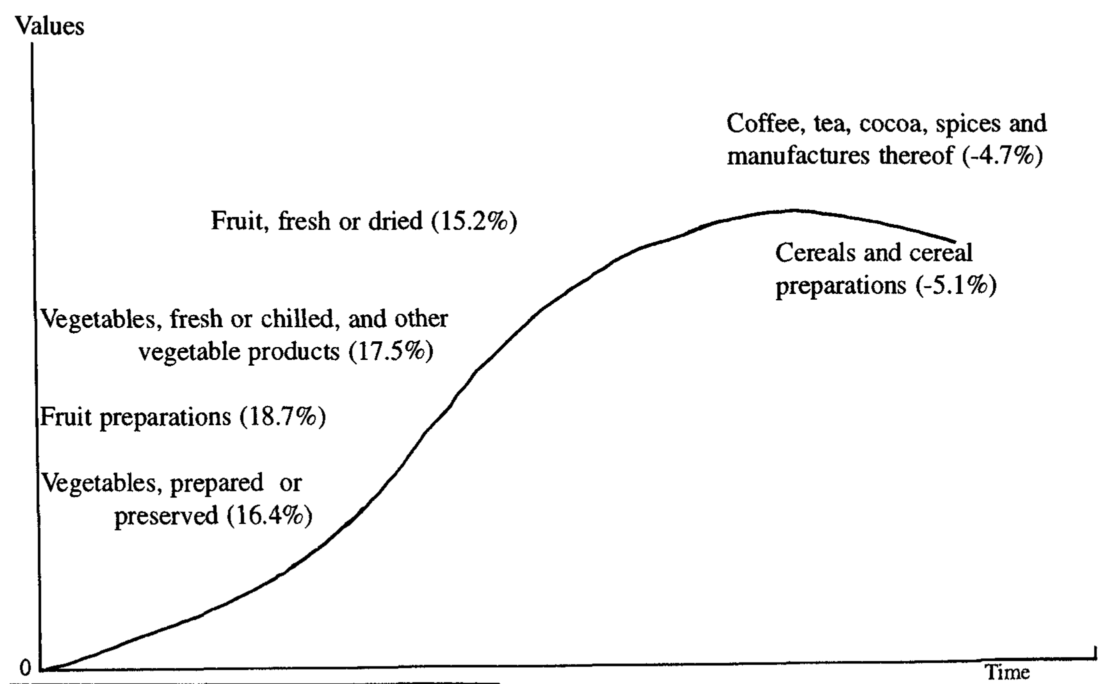
If we make a distinction between traditional and non-traditional products, we see that Latin America's share in the market for traditional products has remained steady at around 12.1% in recent years, after going down from 14.2% to 12.8% between the 1960s and the 1970s. In the case of non-traditional agricultural products, however, Latin America has been gaining ground in world exports of fruit and vegetables (excluding bananas, which are considered to be a traditional product). Thus, between the 1960s and the present day, Latin American fruit and vegetables have almost doubled their share of the world market for these products.

Another way of measuring the competitiveness of Latin American agricultural export supply is to analyse whether, after the initiation of the adjustment and trade openness processes, there have been changes in its structure which reflect the trends observed in world markets. A simple way of making such an evaluation is to plot the growth rates of different categories of agricultural products during the period after the outbreak of the crisis and compare them with consumption trends in the various markets.

Figure 3 (prepared on the basis of annex 1) shows the growth rates of some major categories of

FIGURE 3

Latin America: Agricultural export trends, 1983-1992



[8] Latin America is represented by the 11 member countries of ALADI.

Latin American agricultural export products [9] during the period 1983-1992. It may be seen from the figure that one group of products –the most dynamic ones– displayed an upward trend in international markets, while the less dynamic products registered negative growth rates during the period in question, although the export values involved are quite significant for the region. This is because these latter products correspond to fully consolidated international markets and the stage at which they stand in their life cycle is one of stagnation or decline.

According to figure 3, Latin America's agricultural exports would appear to have reacted positively to the consumption trends registered in world markets. Thus, the highest average annual growth rates of export values in the period 1983-1992 were registered in the cases of processed fruit, fresh or frozen vegetables, processed vegetables, and fresh or dried fruit. In contrast, those which turned in the most negative performance were cereals and preparations thereof and other traditional products such as coffee and cotton.

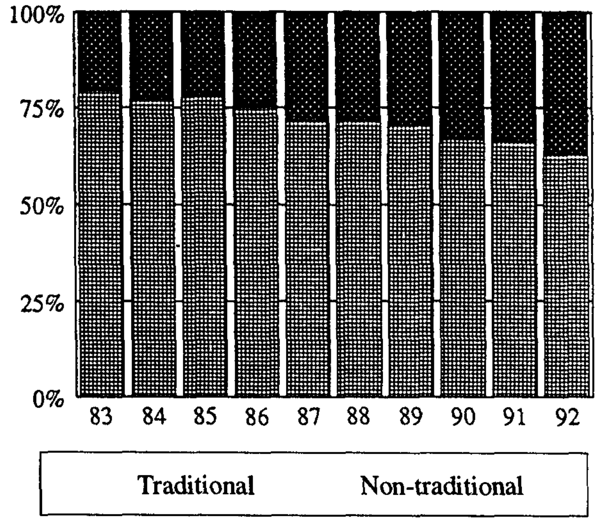
Likewise, among livestock products the annual average growth rate of exports of poultry and poultry products (8.3%) was far higher than that of beef exports (0.6%). Fishery sector exports also grew a good deal faster than the average for agricultural exports. The greater dynamism of the products listed above –most of which fall into the category of non-traditional exports– indicates that Latin America's export supply has been adapting to the changing consumption patterns in international markets.

However, even though the above indicators suggest that in the period since the crisis Latin America's agricultural export supply has tended to adapt to the changes taking place in international market conditions and has occupied a good place among the most dynamic sectors, the bulk of the region's agricultural exports still consists of products corresponding to the structure of production prevailing in the region before the adjustment and trade openness programmes.

Figure 4 shows the evolution of the structure of Latin American agricultural exports between 1983 and 1992. It may be noted that although non-traditional products steadily increased their share in the

FIGURE 4

Latin America[a]: Agricultural exports, 1983-1992



Source: ECLAC Agricultural Development Unit, on the basis of the ECLAC External Trade Data Bank for Latin America and the Caribbean (BADECEL).

[a] Ten countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Uruguay and Venezuela.

region's agricultural export supply (from one-fifth of the total in 1983 to over a third by the end of the period), most of the exports still consist of traditional products whose markets are the slowest-growing and display the biggest distortions (see annex 2).

Moreover, if a detailed study is made of the composition of the non-traditional exports it will be noted that although these exports grew and diversified during the period they still only consist of a limited number of products, concentrated in certain countries. Thus, for example, in the sample of 10 countries analysed in figure 4, in 1992 75% of the exports of fruit and vegetable juices corresponded to Brazil (basically orange juice), 95% of the region's exports of tomatoes came from Mexico, 86% of the region's grape exports were from Chile, and 82% of the exports of cut flowers and foliage came from Colombia. It will also be noted that there is not sufficient diversification of buyer markets, which could mean some vulnerability in time. [10]

[9] The Latin American countries considered for this purpose were Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Uruguay and Venezuela.

[10] For a detailed analysis of the features of the region's non-traditional agricultural export supply, see ECLAC, 1993a, chapter III.

III

Public intervention in the formulation of a competitive agricultural export strategy

In this section, an analysis is made –within the context of economic theory– of public intervention in the design of a competitive strategy aimed both at improving the performance of the region's agricultural exports in international markets and at promoting the diversification of regional agricultural supply. The purpose is to facilitate the incorporation of the agricultural sectors with the lowest levels of capital (basically small and medium-sized producers) into the benefits of export agriculture, especially of non-traditional products.

In the rest of this article, "competitive strategy" will be understood as the design of a set of measures aimed at the long-term maintenance of the economic benefits derived from export activity on international markets. These benefits must be commensurate with the levels of risk that the exporting firm, country or region would be willing to accept in an optimal situation.

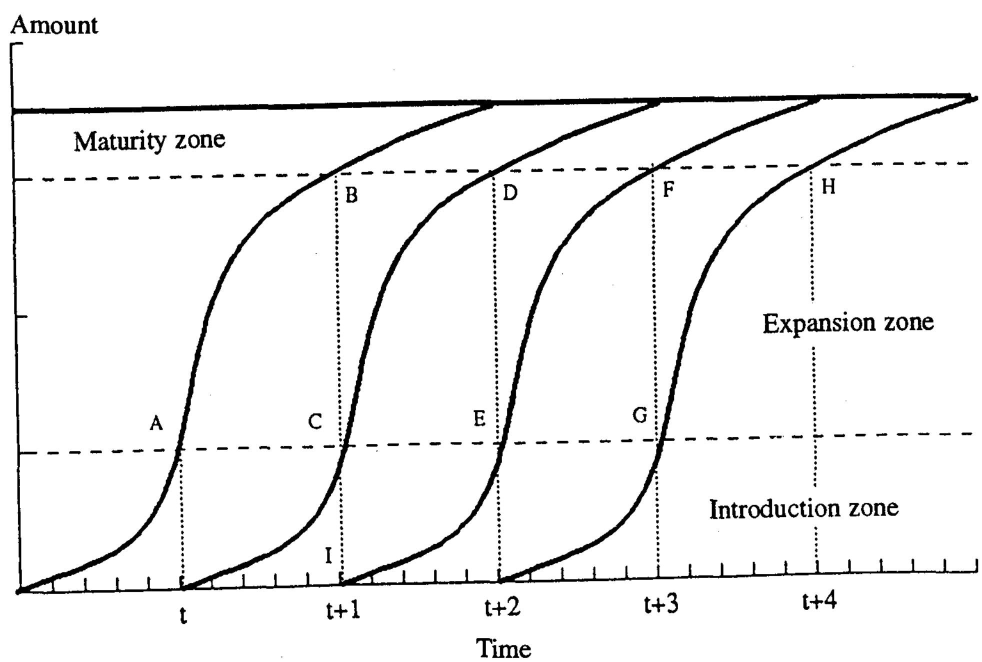
Before beginning to discuss public intervention in a strategy of this type, however, an idea should be gained of the typical dynamics of agricultural products in international markets.

1. Broad lines of a dynamic competitive strategy

Figure 5 shows the life cycles of four agricultural products traded on the international market at four different times. Generally speaking, each life cycle can be characterized, in simple terms, by three stages. The first stage extends from experimentation to the introduction of a new product on a given market; in the second stage, demand for the product thus introduced on the market begins to grow until it reaches a stage of maturity; and in the third and final stage demand for the product has now matured and

FIGURE 5

Design of a marketing strategy for agricultural products



therefore stabilizes or may even go down with the passage of time.

In figure 5, these three stages in the life cycles of agricultural products make up three zones which we have called introduction, expansion and maturity. Each of them has different levels of profitability and risk. The introduction zone generally involves a high level of risk associated with the initial investments, but if the product meets with good acceptance on the market it can mean a high rate of return per unit of product.[11]

In contrast, the maturity zone, which is characterized by consolidated and stable (and in some circumstances declining) markets, does not generally involve much risk. In this case, the profitability of export activity is determined by the volumes exported, since the rate of return per unit of product is low. This zone is typical of the "traditional" export products.

Finally, the expansion zone is in an intermediate position, in which good profitability per unit of product is obtained with an acceptable level of risk. This zone corresponds to markets for products where there is good customer acceptance but for some reason demand exceeds the existing traditional supply. The cost of entering such markets is thus less than that of introducing a new or exotic product.[12]

The three zones therefore represent different combinations of risk and profitability. It may be assumed, then, that at any given moment (for example, at any point between t+1 and t+2 in figure 5) a country's agricultural export structure will be made up of three types of products: one type in the introduction zone, one in the expansion zone, and one in the maturity zone.

The weight of each of these types of products within the agricultural export structure will depend on the aggregate degree of aversion to risk of the country's agricultural export sector. If it is considered that this level will be "normal", however, it may be expected that most exports will be in the expansion zone and smaller proportions will be in the introduction and maturity zones. In this sense, from an intertemporal point of view the best situation from the country's standpoint would be to keep its risk structure stable over time, along with the corresponding level of profitability.

Such a strategy would mean, for example, that if given export agents wanted to remain at a level of risk and average profitability characteristic of the expansion zone for a prolonged space of time, they would have to be able to move from one product to another. Thus, let us assume that in period t a certain export sector (which can be represented as an individual firm) enters the world agricultural market offering, for example, mangoes. As demand for the product in question is rising at that time, it is in the interest of the export firm to stay in the market for a time (defined by the period between t and t+1), as long as the conditions of risk and profitability which optimize their own profit function prevail. In other words, the optimum strategy for that firm between period t and t+1 is determined by segment AB.

As from period t+1, however, the risk and profitability conditions which characterized the mango market change, since this product enters the maturity zone (with the entry of many new firms into this market). When the firm is at a point like B, it is faced with the following alternatives: a) To continue producing mangoes, but now within the maturity zone (with low risks and low profitability); or b) To change its product line, in which case it again has two options: i) to invest in a new product as yet unknown on the market, thus entering the introduction zone (of high risk and high profitability) and hence passing from point B to point I, or ii) to invest in a product which is not so new (i.e., already accepted on the market) and thus stay in the expansion zone, hence passing from point B to point C.

For an export firm which is at a point such as B and decides to change its product line, this change does not necessarily mean that it will completely cut off its connection with the previous product. Passing from B to C or I may indeed mean a change of product (for example, changing from mangoes to

[11] According to data of the U.S. Department of Agriculture, in 1991 alone 12 398 new food products were placed on the market in that country. Most of them are extensions of products already on the market, involving new sizes, flavours, packaging designs, etc. Many of these new food products are a response to consumers' ecological and health concerns. Putting a new product on the market can mean expenditure of over US$100 million, spread over research and development, experimental marketing, publicity, inventory control and financial costs. Although no precise data are available, according to some analysts' estimates between 80% and 95% of the new products placed on the United States market turn out to be a failure. Those that pass the test, however, earn high rates of profits. For further details, see Gallo, 1992.

[12] One of the features of this stage is that there are already marketing circuits for the product.

pineapples), but it can also mean the differentiation or modification of the product (for example, changing from mangoes to mango juice). The main challenge that must be faced by those formulating economic policy at the present time is how to establish –within the prevailing economic model– an agricultural export development strategy which makes it easier for a firm which is at point B to follow the desired path, which may be B, C, D, E, F, G or H. Public sector action must therefore favour private sector decision making based on an optimizing form of conduct in the light of its risk and profitability preferences.

2. Public intervention in designing a competitive agricultural export strategy

A diagnostic study of the crisis which affected Latin America in the 1980s noted that one of its main causes was the excessive role of the State in the economy, to the detriment of private enterprise (Balassa, Bueno, Kuczynski and Simonsen, 1986). The measures which accompanied the adjustment and economic openness programmes in the region were therefore designed to promote the competitiveness of firms through the establishment of a stable macroeconomic setting, the review of the size and functions of the State, and the reworking of the legal framework.

In this context, specific State participation in the promotion of export agriculture is limited mainly to the provision of the basic infrastructure (roads, ports, certain types of irrigation works); to the collection, processing and dissemination of national production and foreign trade statistics; to the generation and dissemination of information on present and future weather conditions, and to the work of enforcing the observance of certain plant and animal health requirements.

In the following paragraphs, however, the aim is to analyse the question of whether public participation in the development of export agriculture in Latin America (with emphasis on non-traditional products) should be limited exclusively to the items mentioned above, or should be broadened. This is of particular interest in view of the fact that the rural sectors of countries such as Ecuador, Mexico, Peru or Venezuela are demanding a bigger share in the benefits of the development strategy embarked upon.

A recent World Bank study (Jaffe, 1993), which analyses 15 successful experiences with high-value agricultural products in nine developing countries,[13] shows that although in most cases the export "take-off" took place parallel with or subsequent to the introduction of macroeconomic and trade reforms, in almost all cases the governments played a decisive role by adopting support measures which facilitated the success of the experiences in question. Public sector participation went beyond the provision of basic infrastructure, to cover research and technology transfer programmes, product inspection and certification and, in over half the cases, improvement of public information. Other types of public intervention highlighted in the study are government-level negotiations on access to certain markets and assistance in product promotion on international markets.[14]

The following analysis of public sector participation in designing a competitive strategy for export agriculture is made in the context of economic theory, and especially of the latest advances in economic development theory. Unlike the more traditional approach of the Arrow-Debreu model, in which competitive equilibrium does not allow of the presence of any institutions other than the market and property rights, the view of agricultural development currently in vogue in the world's most important academic centres –known as the "theory of agricultural institutions" (De Janvry, 1994) or the "economy of rural organizations" (Hoff, Braverman and Stiglitz, 1993)– holds that the existence of other economic institutions in the agricultural or rural sector reflects rational responses by the economic agents to market problems.

[13] The cases described are those of fresh tomatoes in Mexico; out-of-season vegetables in Kenya; fresh citrus fruit in Israel; temperate-zone fruit, processed tomatoes and fishery products in Chile; frozen concentrated orange juice and soybean products in Brazil; meat and soybean products in Argentina; poultry products, tuna and shrimp in Thailand; and high-value processed foods in Taiwan.

[14] The successful experience of Chilean export fruit-growing in the last 15 years (a frequently cited example of the potential benefits of export agriculture) was the result of a joint effort by the public and private sectors over a period of several decades. The role of the State in investment in technology and human capital, in the identification of suitable varieties, in furthering the availability of credit, etc., was of fundamental importance in the attainment of spectacular results after the adjustment and the subsequent opening-up to the exterior. Fuller details of this and other experiences are given in ECLAC, 1990; Jarvis, 1992, and Legarraga, 1993.

Although both approaches posit economic rationality –understood as a process in which, in the light of different resource constraints, the economic agents adopt the best possible decisions in terms of their own well-being– they differ with regard to the socially optimal nature of the equilibrium attained. According to the Arrow-Debreu model, the sum of private decisions leads to an equilibrium which is socially efficient. [15] The economy of rural organizations theory, in contrast, holds that the equilibrium deriving from individual optimization processes is not necessarily efficient from a social standpoint, since markets are not perfect. The market flaws on which this latter approach focuses are due basically to the absence of certain markets (e.g., the risk market), the existence of imperfect information, and the transaction costs of the economy. Thus, public intervention in a context of imperfect markets can give rise to improved efficiency for society as a whole if it focuses on actions which are profitable from a social point of view but not from a private one (Hoff, Braverman and Stiglitz, 1993).

The present article maintains that in the current Latin American context –in which most of the economies are relatively open to the exterior and are deregulated– market flaws persist (fundamentally of a microeconomic nature) which hinder the incorporation of the least-capitalized sectors of agriculture into a development strategy based on exports. According to the model described in section 1 of this chapter, such flaws would hinder, for example, the passage from point B to point C by an enterprise which –in line with an optimization process– decided to pursue a dynamic strategy following the path A, B, C, D, E, F, G, H.

In order to move from point B to point C, the agricultural producer needs sufficient information on markets to enable him to minimize the risks associated with his decision to change his line of activity (for example: supply and demand conditions on external and internal markets, consumption trends, protectionist barriers, evolution of prices, etc.). When he has identified the product characteristic of point C, on the basis of this information and in line with his own preferences, he needs the technical and financial capacity to produce it. In addition, he must be confident that his competitiveness on international markets will be backed up by the quality of the product supplied. Finally –above all if he is a small or medium-sized producer– he must have a certain amount of negotiating capacity –both domestic and external– so as to enable him on the one hand to share the risks involved in the marketing process and, on the other, to secure the opening-up of markets which had previously been closed.

a) *The development of information markets*

The opening-up of the Latin American economies to the exterior has meant that the information needed by export firms to compete efficiently on international markets goes beyond the information generally provided by the public sector as part of its routine activities (national statistics, weather conditions, etc.). We know from experience that if economic agents do not have the necessary information, their production and export decisions may be sub-optimal and may affect the well-being of society as a whole. [16] It is therefore essential that firms and countries should have timely information (statistical and conjunctural) on the situation of international markets, at least as regards price evolution, demand behaviour, market access restrictions, and the situation of potential competitors.

This information is generally available to big firms that have an operational system for this purpose or have sufficient resources to hire the services of one or more of the firms which specialize in this type of information. For smaller firms, however, the high cost of obtaining the basic information needed to decide whether to enter export markets may cause them to give up this effort. Thus, since information for smaller firms is a public good, the public sector should provide the basic information, especially if the costs of generating it are only marginal, since governments have diplomatic missions all over the world.

An example which illustrates the need for information on international markets in order to maximize the benefits of export agriculture is provided by a survey carried out by the ECLAC Agricultural Development Unit on the situation of non-traditional export crops in 14 Latin American countries: Argentina,

[15] Efficiency is understood in the sense given to it by Pareto, whereby no individual in society can be better-off without at least one other individual being worse-off.

[16] This is clearly illustrated by the well-known "prisoner's dilemma" when competitive (Nash) equilibrium is reached.

Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay. A number of these countries are carrying out public or private promotional efforts in respect of quite a limited range of products.

Thus, for example, eight countries of the region plan to expand their shares in the markets for berries and citrus fruit, while seven countries have high hopes of increasing their exports of mangoes, melons and cut flowers and foliage. At least six different groups of countries have a special interest in increasing their supplies on the world asparagus and pineapple markets. The results of these strategies of the various countries, which were formulated on the basis of the past situation in world markets for these products, may lead to the saturation of some of them if they exceed their demand capacity. This would adversely affect the advances in well-being which it is hoped to obtain through these promotional efforts.

b) *Research and transfer of technology*

One of the features of the structural adjustment policies applied in Latin America has been the reduction of fiscal spending. Because of this reduction, the public and semi-public institutions engaged in agricultural research have suffered budget cuts and have lost ground and presence (ECLAC, 1991, p. 45). This reduction in public financing is estimated to have led to a level of investment in research and technological development lower than that considered socially desirable.

In a recent study (Jarvis, 1992) it is argued that as technological change is the main factor in sustained agricultural growth, and in view of the fact that the knowledge obtained from agricultural research is a public good, then if markets tend to be competitive, private investors can only appropriate a portion of the benefits of such research. Thus, in deregulated macroeconomic contexts which favour business competition, private sector expenditure on agricultural research and development may be below the level that would be considered optimal from a social point of view. In this respect, Jarvis suggests that public intervention in agricultural research is necessary, either directly or through subsidies for private research. Public participation must not be limited solely to the development of technology, but must also include the study of new exportable products and the identification of niches in international markets. [17] If the development strategies followed by the countries of the region include the incorporation of low-capital sectors into the benefits of export agriculture, it is not desirable that enterprises should bear the cost of technological research and development individually. It would be more efficient to try to take advantage of the economies of scale offered by the joint execution of such efforts.

c) *Agricultural producers' capacity to finance projects*

In the past, both Latin America and other regions tackled the lack of finance by setting up special banks for agriculture. In general, in Latin America these specialized institutions were owned and run by the State. Since they functioned in a highly distorted macroeconomic context and were accompanied by ill-advised measures aimed at solving the problems of agricultural financing, however, these public institutions generated growing deficits and their allocation of credit was extremely inefficient.

For this reason, when the deregulation and external openness programmes began to be applied in the region, the agricultural banks were eliminated in many cases. Now that the private commercial banks of most of the countries of the region are deregulated, agricultural producers –especially those operating on a small or medium-sized scale– have only very limited access to commercial credit. [18]

This rationing of credit [19] is not due to the existence of controls or ceilings on interest rates, to excessively high compulsory reserve requirements, or to the obligation to maintain certain lines of subsidized credit –which are the classic reasons adduced in studies such as those by McKinnon (1974) and Shaw (1973)– but to such factors as the lack of capital to back up the credit or problems of unequal availability of information.

[17] It should be noted that such diverse fields as medicine, cosmetics and agroindustry can now be interesting alternatives for the export of non-traditional agricultural products.

[18] The problems of agricultural credit in Bolivia, Colombia, Mexico, Peru and Venezuela after the application of the adjustment and external openness programmes are analysed in *Debate Agrario*, 1993.

[19] By rationing of credit we mean the situation in which the financial market does not give credit to all the agents who request it, even when they are willing to pay the opportunity cost of the resources in question.

Problems of unequal availability of information arise when the firm requesting credit has more information than the bank on the probabilities of success of its project.[20] For the banks, obtaining this information is difficult and costly, because the profitability of agricultural projects generally depends on many different aspects: soil quality, weather conditions, the kind of technology used, the type of product, the location of the demand for the product (domestic or external market), price variations (which are related to the seasonal nature of production and market intervention), availability of water, access to storage and transport infrastructure (roads, ports), the interactions with agroindustry, the structure of the marketing system, etc.

The financial system's inability to monitor every project individually, because of the complexity of the information required, means that even in a situation of free financial markets the private commercial banking system does not fully cover the financing needs of agricultural producers, because expanding credit to this sector in a context of incomplete information would raise the level of risk and could reduce the expected profits of the banks.

If, in a situation of excess demand for credit with inequalities in the availability of information, the commercial banks decide to raise their interest rates in order to be able to provide loans for more projects, it may be that the soundest (lowest-risk) projects may withdraw from the financial market, leaving the riskiest ones. This would alter the composition of the banks' portfolios and reduce their expected profits (Stiglitz and Weiss, 1981).

Lack of financing obliges producers –especially the small and medium-sized ones– to seek resources from the informal sector, from agroindustries, or from suppliers of inputs, or else to try to raise the necessary funds themselves or, at worst, postpone their projects.

[20] If the bank could be sure that the firm requesting the credit could not possibly act in a misleading manner when asked for information on the project which it desired to carry out, then there would be no problem of unequal availability of information. However, the possibility of deceit does exist, and the costs that the bank must incur in order to ascertain whether the producer was lying or not are quite high.

The foregoing has meant that levels of investment have been registered in agriculture which may be considered as being below the optimum levels from the social point of view. This is why it is necessary to formulate public policies designed to eliminate or offset the factors leading to rationing of credit in the sector.

d) *Export product quality*

Since the adjustment and external openness processes, Latin America's competitive position in international agricultural markets, both for traditional and non-traditional products, has generally been based on products of low cost and low quality. The region's comparative advantages in the production of agricultural goods for export to the industrialized countries have consisted basically of low labour costs, the seasonal nature of some crops, and the relatively exclusive nature of the production, especially in the case of tropical crops.

These advantages, however, are not enough to form the basis for a medium- and long-term sectoral development strategy. Experience has shown that as depressed areas emerge from their situation of stagnation, the opportunity cost of labour tends to rise and is naturally reflected in higher wages. Consequently, unless an effort is made to progress from a competitive position of low costs and low quality to one of high value and high quality, the region's agricultural export supply will tend to lose ground in relative terms in international markets. The other two factors on which Latin America's current comparative advantages are based –the seasonal nature of crops and the region's relatively exclusive position as regards the growing of certain products– could also be weakened in the medium and long term as more developing countries embark on agricultural export strategies and advances continue to be made in biogenetics and biotechnology. Furthermore, the trend among consumers in the most highly developed countries is towards a preference for high quality products rather than those of low cost. It is therefore necessary to do everything possible to export quality rather than just low prices, if this export strategy is to be sustainable beyond the short term.

In this context, public participation should be aimed at protecting exporters who invest in measures designed to improve the quality of their products while maintaining internationally competitive costs, for –as Akerlof noted in 1970– one of the main problems in the marketing of developing countries' agricultural products is that low-quality products traded by unscrupulous agents tend to drive good-quality products off the market (Akerlof, 1970). In market economies, the answer of private agents to this problem is the introduction of brands which identify the product and guarantee its quality. However, this is basically observed in economies which have risen above a certain level of per capita income or in those –such as South Africa or New Zealand– where the State has a monopoly of the marketing of the products in question. In Latin America, public participation designed to safeguard the quality of agricultural export products could, for example, take the form of a seal of quality guaranteeing the standard of the products of firms which comply with certain requirements laid down by some specialized public or private institution recognized on the import markets. Such a seal would be differentiated and awarded in the light of both the plant and animal health requirements of the destination markets and the quality demanded by consumers according to their market segment, in order not to prejudice those producers who decide to aim their production at segments of consumers who attach more importance to lower price rather than top quality.

e) *Negotiating capacity*

Most of the countries of the region are now seeking to incorporate themselves into international markets to an ever-increasing extent, so it is essential that the local export supply should have a certain level of capacity for negotiations on the destination markets.

This negotiating capacity should be aimed firstly at defending the place gained on international markets against protectionist measures that go beyond the limits set by GATT (GATT, 1993). Secondly, it should seek to win specific markets –such as that of Japan– where bilateral negotiations at the government level (for example, on the plant and animal health regulations applied to exports) play a decisive role. Finally, it should deal with the marketing of products on international markets. The lack of association and coordination among producers means that very often the risks inherent in trade in perishable products are assumed almost entirely by the producers themselves, especially when production is organized on a competitive basis, whereas the marketing structure is oligopolistic. In such a case, public action should, for example, seek to further the development of product trade associations or promote competition in sectors related to product marketing (Hill and Bender, 1993).

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ANNEX 1

Latin America (10 countries):[a] Agricultural exports, 1983-1992

A. Total agricultural exports, millions of dollars

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Crop-farming exports	13 749	16 205	15 552	15 356	13 335	15 218	15 256	17 274	17 200	18 283
Fruit, fresh or dried	766	834	1 073	1 195	1 333	1 505	1 641	2 013	2 712	2 745
Edible nuts, fresh or dried	114	107	160	167	143	169	165	205	194	259
Vegetables, fresh or frozen	419	575	525	846	602	683	628	1 207	1 097	1 791
Cereals and cereal preparations	3 156	2 492	2 468	1 408	897	1 156	1 384	1 786	1 490	1 964
Coffee, tea, cocoa, spices and manufactures thereof	5 302	6 507	6 568	7 721	5 688	5 571	4 881	4 051	4 097	3 445
Sugars, sugar preparations and honey	957	893	596	700	664	847	773	1 064	911	1 067
Cotton	433	508	457	229	400	564	724	781	839	412
Oil seeds and oleaginous fruits	790	1 567	1 650	992	1 066	1 561	1 820	2 082	1 773	1 818
Vegetable products, raw	208	224	231	252	266	344	400	441	530	636
Vegetables and fruit, processed	847	1 718	1 016	1 014	1 311	1 692	1 680	2 284	1 755	2 055
Vegetables, processed	85	105	100	117	149	177	285	309	306	334
Fruit, processed	54	69	55	76	104	114	138	185	204	253
Other fruit and vegetables, processed	708	1 545	860	821	1 058	1 401	1 258	1 791	1 245	1 468
Beverages and tobacco	700	727	763	757	876	1 013	1 077	1 267	1 676	1 918
Edible products and preparations, n.e.s.	57	52	48	76	89	113	84	93	125	172
Livestock exports	2 380	1 924	1 892	2 081	2 164	2 575	2 627	3 029	3 041	3 121
Live animals, mainly for food	217	127	192	294	217	232	277	440	442	407
Meat and meat preparations	1 747	1 446	1 370	1 408	1 543	1 794	1 786	2 003	2 188	2 323
Dairy products and birds' eggs	88	40	49	70	59	105	200	199	151	122
Wool and other animal hair (except tops)	293	282	246	261	302	380	294	317	194	181
Crude animal materials	35	30	37	47	44	64	70	69	66	88
Exports of animal and vegetable oils, fats, meal and waxes	4 159	4 527	4 084	3 566	3 937	5 643	5 749	5 162	5 020	5 542
Animal oils and fats	31	45	48	33	28	41	36	29	41	28
Fixed vegetable oils and fats	1 121	1 779	1 809	897	964	1 340	1 375	1 613	1 549	1 525
Animal or vegetable oils or fats, processed; waxes	25	26	32	32	33	43	80	77	70	74
Feeding stuff for animals	2 983	2 676	2 195	2 604	2 911	4 218	4 258	3 443	3 360	3 915
Forestry exports	1 042	1 199	989	1 181	1 526	2 073	2 267	2 087	2 087	2 653
Primary (wood and cork)	304	300	258	303	451	591	677	761	817	887
Secondary	738	899	731	878	1 075	1 482	1 590	1 327	1 270	1 766
Fishery exports	1 013	1 185	1 318	1 504	1 861	1 866	1 900	1 963	2 495	2 688
Fish, fresh, chilled or frozen	235	212	364	413	531	554	648	828	1 051	1 088
Fish, dried, salted or in brine; smoked fish	11	10	15	14	15	23	29	28	40	65
Crustaceans, fresh, chilled, frozen, salted, etc.	798	892	847	954	1 132	1 117	1 027	891	1 137	1 214
Fish, crustaceans or molluscs, prepared or preserved	59	71	93	122	182	173	196	216	266	321
Total agricultural exports	*22 433*	*25 040*	*23 836*	*23 688*	*22 822*	*27 375*	*27 800*	*29 516*	*29 844*	*32 286*
Total exports	*78 110*	*87 039*	*84 892*	*70 237*	*77 842*	*89 859*	*100 802*	*104 196*	*107 619*	*112 336*
B. Proportion of total agricultural exports, by product categories (%)										
Crop-farming exports	61.3	64.7	65.2	64.8	58.4	55.6	54.9	58.5	57.6	56.6
Fruit, fresh or dried	3.4	3.3	4.5	5.0	5.8	5.5	5.9	6.8	9.1	8.5
Edible nuts, fresh or dried	0.5	0.4	0.7	0.7	0.6	0.6	0.6	0.7	0.6	0.8
Vegetables, fresh or frozen	1.9	2.3	2.2	3.6	2.6	2.5	2.3	4.1	3.7	5.5
Cereals and cereal preparations	14.1	10.0	10.4	5.9	3.9	4.2	5.0	6.0	5.0	6.1

(Continued on next page)

ANNEX 1 *(Continued)*

	B. Proportion of total agricultural exports, by product categories (%)									
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Coffee, tea, cocoa, spices and manufactures thereof	23.6	26.0	27.6	32.6	24.9	20.3	17.6	13.7	13.7	10.7
Sugars, sugar preparations and honey	4.3	3.6	2.5	3.0	2.9	3.1	2.8	3.6	3.1	3.3
Cotton	1.9	2.0	1.9	1.0	1.8	2.1	2.6	2.6	2.8	1.3
Oil seeds and oleaginous fruits	3.5	6.3	6.9	4.2	4.7	5.7	6.5	7.1	5.9	5.6
Vegetable products, raw	0.9	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.8	2.0
Vegetables and fruit, processed	3.8	6.9	4.3	4.3	5.7	6.2	6.0	7.7	5.9	6.4
Vegetables, processed	0.4	0.4	0.4	0.5	0.7	0.6	1.0	1.0	1.0	1.0
Fruit, processed	0.2	0.3	0.2	0.3	0.5	0.4	0.5	0.6	0.7	0.8
Other fruit and vegetables, processed	3.2	6.2	3.6	3.5	4.6	5.1	4.5	6.1	4.2	4.5
Beverages and tobacco	3.1	2.9	3.2	3.2	3.8	3.7	3.9	4.3	5.6	5.9
Edible products and preparations, n.e.s.	0.3	0.2	0.2	0.3	0.4	0.4	0.3	0.3	0.4	0.5
Livestock exports	10.6	7.7	7.9	8.8	9.5	9.4	9.5	10.3	10.2	9.7
Live animals, mainly for food	1.0	0.5	0.8	1.2	0.9	0.8	1.0	1.5	1.5	1.3
Meat and meat preparations	7.8	5.8	5.7	5.9	6.8	6.6	6.4	6.8	7.3	7.2
Dairy products and birds' eggs	0.4	0.2	0.2	0.3	0.3	0.4	0.7	0.7	0.5	0.4
Wool and other animal hair (except tops)	1.3	1.1	1.0	1.1	1.3	1.4	1.1	1.1	0.6	0.6
Crude animal materials	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3
Exports of animal and vegetable oils, fats, meal and waxes	18.5	18.1	17.1	15.1	17.2	20.6	20.7	17.5	16.8	17.2
Animal oils and fats	0.1	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Fixed vegetable oils and fats	5.0	7.1	7.6	3.8	4.2	4.9	4.9	5.5	5.2	4.7
Animal or vegetable oils or fats, processed; waxes	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.2	0.2
Feeding stuff for animals	13.3	10.7	9.2	11.0	12.8	15.4	15.3	11.7	11.3	12.1
Forestry exports	4.6	4.8	4.1	5.0	6.7	7.6	8.2	7.1	7.0	8.2
Primary (wood and cork)	1.4	1.2	1.1	1.3	2.0	2.2	2.4	2.6	2.7	2.7
Secondary	3.3	3.6	3.1	3.7	4.7	5.4	5.7	4.5	4.3	5.5
Fishery exports	4.9	4.7	5.5	6.3	8.2	6.8	6.8	6.7	8.4	8.3
Fish, fresh, chilled or frozen	1.0	0.8	1.5	1.7	2.3	2.0	2.3	2.8	3.5	3.4
Fish, dried, salted or in brine; smoked fish	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Crustaceans, fresh, chilled, frozen, salted, etc.	3.6	3.6	3.6	4.0	5.0	4.1	3.7	3.0	3.8	3.8
Fish, crustaceans or molluscs, prepared or preserved	0.3	0.3	0.4	0.5	0.8	0.6	0.7	0.7	0.9	1.0
Total agricultural exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECLAC, Agricultural Development Unit, on the basis of information from the ECLAC External Trade Data Bank for Latin America and the Caribbean (BADECEL).

[a] Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Uruguay and Venezuela.

ANNEX 2

Latin America (10 countries):[a] Traditional agricultural exports, 1983-1992

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
A. Traditional agricultural exports, millions of dollars										
Crop-farming products	11 301	12 523	12 410	11 757	9 417	10 622	10 621	11 036	11 068	10 808
Bananas, fresh or dried	311	332	427	498	504	574	671	845	1 237	1 208
Coffee and coffee substitutes	4 503	5 401	5 270	6 685	4 655	4 631	4 208	3 326	3 458	2 850
Wheat, rice, barley, maize, unmilled	3 083	2 385	2 383	1 344	820	1 060	1 228	1 574	1 255	1 717
Cocoa	632	838	1 021	771	770	708	479	523	420	376
Sugars, sugar preparations and honey	957	893	596	700	664	847	773	1 064	911	1 067
Cotton	433	508	457	229	400	564	724	781	839	412
Oil seeds and oleaginous fruits	790	1 567	1 650	992	1 066	1 561	1 820	2 082	1 773	1 818
Tobacco and tobacco manufactures	593	599	607	539	538	677	718	840	1 175	1 359
Livestock products	1 079	813	770	841	946	1 221	1 109	1 252	998	1 009
Meat of bovine animals, fresh, chilled or frozen	787	532	525	579	644	840	815	934	804	828
Wool and other animal hair (except tops)	293	282	246	261	302	380	294	317	194	181
Animal and vegetable oils, fats, meal and waxes	4 104	4 455	4 005	3 502	3 875	5 558	5 633	5 056	4 909	5 440
Fixed oils and fats of vegetable origin	1 121	1 779	1 809	897	964	1 340	1 375	1 613	1 549	1 525
Feeding stuff for animals	2 983	2 676	2 195	2 604	2 911	4 218	4 258	3 443	3 360	3 915
Forestry products	302	296	253	292	425	511	580	604	631	687
Other wood in the rough or roughly squared	40	40	52	47	67	92	59	97	107	131
Wood, simply worked, and railway sleepers of wood	262	256	200	246	358	419	522	506	523	556
Fishery products	1 033	1 104	1 211	1 367	1 663	1 671	1 675	1 718	2 189	2 302
Fish, fresh, chilled or frozen	235	212	364	413	531	554	648	828	1 051	1 088
Crustaceans, fresh, chilled, frozen, salted, etc.	798	892	847	954	1 132	1 117	1 027	891	1 137	1 214
Total traditional agricultural exports	17 819	19 192	18 649	17 759	16 327	19 582	19 620	19 665	19 794	20 246
Total non-traditional agricultural exports	4 614	5 848	5 188	5 929	6 495	7 793	8 180	9 851	10 050	12 041
Total agricultural exports	22 433	25 040	23 836	23 688	22 822	27 375	27 800	29 516	29 844	32 286
B. Proportion of traditional agricultural exports in total agricultural exports of the region, 1983-1992 (%)										
Crop-farming products	50.4	50.0	52.1	49.6	41.3	38.8	38.2	37.4	37.1	33.5
Bananas, fresh or dried	1.4	1.3	1.8	2.1	2.2	2.1	2.4	2.9	4.1	3.7
Coffee and coffee substitutes	20.1	21.6	22.1	28.2	20.4	16.9	15.1	11.3	11.6	8.8
Wheat, rice, barley, maize, unmilled	13.7	9.5	10.0	5.7	3.6	3.9	4.4	5.3	4.2	5.3
Cocoa	2.8	3.3	4.3	3.3	3.4	2.6	1.7	1.8	1.4	1.2
Sugars, sugar preparations and honey	4.3	3.6	2.5	3.0	2.9	3.1	2.8	3.6	3.1	3.3
Cotton	1.9	2.0	1.9	1.0	1.8	2.1	2.6	2.6	2.8	1.3
Oil seeds and oleaginous fruits	3.5	6.3	6.9	4.2	4.7	5.7	6.5	7.1	5.9	5.6
Tobacco and tobacco manufactures	2.6	2.4	2.5	2.3	2.4	2.5	2.6	2.8	3.9	4.2
Livestock products	4.8	3.2	3.2	3.5	4.1	4.5	4.0	4.2	3.3	3.1
Meat of bovine animals, fresh, chilled or frozen	3.5	2.1	2.2	2.4	2.8	3.1	2.9	3.2	2.7	2.6
Wool and other animal hair (except tops)	1.3	1.1	1.0	1.1	1.3	1.4	1.1	1.1	0.6	0.6

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ANNEX 2 *(Continued)*

B. Proportion of traditional agricultural exports in total agricultural exports of the region, 1983-1992 (%)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Animal and vegetable oils, fats, meal and waxes	18.3	17.8	16.8	14.8	17.0	20.3	20.3	17.1	16.4	16.8
Fixed oils and fats of vegetable origin	5.0	7.1	7.6	3.8	4.2	4.9	4.9	5.5	5.2	4.7
Feeding stuff for animals	13.3	10.7	9.2	11.0	12.8	15.4	15.3	11.7	11.3	12.1
Forestry products	1.3	1.2	1.1	1.2	1.9	1.9	2.1	2.0	2.1	2.1
Other wood in the rough or roughly squared	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.4	0.4
Wood, simply worked, and railway sleepers of wood	1.2	1.0	0.8	1.0	1.6	1.5	1.9	1.7	1.8	1.7
Fishery products	4.6	4.4	5.1	5.8	7.3	6.1	6.0	5.8	7.3	7.1
Fish, fresh, chilled or frozen	1.0	0.8	1.5	1.7	2.3	2.0	2.3	2.8	3.5	3.4
Crustaceans, fresh, chilled, frozen, salted, etc.	3.6	3.6	3.6	4.0	5.0	4.1	3.7	3.0	3.8	3.8
Total traditional agricultural exports	79.4	76.6	78.2	75.0	71.5	71.5	70.6	66.6	66.3	62.7
Total non-traditional agricultural exports	20.6	23.4	21.8	25.0	28.5	28.5	29.4	33.4	33.7	37.3
Total agricultural exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECLAC, Agricultural Development Unit, on the basis of information from the ECLAC External Trade Data Bank for Latin America and the Caribbean (BADECEL).

[a] Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Uruguay and Venezuela.

Agroindustry and *changing production* patterns in *small-scale agriculture*

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The extension of technological progress to small-scale agricultural producers is an unavoidable issue in any strategy aimed at changing production patterns with equity in the rural environment. With a few exceptions, analysis of the achievements of public policies in this area reveals that they have fallen far short of their goals even in periods when the restrictions on public spending were nothing like as severe as those faced by the economies of the region today. One option which has not yet been sufficiently explored is that of involving agroindustry in the task of bringing technological progress to small-scale farmers who could become suppliers of raw materials, although to judge from some spontaneous experiences there are some forms of linkages which could raise the levels of production and productivity of such farmers. This article seeks to show that there is a need for the adoption of policies designed to incentivate agroindustry to play the role of an agent of technical progress in the small-scale agriculture sector and gives some guidelines for the design of such policies.

I

Introduction

This article seeks to broaden the scope of the proposals made by both ECLAC [1] and FAO [2] on the need to promote a process of change in the family agriculture sector.

It should be noted, however, that this article only explores the possible links between agroindustry and that segment of family agriculture which, because of the size or quality of its present or potential resources, has development possibilities which could be materialized by the establishment of such links.

The establishment of links between agroindustry and family units with development potential is only one of the possible forms of sectoral linkages that could emerge in the process of upgrading rural areas. Other complementary types of linkages, especially for peasants with little or no land, would be the creation of job opportunities in non-agricultural rural industries through the dissemination of flexible specialization technologies and the organization of units generating local infrastructure (roads, schools, health centres, housing, etc.).

II

Growth with equity: a consensual objective

Economic growth and equity are consensual objectives of all economic strategies, whatever the ideological preferences of those proposing them or the features of the developing country for which they are formulated. The question is, then, how far these objectives have been achieved in the countries of Latin America.

In the study by F. Fajnzylber (1989) which served as the inspiration for the ECLAC proposal (ECLAC, 1990), it is noted that in the period 1965-1985, some countries of the region attained a reasonable degree of equity, but with low economic growth rates (Argentina and Uruguay); others achieved acceptable growth rates but displayed a high degree of inequality in income distribution (Brazil, Mexico, Colombia, Ecuador), while other nations achieved neither growth nor equity (Bolivia, Chile, Peru, Haiti and the Central American countries).

The fact that there are no examples in the region of countries which have achieved growth with equity cannot be blamed on the fact that they are late-industrializing countries, for a considerable number of countries in other regions which have the same status (such as Taiwan, Korea, Portugal, Thailand, Indonesia, China and Sri Lanka) achieved both objectives in the period in question. Moreover, these countries display the greatest diversity in terms of size, institutions and culture, so that these can also be ruled out as causal factors.

In the study in question, Fajnzylber makes a detailed analysis of the most salient differences in the functioning of the economy between the countries which have achieved growth with equity and the countries of the region. Briefly, he notes that the first-named group of countries was characterized by: i) the adoption of more austere consumption patterns; ii) a bigger contribution by domestic saving; iii) the use of such saving for capital formation; iv) a smaller role played by foreign investment; v) greater emphasis on the formation of human capital; vi) a greater research and development effort, with a high level of private-sector participation; and vii) the development of product lines marked by an increasing content of technology, thus permitting a more dynamic place in foreign trade.

[1] See ECLAC, 1990, especially pp. 126-134 (document presented at the twenty-third session of ECLAC, Caracas, Venezuela, 3-11 May 1990).

[2] See FAO, 1988 (document presented at the Nineteenth Regional Conference of FAO for Latin America and the Caribbean, Barbados, 5-13 August 1986).

Our hypothesis is that, in addition to these differences, there is another one which we consider to lie at the very root of the generation of the "virtuous circles" which facilitated the spread of technological progress and made possible growth with equity. This difference is *the existence of relatively homogeneous agricultural structures in the initial stages of the industrialization process*, as shown by the past experience of the countries which attained the status in question.

Thus, the agricultural structures made up of a relatively homogeneous mass of small and medium-sized producers provided a market for the large-scale production of simple consumer and producer goods which, in the initial stages of industrialization, gave rise to the emergence of domestic firms to serve that market, and in turn the development of these firms generated a growing demand for food and agricultural inputs, thus forming a veritable spiral of mutual demand which made possible the growing sophistication of consumption patterns and production techniques. As the agricultural structures were homogeneous, the techniques thus developed were valid for the vast majority of producers.

This growth pattern contrasts with that of the economies whose agricultural structures grew up around the hacienda or plantation. In these economies, the demand for both consumer and investment goods early displayed a high degree of polarization, in which the components of the consumption of the elites and the means of production reflecting the transition from the latifundio to large modern agricultural enterprises were strongly linked with the exterior.

As a result of this process of transition, the agricultural structures of most of the countries of the region now correspond to a pattern which could be termed bimodal,[3] since it consists of a segment of capitalist enterprises of different degrees of modernization and another segment of differentiated peasant units. This situation is even found in the countries where there have been agrarian reform processes of varying degrees of intensity.

III

Agricultural bimodality and its implications

The existence of bimodal structures (see figure 1) raises complex problems which hinder the broad spread of technological progress –defined here as one of the most important conditions for achieving growth with equity–, since whereas in homogeneous structures a valid technological option (i.e., an option in keeping with the relative resource endowment of the economy) is valid for the great majority of production units, in bimodal structures an option which is valid for a large modern agricultural enterprise is unlikely to be valid for the family farm sector, for a given set of relative prices.

In a context like this, according to the available empirical data and some theoretical bases, there are marked differences between the two types of agriculture as regards the decisions on what to produce, how much, how and for whom: decisions which are of great importance for the design of a development strategy for the sector. In a nutshell, these differences are due fundamentally to the fact that a family unit is at one and the same time a unit for production, consumption and reproduction, in which domestic activity is inseparable from production activity and in which the latter activity is carried out without the use of wage labour, except on limited occasions and to an extent which is not significant compared with the use of family labour. These features account for the differences which exist between peasant and business agriculture in a number of respects which are important from the point of view of behaviour (table 1).[4]

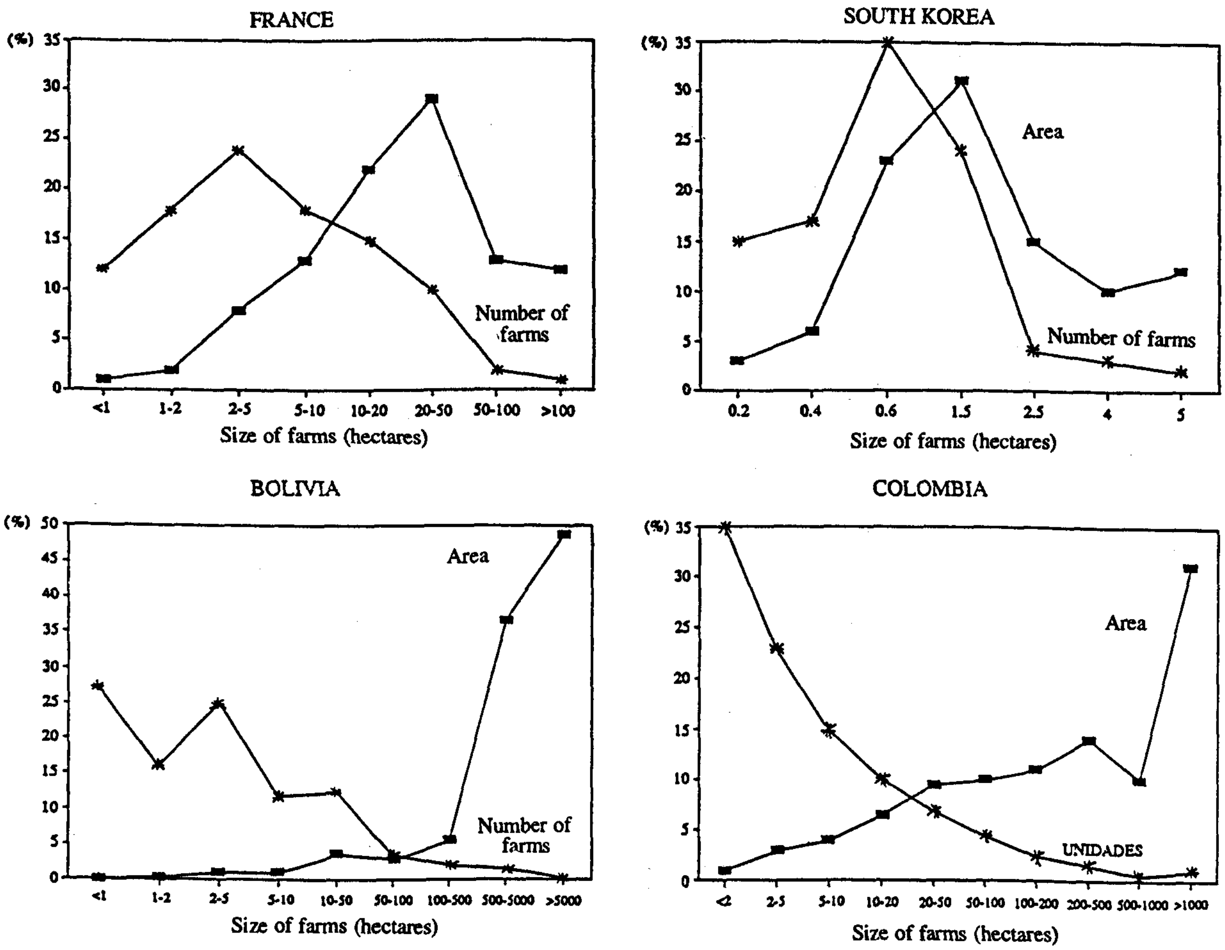
If the foregoing considerations are valid, then a given set of market signals, in a context of reasonable macroeconomic balances, which is relatively valid for guiding the behaviour of the modern business sector, will clearly not be enough to bring about a process of change in the sector made up of small producers.

[3] For a fuller understanding of this concept, see Johnston and Kilby, 1975.

[4] For a detailed analysis of each of the aspects in question, see Schejtman, 1980, pp. 117-127.

FIGURE 1

Comparative agrarian structures



The need to formulate policies or strategies which are differentiated by type of producer has been explicitly or implicitly recognized in the proposals of the international finance and technical assistance agencies, as well as by national rural development centres or institutes and non-governmental organizations dealing with the sector of small producers, but there have been more failures than successes. Among the reasons for this lack of success, mention may be made, *inter alia,* of an adverse economic and socio-institutional environment; a lack of understanding of the internal logic behind the running of family units; the heterogeneity of the units included in development projects; the decision to resurrect low-productivity traditional technologies, in a peculiar interpretation of the term "appropriate technology"; a "helping hand" conception of the policy to be applied to this sector of producers; and *narrow sectoralization of policy measures, which makes it difficult to take full advantage of the potential implicit in the strengthening of sectoral links.*

It is precisely this latter aspect which will serve as the starting point for the observations on the potential role of agroindustry which will be made in the following paragraphs.

TABLE 1

Differences between peasant and business agriculture

Feature	Peasant agriculture	Business agriculture
Purpose of production	Reproduction of the family and the production unit	Maximization of profit rate and capital accumulation
Origin of the labour force	Basically the family and occasionally mutual exchange of labour with other units; rarely, wage labour in marginal amounts	Wage labour
Labour commitment of head of unit with the labour force	Total	Non-existent, except as demanded by the law
Technology	High labour intensity, low density of "capital" and purchased inputs per day's work	Higher density of capital and higher proportion of purchased inputs in value of end product
Destination of product and origin of inputs	Partly commercial	Wholly commercial
Labour intensification criterion	Maximization of total product, even at the cost of a decline in the average product. Limit: zero marginal product	Marginal productivity must be greater than wages paid
Risk and uncertainty	Non-probabilistic evasion: "survival algorithm"	Probabilistic internalization, in pursuit of profit rates proportional to risk
Nature of labour force	Non-transferable or marginal labour force	Only uses a labour force that is transferable in keeping with its skills
Components of income or net product	Indivisible family product or income, partly in kind	Purely monetary wages, income and profits

IV

Agroindustry and family agriculture

A prime general feature of agroindustry is its greater comparative capacity to draw other sectors along with it: i.e., its greater capacity to generate direct or indirect effects per unit of final agroindustrial demand (table 2). Thus, regardless of the differences in the structures of production of the countries considered, in all of them an increase in final demand for agrofood products generates a higher level of derived production in the goods-producing sectors as a whole than that corresponding to the rest of those sectors. Moreover, when the effects of that derived demand on the added-value components are compared, it is noted that they have a significantly greater impact on employment and a good deal smaller incidence on the use of imported inputs, although their impact on wages is less than that of other sectors (table 3).

In addition to its inducive capacity, agrofood production has other frequently recognized qualities, such as for example its capacity to: reduce the perishable nature of products and post-harvest losses; reduce the seasonal nature of supply; raise the added value of a primary product; satisfy urban demand patterns; enhance the nutritional value of agricultural inputs, and change their organoleptic characteristics.

However, agroindustry also has some other insufficiently recognized features which make it particularly valuable for strengthening family agriculture. These are: i) it has greater relative flexibility with regard to efficient scales than many other industries, which allows the scale of its units to be more or less in keeping with the size and resources of the rural development areas with which it is proposed to link them;[5] ii) it permits the integration of capital-intensive processes with labour-intensive processes, both in agroindustrial activities proper and, in particular, through the combination of agricultural activities which, as they are integrated with industrial processing, would permit more intensive labour use per hectare; and iii) agroindustry could become an element promoting the integration and ordering of primary activity, facilitating its organization in the areas which are its direct and indirect source of supply, even in cases where the activity only consists of husking and milling plants, for the agroindustrial nucleus imposes certain rates of work, volumes of production and levels of quality on its sources of suply.

TABLE 2

Latin America (five countries): Indexes of "backward linkage" to the agro-food sector per unit of final demand [a]

	Agriculture	Food industry	Food sector	Remaining sectors [b]
Brazil	0.9063	1.2865	1.1947	1.0981
Chile	0.9702	1.2230	1.1555	0.9897
Guatemala	0.9263	1.3429	1.1039	1.0013
Haiti	0.8372	1.2833	1.0393	0.9891
Mexico	0.8654	1.2642	1.1237	0.9730

Source: Prepared by the ECLAC/FAO Joint Agriculture Division, on the basis of ECLAC, 1983.

[a] Average for all sectors is equal to 1.

[b] Excluding fuels and lubricants and commerce.

TABLE 3

Latin America (four countries): Relationship between direct and indirect effects per unit of final demand between food sector and the other sectors

(Percentages) [a]

	Brazil		Guatemala		Mexico		Chile	
	Agriculture	Food industry	Agriculture	Food industry	Agriculture	Food industry	Agriculture	Food industry
Wages	52.7	68.9	61.2	77.5	74.9	74.7	51.0	59.3
Gross surplus	136.8	122.4	136.1	91.8	130.7	123.3	170.1	130.9
Imported inputs	22.6	62.5	55.6	216.5	22.2	65.1	55.2	119.1
Employment	309.8	127.1	460.0	180.0	648.3	319.0	207.5	102.5
Added value	104.7	102.3	105.4	85.9	104.3	101.9	108.2	96.5
Gross production	82.5	117.2	92.5	134.1	88.9	129.9	98.0	122.4

Source: Prepared by the ECLAC/FAO Joint Agriculture Division on the basis of ECLAC, 1983.

[a] The table shows the quotient of the direct and indirect effects per unit of final demand on agriculture and the food industry with respect to the rest of the economy; thus, for example, the wages coefficient for Brazil was 0.1945 for agriculture, 0.2545 for the food industry, and 0.3691 for the rest of the economy: (0.1945/0.3691) = (0.527 * 100) = 52.7; (0.2545/0.3691) = (0.689 * 100) = 68.9, and so on in succession for the other categories.

A particularly important aspect is the competitive potential of the link between family agriculture and agroindustry, both in the production of food and of agricultural export products, especially where the agricultural raw material involves very intensive use of labour per hectare, without the possibility of being efficiently replaced by machinery. The theoretical basis for this competitive potential is that, for the reasons sketched out in table 1, the cost of inducing the production of a given crop is lower in family units than in a business unit, the differential being roughly equivalent to the difference between the

[5] Many agricultural products can be efficiently processed in plants costing between 1 million and 3 million 1980 U.S. dollars, except in the case of distilleries and breweries, whose cost may exceed US$20 million (CTC, 1981, pp. 149-150, 158).

profit expected by the latter unit for undertaking the activity in question and the surplus required by the family unit over and above that necessary in order to maintain the family and the production unit. This consideration is particularly important in a context in which the generous profit margins associated with the early stages of development of certain lines are beginning to decline and cost competition is being stepped up on domestic and international markets.

Association between agroindustry and small-scale production units would appear to be more promising in the case of products which are labour intensive; which are highly perishable: more so than the grains and tubers easily obtainable on the open market; which have a high value per unit of volume or weight, so that transport and transaction costs are of less relative weight, and which may undergo considerable increases in added value in post-harvest phases, etc. (Goldsmith, 1985, pp.11-32).

In order for the potential of the linkages to become a reality, the agricultural production generated must meet the agroindustry's requirements as regards quality, homogeneity and regularity, especially in the case of products for export. These characteristics do not arise spontaneously in the family agriculture sector but involve –as the successful examples in this respect show– a process of organization and training of the producers, as well as working relationships which neutralize the risk involved in activities other than production for family consumption and ensure some degree of even-handedness in the distribution of the profits arising from the increases in productivity.

If the considerations on the competitive potential of links between family agriculture and agroindustry are valid, and if the generic attributes of the products where these links seem most viable are the right ones, then it is necessary to explore the types of agroindustrial chains where the potential is greatest, in the light of technological development trends and the evolution of world demand for agriculture-based products.

Among the factors that must be considered in order to answer the above question, mention may be made of the following: i) the presence or absence of economies of scale in the agricultural base supplying the inputs; ii) the dynamism of domestic and international demand for the products of the agroindustry involved; iii) the importance of the agricultural inputs in the value of the end-product, and iv) the flexibility of the agroindustry in terms of scale and location.

An agroindustry's capacity to promote technical progress in the surrounding agriculture will depend on the presence of certain combinations of the above factors. Moreover, if the objective of food security is added to that of the development of competitive agriculture, some considerations may also enter into the reckoning with regard to the importance of the products in question in the national diet (as a function of their calorie content) or in the expenditure of the poorer sectors on food.

V

Types of agroindustries

As a first approximation to the preparation of a suitable typology, using the criteria mentioned above and taking as the central consideration the capacity of agroindustry to promote technical progress through its linkages with its agricultural base, five types of agroindustries can be distinguished (table 4).

1. Traditional basic agroindustries, which correspond to chains centered on basic grains or tubers for human consumption and are characterized by their low demand elasticity; their great heterogeneity in the industrial phase; the growing presence of economies of scale in primary production, and an international trade structure dominated by a few big transnationals whose operations display little transparency.

Except for a few lines in the chain dominated by agroindustries producing concentrates (pastes), the capacity of this type of agroindustries to generate technical progress in family agriculture is very limited.

2. Modern basic agroindustries are characterized by the great dynamism of their demand; by a relatively high degree of concentration in the main nucleus of the chain; by the presence of economies of scale in some agricultural inputs (animal feed grains and oilseeds) but their relative absence in others (poultry fattening, sugar beet, dairy products, seeds). Their capacity to promote technical progress is relatively high, especially in cases where there are no significant economies of scale in the primary base.

3. Agroindustries manufacturing differentiated or branded products are characterized in particular by the decisive role played by publicity in their demand dynamism; the weight of agricultural inputs in the end-product is generally very small (potato crisps, savouries, cereal products, soft drinks, etc.); the agroindustrial nucleus generally displays a high degree of concentration and its capacity to generate technical progress in the agricultural base is very low or even non-existent, in view of the very low level of importance of the agricultural input in the final value of the product.

4. Traditional export agroindustries. When these agroindustries are based on basic grains (wheat and flour, rice, maize) they resemble traditional basic agroindustries as regards their capacity to promote technical progress, but their demands for quality and regularity may redound in a greater potential capacity in this respect than in the case of agroindustries producing for the domestic market. They display a higher degree of concentration in the agroindustrial or agro-trading nucleus and much greater homogeneity of the units making up that nucleus.

5. New or modern export agroindustries. These concentrate on such lines as fruit and vegetable products, flowers and essences, and, in general, products of high added value per unit of weight. They are characterized by their high international demand dynamism; by not displaying significant economies of scale in primary production, thus permitting high profitability of small units, and by a high degree of concentration (with a few exceptions) in the agro-trading or agroindustrial nucleus. They have high potential capacity to generate technical progress and hence raise living standards in areas of small producers.

The foregoing typology (table 4) –which, it should be repeated, is of a purely tentative nature– points to the following order of types of agroindustries in terms of their potential for generating technical progress in family agriculture:

1. Modern export agroindustries
2. Modern basic agroindustries
3. Traditional export agroindustries
4. Traditional basic agroindustries
5. Agroindustries manufacturing differentiated or branded products

Notwithstanding this order of merit, it may be desirable, for reasons of food security, to combine new export agroindustries with traditional basic agroindustries and/or traditional export agroindustries: the efforts of the first-named to promote technical progress may, through their demonstration effect, be reflected in technological improvements in the lines of basic consumption.

TABLE 4

Types of agroindustries

Type of industry	Dynamism	Degree of concentration	Scale in agricultural base	Weight in diet	Weight of publicity	Induction capacity
1. Traditional basic	- - ↓	- ↑	+ + ↑	+ + + ↓	- - -	- -
2. Modern basic	+ + + ↑	+ + ↑	+ ?	+ + ↑	- -	- -
3. Differentiated	+ + +	+ + + ↑	+ +	- ↑	+ + +	- -
4. Traditional agro-export	- - ↓	+ +	+ + ↑		- - -	- ?
5. Modern agro-export	+ + + ↑	+ + ↑	- -		- ?	+ + +

Notes:
- - - zero; + + + decisive; ↑ rising; ? depends on particular case
- - very low; + + very high; ↓ falling
- low; + high

VI

The advantages and risks for the participants

The various varieties of contract agriculture, together with more informal agreements between small producers and agroindustries of different sizes and organizational structures, are not a new phenomenon, although they have generally arisen without the existence of any policy designed to stimulate their development and regulate the relations between the agents concerned. This experience has given rise to advantages and problems for both sides, as described below.

a) *Advantages for the agroindustry*

The main advantages are as follows:

i) Transfer of the risks inherent in agricultural production to third parties;

ii) avoidance of problems deriving from wage relations;

iii) avoidance of the risk of giving grounds for expropriation under agrarian reform legislation;

iv) avoidance of locking up capital in land;

v) procurement of access to land suitable for growing the inputs required by the agroindustry in areas where this is only possible through agreements with producers in general and small producers in particular, if the latter predominate in such areas;

vi) reduction of costs when own-account production would be more costly, by making use of small producers when large agricultural enterprises ask higher prices, even though the transaction costs involved may be higher;

vii) compliance with public incentives or legislation which respectively encourage or oblige the purchase of inputs from small producers.

b) *Risks for the agroindustry*

Among the most important risks are:

i) Increased transaction costs as the number of suppliers rises (in respect of transport, technical assistance, quality control, administration, etc.);

ii) more complex contracts, which, in order to ensure efficiency, must include a number of variables (quality, timeliness, price) which are hard to regulate and can lead to continual disputes;

iii) the contract farmers may sell their goods to third parties when the price contracted with the agroindustry is lower than the price on the market at the time of delivery;

iv) inputs supplied by the agroindustry may be diverted to other uses than those agreed upon.

c) *Advantages for the small producer*

Among the advantages are:

i) A guaranteed market and, if stipulated in the contract, a predetermined price;

ii) technical assistance which makes it possible to raise the yield per hectare;

iii) incorporation of products of higher value;

iv) fuller use of family labour, since the products concerned are generally those involving more intensive use of labour;

v) possibility of using the new knowledge on traditional crops or crops not covered by the agreement;

vi) in some cases, access to means of production (machinery or equipment) belonging to the agroindustry.

d) *Risks for the small producer*

Generally speaking, most of the risks stem from the agroindustry's possibility of manipulating the terms of the agreements, either because the suppliers do not fully understand them or because the agreements are sufficiently ambiguous to allow of interpretations which, depending on the relative bargaining power, may be used to the agroindustry's advantage.

The most frequent drawbacks are:

i) Manipulation of quality standards in order to regulate prices and deliveries;

ii) late reception of products in order to reduce the price;

iii) tying one contract to another which is less advantageous to the producer, when the agroindustry acquires more than one product;

iv) encouragement of concentration on a single crop, with the corresponding dependence and vulnerability;

v) shortcomings in the technical assistance provided, whose ill-effects become the responsibility of the producer rather than of the supplying enterprise;

vi) delays in payment or unclear settlements of amounts due;

vii) favouritism in the allocation of the most favourable sowing dates.

The agroindustry's manipulation capacity is all the greater when it is in a monopoly position, when it is itself a major supplier of the agricultural input needed, when the producers grow only that one input and it has a relatively long growth cycle, and when they have debts with the agroindustry.

VII

Conclusions

A number of conclusions may be drawn from the foregoing which can serve as the basis for the design of a strategy for modernizing family agriculture which makes use of the potential of agroindustry for generating technological development. Briefly, these conclusions are the following:

□ A *laissez-faire* policy, even within a context of reasonable macroeconomic balances, is not enough to promote a process of modernization in family agriculture and hence bring this sector into a pattern of growth with equity.

□ Some forms of agroindustrial or agro-trading activity have considerable capacity to promote technical progress in their agricultural environment in general and in the segment of small farmers in particular.

□ In the past, the public sector has not had much success in tackling the task of promoting technical progress in family agriculture, and in the conditions imposed by the debt crisis its role in this respect has been still further restricted, so that it is necessary to seek ways of increasing the efficiency of public action in these new conditions.

□ Concerted action by the public sector and the types of agroindustries or agro-trading enterprises with the greatest capacity for inducing technical progress would be a suitable way of materializing that development potential much more effectively than through spontaneous initiatives.

In order to take advantage of the potential offered by the strengthening of the linkages between agroindustry and agriculture it is necessary, among other things, to do the following:

□ To create an institutional framework which ensures transparency and even-handedness in the relations between agricultural producers and agroindustries.

□ To establish a set of incentives to impel the agroindustries selected in the light of their development potential to take on the tasks of providing training and transferring technology to small producers who can become stable suppliers of those industries. Among other things, these incentives should include subsidies for the higher transaction and training costs involved in the creation of such a supplier base.

□ To stimulate a higher degree of organization of small producers, seeking a reasonable degree of homogeneity among their members and also contemplating the establishment of cooperative agroindustries or mixed ventures with private entrepreneurs.

In conclusion, it should be clearly understood that agroindustrial development does not *replace* the effort that needs to be made in the field of rural development. Although agroindustry will aid rural development, effective rural development is an essential prior condition for the realization of the true potential of closer links between agroindustry and primary activity. It is also important to note that much of the agroindustry in the region is operating with levels of idle capacity which are in some cases quite high, thus forming a kind of "entry barrier" against proposed new initiatives in areas where such idle capacity exists. Finally, agroindustry's capacity for the direct absorption of labour is not as high as is sometimes supposed. In many cases, certain types of agroindustrial activity involve levels of investment for each job generated which are just as high as, and often higher than, those registered in other branches of industry.

In view of the foregoing, it is worth repeating that although the most obvious linkages are those between agroindustry and agriculture, industrial deconcentration in general, and especially its "ruralization" as part of a broader policy of upgrading rural areas, would be potentially very important factors in the task of stemming the exodus from rural areas and increasing peasant employment and income, as shown by the experience of various European countries and some recently-industrialized Asian nations (Ho, 1979).

(Original: Spanish)

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National private *groups in* Mexico, 1987-1993

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In the author's view, an important result of the economic reforms begun in Mexico in 1983, especially in the period after 1987, is that national private groups have assumed a leading place in the new economic model. These are not only traditional groups which were restructured in the course of those reforms, but also new groups which were formed or developed in that period and which have come to have decisive weight in the national economy. This new leading role of Mexican national private groups is the result of the strategies adopted by the groups themselves in order to adapt to the conditions of competition created by an open, deregulated economy as well as of the government strategy of privatizing public enterprises, which fulfilled the aim of transferring to national private capital the economic power previously possessed by the sector of public enterprises, while at the same time seeking to secure a balanced distribution of that power among those national private groups and to promote the development of new groups. Section I of the article examines the performance of the national private groups in the period in question, in order to show their leading economic position. Section II analyses the general features of the privatization of financial and non-financial public enterprises, as well as the various effects they had on those groups, with emphasis on the restructuring aspects of them which underlie the privatization strategy. Finally, section III gives a summary description of the main national private groups in 1993, though this is naturally of a provisional nature in view of the changes taking place both in the national economy and in the groups themselves.

I

The leading economic position of national private groups in 1987-1992

In Mexico, as in other parts of Latin America, national private groups (NPGs) are formed through the conglomeration of firms carrying on activities in one or more economic sectors. These firms are of different sizes, but normally each group includes at least one of the big companies operating in the country. Precisely identifying the leading economic position of the NPGs would demand a knowledge of all the firms that form part of them, as well as of the scale of activities of each one of them and the overall results achieved. In the case of Mexico, this is difficult, both because of the limitations of the available sources of information and because of methodological problems in their definitions of groups. In order to avoid distorted conclusions, we have therefore considered as a whole the available information on groups and the major firms that form part of them. This section first of all presents the elements that show the leading position of national private firms in the overall totality of large firms in the national economy, after which the leading economic position of the NPGs in the universe of leading groups is considered, and finally some relations between the leading position of national private firms and that of NPGs are explored in order to help gain a better knowledge of the leading position of the latter. Both when considering large firms and economic groups, first of all the leading position they occupy as a whole is described, after which the relative importance of national private groups compared with public enterprises and transnationals is identified. These exercises are carried out on the basis of the annual surveys made by the magazine *Expansión* on 500 large companies and 100 economic groups operating in the country. [1]

1. National private leadership among large companies.

Since 1987, large companies operating in Mexico have increased their weight in the national economy, as may be seen from the indicators for the 500 largest firms mentioned earlier (table 1).

TABLE 1

Mexico: Indicators of the economic importance of the 500 largest firms in Mexico, [a] 1987-1992

	1987	1988	1989	1990	1991	1992
Sales/GDP (%)	20.01	20.27	18.51	18.16	21.60	24.67
Net profit margin (%)	...	...	...	5.11	5.32	6.20
Liabilities in major firms/ Total liabilities (%)	...	...	...	27.06	34.21	29.35
Trade balance (millions of pesos) [b]	...	...	...	31 300 000	34 400 000	2 500 000
Number of staff employed	625 016	622 908	698 443	807 616	621 464	878 052

Source: Prepared by the author on the basis of data from the magazine *Expansión*, Mexico City, Expansión S.A., and economic indicators from the Banco de México (Banxico).

[a] Pemex is excluded from the total for the 500 largest companies in Mexico; data for the largest firms are used.

[b] Trade balance for 1990, 1991 and 1992 includes Pemex.

□ The data bases for this study were prepared by Anabel Correa and Aurea Angélica Pérez, while Carmen Aguilar, Chief of Special Projects of the magazine *Expansión*, gave assistance in the analysis of that publication's surveys. The conclusions drawn from this material are, of course, entirely the author's responsibility.

[1] *Expansión* magazine is published in Mexico City. A serious limitation of these samples is that the companies and groups that make them up change from one year to another, thus limiting the scope of comparisons in time.

For our purposes, the most useful of these indicators is that showing sales as a percentage of GDP. This proportion rose by over four percentage points between 1987 and 1992: an increase which is significant in itself, but even more so when it is considered that it took place on top of a cumulative increase in GDP between 1989 and 1992 of some 14 percentage points in real terms.

Other valuable indicators of the importance of this set of firms are the employment generated by them, which is estimated to have increased by 40% over the period in question, and their trade balance, which registers surpluses, although these went down at the end of the period due to the increase in imports of capital and intermediate goods that accompanied the growth cycle of the economy during the period in question.

This positive performance by the big firms would appear to have been accompanied by an upward trend in their net profit margins, to judge by two of the years in question, but this observation is not conclusive, because during this period there were other economic forces which had a contrary effect on this margin, such as the price stabilization achieved through the application of the Economic Solidarity Pact and the impact of international competition as a result of the unilateral opening of Mexican foreign trade as from 1987.

The growth in the big firms' activity at a more rapid rate than that of GDP was financed through indebtedness on both the international and domestic finance markets. The external indebtedness led to an increase in the proportion of foreign-currency liabilities in the total liabilities of the firms, thus reversing the tendency of previous years towards a reduction of this item.

This new indebtedness of big firms in dollars formed part of a more general change in the financial position of the Mexican private sector. This change was observed as from the beginning of the investment cycle propelled by private investment, when the private sector went from a surplus to a deficit position.

From the macroeconomic standpoint, this private sector deficit is being financed through a combination of the government surplus and the external saving of which big firms are making increasing use. [2]

Now that this general picture of leadership of the big firms has been established, let us look at the relative importance in it of public enterprises, national private firms, and transnational corporations.

As might be expected, national private and public enterprises, taken together, are the most numerous in this universe of large firms. However, their relative shares have changed markedly: between 1987 and 1992 the number of national private firms among the 500 largest increased from 366 to 419, while the number of public enterprises went down from 44 to only 9.

This first evidence of the change in the relative position of private firms reflects the impact on them of the privatization strategy applied by the government over that period: around 1992 public enterprises represented only 2% of the units in the sample, whereas national private firms had come to account for 84% of the total.

Furthermore, the absolute number of transnational corporations in this universe also went down during the period. This fact is not conclusive, however, since there are other indicators which show the growing importance of this type of corporation in the present-day Mexican economy, especially in the non-traditional export sector. [3] At all events, this numerical change in the share of national private firms in the universe of the 500 biggest companies is a first indication of their new relative weight in the national economy.

In order to weigh the importance of this change, however, it is necessary to consider the relative level of economic activity attained by the various types of enterprises, as measured through their sales as a proportion of GDP (table 2).

This performance indicator confirms the leading position of the large national private firms, since during the period under analysis the overall increase in the sales of the 500 largest firms was equivalent to 4.66% of GDP, whereas the corresponding increase for the national private firms was over 8%: i.e., 70% greater. [4] In contrast, the sales by public enterprises shrank significantly over the period: from 3.54% of GDP to less than 0.5% of it.

[2] The return of some big firms to the voluntary international financial markets took place not only on the loan markets but also on the New York stock market, through the issue of American Depositary Receipts (ADRs).

[3] For a recent analysis of the evolution and importance of foreign investment in Mexico, see Peres (1990).

[4] In the information on the relative shares in sales, Pemex was not included among the public enterprises, in order to avoid the corresponding distortion that would have been caused by the enormous size of this enterprise.

TABLE 2

Mexico: Shares of State, national private and transnational enterprises in the 500 biggest firms, [a] 1987-1992

Firms	1987 No. of firms	1987 %	1987 Sales (% of GDP)	1988 No. of firms	1988 %	1988 Sales (% of GDP)	1989 No. of firms	1989 %	1989 Sales (% of GDP)
State enterprises	44	9.00	3.5	22	4.60	3.10	23	4.80	3.37
National private firms	366	73.2	10.91	396	79.20	11.02	406	81.20	9.77
Transnationals	89	17.80	5.56	81	16.20	6.15	70	14.00	5.37
Total	*499*	*100.00*	*20.01*	*499*	*100.0*	*20.27*	*499*	*100.00*	*18.51*

Firms	1990 No. of firms	1990 %	1990 Sales (% of GDP)	1991 No. of firms	1991 %	1991 Sales (% of GDP)	1992 No. of firms	1992 %	1992 Sales (% of GDP)
State enterprises	13	2.80	1.20	13	2.80	0.55	9	2.00	0.45
National private firms	411	82.2	11.50	404	82.20	14.85	419	83.80	19.14
Transnationals	75	15.00	5.46	82	15.00	6.20	71	14.20	5.08
Total	*499*	*100.00*	*18.16*	*499*	*100.00*	*21.60*	*499*	*100.00*	*24.67*

Source: Data from *Expansión* magazine, 1988 -1993, Mexico City, Expansión S.A.
[a] Excluding Pemex.

The relative increase in the sales by national private firms is partly explained by the fact that they capitalized on the reduction in the operations of public enterprises, but this factor only accounts for an increase of three percentage points of GDP. The other five points must be considered as being due to the evolution of the private firms themselves.

Finally, with regard to the share of transnationals in total sales, the available information indicates that this share went down by half a percentage point of GDP during the years in question, although this information is subject to the same reservations made earlier regarding the number of firms of this type in the sample.

To sum up, an analysis of the sales made by the different types of firms in the sample indicates that in the period in question national private firms gained a marked position of economic leadership, both through the increased economic concentration due to the privatization operations and through the good performance of the firms themselves, which had a more than proportionate share in the expansion of the 500 largest firms, displacing firms not integrated in this universe.

The economic concentration which benefitted national private firms became even more evident when the situation of the 50 biggest firms among the 500 was examined in detail. For this purpose, a particular year (1989) was analysed. [5] The sales of these 50 firms were shown with and without the inclusion of Pemex, and in the latter case an estimate was made of the impact of the privatization of Telmex and the Compañía Mexicana de Aviación, although this took place after the survey made by *Expansión* (table 3).

The most outstanding feature is that the 50 biggest firms represent a significant proportion of the activity of the 500 major companies, since their sales accounted for 73% of the total sales of the latter if Pemex is included and 63% if it is not. Among these 50 biggest firms there are 26 national private companies whose sales represent 16.8% of the total sales of the 500 if Pemex is included and 23.57% if it is excluded.

[5] This year was chosen because it marks the beginning of the big privatization operations which would naturally be reflected in the leadership structure of the NPGs.

TABLE 3

Mexico: The 50 biggest firms of the 500 covered by the sample,[a] by type of ownership, 1989

	TS50/GDP (%)[b]	TS50/TS500 (%)[c]	Public enterprises		National private companies		Transnational corporations	
			No.	%	No.	%	No.	%
Including Pemex	18.93	73.33	9	39.98	26	16.88	15	16.46
Excluding Pemex	11.62	62.79	8	16.28	26	23.55	15	22.96
Excluding Pemex, but with privatization of Telmex and Compañía Mexicana de Aviación	11.62	62.79	6	8.69	28	31.14	15	22.96

Source: Expansión, Mexico City, Expansión S.A.
[a] Survey by *Expansión* magazine, 1989.
[b] TS50/GDP: Total sales of the 50 biggest firms as a percentage of GDP.
[c] TS50/TS500: Total sales of the 50 biggest firms as a percentage of total sales of the 500 companies in the sample.

The sales of the 15 transnationals among the 50 firms are equivalent to 16.4% of the total sales of the 500 if Pemex is included, and 23% if it is not.

The picture changes significantly, however, if we take into account the effects of only two of the privatization operations carried out after the survey: those of Teléfonos de México (Telmex) and of the Compañía Mexicana de Aviación. The inclusion of these two companies among the national private firms brings the number of the latter up to 28 and gives them the biggest share in the total sales of the 50 biggest firms (31.14%). This is particularly significant when it is also considered that the great majority of these 28 national private firms form part of no more than 11 national private groups, as we shall see in the next section.

2. The leading position of national private firms in the economic groups[6]

The importance of economic groups (including NPGs) in the Mexican economy is confirmed by the data from a sample survey of the 59 biggest economic groups in the country between 1987 and 1991. Among the most noteworthy indicators is the behaviour of the total sales of this sample as a proportion of GDP, which registered values between some 12% and 15%, equivalent to proportions of between 60% and 68% of the total sales of the 500 biggest firms in the same period (tables 1 and 4).

[6] Because of the limited information available, the analysis of the economic groups only goes up to 1991.

As in the case of the large firms, during the period under analysis the 59 economic groups increased their importance in the Mexican economy, as shown by the fact that their total sales increased by the equivalent of almost three percentage points of GDP in the context of product growth already referred to. However, this expansion of the groups as a whole was less vigorous than that of the large firms, since their total sales increased by 2.78 percentage points and their staff by 27%, while over the same period the corresponding figures for the large firms were 11% and 40%. The explanation for this slower growth lies in the different behaviour of the national private groups, the State enterprises, and the transnationals, which will be analysed below.

The growth in the activities of the 59 economic groups was financed by an increase in their indebtedness, starting from the situation of low leverage which they had attained thanks to the rapid reduction in their debt between 1987 and 1989. Noteworthy within the current increase in their indebtedness is the increase in their foreign-currency liabilities, which doubled their share in total liabilities between 1988 and 1991 so that they accounted for 50% of them, while in the latter year the 500 biggest companies registered levels of foreign-currency indebtedness equivalent to some 34% of their total debt.

Within this general situation of the economic groups, the national private groups turned in a performance which placed them in a leading position with respect to the State and transnational groups (table 5).

TABLE 4

Mexico: Indicators on the 59 biggest economic groups, [a] 1987-1991

	1987	1988	1989	1990[b]	1991[b]
Total sales/GDP (%)	11.92	11.65	13.30	15.30	14.70
Book capital/GDP (%)	17.56	15.39	16.89	15.38	12.69
Number of staff employed	477 629	479 488	537 468	602 805	607 925
Leverage [c] (%)	89.05	58.63	51.70	58.37	67.91
Foreign currency liabilities of the 59 biggest groups as a percentage of their total liabilities	57.99	25.86	47.17	45.76	51.58

Source: Prepared by the author on the basis of data from *Expansión* magazine, Mexico City, Expansión S.A., and economic indicators from Banxico (1988-1992).

[a] Including State enterprises, except Pemex.

[b] Some enterprises did not provide information for these years.

[c] Total liabilities/book capital.

TABLE 5

Mexico: Indicators of leadership among the 59 biggest economic groups, by type of group, [a] 1987-1991

Type of group	Number of groups	Share of sales (%)	Book capital (%)
1987			
State [b]	5	17.6	41.5
National private	44	68.5	53.0
Transnational	10	13.9	5.4
Total	*59*	*100.0*	*100.0*
1988			
State [b]	4	17.9	37.7
National private	45	72.3	59.2
Transnational	10	9.9	3.1
Total	*59*	*100.0*	*100.0*
1989			
State [b]	2	12.9	26.1
National private	53	79.3	71.6
Transnational	4	7.8	2.3
Total	*59*	*100.0*	*100.0*
1990 [c b]			
State b	-	...	...
National private	53	88.87	93.35
Transnational	6	11.13	6.65
Total	*59*	*100.0*	*100.0*
1991 [c b]			
State [b]	-	...	...
National private	54	97.07	96.89
Transnational	5	2.93	3.11
Total	*59*	*100.0*	*100.0*

Source: Prepared by the author on the basis of data from *Expansión* magazine, Mexico City, Expansión S.A., 1988-1992.

[a] Including State enterprises, except Pemex.

[b] No information is available on State enterprises because they did not answer the questionnaire.

[c] Includes privatized enterprises: Teléfonos de México.

As was to be expected, the national State and private groups predominated in the sample both in numerical terms and in the magnitude of their sales as a proportion of the total sales of the 59 groups. Over the period, however, there was a change in the relative shares of the national State and private groups, as the former went down in number and in participation in sales between 1987 and 1989, subsequently disappearing from the sample altogether. In general, this evolution of the State groups was due to the privatization of public enterprises, while the special situation observed in the last two years was due to the fact that no State group answered *Expansión's* questionnaire.

In contrast, the national private groups appreciably increased their share in the activities of the 59 groups as a whole, occupying the space left open by the State groups and even expanding at the expense of the transnationals. According to the data from this survey, in 1991 these national private groups attained virtually total domination in the sample, as they made 97% of the total sales of the 59 groups. These data should be interpreted with caution, however, in view of the absence of the State groups from the sample as from 1990 and the marked reduction in the presence of the transnational groups, which suggests that there may be problems of consistency because it was not always the same groups which answered the survey questionnaires.

At all events, the available information indicates that the modest expansion registered by the 59 groups as a whole reflects the net result of opposite trends by the State and transnational groups on the one hand and the national private groups on the other, because while the former suffered a reduction in their shares in the sample or disappeared from it altogether, the latter's share in the total sales of the sample increased by over 40%. In terms of GDP, this share rose from 8% to 14%, reflecting their rapid expansion in these years.

In general, and subject to the reservations referred to earlier, it may be concluded that the national private groups hold the economic leadership in the overall sample of 59 groups: a situation which has been aided by the transfer of economic power from the State groups to the NPGs as a result of the privatization process.

This general leadership of the NPGs has another feature, however, which is the concentration of economic power in the largest of them. This is confirmed by looking at the evolution of the ten largest NPGs within the sample of 59 groups (table 6).

Between 1987 and 1991, these ten NPGs increased their share in the total sales of the 59 groups by 12 percentage points, thus coming to account for more than half of them, which meant in 1991 controlling sales equivalent to more than 8% of GDP. Since the sales of these 10 NPGs represented nearly 60% of those of the 54 NPGs included in the sample in 1991, it can be said that the new leadership of the NPGs under the new economic model in force in the country is based in general on a notable concentration of economic power in their favour, but especially on the economic power of this small group of NPGs just described.

To conclude this section, let us take a look at the links that exist between these NPGs and the big Mexican private firms which lead the universe of the 500 largest companies. In spite of the limitations of the surveys made by *Expansión* magazine which were already referred to, some interesting relations can be deduced from them.

In our exercise, we selected ten of the biggest NPGs in 1992 and identified the number of firms in each group, established which of them are among the 500 biggest companies in the country, identified those which have the most outstanding position in that universe, determined their line of activity and their position within it, and finally determined their export performance on the basis of the survey of the biggest export firms made by *Expansión* (table 7).

The most outstanding fact is that all the NPGs in question include firms which are among the 500 biggest companies, and none of them is below position No. 95 in that ranking (in one case the firm in question was among the top ten of the sample). This could be taken as an indication that these NPGs have an important but subordinate place among the top-ranking large groups, but in fact it is not so. It was observed that all of them have two or more firms among the 100 biggest companies, and there are cases such as that of Vitro, which has no less than 47 of its firms among the 500 biggest companies. This suggests that the manner of collecting the information in the sample does not register the fact that it is not a question of independent firms, but of members of a group. If these activities were consolidated at least at the division level, the firms in the group would have a much more prominent position than if they were taken at the individual level.

Moreover, it was observed that the firms in these groups are leaders in their lines of activity, which in turn correspond to the most dynamic segments of the domestic market. Likewise, the firms in the ten biggest NPGs occupy a distinguished place as exporters under the new economic model. Finally, the information shows that in these NPGs firms that have diversified investments, such as Carso, Alfa or Desc, exist alongside those which are concentrated in a single dominant field of activity, such as Vitro, Visa or the mining groups.

All in all, the above indicates that the leadership of the NPGs is based on the sound competitive position of the big firms that form part of them.

TABLE 6

Mexico: Share of the 10 biggest national private economic groups in the sample of the 59 biggest economic groups,[a] 1987-1991
(Percentages)

	1987	1988	1989	1990	1991
In total sales	44.03	45.32	42.97	47.80	56.04
In book capital	31.28	40.44	41.52	50.43	55.12

Source: Prepared by the author on the basis of data from *Expansión* magazine, 1988-1992, Mexico City, Expansión S.A.
[a] Including State enterprises, except Pemex.

TABLE 7

Mexico: Indicators for the ten biggest national private groups and their links with large companies, 1992 [a]

Group	Position of group	Sales (millions of $US)	Number of firms in group	Number of firms in group which are among the 500 biggest companies	Main firm in group which is among the 500 biggest firms	Rank among the 500 biggest firms	Line of business of firm	Rank within line of business	Rank among the 500 biggest export firms
Vitro	1	3 308.90	92	47	Vidrio Plano	76	Glass	1	24/55/80
Carso	2	2 554.42	6	6	Telmex	1	Telecommunications	1	4
Alfa	3	2 492.75	10	10	Hylsa	8	Iron and steel	2	43
					Petrocel	41	Petrochemicals	5	14
					Sigma	49	Food	6	
Cemex	4	2 213.20	42	18	Empresas Tolteca	20	Cement	1	52
					Cervecería Cuauhtémoc	17	Beer	1	53/58
Visa	5	2 100.10	106	7	Ind. Embotelladora de México	95	Soft drinks	4	
					Novum	27	Petrochemicals	2	27
Desc	6	1 654.20	124	13	Spicer	17	Motor parts	1	13
					Univasa	73	Food	8	
									5/9/12/48
Minera México	8	937.35	40	6	Ind. Minera México	21	Mining	1	
La Moderna	9	921.57	15	2	La Moderna	16	Tobacco	1	75
Peñoles	14	732.80	30	18	Met-Mex Peñoles		Mining	2	74

Source: Expansión magazine, series "Las 500 mayores empresas", "Las 500 mayores empresas exportadoras" and "Los grupos económicos", 1992, Mexico City, Expansión S.A.

[a] The national private groups listed here are not the top ten in *Expansión*'s survey of the biggest economic groups in 1992, as some of the latter were considered to be unrepresentative for the purposes of this article. In selecting the highest position of a firm in a group, the highest position attained by it in the period 1987-1993 was taken.

II

The privatization of public enterprises: a factor of change in the national private groups

As in other processes of structural reform carried out in Latin America in recent years, the privatization of public enterprises in Mexico represented the dismantling of the "entrepreneurial State" in favour of a new leading role for private enterprise in capital accumulation. [7] In order to give an idea of the scope of this change, it may be noted that in 1982 the Mexican State participated in 63 branches of economic activity: intensively in 45 of them, through 1 145 para-State enterprises. In 1993, in contrast, the State only retained 264 of these enterprises and had completely withdrawn from thirty branches of the economy (Rogozinski, 1993).

The Mexican privatization strategy was carried out in two markedly different stages. The first took place under the De la Madrid administration between 1983 and 1988, and in it an effort was made to delink these enterprises from the budgetary point of view. The second stage, which began in 1989, is the most important for the purpose of this article, because it marked the effective transfer of ownership of the big public industrial, services and financial enterprises to the private sector. The magnitude of these operations can be gauged from the fact that the State received over US$20 billion from their sale.

Although foreign capital did play some part in this process, 93% of the privatized public enterprises passed into the hands of Mexican big business (Rogozinski, 1993). This outcome was not a direct result of the economic forces, because in these privatization operations the enterprises were not sold on the capital markets. In general, the system used by the government for the assignment of public enterprises to private owners was that of competitive bidding (auctions). Within this general system, various selection and qualification mechanisms were used in order first of all to decide which businessmen were eligible to participate in the competition for the enterprises, and then to assign them among the qualified competitors on the basis of technical, financial and other considerations.

From the point of view of the situation of the big firms and economic groups, these privatization operations were a great act of business re-engineering guided by the State, whose strategy was aimed at strengthening the big national private groups as actors in the new economic model, by transferring to them its share of economic power.

This did not take place in a linear manner, however, as it was necessary to ensure a certain degree of balance in the distribution of that economic power among the various groups, while also promoting the formation or development of new economic groups to broaden the traditional top business leadership structure, within a context of increased competitiveness of these big firms to cope with the conditions that would be created by the new more open and deregulated economy.

Mexican big business proved to be quite a mature interlocutor for this strategy in terms of its capacity to take over the running of these major economic units with a percentage of success which has been reasonably high so far.

The resources for the purchase of these enterprises were obtained by many of the buyer groups through the organization of financial packages in which they themselves provided only a minority contribution of capital, so that for these groups the purchase of public enterprises also meant gaining control of large amounts of capital from other investors.

In some cases, the capital contribution by the buyers involved an asset swap from domestic public debt paper to real assets of the public enterprises, as many of the buyers of privatized enterprises possessed large amounts of such debt paper. In other cases, in order to pay for the enterprises they had bought the purchasers repatriated Mexican capital

[7] For some general comments on this process, see Muñoz, 1993.

held abroad, for which they were given special fiscal incentives. Information is not available on the proportion of this repatriated capital that was used for the acquisition of public enterprises.

The most important means of financing such purchases, however, would appear to have been the procurement of investors' funds on the local and international financial markets. This has had some effects on the subsequent management of the enterprises, since they must offer attractive yields in order to satisfy shareholders or meet obligations to creditors.

The process of the privatization of public enterprises took different forms, and also had different effects on the leadership configuration of the NPGs, depending on whether the enterprises belonged to the industrial and services sectors or to the financial sector, so that it is worth considering the two areas separately.

1. The privatization of public industrial and services enterprises

The key element behind the actual privatization of these enterprises was the divestiture of the commercial and industrial enterprises which formed part of the private financial groups at the time of the nationalization of the banks in 1982 and which had remained in the hands of the State, although this was not what was desired when that nationalization process was decided upon.

The privatization of these enterprises was not carried out publicly, so that it was not possible to find out how much was paid for them, who bought them, and how each sale was decided. There is some evidence, however, which suggests that these privatization operations brought about the first major reshaping of the business groups in the context of the macroeconomic reform.

With regard to the privatization operations carried out from 1989 on, table 8 shows twelve of the biggest operations carried out by the Salinas de Gortari administration. As might be expected, the impact of each of these privatization operations on the economic power structure of Mexican private enterprise differed greatly, depending on the sector of activity in which the privatized firm operated, its relative size, and its market power. However, in these cases of privatization of industrial and service enterprises no more general criteria than those indicated above can be drawn; indeed, big differences are to be observed between them which seem to be due to the way in which the sectors in question processed the privatization operations in each case.

It is beyond the scope of this article to consider particular cases in detail, but some examples can be given to illustrate the nature of those differences and their effects on the leadership of the NPGs.

The first case worthy of note is that of Telmex, an enterprise which was sold for US$1.76 billion to the Carso Group presided by Carlos Slim, in association with France Cable and Southwestern Bell. Unlike the procedure followed in other Latin American countries when privatizing public telephone companies, in Mexico it was decided to sell the company as a single unit, with a monopoly over the service for a limited length of time. With respect to the Carso Group, it may be noted that it was created by its founder on the basis of stock market activities in the late 1970s and gradually incorporated big firms operating in the industrial, commercial and services sectors. The acquisition of Telmex, however, converted it forthwith into one of the giants among the groups operating in the country.

Because of its size and economic importance, as well as the type of management practised by its new owners, Telmex has become a key element in the functioning of the present-day Mexican economy and has put the Carso Group at the head of the big national private groups.

In particular, this has been the result of a combination of the economic and technical role of this company in the national economy, on the one hand, and on the other the Carso Group's aggressive strategy of selling Telmex ADRs on the New York Stock Exchange, through which it has procured large amounts of funds and put these securities among the leaders on the emerging markets because of their extraordinary yields.

This financing strategy has created a link between the Mexican and the New York Securities Exchanges, since two-thirds of Telmex's stock is sold on the latter, while at the same time this stock is the leader among the limited group of tradeable securities which make up the stock price index of the Mexican Securities Exchange. In practical terms, the formation of that index and the performance of the Mexican market are strongly dependent on changes in the price of Telmex stock in New York. This means that the evolution of Telmex has had a much broader impact on the national economy than would have resulted from its specific activities alone.

TABLE 8

Mexico: Some privatization operations involving non-financial public enterprises, 1989 and 1990

	Enterprise	Date of sale	Purchaser	Line of business	Sale price (millions of $US) [a]
1	Teléfonos de México	13 Dec. 1990	Grupo Carso, SW Bell, France Cable et Radio	Telecommunications	1 760.0
2	Cananea Mining Co.	28 Sep. 1990	Mexicana de Cananea	Copper mining	475.0
3	Aeronaves de México	12 June 1989	Icaro Aerotransportes	Airline	268.0
4	Compañía Mexicana de Aviación	22 Aug. 1989	Grupo Xabre	Airline	140.0
5	Sugar promotion	13 Jan. 1989	Grupo Beta San Miguel	Sugar refinery	89.0
6	Conasupo, Tutitlán plant	23 Feb. 1990	Unilever	Vegetable oil, seeds	74.5
7	Grupo Diana	27 Oct. 1989	Consorcio "g" (Cummins)	Tractors, buses, engines, etc.	56.0
8	Sugar refineries	1 Oct. 1990	Corp. Indus. Sucrum	Sugar refinery	54.5
9	Mexinox	23 March 1990	Ahorrinox	Iron and steel	47.6
10	Sugar refineries	19 June 1990	Anermmex	Sugar refinery	42.6

Source: Laura Carlsen, Changing Hands: Mexico's privatization program proceeds in the transfer of State-owned to private hands, *Business Mexico*, vol. 1, June 1991, p. 32. Quoted in Nora Lustig, *The Remaking of the Economy*, Washington, D.C., The Brookings Institution, 1992, p. 106.

[a] For conversions into pesos, the exchange rate at the date of sale must be used.

With regard to its corporate performance, Telmex is engaged in a big investment cycle worth over US$8 billion for the renovation and updating of the national telephone service. However, Telmex is being threatened earlier than expected by new national competitors associated with big transnational telephone companies. On the one hand there is Alejo Peralta's Iusacell cellular telephone group, which is taking active steps to secure authorization to compete with Telmex, while in the banking field Banamex-Accival –the other giant new group formed in the last few years, to which further reference will be made later– is also developing a telephone company to compete on the local and international markets.

Another privatization operation, which is worth mentioning because of its different effects and results compared with that of Telmex, is the sale of the Cananea copper mine, which is one of the biggest open-cast mines in the world. This mine was bought by the Minera México industrial group, headed by Jorge Larrea, a member of traditional Mexican big business. Through this acquisition, the new owners gained a virtual monopoly of the Mexican copper market and made the firm into the fourth largest copper producer in the world, strengthening their presence among the leading ten NPGs in 1992 (table 6).

A third privatization case is that of the two big national aviation companies, Aeronaves de México and Compañía Mexicana de Aviación, which belonged to the State to different degrees. This privatization operation is different from those mentioned earlier for various reasons. Firstly, the sale of these companies took place together with the deregulation of this sector, leading to the appearance of various air transport companies which were smaller but nevertheless had the capacity to compete on some internal routes. The most successful of these was TAESA, which initially belonged to the Hermes Group, headed by Carlos Hank Rhon, but was then sold to a group of private businessmen who, through a policy of highly aggressive fares, are having a fair amount of success within the somewhat troubled situation of this industry worldwide.

Aeronaves de México (Aeroméxico) and the Compañía Mexicana de Aviación, for their part, were sold to the Icaro and Xabre groups, respectively, thus maintaining the duopoly which has traditionally dominated Mexican air transport on the large-scale domestic market. The Compañía Mexicana de Aviación, however, has suffered serious economic and financial problems and has had to accept agreements to integrate with Aeroméxico, resulting in a virtual national private monopoly in the sector.

There is a fourth privatization example which is worthy of special mention, namely, that of the sugar refineries, which has so far been the least successful of all. The sugar refineries which have now been privatized had been absorbed in previous decades by the State because of their serious economic problems. They were returned to private ownership in recent years, but soon the 12 privatized sugar refineries again ran into serious economic problems which have brought them to a state of bankruptcy. Clearly, then, the structural crisis of the sector was not solved through privatization. Strictly speaking, the actual privatization process has not yet been completed, since the new owners still owe the State 30% of the value of the enterprises fixed at the auctions. A way out of this sectoral crisis seems to be taking shape with an offer to purchase some of the refineries by the Grupo Escorpión (GEMEX), headed by Eduardo Molina, which has the Pepsi-Cola franchise for Mexico (one of the biggest in the world) and is interested in buying these refineries in order to integrate its production process.

The fifth and last privatization case given here is of interest because it is an example of how privatization can lead to the emergence of new business groups. It concerns the sale of two independent public enterprises –the Dina truck factory and the Miconsa maize processing company– which formed part of the Conasupo public enterprise complex. They were purchased by two different groups, but they have continued to have links with each other because both groups are headed by Raymundo Gómez Flores, a Jalisco businessman who had previously had a modest entrepreneurial career but who also bought one of the privatized banks (the Banca Cremi) in the same process. This explosive expansion of the business activities of the groups headed by Gómez Flores was crowned with notable success not only in the case of the truck factory but also in that of the maize processing firm, even though the former has to compete with Mercedes Benz and the latter with the Maseca company, which has a solid position in both the local and United States markets.

2. The privatization of public financial enterprises

The large-scale privatization of public financial enterprises carried out in the 1990s revolved around the 18 commercial banks which formed part of the system and had been in the hands of the State since their nationalization in 1982. The most important antecedent for this privatization process was the divestiture of the stockbroking and investment firms which had remained integrated with the banks when the latter were nationalized and which were sold off in 1984.

This privatization of the banks differs from that of the public enterprises in the industrial and services sectors because it had some general features of its own in addition to those indicated at the beginning of this section.

Firstly, it took place within a broad programme of financial reforms designed to deregulate, liberalize and open up the Mexican financial system with the aim of creating the right conditions for a type of capital formation in keeping with the investment needs of the new economic model. Within this general process of reform, changes were also made in the legislation on intermediaries, so that those who acquired banks could form financial groups or universal banking enterprises headed by a bank, a stockbroking and investment firm or a holding firm. Thus, the privatization of the banks not only involved their sale to Mexican private citizens but also the restoration of the financial groups which had been the form of financial intermediary that existed before nationalization.

Secondly, the extensive scope of these new groups must be emphasized, for although the official rules did not authorize relations between these groups and industry, in actual fact some banks were adjudicated to powerful industrial groups, both traditional and newly-established, so that this privatization process also meant the reappearance of industrial-financial groups in the country.

The privatization of the banks thus brought with it profound changes in the configuration of the NPGs, both in terms of their general systems of organization and operation and in the actual links whereby they are formed. This explains the special features of the bank auction process,[8] since through it the State outlined a central element of the new profile that national private enterprise was to have in Mexico, and it therefore called for a delicate balance in the adjudication of these institutions (table 9).

[8] For a detailed report on the formal aspects of this process, see Ortiz, 1993.

TABLE 9

Mexico: Privatized banks, ranked in order of their territorial coverage

	Name	Purchasing group	President of group	Origin of purchasers	Region	Date of purchase	Amount paid (millions of US$)	Price/ book value	Stock bought (%)
National	Banamex	Accival/regional groups	R. Hernández/A. Harp	Stockbroking and investment group	Mexico City	26 Aug. 1991	3 189.23	2.63	70.72
	Bancomer	Vamsa/regional groups	Eugenio Garza Laguera	Visa	Nuevo León	28 Oct. 1991	2 791.28	2.99	56.00
	Serfin	Obsa/regional groups	Adrián Sada	Vitro	Nuevo León and Mexico City	27 June 1991	936.92	2.69	51.00
	Banco Internacional	Prime	Antonio del Valle/ Juan Sánchez Navarro	Industry	Mexico City	28 June 1992	475.19	2.95	51.00
	Multibanco Comemex	Inverlat	Agustín Legorreta	Stockbroking and investment group	Mexico City	10 Feb. 1992	883.26	3.73	66.54
	Banca Cremi	Interests from Jalisco	Raymundo Gómez Flores	Dina - trucks	Guadalajara	29 June 1991	247.93	3.40	66.73
	Unión (ex BCH)	Interests from the Southeast	Carlos Cabal Peniche	Agroindustry	Southeast	11 Nov. 1991	285.84	2.68	100.0
	Banco Mexicano Somex	Invermėxico	Carlos Gómez y Gómez	Grupo Desc	Mexico City	5 March 1992	611.96	3.31	81.62
Multiregional	Multibanco Mercantil	Probursa	J.M.Madariaga	Stockbroking and investment group	Mexico City	10 June 1991	202.44	2.66	77.89
	Banpaís	Mexival	Angel Rodríguez	Transport	Mexico City and the Northeast	17 June 1991	180.57	3.03	100.0
	Bancrecer	Interests from Mexico City and Guanajuato	Roberto Alcántara	Transport	States of Mexico, Gto., etc.	19 Aug. 1991	139.68	2.53	100.0
	Banco del Atlántico	GBM		Stockbroking and investment group	Mexico City	29 March 1992	479.13	5.30	68.85
	Banoro	Estrategia Bursátil		Stockbroking and investment group	Sinaloa	July 1992	365.09	3.95	66.03
Regional	Banca Confía	Abaco	Jorge Lankenau	Stockbroking and investment group	Nuevo León	5 August 1991	293.19	3.73	78.68
	Banco de Oriente	Grupo Margen	Marcelo Margain	Stockbroking and investment group	North and Centre	12 June 1991	73.95	4.04	66.00
	Banco Promex	Finamex		Stockbroking and investment group	Jalisco	4 May 1992	346.84	4.23	66.34
	Banco del Centro	Multivalores		Stockbroking and investment group	Mexico City, Jalisco	7 June 1992	278.79	4.65	66.31
	Banorte	Maseca/Gamesa	Roberto Barrera/ Alberto Santos de Hoyos	Agroindustry	Nuevo León	14 June 1992	569.44	4.25	66.00
Average or total							*12 350.73*	*3.5*	*72.2*

Source: Secretaría de Hacienda y Crédito Público de México.

This was reflected, on the one hand, in the careful pre-classification of prospective purchasers of these enterprises, which excluded groups that had had great banking power, such as the group headed by Manuel Espinoza Yglesias, the former owner of Bancomer. On the other hand, an entrée to the banking world was given to the new financial power generated by the stockbroking and investment firms during the 1980s, as symbolized by the case of Accival, whose acquisition of Banamex turned it into a financial agent of international importance.

At the same time, however, the government took precautions to ensure that national financial power was not excessively concentrated in the stockbroking and investment sector, so that it also admitted the traditional industrial groups into the bank privatization process. Thus, two of the three biggest banks in the country (Bancomer-Visa and Serfín-Vitro) became the property of traditional Monterrey groups, and two smaller banks also passed into the hands of groups from that city, while some of the leading industrial groups from Mexico City were also incorporated in the process indirectly, as in the case of the Desc Group, linked with the Invermexico stockbroking and investment firm, which bought the former Banco Mexicano Somex, now called the Banco Mexicano.

The privatization of banks also made possible the establishment or consolidation of strong regional groups connected with manufacturing or agroindustry. A noteworthy case in this respect, already referred to earlier, is that of the Banca Cremi, which was acquired by the Raymundo Gómez Flores group, or the Banco BCH, which became the property of the Southeastern group headed by Carlos Cabal Peniche, who had recently gained control of the Del Monte Corporation, one of the biggest fruit and vegetable packing firms in the world. This group then gained control of the Banca Cremi by purchasing part of its equity from the Gómez Flores group. Finally, mention may be made of the case of Banorte, which was bought by a group headed by Roberto González Barrera, who is also the owner of Maseca, the flour milling firm that competes with the company bought from the State by Gómez Flores.

Banks were also adjudicated to two groups that exercised major control over transport under the former system of public regulation of the sector. The first is that of Roberto Alcántara, which first bought Bancrecer and then Banoro from the groups which had acquired them in the privatization process, and the other is the group of Angel Rodríguez, who had first bought the Banpaís bank and formed a financial group with the Mexival stockbroking and investment firm. This group subsequently increased its financial importance when it was adjudicated the Asemex insurance company: a public enterprise which provided all the State insurance and has great weight among the insurance companies of the country.

A special feature of these privatization operations was that in them the government showed great concern to ensure that the groups acquiring banks had a broad base of shareholders in some region of the country, seeking in this way to guarantee that the new banking systems were more clearly integrated with economic activity.

A significant feature of these bank privatization operations was that the new banking systems did not meet the objectives hoped for by the government, because of the high cost of their finance and the segmentation of the markets in which they operated. This led the government to authorize the opening of new national and regional banks earlier than originally planned, thus giving admittance to big NPGs which had initially been excluded from the purchase of banks in spite of their efforts to do so. This was what happened in the cases of the Carso Group of Carlos Slim and the Hermes Group of Carlos Hank Rhon.

The buyers of the banks paid very high prices for them, which is explained by the profit expectations ensured by the initial forecast that the banking sector would remain protected from outside competition up to at least the end of this century, and by the great growth prospects that existed due to the national financial backlog caused by the years of crisis and nationalization.

From the point of view of the business structure of the sector, the privatization of the banks restored the traditional duopoly exerted in the Mexican financial market by Banamex and Bancomer. As already noted, however, new multi-regional powers are tending to grow up both on the basis of existing banks and through the establishment of new ones.

Finally, it may be noted that these privatization operations have not yet given rise to a stable system of financial enterprises and groups. In the near future, big changes may be expected in the sector both through mergers and associations among existing banks and through the establishment of major new banks and the association of local and foreign banks with a view to the Free Trade Agreement with the United States and Canada.

III

Conclusions: a preliminary profile of national private groups in 1993

By way of a general conclusion, we could say that the main result of the reform processes carried out in Mexico since 1989, both at the macroeconomic and the individual company level, is that the NPGs are taking on a new profile (table 10).

TABLE 10

Mexico: Categories of traditional and new national private groups, August 1993

Type of group	Financial	Industrial	Commerce/services
		Economic and financial groups	
Traditional			
Visa	Bancomer	Cervecería Cuauhtémoc	
Vitro	Serfín - Obsa	Vitro	
Desc	Mexicano - Invermèxico	Various	
New groups			
Carso	Inbursa	Condumex/Telmex	Sanborns
Hermes	Interacciones	Transport, trucks	
Cabal Peniche	BCH	Del Monte	Fruit packing, hotels
Maseca	Banorte	Maseca	
Alcántara	Bancrecer	Transport	
Cremi	Cremi	Dina	
Rodríguez	Banpaís	Transport	
Pulsar	"La República" insurance company		
Prime	Internacional - Prime	Cervecería Modelo	
		Financial groups	
Origin: Stock Market			
New groups:			
Banamex - Accival	Banamex - Accival		
MM-Probursa	MM-Probursa		
Origin: Banking			
Traditional group:			
Comermex - Inverlat	Comermex - Inverlat		
		Industrial groups	
Traditional groups			
Alfa		Iron and steel/food/others	
Cemex		Cement	
Peñoles		Mining	
Televisa		Television/radio/press	
Ica		Construction/others	
Comercial Mexicana		Self-service stores	
Cifra		Self-service stores	
Gigante		Self-service stores	
New groups			
Salinas		Elektra/Televisión Azteca	Commerce/cinemas
Gemex/Escorpión		Pepsi-Cola/sugar refineries	

Source: Prepared by the author on the basis of data from the press, documents and the Mexican Stock Exchange.

Above all, we are witnessing the emergence of a set of economic and financial groups as a result of the bank privatization process, combined with the sale of public industrial enterprises in some cases. Within these groups, on the one hand there are the groups which had traditionally existed in the country and which reappeared after the nationalization of the banks in the 1980s, while on the other hand there is a considerable number of new economic and financial groups of predominantly industrial origin, which seem to be forming the base for a new business leadership in the country. There are also some industrial or commercial groups which have incorporated or hope to incorporate banks and other financial intermediaries into their structure. A point worthy of note is the regional origin of most of these groups, as well as the major presence in them of business interests connected with the transport sector.

Outstanding among the new groups is the Carso Group, which, through the stockbroking and investment firm Inbursa, gained control during these years of various companies or private groups such as Condumex, Nacobre, Sanborns and Minera Frisco, along with the acquisition of Telmex and now the opening of a national bank which will foreseeably compete with Banamex and Bancomer.

Another important change is the formation of financial groups under the leadership of one or other of the stockbroking and investment firms which were so successful during the period of nationalization of the banks. In order to appraise the special features of this new type of group, it must be recalled that when the banks were privatized it seemed that they were going to be adjudicated to the stockbroking and investment firms, which were the new private financial power. The final result of the privatization process was different, however, and only three of the financial groups which acquired banks were of this origin.

An undoubtedly significant fact is that these groups include the Banamex-Accival group, which, under this new structure, became the leading financial entity in Latin America and now occupies position No. 257 among the thousand biggest banks in the world, according to *The Banker*. In order to gain a fuller idea of the implications of this position it may be noted that the stock market basis of this bank is due to its two main leaders: Alfredo Harp and Roberto Hernández, who are the owners of the Accival stockbroking and investment firm which purchased the bank. Among the other shareholders there are many important figures from big Mexican non-financial enterprises, however. The distinctive feature of this type of group is that its activities are centered on the world of finance, and especially the stock market, although this could change if the Banamex-Accival group confirms its entry into the field of telephone services.

This sector of the financial groups also includes the only example of the return of one of the traditional bankers: Agustín F. Legorreta, who had been the owner of Banamex in the past and is now the leader of the Comermex-Inverlat group.

The third and last category of groups presented here includes those of predominantly industrial origin, especially restructured traditional groups, although there are also very successful new and growing groups, such as the Elektra or Gemex-Escorpión groups.

This situation of relative weakness of the new industrial groups compared with the traditional ones may be interpreted as proof that the Mexican economy has still not developed a sustained cycle of investment and growth capable of promoting such business development, but there is sufficient latent economic and business energy to bring this about if such a cycle can be established.

If this is so and these conditions are fulfilled, then it may be expected that in the coming years the process of change in the structure of Mexican private capital analysed in this article may come to fruition, thus not only consolidating and expanding this segment of new groups but also having an integrative effect on medium-sized and small firms and thereby strengthening the country's rather weak business structure.

(Original: Spanish)

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China's economic reform *and opening to the world:* a retrospective and *prospective view*

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This article, written specially for *CEPAL Review*, analyses the past evolution and future prospects of China's economic reform and opening-up to the world economy. Section I describes the process of reform and openness in the past 15 years and analyses its various results. Section II considers some lessons that can be learnt from the Chinese experience, including political and social aspects as well as economic aspects proper. Section III examines the outlook for the Chinese economy in the last years of this century, while the concluding section, Section IV, analyses three questions: Is the Chinese reform process reversible? Will a socialist market economy be established in China? Will China become a Superpower?

I

The economic reform and opening-up process over the last 15 years

At present, almost all the countries of the world are carrying out some kind of economic reform and adjustment. They are all oriented towards the outside world, trying to link up the domestic market more closely with the world market. Compared with other countries, China's reform and opening-up process has both similarities and differences.

The reform process in China involves the transformation of the old highly-centralized planned economy into a Socialist market economy. China is therefore carrying out its reforms with a primarily Socialist orientation: a self-perfection of Socialism with the aim of emancipating and developing the forces of production, speeding up economic development, and improving the people's living standards and building up China into a modern country marked by prosperity, democracy and a high level of civilization.

China is a developing country. In comparison with the majority of other developing countries –apart from the differences in social systems– it is more or less at the same stage of overall development and the same level of economic development. Economic reform in China has the aim of building a market economy: in this respect it is similar to many other developing countries. But China aims to build a *Socialist* market economy, and this is its special feature.

China applied a highly-centralized planned economy in the past, as in the former USSR and the Eastern European countries. After the drastic political changes which took place a few years ago, the former USSR and the Eastern European countries have deserted Socialism for privatization and Western-type free market economies, but China still remains true to Socialism. This is a fundamental difference.

Since the Third Plenary Session of the Eleventh Congress of the Chinese Communist Party at the end of 1979, which marked the beginning of the process of reform and opening-up to the world, China has gone through four stages in 15 years.

1. The initial reform period (1979-1983). In this period, reform in China was focussed on the rural areas. China has a rural population of 800 million, and agriculture is the foundation of the national economy. It was therefore important to start the reform process in the rural sector in order to stimulate the enthusiasm of all peasants for higher production and speed up agricultural development, by doing away with the people's communes and introducing instead the family responsibility system. Under this system, the land and production is contracted to peasant families and the peasants themselves decide what to produce and how to produce it. This system has greatly raised the enthusiasm and initiative of the peasants with regard to production. As a result, agricultural production has grown rapidly and the living standards of the peasants have improved significantly. With regard to the process of opening-up to the world, four Special Economic Zones (SEZs) (Shenzhen and three others) were established during this period.

2. The period of the spread of reform (1984-1988). On the basis of the progress made in agricultural reform, the focus of reform shifted to the cities. Economic reform in the cities is much more complicated than in rural areas, since it involves structural reforms in planning, finance, taxation, prices, labour and wages, etc. We adopted the principle of gradual progress, building up experience and learning lessons through practice. Due progress was made in reform as a result of this principle, and the national economy registered rapid growth. China opened up more extensively to the world: in addition to the four SEZs, Shanghai and 14 other coastal cities became open cities during this period.

3. The period of tortuous progress in reform (1988-1991). As a result of the insufficient emphasis placed by the government on macro-control and regulation, there was over-investment in capital construction, an excessive increase in social consumption, an imbalance between aggregate social demand and aggregate social supply, overheating of the economy, and a rise in the rate of inflation. In order to get round this situation, regulatory measures and adjustments were carried out and a contractive economic policy was applied in these three years, while the process of opening-up was further widened, and in addition to the previous four SEZs Hainan Island now became the newest and biggest SEZ.

4. Finally, since 1991 a policy of regulation and adjustment has been successfully applied and the process of economic reform, opening-up and economic development has thus entered upon a new stage. A noteworthy event was the series of important speeches delivered by Deng Xiaoping during his inspection tour of South China, calling upon the people to grasp the opportunities of that time and to further emancipate their minds in order to accelerate the pace of reform and opening-up. This call greatly inspired people all over the country. In 1992 the Fourteenth Congress of the Chinese Communist Party called upon the nation to embark upon the task of building a Socialist market economy, which further clarified the orientation of reform. During this period, China has further intensified her opening-up to the rest of the world. The Pudong District of Shanghai has begun to build itself up as a new area of openness to the world, and many large and medium-sized cities along the Yangtse River and in border areas, as well as all the provincial capitals, have joined the ranks of open cities.

Fifteen years of reform and opening-up have profoundly changed the economic picture in China:

i) The single ownership structure of the past has been replaced by a new pattern of co-development of multi-economic elements, with public ownership as the mainstay. The share of public ownership in the GNP dropped from 98% in 1979 to 85% in 1992, with the share of State ownership going down from 55-60% to 35-40%, while the share of the collective economy has greatly increased. At the same time, the private economy and foreign capital came to account for 10-15% of the national economy of China.

ii) In the past, all links between economic activities in China were controlled and managed by the State Plan, but now those under the control of that Plan only constitute a small part of GNP and the overwhelming majority of the rest is regulated by the market. In 1992, for instance, the prices of 80% of all commodities were regulated by the market.

iii) Considerable changes have taken place in the structures of finance, taxation, prices, labour, wages, etc.

iv) An all-round pattern of opening-up to the outside world has been formed, made up of the SEZs, coastal cities, cities along the Yangtse River and in border areas, and the provincial capitals. Due reforms have also been made in the foreign trade and foreign exchange management systems.

The reform and opening-up process has promoted economic development and improved the people's standard of living:

i) From 1979 to 1992, the average annual growth rate of GNP was 9%: 5.9% for agriculture and 13.2% for industry, and the Chinese economy was significantly strengthened.

ii) Foreign trade is developing very rapidly. Over the period 1979-1992, the average annual increase in the value of foreign trade was 16%, and in 1992 the total value of China's imports and exports came to US$165.61 billion. The share of foreign trade in GNP rose from 10% in 1978 to 40% in 1992. Foreign investment has also shown rapid growth, and tens of thousands of joint ventures, cooperative partnerships and wholly-foreign-owned enterprises have been established, while over US$80 billion of foreign capital has been brought into the country and invested.

iii) Marked changes have taken place in the relative shares of the primary, secondary and tertiary sectors in GNP. In 1979 their respective shares were 28.4%, 48.6% and 23.0%, whereas in 1992 they were 23.9%, 48.2% and 27.9%.

iv) The income of the people has increased significantly. Over the period 1979-1992, the average annual growth rate of wages and salaries was 7.4%, while the average annual rise in the consumption level of the population was 6.8%.

II

Experiences and problems

The process of reform and opening-up in China has won great achievements. Some of the experiences in this respect are summarized below:

i) Political and social stability is an important political guarantee for reform and opening-up as well as economic development. It goes without saying that reform and opening-up cannot press forward successfully in a situation of political instability and social unrest.

ii) Theory can proceed side by side with practice. In China, reform and opening-up to the world are unprecedented events, and there is no previous experience or ready-made theory to follow. We could only press on ahead first, sum up the experiences and lessons of the process of trial and error, and then formulate theories on this basis. With the progress made in reform and opening-up, the theory resulting from this great practice is gradually matured and systematized, as embodied in concentrated form in the theory of Chinese-style Socialism put forward by Deng Xiaoping, which is the compass guiding China's process of reform and opening-up towards victory.

iii) Reform in China presses forward step by step in a gradual manner, starting in rural areas and then extending to the cities. We did not adopt drastic "shock therapy". Our opening-up to the world also widens gradually. This gradual process of reform helps to protect the economy from drastic fluctuations and confusion, and guarantees that it will not exceed the limit of social sustainability. Thus, sustainable development of society is guaranteed.

iv) The broad masses of the people should be benefitted by reform. Reform is a grand cause of the whole people, and it is necessary to arouse and maintain their enthusiasm. Consequently, as well as propagating reform and educating the people to take part in it, it is important that they should gain visible material benefits and improvements in their living standards from reform and opening-up. Of course, this does not necessarily mean that people of all strata and all trades will enjoy equal rises in living standards. China encourages part of the population to get rich first and recognize the differences in social income, but at the same time it guarantees that all the people can see their lives improved to a certain extent and gradually approach the target of prosperity for all.

v) An effort must be made to achieve synchronized progress in reform and development, so that reform can promote development and economic and social development can guarantee the gradual deepening of reform. China's experience indicates that even under Socialism economic development will not be a completely stable process: fluctuations are unavoidable. We strive, however, to avoid drastic ups and downs in the economy and to ensure rapid, sound and sustainable development.

We believe that what we have done is in keeping with the reality of China and with the objective laws of reform, opening-up and economic development. This is precisely why China has been able to gain significant success in its policy of reform and greater openness.

On the other hand, we are also well aware that there are quite a few difficulties and problems, the main ones being the following:

i) The reforms carried out in China promote rapid economic development, but economic efficiency is not yet high, especially among the large and medium-sized State enterprises, one-third of which have suffered repeated losses. They tend to pay attention only to speed, and not enough to efficiency.

ii) There are problems in the industrial structure, especially in the following respects: a) although agricultural production has made remarkable progress, it has not been growing rapidly in recent years; b) tertiary industry is lagging behind; and c) the infrastructure in such areas as energy, transport, postal and telecommunications services, etc. cannot meet the demands of economic development and the needs of rising living standards.

iii) A general balance between aggregate social demand and aggregate social supply is needed in order to ensure sustainable economic development free from drastic fluctuations, but owing to the preoccupation with speed of growth, the aggregate social demand tends to expand arbitrarily, especially in the case of the excessive growth in investments in capital construction, which has resulted in overheating of the economy, greater inflationary pressures, and faster price rises.

iv) China is a vast country, and conditions in the different regions vary greatly, so that uneven development among the regions is inevitable. It is important for the relatively developed areas –for instance, the coastal areas of East China– to bring along the less-developed areas, so that the regional gaps can be gradually narrowed and even-handed development can be achieved.

v) China's strategy focuses on building-up of the economy and development of the forces of production. This is undoubtedly the right approach, but it is also necessary to maintain a balance between economic development and socio-cultural development. For instance, education in China is still backward in spite of the great progress already made, and the contribution of science and technology is still far from sufficient.

The above-mentioned difficulties and problems are inherent in China's development process, and they will have to be solved as reform is enhanced and deepened. It goes without saying that they will not disappear by themselves without the adoption of effective measures.

III

Prospects towards the end of this century

Reform and opening-up in China have made considerable progress and registered significant achievements in the past 15 years, but there is still a long way to go before reaching our goal of transforming the old structure and building up a new Socialist market economy. In order to accomplish this historic task, we must make great efforts to press on with the process of reform and opening-up and solve a number of fundamental problems that confront us:

i) *Transformation of the operational mechanisms of large and medium-sized State enterprises and the establishment of a system of modern enterprises.* This is not only the basic way to change the situation of low efficiency displayed by these enterprises but also the central element for building a Socialist market economy. For this purpose, it is absolutely necessary to separate the ownership of State enterprises from their management and to push them into the market in order to ensure their autonomous management. The experiment of establishing shares and shareholders currently being carried out is part of the efforts in this direction.

ii) *Establishment of a sound market system.* The market has gradually developed in China during the 15 years of reform. So far, however, it is mainly the market for consumer goods which has shown significant development, while the markets for the means of production, capital, negotiable securities, foreign exchange, technology, services and information, etc., are still in their initial stages and in some cases still under trial. Great efforts are needed in order to speed up the development of these markets into a sound, unified and open market system.

iii) *Thorough transformation of the functions of the State.* In the past, under the centrally planned economic system, the government exercised direct control over the economy through State plans (mainly of a mandatory nature) and administrative means. Under the system of a Socialist market economy, the function of the government must be changed from direct control over the economy to indirect control and regulation. For this purpose, there must first of all be a complete change in the concept of the State, while it must also acquire the necessary means and capacity for control and regulation.

iv) *Broader openness to the world.* In addition to the SEZs, coastal cities, cities along the Yangtse River and in border areas, and provincial capitals, it is also necessary to open up cities along the major railways and highways. Even more important is the structural reform of foreign trade, so that China's foreign trade rules and regulations will be gradually brought in line with the conventions of the world market, tariffs will be lowered, and imports and exports will be liberalized. Efforts will be made to secure the resumption of China's membership in GATT as soon as possible. The investment environment will be further improved in order to attract more foreign capital, and economic cooperation with the whole world will be further strengthened.

In November 1993, the Third Plenary Session of the Fourteenth Congress of the Central Committee of the Chinese Communist Party adopted a "Decision on Several Questions Concerning the Establishment of a System of Socialist Market Economy", noting that the country's process of reform and opening-up and the cause of modernization were entering upon a new stage. The new economic system is to be primarily established at the end of this century. The Decision set out a series of principles, policies and measures for the solution of various complex problems, and it is expected that the reform and opening-up of China will advance even faster and more vigorously in the coming years.

At the same time, the economic construction of China will gain still further momentum. The country's strategic target is to double GNP by the end of the century compared with the GNP of the 1980s, which was itself double that of the previous decade, thus giving the population a decent standard of living: not outstandingly affluent, but free from poverty. The population will not only be assured of proper food and clothing, but will also enjoy a considerable improvement in their standard of living, with a significant improvement in their educational and cultural level. There is every possibility that this strategic target will be reached ahead of schedule.

IV

Answers to some salient questions

It is necessary to have a correct understanding of some salient questions concerning the process of reform and opening-up in China:

Is China's process of reform and opening-up likely to be reversed or abandoned? We must say that this is absolutely impossible, because:

a) Building Socialism with Chinese characteristics through this process is the only correct road to happiness, and is finally being realized after protracted exploration, repeated setbacks and suffering, ever since the founding of the People's Republic of China. It has become a national consensus, and Chinese people of all nationalities have a vital interest in it. Therefore, it can never be changed.

b) Fifteen years of reform and opening-up have greatly changed the situation in the country and brought improved living standards for the broad masses. Reform and opening-up are unanimously supported by people all over China.

c) The process of reform and opening-up is guided by the theory of building Socialism with Chinese characteristics pioneered by Deng Xiaoping, which has been institutionalized in the Constitution of China.

Will China eventually be able to establish a system of Socialist market economy? This is a question that preoccupies many of our friends. Some think that Socialism cannot integrate with the market. Indeed, this was what many of us believed ourselves for a long time. We thought that Socialism could only adopt a planned economy and should not try to develop a market economy. After being explored for more than ten years, however, this question has been fundamentally clarified both in theory and practice in China. Now we understand that Socialism is a basic social system, while planning or the market are different options for developing and regulating the economy which can be used by Capitalism but also by Socialism. In the past, we believed we should only use the planning option –especially mandatory planning– and that we should reject the market. This was an extremely one-sided concept, for which we have suffered a great deal. Now we have a new concept of the situation, and we are more confident in our actions.

Will China become a Superpower? In recent years, there have been a number of reactions in many countries to the rapid growth of the Chinese economy: that China already is a superpower, or will become one in the next century; that China's economic might has put it in third place in the whole world, just behind the United States and Japan; that China is now one of the "poles" of the world; and some people even worry that China will be a threat to others when she gets stronger. All these assumptions are groundless, however, and it would appear that someone fomented them out of ulterior motives, in order to mislead people and create suspicion against

China. The truth is that although China has had great success in her economic reform, with outstanding achievements in terms of economic development, and will assuredly have even greater success and achievements in the future, China will always be a factor of world peace and stability, and never the opposite, for the following reasons:

a) China is a country with a big population, and although its economy is quite big the level of per capita income is still not very high. China is still a developing country, and even among the developing countries it ranks rather to the rear in economic terms. Therefore, China will have to make strenuous efforts for a long time before it can become a prosperous and affluent country, and hence it will definitely focus its main efforts on building up its economy and will never be a threat to others even when it gets stronger in the future.

b) China had a bitter history of humiliation as the victim of oppression and aggression for many years, so that it now always shows sympathy and solidarity for the just cause of weaker countries and nations and will never be guilty of aggression or oppression against other countries when it gets stronger.

c) China steadfastly follows the five principles of peaceful coexistence, and in its diplomacy it maintains a line of independence, autonomy and peace. Guided by these principles and this line of action, it has constantly improved its relations with other countries and won the respect and trust of the peoples of the world.

(Original: English)

Guidelines for contributors to *CEPAL Review*

The editorial board of the *Review* are always interested in encouraging the publication of articles which analyse the economic and social development of Latin America and the Caribbean. With this in mind, and in order to facilitate the presentation, consideration and publication of papers, they have prepared the following information and suggestions to serve as a guide to future contributors.

—The submission of an article assumes an undertaking by the author not to submit it simultaneously to other periodical publications.

—Papers should be submitted in Spanish, English, French or Portuguese. They will be translated into the appropriate language by ECLAC.

—Papers should not be longer than 10 000 words, including notes and bibliography, if applicable, but shorter articles will also be considered. The original and one copy should be submitted, as should the diskettes, if any (in IBM compatible Word-Perfect 5.1 format).

—All contributions should be accompanied by a note clearly indicating the title of the paper, the name of the author, the institution he belongs to, and his address. Authors are also requested to send in a short summary of the article (no more than 250 words) giving a brief description of its subject matter and main conclusions.

—**Footnotes should be kept to the minimum,** as should the number of tables and figures, which should not duplicate information given in the text.

—Special attention should be paid to the bibliography, **which should not be excessively long.** All the necessary information must be correctly stated in each case (name of the author or authors, complete title (including any subtitle), publisher, city, month and year of publication and, in the case of a series, the title and corresponding volume number or part, etc.).

—The editorial board of the *Review* reserve the right to make any necessary revision or editorial changes required by the articles.

—Authors will receive a courtesy copy of the *Review* in which their article appears, plus 30 offprints of the article, both in Spanish and in English, at the time of publication in each language.

Recent ECLAC publications

Periodical publications

Economic Survey of Latin America and the Caribbean, 1992, vol. II (LC/G.1774/Add.1-P), Santiago, Chile, October 1994, 467 pages. United Nations publication, Sales No.: E.93.II.G.2.

This second volume of the *Economic Survey of Latin America and the Caribbean, 1992* describes the economic evolution of the individual countries of the region in that year. It thus complements volume I of the *Survey* (LC/G.1774-P) which was published in September 1993 and which analysed trends in the economic situation of the region and the world, together with a study of external capital movements in Latin America and the Caribbean.

Statistical Yearbook for Latin America and the Caribbean, 1993 edition (LC/G.1786-P), bilingual Spanish/English, Santiago, Chile, February 1994, 774 pages. United Nations publication, Sales No.: E/S.94.II.G.1.

The 1993 edition of the *Statistical Yearbook for Latin America and the Caribbean* contains a selection (updated to the end of December) of the main available statistical series on the economic and social evolution of the countries of the region.

Part One contains derived economic and social indicators (growth rates, proportions or coefficients) which provide an overview of each area of interest and represent general background information that can be used in specialized studies.

Part Two gives historical series in absolute numbers, thus permitting their use for a wide variety of purposes. Most of the statistical tables give figures on a particular subject, laid out in such a way as to facilitate comparison between countries and between countries and the regional totals or averages. Only the balance of payments and national accounts tables are an exception to this, since they each cover a single country.

Although 33 Latin American and Caribbean countries are currently members of the Commission, the tables which give regional totals generally correspond to the data for 25 countries. It should be noted that the statistics for Caribbean countries are sometimes less complete, so that regional coverage varies according to the subject-area in question.

The indicators in Part One of the *Yearbook* generally correspond to the years 1970, 1980, 1982, 1985 and the period from 1986 to 1992. In cases where the information is not sufficiently up to date, the last year available is given for each country. Some of the indicators based on census information are available only for the years when the respective censuses were carried out.

The statistical series in Part Two, whether they are of national origin or refer to regional estimates, give data for the years 1970, 1980, 1982 and 1985 and for the period from 1986 to 1992.

In view of the excellent welcome given to them by users and the good level of approximation achieved in past issues, the Yearbook continues to give preliminary estimates for its year of publication (in this case 1993). This represents an effort made in the last two months of each year to inform readers about the macroeconomic trends observed in the period in question. In this respect, the following clarification should be made: owing to the different cut-off dates involved, in some cases the historical figures given in the tables of the Yearbook for recent years may differ slightly from those of the *Preliminary Overview of the Latin American and Caribbean Economy, 1993* because of the different moments at which the respective information was obtained.

Other publications

Policies to improve linkages with the global economy (LC/G.1800 (SES.25/3)), Santiago, Chile, April 1994, 301 pages.

Four years ago, the Secretariat placed before the governments of ECLAC Member States the document entitled *Changing Production Patterns with Social Equity.* This document proposed some general guidelines for the development of the Latin American and Caribbean countries, including guidelines aimed at making production activities internationally competitive, both in order to increase exports and to achieve efficient import substitution. It also offered a frame of reference for ECLAC's subsequent activities in terms of the analysis of various important issues.

In reality, the economic situation of the region has changed considerably in these four years. With natural differences of degree from one country to another, the macroeconomic imbalances so typical of the past decade have begun to yield; the outflow of financial resources has been turned into a substantial net inflow of foreign capital; the export sector has grown and diversified, and economic activity as a whole has shown a modest upturn. The countries of Latin America and the Caribbean now need to capitalize on these advances, some of which are still only incipient and partial; to overcome the difficulties naturally involved in penetrating highly competitive international markets, and to correct the considerable social lags which have built up. Their possibilities of fulfilling all these tasks will depend to a decisive extent on securing a more favourable place in the world economy.

One of the conclusions reached in this study is that, despite the many obstacles standing in the way of development in the region, there are now a number of potentially favourable factors which could markedly assist this effort. They include the gradual assimilation of the lessons learnt in the process of increasing and diversifying exports; the improvement in the quality of macroeconomic management; the possibility of filling what has hitherto represented a gap in the range of public policy instruments in the region –namely, the application of micro- and macroeconomic policies– in order to increase productivity to match the best international practices; renewed access to external financing, and the boom in intra-regional economic cooperation. Another factor is the recent approval, in the context of the Uruguay Round, of new rules on international trade which, although far from meeting all the region's demands, at least represent a step forward in support of multilateralism.

Greater participation by Latin America and the Caribbean in the most dynamic trade flows, as well as greater access to technology, foreign direct investment and financing, depends partly on exogenous factors which are beyond the control of the countries of the region. Nevertheless, there is a great deal that could be done in the area of each country's own domestic policies, and even in the area of intra-regional cooperation, in order to win a better place in the world economy.

The main purpose of this document is to explore the scope of the efforts in this direction. It therefore reviews three inter-related policy areas: trade policy, micro- and meso economic policy in support of the systems of production, and macroeconomic policy, with special emphasis on financial flows. This latter item is particularly important in the present circumstances, when capital inflows decisively affect two key variables for export performance: interest rates and, above all, exchange rates.

The document consists of three parts: one for each of these policy areas. The concluding chapter seeks not only to sum up the contents of each of these parts but also to integrate their various components into a coherent proposal within the framework of the systemic approach advocated by the Secretariat.

El desarrollo del transporte público urbano en América Latina y el mundo (The development of urban public transport in Latin America and the world) (LC/G.1817), Santiago, Chile, February 1994, 72 pages.

This book analyses the economic and social impact of subsidies and different forms of control and organization of urban public transport in the region. To this end, the development of this means of transport in various periods is analysed.

Up to the mid-19th century, the only means of urban public transport were animal-drawn coaches and carriages. About that time, the horse tram began to be used in the United States and Europe, arriving in Latin America about 20 years later. For a time, horse-drawn omnibuses existed side by side with horse trams, until both disappeared as significant means of transport in the second decade of the present century, being displaced by electric trams and motor buses: the winners of a very interesting contest in which there were also other technological options which are now virtually forgotten.

Later on, electric trams also bowed out, since they could not compete with motor buses for various reasons of a technical, economic and institutional nature. In many Latin American cities, electric trams made their last trips around 1960. In some cities, trolleybuses were considered as a possible replacement for the trams, but with very few exceptions they never managed to account for a significant proportion of the urban transport market. They continue to be used in a few cities, however, and every time there is an oil crisis they receive renewed attention from urban transport planners.

To begin with, railways were not normally considered as a means of urban transport, but they started to assume this role when the railway companies decided to take advantage of the urban and suburban sections of their longer-distance lines to run local trains, thereby also influencing the development of urban space. Up to the beginning of the present century, the only practical technological option for hauling trains was the steam locomotive, which came to transport very large numbers of passengers. The use of electricity preceded the introduction of diesel engines and is now the preferred technological option, although many Latin American suburban lines are still drawn by diesels, or even by steam locomotives. The use of self-propelled units instead of strings of coaches drawn by a locomotive represented an important innovation.

The "metro" (an abbreviation of "metropolitan railway") took 50 years to reach Latin America and another 50 to be established in more than one city of the region. In some cases, especially when there is a very large flow of passengers within well-defined corridors, a metro system may be the only feasible solution. However, it not only requires big investments for its construction but also usually needs subsidies to cover its operating losses. Compared with the total number of urban journeys, the metro covers only a small segment of demand.

After a period in which the metro was in vogue, around the 1970s efforts were made to find some technological alternative, midway between the tram and the metro, but still based on the use of rails, which would cost less and have a smaller capacity. So far, however, few such alternatives have been tried in Latin America.

For various technical and economic reasons, motor buses maintain their dominant position in the Latin American urban passenger transport market, even in cities which have substantial networks of other forms of transport. Although when they have to share the road with other vehicles buses cannot operate efficiently in the corridors with heaviest demand, the problem can be solved in many cases by establishing exclusive bus lanes, on which buses can transport as many as 20 000 passengers per hour in each direction at speeds of up to 20 km/hour including stops, free of interference from cars and other vehicles. Giving priority to buses is not a general solution for all traffic problems in congested areas, but it has been found that it is more acceptable, from the social and political point of view, than other measures which directly restrict private car use.

In Latin America, the urban transport infrastructure is used very inefficiently, basically because of excessive use of private cars in the most congested areas and times of day. It is not the private car itself which is responsible for the problem, however, but its use in unsuitable conditions. In order to reduce this unsuitable use, the government authorities will have to act more firmly than they have done so far.

Open regionalism in Latin America and the Caribbean (LC/G.1801 (SES.25/4)), Santiago, Chile, January 1994, 103 pages.

In recent years, Latin America and the Caribbean have shown an increasing capacity to withstand the effects of the prolonged crisis of the 1980s and the changes in the international scene. Governments and society have sought new ways of adapting to the changing circumstances and coping with the many challenges facing them. One of the many expressions of this process of adaptation is the renewed interest in the potential for regional cooperation and, in particular, in multilateral and above all bilateral formal economic integration agreements.

This is attributable to various factors, among them the slow and laborious progress of the multilateral negotiations in GATT, the example offered by the further advances made in the European Community and the formation of a free trade area between Canada and the United States (and now also Mexico), the gradual convergence of the national economic policies applied in Latin America and the Caribbean, and the growing political affinity among democratically elected civilian governments.

All this might give the impression that it is no longer necessary to try to convince governments and the various societal actors of the benefits of integration. However, the wealth of commitments entered into so far gives rise to a number of queries which should be answered. Some of them are of a general nature: Why favour integration? What kind of integration should be promoted? What are the most suitable mechanisms and instruments for furthering integration in the present circumstances?

Other queries are more specific. For example, How are the "new" schemes different from those adopted in the 1960s and 1970s? How can national economic policy objectives be reconciled with integration commitments? Should an effort be made to promote the gradual convergence of all these agreements into a single regional-scope agreement, or would it be better to respect the heterogeneity of the different situations and give up any express aim of forming a Latin American free trade area?

These and other queries need to be settled in order to avoid the paralyzation of existing agreements and continue with their implementation. In other words, it is important to determine the best way of backing up the existing commitments so that they can lead to tangible results, to identify the obstacles and incompatibilities that could arise from the multiplicity of agreements in order to solve them in good time, and above all, it is important to propose guidelines for giving these commitments continuity and coherence, so as to make the best use of the contribution they could make to changing production patterns with social equity.

In this study, the answers to these questions are put forward within the framework of a central thesis holding that in recent years integration has generally involved an interaction between two types of phenomena. Firstly, the greater trade openness and deregulation policies which virtually all the countries have applied at the national level have highlighted the relative importance of foreign trade in the economies. This has also helped to increase intra-Latin American mutual trade and investment, in view of the countries' geographical proximity. Secondly, in addition to this "natural" trend, which does not discriminate against third countries, there has been a process of integration through explicit agreements or policies, which does involve certain preferences in terms of the treatment given to other nations.

It is maintained in the study that the way in which these two phenomena interact is of decisive importance. Depending on their content and scope, the official agreements may either oppose or complement the move towards growing interdependence guided by market signals and tending towards a better position in the international economy. What should be sought, then, is to strengthen the mutual links between the two elements in a context of what has been called "open regionalism", that is to say, a process of growing economic interdependence at the regional level, furthered both by preferential integration agreements and by other policies in a context of openness and deregulation, with the aim of increasing the competitiveness of the countries of the region and, as far as possible, laying the foundations for a more open and transparent international economy. At all events, even if this optimum scenario does not take place, open regionalism would in any case have an important role to play, in this case as a defence mechanism against the effects of possible protectionist pressures in markets outside the region.

This study has three parts, preceded by a section containing a summary and conclusions. Part I explores the relations between multilateralism and regionalism; part II examines the bases for open regionalism, and part III analyses the mechanisms, instruments, policies and institutional schemes which the Secretariat considers could permit progress in the fulfillment of the existing integration commitments. In short, the aim of the study is to stimulate the debate on Latin American integration in a context which is qualitatively different from that which existed in the 1950s and 1960s, when the first pioneering efforts were made in this direction in the countries of the region.

Determinantes socioeconómicos de la migración interna (Economic and social determinants of internal migrations) (LC/DEM/G.143), CELADE, Series E, No. 38, Santiago, Chile, December 1993, 87 pages.

Migrations are among the most complex dimensions of sociodemographic processes. Because of the multiplicity of elements involved, it is hard to make generalizations in the study of migration, and this causes serious difficulties in providing training in the field of the relations between population and development. This study seeks to tackle this problem by recognizing the existence of different forms of population mobility within the national territory. After identifying these forms, it proceeds to design a basic conceptual "road map" aimed at showing some paths that could lead to an understanding of the determining factors behind various types of migratory flows.

The study identifies different types of internal migration flows, according to their places of origin and destination, and mentions their possible economic and social determinants in each case. Both micro-demographic and macro-demographic approaches are considered, and a summary is made in which the economic and social determinants are presented in individual and general terms.

In all migrations, economic motives are of prime importance, and in Latin America and the Caribbean rural and urban poverty is the main reason for the high level of spatial mobility. It is the economic conditions prevailing in the place of origin which impel the population to move; those prevailing in the area of destination also influence the decision-making process, but they are rarely of capital importance for the great majority of internal migrants. In rural and urban areas, unemployment and underemployment are powerful forces tending to drive people out or keep them away, although in the latter areas the relatively higher wage levels and the "safety net" provided by the informal sector are forces that tend to retain or attract migrants.

Education and the family are significant social motives in the migration process, while individual features are also factors that enter into the decision to migrate and the subsequent measures taken.

Migration from one urban area to another represents a substantial migratory flow. The Latin American and Caribbean region is made up of highly urbanized societies with great spatial mobility. Differences in employment conditions and wage levels, as well as in social and environmental conditions, are determining factors in migration patterns from one urban area to another. Migration from rural to urban areas takes place on a large scale and is a factor behind the continual growth of the percentage of the population living in urban areas; migration from urban to rural areas is only small, but is likely to increase as societies reach very high levels of urbanization, especially if rural development programmes are carried out. Migration from one rural area to another may also be small, but it is an important factor in the redistribution of the rural population and the opening up of agricultural frontiers and new rural industries.

Large rural projects, urban construction work and rural commercial crops, many of which require seasonal inflows of labour, have given rise to an increasing amount of seasonal migration and temporary moves.

Estimating and projecting populations in a disaggregated manner requires that internal migration be taken into account, and for this purpose it is essential to know the economic and social determinants of the process.

The study considers the consequences that decentralization, as a politico-economic process, can have for internal migration.

It also mentions the interrelation between "changing production patterns with social equity" and internal migration, within a context of "sustainable development".

The future dimensions and forms of internal migration in Latin America and the Caribbean and the interrelations between internal migration, redistribution of the population and urbanization are also studied.

ECLAC publications

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