CEPAL

Review

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Notes and explanation of symbols

The following symbols are used in tables in the *Review:*
Three dots (...) indicate that data are not available or are not separately reported.
A dash (—) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (-) indicates a deficit or decrease, unless otherwise specified.
A point (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.
Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.
Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.
Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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Industrial restructuring, trade liberalization and the role of the State in Central America

Larry Willmore *
Jorge Máttar **

Industrial restructuring is a response of the industrial sector to a dynamic world. In open market economies, industries continuously adjust to technological change, to changes in fashion, and to changes in relative prices. It is a process that Schumpeter referred to as "creative destruction," i.e. the replacement of outmoded products and production techniques with new products and techniques.

During a long period of "inward" industrialization, tariffs shielded Central American industries from technological transformations occurring in the rest of the world. Now, however, industrialists in the region face sharp reductions in tariff protection and an economic "opening" that demands of them greater productivity, increased specialization, a more appropriate scale of production, and improved quality in the design, manufacture, distribution and service of goods.

Given the paucity of basic information concerning the conditions of production and the ability of Central American industries to survive import competition, the Industrial Development Unit of ECLAC's Mexico Office decided to implement Project CAM/89/012 "Industrial Restructuring in Central America: Diagnosis and Identification of Technical Co-operation Needs," financed by the United Nations Development Programme (UNDP) with funds from the Special Programme of Economic Co-operation for Central America (PEC). The purpose of the present paper is to describe the analytical framework of the Project and present the main empirical findings.

* Head of the Industrial Development Unit, ECLAC Subregional Headquarters, Mexico City.
** Staff member of the same Unit.

I

Trade liberalization and industrial restructuring

Trade liberalization promises benefits in terms of an improved allocation of resources and greater efficiency in production, but these benefits are slow in coming. In the short run, a reduction of trade barriers implies costs due to a fall in output and employment in industries accustomed to high protection, but these costs tend to be lower than predicted for two reasons. First, if the reduction in import tariffs is accompanied by real currency devaluation, some industrial activities will survive, and even be able to export, despite lowered tariffs. Second, adjustment to trade liberalization can occur *within* the manufacturing sector, or even *within* specific industries or firms. This type of industrial restructuring is less costly, for example, than a transfer of resources from industry to agriculture. To illustrate the possible costs of trade liberalization, we will briefly examine the experience of Chile and Mexico before analysing the incipient trade liberalization in Central America.

1. *Chile* [1]

The government of Chile began to dismantle its protective import barriers more than fifteen years ago; the experience is one that is cited frequently but erroneously as an example of the high cost of trade liberalization. A proper understanding of the Chilean case requires differentiation of four separate stages. In the first stage, from 1974 to 1976, the government eliminated import quotas, reduced import tariffs from a simple average in excess of 100% (largely redundant protection) to a maximum of 60% and an average of approximately 35%, and devalued the peso sharply in real terms. This reform did not affect Chilean trade, but the country entered a recession in 1975 due to a sharp fall in the price of copper (the main export commodity) and to anti-inflationary policies implemented by the government.

The second stage, from 1976 to 1981, involved considerable trade liberalization: the tariff

[1] This section is based largely on ECLAC (1990a), box IV.8, p. 85.

was gradually reduced until by mid-1979 it stood at 10% for all items except automobiles. Heavy external borrowing allowed the authorities to freeze the nominal exchange rate as a means of combatting inflation: this produced overvaluation of the peso and an external shock. Between 1982 and 1984, in the third stage, the peso devalued 23% in real terms and tariffs increased from 10% to 35%. Finally, in the fourth stage, beginning in 1985, import tariffs were again lowered until a uniform tariff of 15% was reached in 1988.

In short, Chile actually experienced *two* periods of trade liberalization. One began in 1976 and ended in 1981. In this period, the Chilean peso *revalued*, in real terms, more than 75%, which was not favourable for the survival of a manufacturing sector accustomed to protection. Despite this overvaluation of the peso, exports of manufactures grew at more than 20% a year, while industrial production increased at an average annual rate of 6.5% (see table 1).

Table 1

CHILE AND MEXICO: MANUFACTURING OUTPUT DURING PERIODS OF TRADE LIBERALIZATION

(Annual percentage growth rates)

Year	Chile		Mexico
	1976-1981	1985-1990	1985-1990
1	4.9	0.1	7.0
2	10.1	8.3	-3.4
3	7.4	4.2	3.9
4	7.7	6.3	3.0
5	5.9	10.0	6.0
6	3.3	0.4[a]	5.2

Source: ECLAC, based on official statistics.
[a] January-June of 1990 compared to the same period in 1989.

The second period of trade liberalization began in 1985 and continues today. The Chilean peso has devalued by 33% in real terms, and there are also other incentives for the export of new products. Between 1985 and 1988 traditional exports of manufactures (fish meal, pulp and paper) and exports of agricultural commodities grew at 21% a year whereas non-traditional exports of manufactures grew at 27%. Today, 20% of Chile's exports are non-traditional manufactures, including basic metals (5.4%), processed food (4.7%), wood (4.4%), and chemicals (2.6%). At the same time, industrial production is growing rapidly (table 1).

The Chilean experience thus shows that trade liberalization can produce a restructuring of production *within* branches of industry, depending on the capacity of each to adjust to the new environment. In general, Chilean industrialists learned to compete and, apparently, became more efficient. Output fell in industries that were not able to resist import competition (for example, transport equipment and some electrical goods). Other industries, with great difficulty, were able to reduce their costs in order to compete with imports and even export (textiles, clothing, plastic products, white goods, capital goods). Others, despite a long history of protection, turned out to be relatively competitive: without major changes they were able to survive the removal of high import barriers (steel, petrochemicals, sugar).

2. *Mexico*

Trade liberalization has progressed at a very fast pace in Mexico, but has not yet gone so far as in Chile. The programme began in July 1985 with the substitution of tariffs for most import licenses. The maximum tariff was reduced from 100% to 50% at the beginning of 1986 and to 20% two years later. Only a few products remain subject to import licenses, namely basic grains, pharmaceuticals, automobiles and computers, and the government recently began to liberalize the importation of automobiles and computers.

At first, trade liberalization was accompanied by real devaluation of the Mexican peso, which inhibited any sharp increase in imports. Beginning in 1988, however, the peso has revalued continually in real terms, so that imports became more attractive and their competition was felt.

It is important to note that the Mexican tariff structure, unlike the Chilean, is not uniform: many of the imports are subject to very low, even zero, tariffs. Tariffs tend to be higher, the more processed the product, which implies that the *effective* protection of industries producing final consumer goods is higher than 20%. If the production of a particular good requires, for example, intermediate goods that, at international prices, cost half the value of the final good, then nominal protection of 20% implies effective protection of 30% if inputs are subject to a 10% tariff, and 40% if inputs can be imported free of duty.

Trade liberalization has not had such a negative effect on Mexico's industrial sector as was originally feared. Except for 1986 –a recession year attributable to a fall in the international price of petroleum– industrial production has shown satisfactory growth (see table 1). Not a single industrial branch is about to disappear as a result of trade liberalization. Between 1985 and 1988 non-oil exports (in dollars) grew at an annual rate of 6.8% and exports of manufactures at 13.4%.

Textiles and clothing is perhaps the branch of industry most affected by import competition. Tariffs were reduced, in December 1987, to 10% for fibres, 15% for cloth and 20% for clothing, yet employment (excluding *maquila* operations that make up and re-export imported cloth) fell only 7.2%, from 428 000 persons in 1985 to 397 000 in 1988, while the branch's contribution to gross domestic product fell 8.6%. Moreover, exports of textile products increased sharply, and the branch has maintained a positive trade balance (*El Mercado de Valores* (1990), pp. 26-36).

3. *Central America*

Thirty years ago, the countries of Central America merged their economies behind a common external tariff in order to promote the substitution of imports at a regional level. In the words of SIECA, "Central America, when it formed the Common Market, announced from the beginning an 'inward' policy of industrialization and development, and for this purpose conceived a number of instruments, the most important of which was a tariff that was clearly protectionist, together with a regime of [intra-regional] free trade" (SIECA, 1974).

In the beginning, substitution of imports within a protected common market produced growth. Manufacturing output grew at an annual rate of 8.4% in the 1960s: considerably higher than the 5.7% growth rate of the gross regional product (table 2), and as a result, the contribution of the manufacturing sector to the gross regional product increased from 12% in 1960 to more than 16% in 1970, reflecting the substitution of regional production for imports of final consumer goods. Eventually, however, the opportunities for "easy" substitution of imports were exhausted. Growth rates fell in the 1970s, and still more in the 1980s, when the economies were affected by armed conflicts and by a drastic fall in intra-regional trade.

Table 2

CENTRAL AMERICA: MANUFACTURING VALUE-ADDED AND GROSS DOMESTIC PRODUCT

(Annual percentage growth rates at constant 1980 prices)

	1960-1970	1970-1975	1975-1980	1980-1985	1985-1990
Central America					
Manufactures	8.4	6.1	4.4	-0.9	1.3
GDP	5.7	5.3	3.5	-0.6	2.3
Costa Rica					
Manufactures	9.2	8.9	5.9	0.2	4.4
GDP	6.1	5.8	5.1	0.2	4.5
El Salvador					
Manufactures	8.1	5.6	0.3	-2.5	2.7
GDP	5.6	5.4	0.8	-2.0	1.8
Guatemala					
Manufactures	7.6	4.8	7.7	-2.1	1.7
GDP	5.5	5.6	5.8	-1.2	2.8
Honduras					
Manufactures	7.0	6.8	6.2	1.0	4.6
GDP	5.0	3.8	7.1	0.6	3.3
Nicaragua					
Manufactures	11.1	5.9	-1.0	0.9	-9.4
GDP	6.9	5.1	-1.2	0.6	-5.0

Source: ECLAC calculations based on official data.

A number of Central Americans concluded that a strategy of "inward development" was not viable for the region because of the limitations imposed by a protected market that was very small, even taking into account the entire Central American region. For this reason they proposed tariff reform, and the government of Costa Rica was the first to promote it. In 1985 Costa Rica was able to convince other members of the Central American Common Market (CACM) of the need to establish a new external tariff with the following characteristics:

i) *Simplicity.* Specific tariffs were eliminated; all were expressed in *ad valorem* terms.

ii) *Flexibility.* Mechanisms for modification of the common external tariff were adopted that did not require legislative approval in each country.

iii) *Less protection.* Tariff rates were reduced on average, and exemptions were eliminated with the establishment of a 5% floor for imported inputs. To a large extent, what was reduced was redundant protection, i.e., that which was not needed by the industrialists.

The new tariff went into effect in three countries in 1986 and in the fourth (Nicaragua) in 1987. Honduras long ago decided to withdraw from the CACM's common tariff, and maintains its own protectionist tariffs.

In October of 1987 the government of Costa Rica unilaterally decreed a small reduction in import tariffs and established a programme of biannual tariff reductions to attain a maximum tariff of 40% at the end of 1990. For textiles, clothing and footwear, the programmed reductions are slower, but the goal is to reduce all tariffs on these products to 40% by the end of 1992. Even so, however, Costa Rica lost the lead in tariff reductions to El Salvador, for the government of that country announced in September 1989 its intention to implement a *uniform* tariff of 20% by the year 1994, and immediately reduced the maximum tariff to 50% while maintaining the "floor" of 5%. In March 1990 the maximum tariff fell to 35%, leaving El Salvador at that time with the lowest tariffs in Central America. In the same month, the Guatemalan government reduced its maximum tariff to 37%, creating a tariff structure quite similar to that of El Salvador, and in October 1990 the Nicaraguan government lowered its tariffs to a maximum of 20%: the lowest of Central America.

Until 1990, Honduras remained aloof from tariff reform, but the new government which took office in that year adopted a very ambitious programme in this respect. On 8 March 1990 it lowered the maximum tariff to 40% and established a floor of 2%. In January 1991 the maximum tariff was to fall to 35% and the floor to rise to 4%; by the beginning of 1992 the maximum rate would be 20% and the minimum 5%.

Paradoxically, Central American governments have encountered greater resistance to increases in low tariffs than to decreases in high tariffs. But this behaviour is understandable for two reasons. First, high tariffs often represent redundant protection, i.e., trade barriers so prohibitive that imports enter the country as contraband rather than passing through Customs. Secondly, low tariffs normally apply to inputs, not to final goods, and protection of an input is equivalent to a tax on industrial activity.

The second point reflects the fact that the protection relevant for an activity is *effective* protection, i.e., the protection of value-added, and not nominal protection. This can be made clear with the help of the following example. Suppose that, at international prices, a pair of shoes is worth 10 Central American pesos and the leather needed in their manufacture, 6 pesos; the value-added of the shoemaker, at international prices, would then be 4 pesos (10 less 6). With a nominal tariff of 40%, the shoes could sell for 14 pesos, leaving 8 pesos (14 less 6) of value-added for the shoemaker. In this example, the *effective* rate of protection is 100%, because the value-added at domestic prices is double the value-added at international prices. Now, suppose the country is an importer of leather and collects a tax of 20% on imports of this input; the cost of leather to make a pair of shoes then increases from 6.00 to 7.20 pesos, the value-added in shoe-making drops from 8.00 to 6.80 pesos and effective protection falls to 70%. The shoemaker cannot evade this increase in costs by buying domestic leather of the same quality at a lower price, because the tanneries will take advantage of the tariff to increase their prices to those of the imported products, including the tariff. If the country exports leather, an export subsidy produces the same effect because the domestic price will rise to the level of the international price plus subsidy. (Indeed, this is what happens with high quality leather in Costa Rica). For this reason, shoe manufacturers do not favour export subsidies for leather, and even ask for export prohibitions so that the domestic price of leather may fall below the international price.

Only El Salvador has established a goal for protection in the long run, namely, a uniform tariff of 20%. Although this would result in a much lower level of protection than that currently in effect, it still implies considerable anti-export bias, for products would be worth 20% more at home than in export markets. In theory, the bias can be eliminated by subsidizing exports, or at least those exports favoured by the government, but this solution presents two difficulties. First, it is a violation of international trade law, and subsidized exports can be subjected to countervailing duties in the importing countries. Secondly, if the programme were successful (as was the case of one such programme recently in Costa Rica), it could represent a serious financial drain on the Treasury.

If the State wants to eliminate anti-export bias for favoured goods (which may be termed "non-traditional") without granting explicit subsidies, it will have to effect a *compensated devaluation* of its currency and impose export taxes on unfavoured products (which may be termed "traditional").

The implications of this option can be better understood with a hypothetical example. If the uniform, free exchange rate is 10 pesos per dollar and there exists a uniform tariff of 20% on imports, then there is an anti-export bias because a good that is worth 12 pesos in the local market is worth only 10 pesos when it is exported. If the currency is devalued to 12 pesos per dollar and the tariff is simultaneously lowered to zero, this compensated devaluation is not inflationary because the good that sold for 12 pesos in the local market will continue to sell for 12 pesos. But the same good will now be worth 12 pesos in export markets: the anti-export bias will have disappeared. If the State does not want exporters of traditional products (coffee, bananas, beef, etc.) to benefit from the devaluation, it need only collect a tax of 16.7% so that they continue to receive only 10 pesos for each dollar of exports. The export tax will also help to compensate the loss of tax revenue that results from the elimination of the import tariff.

When five countries, with five distinct currencies, share a common market, compensated devaluations require considerable co-ordination, but they are by no means impossible. It is, however, of extreme importance that all members of the CACM carry out the compensated devaluations at the same time. If one country abstains, its producers will be at a competitive disadvantage compared to producers in other CACM countries, and the effects will soon manifest themselves in the balance of trade.

II

The role of the State in industrial restructuring

In lowering import barriers, the State sends a message to business regarding the need to adjust to international competition, but the role of the State does not end with a decree of freer trade. The policies adopted after trade liberalization are crucial, and can facilitate or obstruct the restructuring process.

The State can implement three basic types of policies: i) those that are "liberal" in the sense that they do not discriminate between industries or firms; ii) those that favour designated industries; and iii) those that favour specific firms. Implementation of one type of policy does not exclude implementation of others: indeed, the three types of policies are often applied simultaneously.

1. *Liberal policies*

Liberal policies favour neither particular industries nor specific firms, but rather allow market forces to "select the winners." The authors of a recent study state the liberal view with unusual clarity: "The role of the State in no instance ought to be that of a judge that decides which firms or which sectors are or could be winners or losers, or that of a saviour of bankrupt firms. Its role should rather be to create appropriate conditions that make restructuring possible, helping the process with both general and specific measures. The latter could include fiscal incentives for research and development of new products, processes or technologies; the creation of national systems of information on patents, data banks, etc.; investment in education and tax credits for firms that give education and training to their personnel" (Centro de Investigación para el Desarrollo (CID) (1988), pp. 111-112).

Liberalism does not necessarily imply an inactive State, for the State can aid industrial transformation with services and fiscal incentives without discriminating between firms or industries. Moreover, it is essential to apply good fiscal and monetary policies in order to avoid inflationary pressures, and to maintain a realistic exchange rate in order to avoid problems with the balance of trade. Often it is also appropriate to privatize public enterprises, or at least to improve their finances so that they do not operate at a loss.

Although "liberals" oppose granting aid to specific firms (i.e., to the owners of the means of production), they generally support granting it to specific workers: namely, those who become unemployed as a result of industrial restructuring. In the industrial countries, such aid is given automatically in the form of unemployment insurance and retraining. The Spanish Government, facing a drastic reduction in industrial employment as a result of restructuring, decided to supplement the unemployment insurance with Employment Promotion Funds that guarantee a continued income to affected workers and subsidize businessmen who make jobs available to them. In Central America, where unemployment insurance does not exist and workers often fail to obtain their severance pay when a firm becomes bankrupt, there is a definite need to create instruments to help workers who suffer from the effects of industrial restructuring.

Bankruptcy is, of course, traumatic for the entrepreneur and his employees, but it allows a firm to pass to the hands of another entrepreneur who may be able to reshape it and restore its profitability. The authors of the study cited above, after analyzing industrial restructuring in many parts of the world, reached the conclusion that "the most successful countries ... followed policies that ... did not permit difficult industries to become uncontrollable problems. Among these policies, the most important was to allow the bankruptcy of firms that were unable, on their own, to confront technological change or international competition. At the same time, tax laws favoured the takeover of firms that had problems or that were bankrupt" (Centro de Investigación para el Desarrollo (CID)) (1988), p. 38). If a government –even with the best of intentions– attempts to prevent bankruptcies, it can obstruct the restructuring of industry.

2. *Policies directed to specific industries*

Since the State, by imposing tariff barriers, contributes to the creation of inefficient industries, one might argue that the same State has an obligation to aid these industries when they suffer the consequences of lowered tariffs. Private firms are not responsible for, nor can they foresee, major changes in the "rules of the game," so the State ought to identify those industries most affected (the losers?) and cushion the impact of trade liberalization on them. This is customarily done through implicit subsidies (import tariffs) paid by the consumer, rather than explicit subsidies paid by the Ministry of Finance. Chile, for example, retained a high tariff for its automotive industry for many years; Mexico granted temporary protection in the form of quantitative restrictions on imports of pharmaceuticals, computers and automobiles; and Costa Rica allowed the textile, clothing and footwear industries an additional two years before lowering protective tariffs to the maximum of 40%.

Those who favour programmes to aid those industries most affected by tariff reductions emphasize that the aid should be *temporary* in order to facilitate the expansion of competitive industries. To cite a Costa Rican study, "a programme of industrial restructuring ought not to function only as a 'hospital' of firms or industries with problems" (Salazar and Doryan (1990), p. 83).

The State can also, at least in theory, select industrial branches and grant aid to *all* firms in these designated industries, without discrimination. This, precisely, is the function of import tariffs, to protect all firms that produce a particular product. In government programmes to aid industrial restructuring, however, no case is known in which explicit subsidies have been given to all firms in a given industry. The Spanish Government, for example, selected twelve industries and declared them to be the object of industrial restructuring, but the massive public aid was concentrated in very few firms.

One way in which the State can help all firms in a particular industry is by training workers. This type of programme exists in each country of the region (INA in Costa Rica, FEPADE in El Salvador, INTECAP in Guatemala, INFOP in Honduras and SINACAP in Nicaragua), and it is possible to give preference to training requirements in a specific industry. Moreover, in the absence of State intervention, industrialists tend to provide too little training due to the existence of "externalities." When an entrepreneur hires an unskilled person he often must pay him, by law or by custom, a salary greater than his productivity merits. Once the new worker is trained, his productivity increases, providing the entrepreneur with a return on his investment in training. The problem is that the worker, who now has skills, can leave his employer for a more highly paid job. This constitutes the "externality": when this happens, the employer who provides on-the-job training benefits his workers and rival businessmen without himself receiving compensation.

Many believe that government intervention in the process of industrial restructuring must necessarily be selective. The agency responsible for industrial restructuring in Costa Rica, the Corporación Costarricense de Desarrollo (CODESA), argues, for example, that "the universe of the Costa Rican industrial sector consists of approximately 4 700 firms, even without including the so-called 'informal sector,' so it would be impossible for the programme to reach all firms. Moreover, it is appropriate to concentrate efforts and scarce resources in those industries with the greatest potential for growth ...." (CODESA (1989), p. 13). But the agency adds that "the programme has to cover industries under 'stress' or competitive pressure that results from lowered tariffs as well as industries with competitive advantages and a great potential for growth" (*Ibid.*, p. 14). Apparently the programme, though designed to aid both winners and losers, still seeks, despite this, to be selective.

To select industries that deserve help in industrial restructuring is an extremely difficult task. The Costa Rican agency, in making such a selection, applied twelve criteria:

"a) Comparative advantage, static and dynamic

b) Objectives of the programme of structural adjustment

c) The 'stress' imposed by tariff reductions

d) Export potential and market niches

e) Number of firms and workers in the industry

f) Priority assigned by other programmes

g) Concentration and factors of economic democracy

h) Regional priorities

i) Interindustry linkages

j) Technological and commercial potential

k) Organization and attitude of the firms

l) Other types of externalities and market imperfections that make compensatory intervention necessary." (*Ibid.*, p. 15).

Some of these criteria are not truly independent: for example, comparative advantage and export potential, or number of firms and concentration. Nonetheless, with the application of so many criteria it is difficult to imagine an industry that might fail to qualify for the programme of industrial restructuring.

In Costa Rica's official programme of industrial restructuring, working groups known as Subsectoral Business Committees (SBCs) play an important role. There is an SBC in each industrial branch selected by the Minister of the Economy, and each consists of three representatives of government (CODESA, Ministry of Science and Technology and Ministry of the Economy), plus a minimum of four representatives of the private sector, named by the Chamber of Industries. Thus far, SBCs have been formed in seven branches of industry: processed food, footwear, textiles (including clothing), pharmaceutical products (locally owned firms only), graphic arts, wood and metalworking. The installation of SBCs has also been approved (though they are not yet functioning) in two additional branches: cardboard and plastics. It has not yet been decided whether or not any of these industries merit State aid for industrial restructuring.

3. *Policies directed to specific firms*

It is difficult for a State to intervene directly at the level of the firm, yet policies of this type are often included in national programmes to promote industrial restructuring. Such aid is typically given to only a few selected firms. The Spanish Government, for example, began in 1982 to channel massive State aid to a total of 796 firms. These subsidized credits were used in part to purchase capital equipment and reduce payrolls, but a substantial proportion were also employed to cancel debts of the firms with private banks. Seventy per cent of the total aid of the Spanish programme was directed to State enterprises; of the remainder, the majority went to large private firms, including foreign-owned companies. For example, in the electronic components branch of industry, which contains numerous small private firms, the largest firms received almost all of the financial aid, and in the textile industry, aid was given to 76% of the large firms, but to only 36% of the medium-sized and 4% of the small firms (Molero and Buesa

(1989), pp. 77-123, and Belzunegui (1989), pp. 87-116).

In Mexico, the Programme for Industrial Restructuring (PROFIRI) is quite modest compared to the Spanish programme, but similar with respect to the concentration of aid in few firms. Up to US$ 11 million of PROFIRI funds can be lent for "any project that promotes international competitiveness." In the first year of the programme (1987), approximately US$ 120 million (100 million from the World Bank, 20 million from the Mexican Government) of subsidized credit was given to 89 firms. The vast majority of the credit (81%) was for fixed assets and the remainder (19%) for working capital. Large firms received 87% of the total credit, medium-sized firms 9% and small firms 4% (*El Mercado de Valores* (1988), pp. 3-9). In 1988 PROFIRI lent a similar amount of money, but there is no published information concerning the number or size distribution of the favoured firms.

In 1989, Costa Rica received a line of credit from the Inter-American Development Bank (IDB) for "Tourism and Industrial Restructuring", and the money was lent to individual firms through the commercial banks following conventional criteria for business loans. At the insistence of the Chamber of Industries, a limit on the amount of credit per firm was established to ensure the participation of a larger number of firms. In April 1990, Costa Rica obtained a line of credit from the World Bank in the amount of US$ 30 million for industrial restructuring. Once again, firms interested in obtaining access to this credit will have to apply through the commercial banks. Once an application is approved by the bank, it will be passed to the Industrial Restructuring Agency, which will carry out a "restructuring audit".[2] The criteria of the audit are not very clear, but it is certain that a good balance sheet is a necessary, though not a sufficient, condition for access to this fund.

III

Toward a diagnosis of needs for industrial restructuring

1. *Methodology and principal results*

In this section we will describe the methodology utilized in the Project on industrial restructuring in Central America and summarize some of the main findings, stressing those problems that are common to most of the industries studied.

The industries included in the Project are those that are particularly vulnerable to trade liberalization or that have export potential. We deliberately excluded industries with "natural protection" due to high transport costs (cement, bricks, tiles, beverages, etc.). We also excluded assembly and draw-back (*maquila*) activities. Rubber (ISIC 355) and plastic products (ISIC 356) were grouped with chemicals, and two consultants were assigned to this branch of industry. Pottery, china and glass (ISIC 361-362) consists largely of sanitary fixtures and glass, and as the existing firms (one in glass, three in sanitary fixtures) have strong ties with transnational firms, they can therefore receive from them the technical advice required to restructure their plants. Food processing is important in Central America, so we decided to subdivide it into two parts: perishable foods (meat and dairy products) and preserved foods.

The industrial branches finally selected for study were the following: processed foods (meat and dairy products, tinned and bottled foods), leather and footwear, wood and furniture, metal-working industries, chemicals, textiles (cloth and knitwear), and clothing.

Each of the ten consultants were given instructions concerning the format of their reports and the characteristics of the firms to be visited, which were to include small, medium, and large firms in each industry. The sample of plants chosen was, if possible, to be restricted to those with few ties to transnational firms, for subsidiaries of transnationals can obtain advice and technical assistance from their parent companies.

[2] Information given by the Minister of the Economy, Industry and Commerce, Lic. Antonio Burgués, in the High Level Meeting on Industrial Restructuring in Costa Rica, San José, 4 April 1990.

The consultants visited a total of 358 plants, of which 119 have fewer than 51 employees, 128 between 51 and 150, and 107 more than 150 workers (see table 3). It should be noted that the consultants were well received in the majority of plants, and were able to interview the owner of the firm or a high level executive. This illustrates the concern of entrepreneurs with both the problems and the opportunities of trade liberalization. A considerable percentage of the plants visited reported that they export to countries in Central America (42%) and to countries outside the region (26%). Even some of the smallest firms export, but the tendency to export is greater the larger the firm.

Table 3

CENTRAL AMERICA: PLANTS VISITED

	Small (up to 50 employees)	Medium (51 to 150 employees)	Large (more than 150 employees)	Total
Food products	19	23	17	59
Meat and dairy products	8	13	10	31
Canning, preserving	11	10	7	28
Wearing apparel	9	12	4	25
Textiles	7	20	34	62[a]
Knitwear	5	11	12	28
Spinning, weaving of cloth	2	9	22	34[a]
Leather and footwear	36	17	15	68
Leather	14	7	2	23
Footwear	22	10	13	45
Wood and furniture	10	10	7	28[a]
Chemicals	31	35	22	90[b]
Chemical substances	5	-	1	6
Fertilizers, pesticides	-	2	2	4
Resins	-	-	1	1
Paints	5	1	-	6
Rubber products	1	2	3	6
Plastic products	4	9	3	16
Cosmetics, detergents	16	21	12	51[b]
Metal-working	9	10	7	26
Total	**121**	**127**	**106**	**358**

[a] One firm failed to provide information on the number of employees.

[b] Two firms failed to provide information on the number of employees.

The ten edited diagnoses were presented at a Seminar-Workshop on Industrial Restructuring held in Guatemala City on 29 and 30 May 1990. The purpose of this event was to discuss the findings of the Project with authorities, specialists and industrialists from throughout the region (see ECLAC, 1990b). Afterwards, workshops were organized in each country in order to discuss in depth specific problems of the industrial sector at the national level (see ECLAC, 1990c). Although the sample of 358 firms did not pretend to be statistically representative, it was possible to confirm, in the regional seminar and in the national workshops, that the findings reflect the situation of the vast majority of Central American firms at the present time.

The Project was able to identify the difficulties faced by industries in Central America, which include depressed demand, high levels of unused capacity, technological backwardness, deficient or nonexistent quality control, lack of liquidity, loss of markets within and outside the region, foreign exchange shortages and the need to improve management and labour productivity. The situation has become more complex in recent years, due to the dismantling of trade barriers and the need to restore industrial growth.

Industrialists and their governments are very concerned with the effects of trade liberalization, and a large amount of technical assistance is needed if firms are to adapt to new market conditions.

For many of the plants included in the study, the consultants concluded that improved efficiency depends on factors other than modernization of equipment or large investments. There is a need, rather, to introduce improvements in management, the use of raw materials, planning and control of inventories, marketing, etc., all of which imply relatively small investments. In some cases modernization of equipment is unavoidable, but such an investment will not, in itself, produce a sustained increase in efficiency unless other deficiencies are corrected as well.

Even though the five Central American countries differ in industrial structure and industrial development, their firms sometimes face the same problems. In such cases, corrective action at the regional level could be highly effective.

2. *Problems common to all branches of industry*

This section offers the reader a summary of the principal problems faced by firms, which call for an urgent solution, especially given the pace of trade liberalization in countries of the region. Although some problems are specific to a particular industry, many are present in a majority of the industries studied.[3]

Management is a crucial determinant of the success of a firm. Efficacious administration prevents the accumulation of diverse, yet related, problems that can result in bottlenecks and paralyse a firm's operations. Most of the large and medium-sized firms visited have modern systems of management, with departments staffed by specialists who have specific responsibilities. This is not true of smaller firms, where the owner himself handles administration, purchasing, production, sales, etc. Small firms often adopt a family style of administration that hinders true entrepreneurial functions; this implies inefficiency and slow growth. Most firms, both large and small, need to improve their management, be more aggressive and dynamic in facing competition, and penetrate export markets.

One of the most tangible effects of the economic crisis in Central America is the drastic contraction of investment during the past ten years. Few firms have replaced their machinery, and this fact is reflected in the low productivity of industry. This is particularly evident in industries that, internationally, have experienced rapid technical change in the past two decades, such as metal-working, chemicals and textiles. In some cases, obsolescence makes it difficult to obtain spare parts. It should be noted, however, that in some industries (processed food, wooden furniture, clothing and leather) the large and medium-sized plants have adequate machinery, though they need to invest in maintenance and introduce small innovations to increase productivity.

Due to depressed demand in local markets and a paucity of extra-regional exports, levels of capacity utilization are very low. Even industries that produce consumer goods for mass consumption –processed food, footwear, clothing, furniture– do not utilize, on average, even 60% of their installed capacity. Exceptions to this generalization are the textile plants in El Salvador, Guatemala and Honduras that produce cloth, for they operate at full capacity, in part because of extra-regional exports.

The supply of raw materials does not, in general, present any problems. Industrialists can usually purchase the required inputs on the open market, whether these be national –occasionally synonymous with lower quality– or imported. Nonetheless, in some industries –leather, chemicals, metal-working, clothing– it is difficult to obtain foreign exchange at official exchange rates. Industrialists are almost always net users of foreign exchange, and obtaining it involves slow and cumbersome procedures; sometimes they have no choice but to turn to the black market, which significantly increases their costs.

Planning and control of production is difficult because of an absence of specific programmes for this purpose in firms and because of numerous problems that affect small firms in particular, such as difficulties in the supply of raw materials, breakdowns in equipment, unstable demand and uncertainty regarding markets in the future. Deficiencies were also confirmed in production processes and in inventory control. The use of raw materials in the manufacture of leather and furniture is suboptimal; in addition, the range of furniture manufactured in each plant is much too diversified (a single factory produces 85 types of furniture and only four of them are made of standardized pieces). Metal-working firms have neither production plans nor planning departments; planned production is based on past sales, orders and inventories; raw materials and goods in process are held in inventory for as long as six months, resulting not only in financial costs but also costs due to deterioration of materials (oxidation). Textile plants must hold large stocks of cotton for long periods, for it is the only way to guarantee uniform quality; this gives rise to financial problems due to the need for large amounts of working capital and indebtedness.

With regard to quality control, 45% of the plants visited had no system whatsoever in place to test the quality of raw materials, products in process or final products. Even firms that attempt some type of quality control often have a mistaken approach, for they make visual and subjective inspections, giving more importance to appearances than to the intrinsic qualities of the product or the

[3] For a detailed analysis of each industrial branch, see ECLAC, 1990d.

raw material. Responsibility for the control of input quality is often delegated to suppliers or to workers in the plant. In extreme cases, quality control amounts only to the selection and notation of defective goods at the end of the production process. The majority of small firms give no importance to quality and are not aware of international standards. An additional problem is the lack of laboratories for tests and analysis and the little use made of those laboratories that do exist. At the same time, little attention is paid to the effects of industrial waste on the environment.

Most of the firms do not have any design capability. This absence is particularly relevant in the production of final consumer goods, where product differentiation can be crucial for sales. Designs are typically copied from foreign products, with a few changes introduced at the request of a client or, in a very few cases, by specialized modellers/designers. The packaging and labelling of food products is deficient, which limits export opportunities. The wooden furniture industry would benefit from artistic design that combines local abilities with international tastes.

Manpower training is a problem in nearly all firms. Industrialists have difficulty in finding qualified workers, so normally they train their own personnel. Nonetheless, the training is not always successful, for frequently it is the older workers with some experience who are entrusted with the training of new workers. On the other hand, industrialists feel that the training programmes offered under government auspices do not, in general, meet the needs of business. In addition, high labour turnover –due largely to low wages, especially in small firms– discourages industrialists from providing on-the-job training. The problem is particularly relevant at this time, for industrial modernization requires an upgrading of the skills of workers and technicians.

Finance is perhaps the problem most frequently cited by industrialists. Executives of nearly all the firms visited listed it as the principal obstacle to growth. Nonetheless, without ignoring its relevance, neither should one exaggerate its importance. Financial problems often reflect other problems in the firm. For example, an erroneous sales forecast can result in excess purchases of inputs or the hiring of extra personnel, which, when the sales are not realized, causes financial problems for the firm.

Most of the industrialists do not consider access to credit at preferential rates of interest to be crucial; they are willing to pay market rates, but find it difficult to work with banks because of the lack of timely credit and the intricate approval process. All this is frequently a result of financial policies that are designed more for short-term profits than for the needs of industrial development.

3. *Recommendations*

This section summarizes recommendations for industrial restructuring derived from reports of the consultants and from participation by entrepreneurs in the workshops held in each country in the region. The proposals include actions to be taken by industry as well as by government; they are presented by industrial branch and are generally valid for all five countries.

The food industry requires an integrated programme of assistance to firms, emphasizing improvement of the technology used, quality control and, in El Salvador and Nicaragua, new equipment in view of the fact that there has been virtually no investment in the past ten years. Such a programme would include medium- and long-term financing, provided in such a way as to reach those who need credit.

In the clothing industry, it is necessary to i) replace obsolete equipment (20-25% of the total number of machines) with modern machinery, ii) implement training programmes and technical assistance in industrial engineering, cost accounting and administration, which could increase production by 40% with the same installed capacity and the same number of employees, and iii) encourage specialization in production, especially in small firms, which would result in lower unit costs and increased productivity.

The following recommendations were made for the textile industry: i) managerial training should be encouraged, principally in the technical and financial areas and fundamentally to increase productivity and exports to overseas markets; ii) industrialists should be made aware of the notion of industrial restructuring and the process of trade liberalization; iii) lines of credit with technical supervision should be created, principally for the purchase of machinery and modern technology and directed primarily to small firms; iv) co-operation and linkages among firms in the industry at both the national and the regional level should be encouraged, in order to fill export orders that are too large for a single firm; v) in order to facilitate international trade, each country should establish an overseas office to inform potential buyers of exports available from the region and to provide Central American firms with information regarding markets, new products and equipment, trade fairs, exhibitions, etc.

The technical needs of the leather and footwear industry are enormous: with few exceptions, the organization of the firms, the technology used and the quality of the final product are deficient. The following measures are thus required: i) transformation of the industrial structure so that the branch can compete with imports; ii) credit for imports of critical inputs (e.g. shoemakers' lasts) and the establishment of standards for both local production and imported products; iii) aid to small producers in the form of technical assistance and financing; iv) in the case of medium and large firms, the possibilities of export would increase if they manufactured all-leather shoes, produced a variety of styles and implemented systems of quality control; and finally, v) the possibility of establishing a regional centre for training in this industry should be studied, with courses, in a first stage, in design, cutting and sewing.

For wood and furniture the recommendations are: i) specialization –the number of models should not exceed five per plant and the pieces should be standardized; ii) low-cost automation should be encouraged so as to reduce the amount of handling by operators; iii) for export, furniture of a proprietary or client's design should be produced, preferably dissassembled, and should be finished using considerable labour in the form of artificial aging, hand carvings or painted decorations; iv) solar and air drying ought to be followed by industrial drying for any wood destined for export.

In the chemical industry consultants visited plants producing chemical substances; fertilizers and insecticides; paint, varnish and lacquers; rubber products; plastic products; cosmetics; soaps and detergents; and essential oils. This heterogeneity is reflected in the recommendations, but some are applicable to the industry in general: i) improved management and manpower training; ii) more financing; iii) optimal handling of inventories; and iv) renovation of machinery and equipment. Recommendations applicable to specific types of chemical plants can be found in the final report of the Project (ECLAC, 1990d).

The metal-working branch of industry is also very heterogeneous; at the level of government policy the industrialists propose: i) the reduction and standardization of import tariffs on raw materials; ii) encouragement of the creation of firms to import and market inputs, which could result in savings of up to 10%; iii) revision of the policies for allocation of foreign exchange and establishment of specific lines of credit for this industry in line with the specific restructuring needs of firms; and iv) establishment of closer ties between research institutes and firms so that the former can take into account the true needs of the latter.

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The prospect for equity

Marshall Wolfe *

Equity has been a publicly endorsed norm since the achievement of Independence. Various researches have demonstrated, however, that in spite of this ethical and legal commitment, highly concentrated patterns of distribution of income, wealth and power, as well as inequitable access to State services, still persist in the region.

This article examines the cause of this gap between norms and realities in Latin America. Structural and cultural factors, including the attitudes of the various elites, are analysed, while with regard to the State and its agents, an analysis is made of the policies, sectoral programmes, legislation and regulations which affect equity.

Subsequently, some lessons which can be drawn from the various governmental, political and social efforts to increase equity are set forth, and it is concluded that a dynamic process of change in production patterns will ease, but not ensure, progress towards greater equity. The same is true of increased market incentives and economic liberalization.

The State must assume various responsibilities with regard to social services, the stimulation of technical change, and the protection of human rights, *inter alia*.

Organized popular participation within a pluralistic democratic context is a fundamental requisite for advancing towards greater equity, and it is necessary to institutionalize and rationalize such participation, whose development depends on ideological, political and social factors, as well as the dynamism of the economy and the size of the formal sector in it.

* Former Director of the ECLAC Social Development Division.

I

The gap between norms and realities

"Equity", in the sense of the right of people to participate in political and economic activity without formal barriers, has been a publicly endorsed norm throughout Latin America since the achievement of Independence. "Equity", in the sense of the right to means of livelihood and access to a range of public services supporting an adequate level of living (the Welfare State dimension of equity) has been similarly endorsed since the creation of the United Nations in the 1940s, or earlier in some Latin American countries. Throughout the region, constitutional provisions, government policy formulations, prefaces to development plans and intergovernmental declarations have spelled out commitments to equity in considerable detail.

Statistical and other researches have demonstrated the contradictions between these norms and the persistence of highly concentrated patterns of distribution of income, wealth and power, as well as less concentrated but still inequitable access to the services provided by the State. Research also bears out the conclusion that, at the per capita income levels achieved in most Latin American countries, a moderate, economically feasible redistribution would suffice to eliminate extremes of poverty.[1]

Discussions of norms of equity and the philosophical or practical justifications for such norms have a very long history, and will undoubtedly continue their progress as the societies to which

[1] According to the World Bank's most recent evaluation, "Nowhere in the developing world are the contrasts between poverty and national wealth more striking than in Latin America and the Caribbean. Despite average per capita incomes that are five to six times those in South Asia and Sub-Saharan Africa, nearly one-fifth of the population still lives in poverty. This is because of the region's exceptionally high degree of income inequality. Raising all the poor in the continent to just above the poverty line would cost only 0.7% of regional GDP –the approximate equivalent of a 2% income tax on the wealthiest fifth of the population." (World Bank, 1990). At the extreme, in Brazil, the share of income of the top decile of households went from 48.5% in 1960 to 58.7% in 1972, during a period of rapid economic growth, so that the mean income for a household in the top decile was 42 times that of a household in the bottom 40% of the income distribution.

they refer evolve. Measurements of the dimensions of inequity are weaker than they might seem from the abundance of statistical tables, particularly when one tries to go beyond broad aggregates to specific population groups, and there is ample justification for continuing research. Equity is best conceived as a direction rather than a concrete objective, changing according to changes in national resource levels, social and economic structures and political processes and in the visibility of problems that emerge in the course of these changes. The quest for greater equity cannot be restricted to the elimination of statistically measurable extremes of poverty. It must also include the achievement of a perception, based on realities, of the available opportunities and common interests that could help to secure a minimum of social cohesion within unavoidably conflictive national societies.

The present text will assume that there is now sufficient consensus on norms and the existing realities to justify concentration on two groups of questions:

First, why has the gap between norms and realities remained even wider in most of Latin America than in other world regions, according to available indicators? Why, in spite of government commitments and some ambitious policies, was not more advantage taken of economic growth during the period from the 1950s to the 1980s, when Latin America achieved income levels justifying the label of "middle class" between the rich and the very poor countries? Why has so little been done to keep inequities from becoming even more extreme during the crises of the 1980s? Why have competitive political parties and popular organizations –more vigorous in Latin America than in other "developing" regions– not been able to exert more countervailing power in the cause of equity? Why do government programmes and popular mobilizations seem so often to have had perverse consequences?

Second, what positive lessons can be derived from government policies, organized popular strivings, changes in sources of livelihood and other social phenomena bearing on equity in recent years? Can relative successes as well as failures be identified? What can realistically be expected from governments; theorists, planners and administrators; political and interest-group organizations; and all those trying to cope with different forms and degrees of inequity? Can vicious circles be converted into virtuous spirals? Or, conceivably, is equity faring as well as can be expected in a world governed by inflexible economic laws and the limited capacity of human beings to comprehend and act in their own best interests?

II

The sources of persisting inequity

Some of the sources of present-day inequities are of very long standing, going back to the distribution of wealth and status imposed by the colonial regimes. Others are very recent, deriving from the kinds of social mobility, the discriminatory access to new opportunities and the disintegration of traditional sources of livelihood and security that are visible today. The major barriers to equity have to do with economic and political power, but are reinforced by cultural and psychological patterns. Some factors derive directly from the world system, others are localized. Some are linked to class positions, others to age, gender or race. For some, plausible remedies can be offered. For others, it is far from clear what can be done or what agents might do it. In a brief survey of these complexly interrelated questions it is difficult to avoid overgeneralization, arbitrariness in evaluations, and the paying of respects to some well-worn truisms.

1. *Structural factors*

For present purposes, it can be taken for granted that among the factors underlying the persistence of extreme inequities in Latin America are the hitherto prevailing Latin American style of development, which has been in crisis for a decade or more, and its dependence on a world economic and political system that seems paradoxically precarious and impervious to demands for greater equity in relations between national societies. ECLAC publications over the years have exhaustively analysed these structural factors.

The prospect of revolutionary transformation of the national styles of development or of de-linking from the world system has practically disappeared. It now seems evident that for the foreseeable future most Latin American societies will continue to evolve within capitalist rules of the game, probably combined with pluralistic democracy and with a degree of openness to the world system that will set limits to the feasibility of radical policy innovations, on the one hand, but will exert pressures toward broader attention to equity, on the other.

This probable future calls for a range of policies aiming at improvement of the terms of insertion in the world market, transformation of patterns of production, coping with the debt burden, and other objectives set forth in recent ECLAC publications. By themselves, such policies can permit but not guarantee advances toward greater equity. They can and should take into account the likely consequences for equity, but this cannot be their main criterion. In past development policies, objectives of equity have been proclaimed, but usually have been set aside in favour of more pressing concerns of the elites that apply the policies. At best, the present proposals for reforms in economic structures are likely to do more for "restricted equity" –that is, gains for parts of the population already enjoying some degree of real access to new entrepreneurial and employment opportunities –than for "universal equity", in which the strata now most impoverished and disadvantaged can participate. Moreover, policies focussing on changes in production patterns cannot take full account of the widely differing patterns of inequity experienced by different population groups. Even within groups that are similar according to some broad classification criteria (the poor, wage workers, peasants, the informal sector, etc.) specific problems, reactions to problems, and possibilities for relevant action vary widely.

The State, through its redistributive and regulative functions and its sectoral services, can do a great deal to promote greater equity, within the constraints suggested above, but it is now evident that these contributions have their own propensities to distortion, sometimes converting them into new sources of inequity. The most hopeful way forward, within a setting of changing production patterns and expansion, calls for continual interaction –involving co-operation, criticism and conflict– between the initiatives of the State, the organs of pluralistic democracy, and the multifarious survival strategies of the people. Some implications of this approach will be discussed below. First, however, let us take a look at a particularly troublesome and complex source of persisting inequity.

2. *The cultural attitudes and perceived interests of elites*

The attitudes toward equity held by the economic, political-bureaucratic, and intellectual-ideological elites (including counter-elites) contain a mixture of deeply-rooted and partly subconscious cultural prejudices, education-derived values, influences of dominant international ideologies and norms, and ruthless pursuit of self-interest. In this sweeping assertion there is no intention of making an invidious comparison between the elites of Latin America and those of other regions, in which different but not altogether dissimilar patterns of contradictions and rationalizations are visible. Attitudes described by R.H. Tawney for England in the 1930s remain current, and not only in Latin America.[2] Some anti-equity rationalizations are becoming more current, while others are retreating deeper into the collective subconscious. They naturally influence State policy formation and execution, and even more the tactics of the private sector *vis-à-vis* State policies, although they do not necessarily determine the policies of that sector or the results of the tactics. Presumably a critical awareness of the factors making for distortion, ritualism and blockage can reduce their influence. The following is a rough catalogue. Naturally, some attitudes are more evident than others in specific national situations and categories of elites:

[2] "... the habit of mind which thinks it, not regrettable, but natural and desirable, that different sections of a community should be distinguished from each other by sharp differences of economic status, of environment, of education and culture and habits of life. It is the temper which regards with approval the social institutions and economic arrangements by which such differences are emphasized and enhanced, and feels distrust and apprehension at all attempts to diminish them." (R. H. Tawney, 1964) (first published in 1931). Tawney's usage of "equality" is practically the same as the interpretation here given to "equity".

a) Some thirty years ago, Albert Hirschman (1961) identified in the comprehensive development plans then being formulated throughout Latin America, as in the 19th century constitutions, a propensity of intellectual elites to compensate through ideal schemes for their inability to act on recalcitrant realities.[3] Since then, this propensity has flourished under the stimulus of innumerable international conferences, resulting in "plans of action" that have covered all conceivable dimensions of equity along with other worthy objectives. Up to a point, the effort to formulate inspiring and attainable utopias could be justified as a means of transforming the consciousness of elites and peoples. At the same time, it encouraged illusions of rapid and coherent progress through the application by the State of comprehensive prescriptions that probably obscured the vision of some regimes as to what they could accomplish within real constraints. Experience has dissipated such illusions, except perhaps in a few planning offices, but by the 1980s the ritualization of promises and plans of action had generated complacency or cynicism among the elites and alienation in the general public. Any discussion of equity today is handicapped as well as challenged by this past and by the more acute disillusionments of the 1980s. It is open to accusations of mystification, embodied in many bitter jokes.

b) The verbal commitment to equity has coexisted with the elite's conviction of the inferiority of the lower classes, particularly if they are ethnically distinct. This attitude is no longer publicly avowable but remains an important unspoken rationalization for complacency in the face of extreme inequalities in distribution and exclusion of the disadvantaged from effective political participation. (In a modernized variant it has been argued that infant malnutrition has stunted the brains of the poor to such an extent that they cannot be trusted to exercise full rights as citizens). In the past, the attitude of elite superiority has entailed traditions of paternalism and clientage in relations with other classes. "Equity" then consisted in recognition of an obligation to help dependents or requite services, but indifference or hostility toward groups or individuals outside the bounds of dependency, struggling for upward mobility or claiming enforceable rights *vis-à-vis* the elites. To some extent, with uneven modernization of the societies, such attitudes shifted from traditional landowning elites to other power holders, including public functionaries.

The attitude of rightful superiority has also entailed a pervasive distrust or fear of the masses as sources of anomic violence and criminality, and as easy targets of populist or revolutionary misleaders, if not kept under strict control. A corollary of this distrust has been a predisposition to support or tolerate extra-legal violence (including torture and summary executions) against out-groups perceived as threats. Such violence has been endemic throughout Latin American history, but reached extraordinary heights during the 1970s, when threats to elite status became more immediate. It has since receded in a good many countries, but not in others, and probably remains latent almost everywhere. Obviously, the ability of power holders, including agents of the State, to use intimidating violence arbitrarily and with impunity can block any significant advance toward greater equity. At the same time, the successful use of violence has made less convincing the argument that rapid advances toward greater equity are needed to forestall upheavals from below.

c) It is widely agreed that the consumption standards of upper-income minorities have done much to shape the style of development and block more equitable distribution.[4] By now, relatively broad middle strata have internalized these standards, which thus enter into the expectations (or frustrations) of most of the population. Since they respond to international stimuli and models for continual diversification and are viewed as rights by the groups having access or hopes of access to

[3]R.H. Tawney, thirty years before Hirschman, gave a more sardonic explanation, echoed by many criticisms today: "In political and social affairs ... complete candour ... is rarely desired, and more rarely practiced. ... Thus shielded against too violent an impact of disturbing truths, the rulers of mankind are enabled to maintain side by side two standards of social ethics, without the risk of their colliding. Keeping one set of values for use, and another for display, they combine, without conscious insincerity, the moral satisfaction of idealistic principles with the material advantages of realistic practice." (R.H. Tawney, *op. cit.*, pp. 213-214).

[4]In "the postwar pattern of consumption-led growth ... continuing expansion of consumption has been essentially based on the affluency of the upper 30% –or, at most 40%– of the population, that require high incomes –of levels comparable to those prevailing in the industrial countries– to pay for the higher price of goods." (Altimir and Hofman (1990), p. 9.

them, they support conceptions and realities of "restricted equity". The groups in question cannot contemplate any redistribution, through the State or otherwise, that would endanger their (already precarious) ability to meet these standards. The crisis of the 1980s has probably strengthened "zero sum" suppositions: what one gains another must lose. Thus, they must either put out of their minds the plight of those excluded from any possibility of achieving such standards, or fall back on the rationalizations summarized above: namely, that the poor are to blame for their poverty. A hidden psychological satisfaction from superiority over the poor and ignorant might also be suspected; high levels of consumption and education would lose part of their value if access to them were universalized. Parts of the elites and middle strata may even be sincerely convinced that the State, as a matter of equity, has the duty to help them maintain acquired advantages, through appropriate employment, differential education, and public services for their neighbourhoods.

d) The attitudes of economic, political and intellectual elites toward the State have long been highly contradictory, ranging from exaggerated confidence in the State's ability to accelerate and plan development, through opportunistic efforts to use the State for private ends, to negation of the State's ability to do anything efficiently and legitimately beyond the maintenance of public order. In recent years, for many reasons, confidence in the capacity of the State to promote equity has declined in the public at large. The confidence of private power holders in their right as well as ability to pursue their own perceived interests and penalize any interference from the State or from popular organizations has increased correspondingly. These trends, in a context of economic crisis and preoccupation with crisis management, have pushed political and intellectual elites toward evasiveness or indifference *vis-à-vis* the quest for greater equity. In these circumstances, policy concentration on economic growth through the freeing of market forces could plausibly be rationalized as beneficial for everyone over the long term, or accepted as inevitable in the absence of viable alternatives (Gurrieri (1990a), pp. 13-14). Concern for equity, then, might best continue to take the form of declarations of good intentions supplemented by modest allocations to relieve extreme poverty and modest support of self-help.

Other formidable reasons might come to mind which explain why the quest for greater equity has advanced more rapidly on paper than in real social relationships, patterns of distribution or applied policies. Obviously they are not the whole story, and the main justification for listing them is to help the different social actors concerned with equity to become more aware of contradictions and propensities to evasion in their own attitudes and those of their interlocutors. For over thirty years, economic growth in Latin America did benefit large parts of the population and generated processes of mobility and capital accumulation that can be built on, with renewed growth, to overcome the exclusion of the remainder. The State in Latin America did acquire social institutions and services that affected the lives of most of the population to some extent. These have been damaged but not lost, and through experience, intelligent planning, and pressures from below can be made to function more equitably as well as efficiently. Theorists and ideologists, political parties and popular organizations have learned from sobering experiences to pursue equity with greater realism, patience and predisposition to combine tactics of struggle with compromise and openness to opportunities for broad coalitions. Intransigent defences of privilege and "restricted equity", lowered expectations and complacent or sullen submission to the economic Kingdom of Necessity coexist with a proliferation of generally localized creative initiatives of many kinds, outside the purview of the national political and interest-group organizations.

The present text supposes that the quest for greater equity is most likely to advance through changing combinations of tension and co-operation involving the various economic, political, social and cultural actors: institutions of the State, private power holders, parties and other mass organizations, and participants in local struggles for survival and advancement. The different social actors cannot be expected to adhere to completely compatible scripts, or to tailor their scripts to broad principles of economic efficiency and social justice, but there is room to hope that an awareness of common interests in the overall process of changing production patterns with equity can become internalized sufficiently to override conflict to a greater degree than heretofore.

III

The State and its agents: policies, sectoral programmes, legislation and regulations bearing on equity

1. *Overall policy and planning*

It is generally agreed that major advances toward equity cannot be expected from social sectoral programmes alone, or from direct subsidies to the incomes of the poor, or from measures adopted piecemeal to deal with the most urgent pressures. Almost any action taken in isolation can have perverse consequences. The quest for greater policy coherence and integration of equity considerations into the whole range of activities of the State is of the highest importance. This objective can hardly receive sufficient attention without institutionalization in planning and the existence of co-ordinating mechanisms with adequate access to the Executive. Comprehensiveness is meaningless, however, unless combined with a realistic appreciation of the capacities and limitations of the State and the political constraints upon its policies. Coherence and integration are ideals to be striven for but can never be fully attained, and the striving has its own pitfalls.

Deliberately or otherwise, comprehensive planning can become a substitute for action, as Latin American experience has repeatedly demonstrated. Opportunities for decisive action by the State –assuming that the forces controlling the State really want decisive action– are continually opening and closing. By the time comprehensive plans or reform proposals are ready, or all the linkages of a proposed policy have been explored, the economic conjuncture, the political balance of forces, or the replacement of the Chief of State may have rendered them inapplicable.

Even revolutionary regimes do not start with a clean slate, and regimes that come into office through pluralistic democratic procedures face an array of public entities and programmes built up over many years for many reasons, with their own forces of inertia and momentum, legislative provisions that can be changed only slowly if at all, organized resistances in different sectors of the population (including clienteles as well as functionaries) to reforms bearing on their conceptions of acquired rights, and bargains that the new regimes themselves may have struck in order to broaden their base of support. The quest for policy coherence and integration then leads through painstaking attention to each sector and form of activity so as to understand their interactions and the real reasons for inequities and inefficiencies. The executive power can be expected to have patience for only selected aspects of such a diagnosis, and reform proposals may have to be filtered through legislative and judicial bodies, with unpredictable results.

Such considerations may justify a regime's decision to subordinate comprehensiveness to concentration on certain lines of activity in which resistances are weaker and prospects for an effective contribution to equity are more promising than in others, preferably with the choice based on a serious weighing of costs and benefits, political as well as economic and financial, rather than overnight inspiration. In any case, all regimes face a discordant chorus of urgings from within and without their own ranks to undertake more activities than they have any prospect of carrying out or co-ordinating. They may find it politically expedient to make token responses to some of these pressures, deliberately confusing perceptions of their real priorities.

Alternatively, regimes that are strongly committed to major reforms or societal transformations may decide that the only way forward is to advance rapidly on as many fronts as possible, hoping to make irreversible changes in power structures and impart an economic and social dynamism that will outweigh incoherences and overwhelm resistance. Thus far, as the World Bank has pointed out with a certain complacency (World Bank (1990), Box 1.2, p. 12), such strategies, after initial successes, have consistently ended in disaster, particularly for the dispossessed whom they were intended to benefit. The regimes in question have been unable to achieve sufficient internal policy coherence, control the momentum of the changes they have set in motion, or cope with the destabilizing tactics of forces inside and outside the country that have felt threatened by the reforms. For the present, even the political forces previously sympathetic to strategies of this kind seem to have lost faith in their feasibility.

Still another approach to coherence in policies insists on abstemiousness in State activities, maximum transfer of responsibilities to the private sector and to local initiative, "empowerment" of the disadvantaged by freeing them from State tutelage, and concentration of State action on a few clearly defined needs and groups. In its doctrinaire neoliberal form this approach can be identified as a rationalization of permanent inequity, summed up many years ago in Anatole France's aphorism that the law protects equally the right of the rich and the poor to sleep under bridges. However, some versions of the approach convey a very important dimension of the problem of policy coherence: that of pruning the wilderness of programmes and regulations which has grown up in most Latin American countries and which encourages arbitrary decisions on enforcement, diverts the innovativeness of the informal sector into tactics for evasion, and fosters bureaucratic arrogance and extortion *vis-à-vis* the disadvantaged. Such a pruning would entail financial gains rather than costs for the State, and would help toward a clearer vision of what it can and should do, but the political costs might be high, in view of the complexity of interests involved.[5] The real needs of complex societies for regulation for the common good, the real capacity of the State to enforce regulations efficiently and equitably, and the expectations internalized by different sectors of society can be brought into better balance than heretofore, but never to the point of ideal reconciliation of all the desiderata.

A number of ECLAC documents published over the years really constitute critical annotated catalogues of the range of State activities bearing on equity.[6] Such overviews should be indispensable starting points for agents of the State trying to bring order and realism into the questions of what the State *should do* to advance equity, what it *can do* within the foreseeable future, and what it *is doing* but might better do differently or not at all. At the regional level, such overviews cannot justifiably go beyond a cautious weighing of benefits, costs, propensities for distortion in content or distribution, and possibilities for harmonization with broader objectives of changing production patterns with equity. It would be pointless to go over the ground again in a text such as the present. The next step is to relate the considerations to specific national and even local conjunctures, preferably through dialogues with national planning and research institutions. A study of what, if anything, agents of the State make of generalized principles and advice, and of how self-awareness of roles might be enhanced, should be useful at this point.

One general point remains with regard to the constraints on coherence in government activities. The World Bank has specified the provision of "basic social services to the poor" as one element of a two-part strategy for achieving "rapid and politically sustainable progress on poverty", along with promotion of the "productive use of the poor's most abundant asset – labour" (World Bank (1990), p. 3). Significantly, the Bank supports this proposal with the argument that the likelihood of coalitions between service providers and recipients enhances political sustainability: "Pressures on governments to finance social services often come as much from the middle-income providers of services as from the beneficiaries. Teachers, medical personnel, social workers, and other middle- and upper-income service providers themselves benefit when the government devotes more resources to social services, and they often have the voting power and organizational capacity to lobby successfully for greater investments in the development of human resources. ... In Argentina, Chile and Peru the success of tax and other policy reforms to benefit the poor has generally turned on the stance of white-collar workers, professionals, bureaucrats, and small- and medium-size business interests. Redistributive policies were more likely to succeed when these actors shared in transfers directed primarily to the poor" (World Bank (1990), p. 52).

This quotation gives a realistic glimpse of the context within which pluralist democratic governments or even regimes of authoritarian origin confront the question of equity. To the extent that a

[5]Hernando de Soto (1987) presents convincing arguments for the importance of this approach, whether or not one accepts his broader conclusions on the potential of the informal sector and the evils of the "mercantilist" State.

[6]See, in particular, Gurrieri, 1990b, Kaztman and Gerstenfeld, 1990, and Sojo, 1990.

government wants to give priority to equity it finds the kind of "coalition" described above helpful in countering other claims on its resources, but it cannot take the claims of the more vocal part of the coalition at face value. The providers cannot help preferring to go on doing the things they have been doing, on a larger scale. Their families and their allies in the middle strata cannot help preferring to keep the lion's share of the benefits, according to a principle of "restricted equity". The extent to which they provide the services most needed or wanted by the poor depends partly on whether the organizations of the latter have clear purposes and can make themselves heard independently of bureaucratic tutelage. The policy-making and planning organs of the State are concerned to make the services more cost-effective and to bring them into closer correspondence with overall development aims. Once the providers and the poor are both organized, advances toward these last objectives require bargaining and dialogue, at best conflictive and leading to compromises that satisfy neither the contending parties nor the ideal concerns of equity and efficiency. Naturally, if the resources of the State fall drastically, as in the 1980s, the bargaining capacity of all three parties suffers, and policy application becomes more erratic and inequitable.

2. *Laws and regulations*

The legal systems of Latin America, as one might expect, have contradictory implications for efforts by the State, by popular movements, and by individuals to advance toward greater equity. On the one hand, constitutions and laws contain elaborate guarantees of right and need for equity. On the other, the more concrete legal codes and regulations have been shaped by the distribution of power, political bargaining, and certain well-known propensities of lawyers and bureaucrats. They include provisions designed to make changes in the distribution of income and wealth difficult and slow, and to place popular organizations under State tutelage. They have evolved through accretion to a complexity and contradictoriness that may either paralyze the capacity of a regime to undertake reforms, or encourage tactics of evasion, selective enforcement and ad hoc decrees. The role of the legal systems in blocking changes that affect property rights has been particularly important in the case of agrarian reforms. In most countries with pluralist democratic regimes continual efforts to rationalize the legal systems co-exist with pressures and real needs for new legislation that make the systems even more complex. The overall prospects for bringing the legal systems into closer correspondence with equity-oriented reforms differ too widely from country to country to be discussed here.

From the standpoint of the disadvantaged parts of the population, the main problem may be effective access, through the courts and public agencies, to the rights guaranteed them in the laws. Such access is hampered not only by the ambiguities and contradictions in the laws, but also by ignorance of legal rights, the costs of legal action, and many forms of extra-legal intimidation by agents of the State or local power-holders. Particularly in rural areas and in low-income urban settlements, police are likely to interpret any organized effort to assert rights as a threat to order, and to react with violence.

As was suggested above, a co-ordinated attack on these problems should be a promising way forward for regimes concerned with equity but under severe financial constraints. Simplification of regulations would save the State some costs of enforcement, and might bring it some new resources through the freeing of entrepreneurial initiatives in the informal sector. The political costs of bringing the armed agents of the State under better control, enforcing penalties for violations of human rights, and universalizing access to the courts would be formidable, but would meet some of the most deeply felt grievances of the disadvantaged throughout Latin America, even under formally democratic regimes. The elite supposition of natural inferiority of the masses continues to colour interactions between those holding a share of power –even petty functionaries– and the weak.

A State effort of this kind needs the critical support of the mass media, in the form of publicizing abuses and assessing the State's efforts to deal with them: a function for which the media already have a solid basis of experience. Such an effort also calls for the introduction of "ombudsman" systems, as a few Latin American countries are now doing. The "ombudsman" is an autonomous officer of the State, empowered to investigate and act on complaints of the public, including complaints of arbitrariness and extortion by agents of the State as well as complaints of discrimination or abuse by private employers and fraud or misrepresentation by commercial and financial enterprises. Obviously, the effectiveness of such an institution depends on adequate staffing, financing, legal powers and publicity. A token ombudsman overwhelmed by complaints and powerless to act on them would simply confirm the public skepticism concerning the State's commitment to equity.

This is also a promising and relatively neglected area for policy-oriented research, focussing on efforts within specific countries to accomplish the purposes summarized above, the role of mass media and different types of organizations, the reactions of affected State agents and other power-holders, and the perceptions of the disadvantaged themselves.

IV

Popular participation and equity

A dynamic process of change in production patterns will facilitate advances toward greater equity but will not guarantee them. The same can be said of widening of the scope of market incentives, freer choices of life styles, or pruning of bureaucratic controls to those really indispensable for the functioning of complex societies. If equity is to become more than a slogan the State must assume many new as well as old responsibilities for redistribution, universalized services (as well as services targeted to particularly urgent needs), stimulation of scientific and technological innovation, safeguarding of basic human rights, etc. The final requisite for advances toward greater equity consists of organized popular participation within a pluralist democratic framework. The foregoing requisites (particularly the last) cannot be expected to interact harmoniously and predictably. However, even if greater equity could be expected to emerge from some combination of innovations in production, market incentives, and technobureaucratic planning of State activities, this option is not available. Organized popular participation is already present, and recent history has demonstrated that even the most systematic repression cannot eradicate it for very long. The quest for equity has proceeded and will proceed through interactions involving the State, economic and military power holders, political parties and other organizations aggregating and negotiating the demands of different sectors of the public, and localized groupings of people devising their own survival strategies. This tripartite interaction involves continually changing but basically permanent tensions. Regimes concerned with equity or simply with political stability will legitimately try to institutionalize and rationalize popular participation, promoting some forms, discouraging others, and trying to bring the organized forces into social pacts. Forces outside the State will legitimately place their hopes in ensuring maximum autonomy and spontaneity for social movements working toward transformations of the societies that would involve a drastic curtailment of the tutelary role of the State. It is unlikely, and probably undesirable, that either approach should triumph definitively.

The main factors bearing on popular participation at present can be summed up as follows, with no pretension to originality:

a) Throughout Latin America, political democratization has opened wider spaces for organization and participation in struggles for equity, but these gains confront the inhibiting effects of the economic crisis and debt burden, and of ideologies that delegitimize popular mobilizations and demands for State support of greater equity. In effect, the disadvantaged are told that they can enjoy democratic rights only as long as they do not make use of them. In most countries, credible threats of force in case of political instability stand behind these warnings.

b) Political parties have regained their traditional roles of negotiators of the demands of different sectors of the population *vis-à-vis* the State, but for many reasons are insecure in these roles. Their ability to act on electoral promises, once in office, generally proves illusory. This contributes to voter alienation and extreme swings in electoral behaviour, expressing repudiation of an existing regime more than support of an alternative. In general, the parties have gained in realism and disposition to seek common ground on policies, but demoralization from the constraints encountered has also in some cases fostered opportunism and corruption.

c) The eclipse of socialist utopias and doctrines of the vanguard role of the proletariat has deprived working-class movements of inspiring visions of the future capable of justifying solidarity, sacrifices and persistence after defeats –but also of illusions that were responsible for the worst defeats. For the most part, the political movements formerly advancing such utopias have lowered their sights to reforms that seem practicable without system transformation. This, in practice, leads them toward "restricted equity" and ambivalence with respect to the mobilization of the strata whose advancement seems least compatible with the prevailing economic system and power relationships. Alternatively, the reaction has been in the direction of extreme radicalization, envisaging mobilization of the most disadvantaged strata for destruction of the system, on the supposition that this would open the way for an egalitarian order. This strategy, in the one case in which it has achieved significant strength (that of the Sendero Luminoso in Peru), has notoriously condemned the disadvantaged to extremes of competitive terrorization and crippled their pre-existing capacity for autonomous organization.

d) Social movements based on sources of self-identification and equity-oriented demands only secondarily related to employment and needs for State services have increased in importance and diversity. These include organizations (and more widely diffused public perceptions) based on gender, age, ethnic identity, cultural preferences, religion, concern with environmental degradation, concern with human rights, etc. The participants in some of them are mainly from the middle strata but they are concerned with questions that affect the well-being of the whole population and particularly the disadvantaged (environment, human rights) or they are determined to act as allies and mobilizers of their more disadvantaged counterparts (women, youth). This trend introduces a dimension of multiclass social cohesion with high potential for overcoming the class and cultural barriers that feed elite and middle class repugnance to universalized equity. It also introduces an important international dimension: most of the new social movements identify with counterparts throughout the world and rely on their solidarity and material aid against internal adversaries. Political parties and the State naturally find it hard to cope with the diversity of challenges thus advanced, frequently in intransigent terms, but the innovativeness of social movements probably offers the best possibility that the quest for equity will finally overcome the present economic, political and cultural obstacles.

e) Semi-autonomous and generally localized forms of solidarity among the disadvantaged in the cities have gained in importance, or at least in visibility, partly through the survival strategies forced on them by the economic crisis and the ineffectiveness or repressiveness of the State, and partly through the mobilizing and conscientizing efforts of allies from the social movements mentioned above. There have been many microstudies bearing on such organized efforts, but the coverage and prospects of the latter are far from clear. In most settings, it seems probable that they incorporate only minorities among the urban poor and that they are short-lived, dissolving from the consequences of success in their immediate aims as well as failure. They involve women much more than men, and external stimulation and material aid are important to their perceptions of their own roles, as well as to their survival.

The present organized efforts follow upon a long history of glaringly inequitable distribution of access to adequate housing and related services. Researchers have abundantly documented the uncontrollable growth of "irregular settlements", the rise of popular organizations asserting rights to land and services, and the varied governmental attempts to cope with these features of urban growth. The failure of the State or private enterprise to provide decent living conditions, forcing the workers and the poor to find and pay for their own solutions, has been denounced as "urban spoliation". Inequities became even more flagrant during the 1980s, as upper-income housing and community facilities became even more luxurious, while working class and informal sector incomes became more precarious and possibilities for occupying waste land or buying cheap building lots in "clandestine" subdivisions shrank. At the same time, tendencies toward administrative segregation of high-income neighbourhoods, freeing them from responsibility for services in the poorer zones, became more pronounced. Psychological segregation accompanied physical segregation, stimulating among the well-off an exaggerated fear of the low-income settlements as menacing dens of criminality and barbarism. Here the State's responsibility in advances toward equity involves a fairer distribution of public funds allocated to urban needs, controls on land speculation, and property taxes that accurately reflect land values –measures most governments have never had the will to undertake in the face of vested interests. Under the repressive conditions of the 1970s and early 1980s and the more recent shrinkage of public resources, organized efforts in the neighbourhoods of the urban poor had to lower their sights to self-help. In the democratic climate of the present, however, it seems inevitable that the high visibility of urban inequities and the internalization by all classes of "modern" standards for shelter and services will make these inequities once again sources of serious challenges to the State as well as the urban elites.

f) The "informalization" of economics, implying a shift from wage labour in relatively large enterprises to self-employment, piecework, and employment in small precarious enterprises; the extreme spatial mobility –including migrations across national frontiers– of major population groups seeking work or fleeing violence; and the mobility of transnational enterprises seeking cheap labour and employing mainly women, have led –along with other factors– to the weakening of trade unionism, traditionally the most solid component of popular organization and the spearhead of broader mobilizations. As events in many countries demonstrate, the unions (particularly those in public sector enterprises and services) often find no alternative to strikes in defence of acquired rights and salary levels, even when the likelihood of success is slight. The unions' ability to recover a leading role in the quest for equity depends on their capacity to recruit workers and to defend their members' interests in two quite different areas: the new high-technology areas of employment associated with changing production patterns and the mainly female labour force in "maquiladora" and piecework production. In the latter area, the unions must fall back on the State for enforcement of regulations concerning working conditions and minimum wages.

One might conclude that large groups –particularly the semi-proletarianized rural population combining subsistence cultivation and migratory wage labour and the unemployed youth of the cities– have practically no potential for organization, even at the neighbourhood level. The reality, however, is probably more complicated and less negative. For one thing, large-scale migrations across national frontiers in search of work, combined with universal exposure to mass communications and the modern urban consumer society, will have consequences that can only be guessed at.

g) In assessing the potential contribution of popular participation to the quest for greater equity, it is not enough to specify what the people ought to want within an equitable and sustainable style of development –satisfaction of basic needs, fair access to education and health care, adequate housing, protection in old age and other contingencies. It has been evident for some time that the real style of development has universalized aspirations to levels and forms of consumption that in reality can be achieved only by minorities on the basis of exclusion of the majority from the consumerist paradise. It has been rightly said that the Latin American population has already achieved complete equality in their aspirations. Even when limited to minorities, such consumption standards imply a crippling diversion of public as well as private resources away from the investment requirements of worthwhile changes in production patterns. If they could be universalized –e.g., if per capita automobile ownership could reach U.S. levels– they would be environmentally devastating.

This is certainly one of the most intractable stumbling blocks in the path toward greater equity. Up to a point, consumer aspirations and inequality in incomes are a spur to greater effort, as the welfare states of Europe and formerly "real Socialist" countries now admit, but that is far from justifying a gap between aspirations and real potentialities as wide as that observable in most of Latin America. It would be presumptuous as well as futile for development theorists and planners to urge a lowering of aspirations while themselves enjoying the consumer society. There is some hope for a spontaneous shift in tastes, particularly among the youth, away from the forms of consumption that are particularly demanding of resources and ecologically damaging. The new social movements should exert a positive influence in this direction. However, as in the "rich" countries, such shifts in tastes will probably reach the middle classes long before the disadvantaged. In regard to the interaction between State policies and popular participation one cannot do more at present than hope that regimes will confront the problem openly, explaining the constraints but without any illusions that their exhortations can bring about a mass conversion to sustainable development.

h) From the 1950s to the 1970s, a broad international consensus, embodied in numerous United Nations resolutions, programmes and researches, asserted that reforms of land tenure leading to wider distribution of ownership would be one of the most important contributions to equity and national integration as well as economic development. Traditional tenure systems, it was agreed, confined peasants and rural workers to vicious circles of impoverishment and powerlessness in which they were unable to innovate in productive techniques, enter market relationships, or participate democratically in national or local decision-making. In the absence of State-sponsored reforms, their main hopes for betterment lay in cityward migration or violent uprisings.

At present, agrarian reforms are receiving relatively little attention, whether in the form of declarations or programmes in progress. One reason seems to be that political resistance to earlier reforms proved so formidable and destabilizing that even democratic and equity-oriented political movements are reluctant to return to the struggle. According to the World Bank, "large-scale redistributions of land have sometimes been successful... Where it can be done, redistribution of land should be strongly supported. But the political obstacles to such reform are great. ... In most circumstances, political realities forbid reform to stray far from the status quo". Other strategies to deal with rural poverty are "more likely to succeed". (World Bank (1990), pp. 3 and 64.)

In a good many countries the relative importance of the rural population has declined so much through out-migration and urbanization that the case for agrarian reform as the only means of forestalling revolutionary upheavals fuelled by rural poverty and discontent has lost weight. Still other reasons for present neglect of the issue, in different combinations according to country and internal region, include rural transitions (many of them deriving from the vicissitudes of past reforms) to modern large-scale commercial agriculture using wage labour, and transitions to smallholder agriculture producing for the market, but so dependent on sources of credits, inputs, and crop purchases that the gain from land ownership has proved illusory. Earlier tenure reform policies generally failed to follow up with the investments, technical assistance and marketing arrangements that the policies themselves declared to be essential, or bureaucratized such services to a frustrating degree.

Nevertheless, in parts of some countries militant organizations of peasants and rural workers have held their ground, or have recovered after periods of repression, and are able to advance their own conceptions of equity with some effectiveness. Elsewhere, a long history of failures to resolve questions of equity in terms satisfying rural people has led to situations of endemic violence in which the possibility of equity-oriented participation disappears in the clash of strategies for mobilization and intimidation. As was suggested above, the rural groups least able to defend their livelihood through organization or political action are those no longer able to subsist through agriculture alone, but clinging to a combination of subsistence cultivation and migration in search of work. The economic justification for State action that would enable them to function better as cultivators may be weak and the measures required complex and expensive, but the equity justification is strong. The sources of unskilled wage labour to which they have access are not expanding and expose them to super-exploitation. Recent researches in Mexico suggest that the only alternative to subsidies to them as rural producers entitled to organize in defence of their own interests will be subsidies to them as destitute and rootless unemployed (Hewitt de Alcántara (forthcoming)).

i) During the 1970s and 1980s, some currents of opinion, disillusioned with the record of self-proclaimed "vanguard parties" and centrally-manipulated populist mass organizations, entertained a vision of "social movements" –including the new movements described above as well as the trade unions, associations of the urban and rural poor, and multiclass regional protests against domination by central authorities– evolving and coalescing into "national popular movements" capable of replacing traditional styles of party politics and State bureaucratic authoritarianism or paternalism by autonomous and spontaneous popular participation. The course of such a transformation could not be specified in advance, but the hopes expressed showed some ambivalence between the gaining of control of the State and the freeing of civil society from dependence on the State. It seems unlikely that the participationist utopia can become reality, but the vigour and diversity of social movements add to the indeterminacy of the future. From one point of view such vigour is the only real guarantee of advances toward greater equity. From another, it introduces a threat of complete ungovernability of the national societies.

j) From the standpoint of the present exploration of questions of equity, it means that the State, the economic power holders and the popular movements cannot help negotiating with each other, with a more patient and realistic effort than hitherto to understand the ideological as well as economic constraints on the "social pacts" they are aiming at. The difficulties are by now obvious. It is easier for all parties to make commitments than to carry them out. The State at present has very little to offer beyond warnings that there is no alternative and promises of a better future. The spokesmen for the power holders and the popular movements cannot be sure how far they can guarantee the acquiescence of their followings. A large part of the population is not organized, or its organizations are too localized and focussed on survival strategies or specific issues for their commitments to pacts to be meaningful. The economic elites are better able than other groups to interpret the pacts to their own advantage. A long history of the social pacts that have collapsed, generally to the detriment of the "popular" participants, stands in the way of the much-needed confidence that new pacts can succeed. Nevertheless, even the failures should have contributed to a learning process. The next question is how and whether the different actors can internalize the lessons so as to bring their different rationalities into closer correspondence.

V

What questions need answers and what can be done with the answers?

i) Institutions throughout Latin America are now carrying out researches and elaborating action-oriented propositions on practically all the important questions relating to equity and its interactions with development. These researches are proceeding mainly outside the framework of the State, although they are often financed by the State or by intergovernmental organizations. Additional topics and different emphases might be suggested. However, it would be pointless to do this without a thorough appreciation of what is already being done. The main problem is not lack of research, but rather its compartmentalization[7] and the inadequacies of the channels through which findings should reach the agents who might act on them, as well as the general public. The production of documents is overwhelming, but their circulation is limited and erratic. These deficiencies have particularly adverse effects in relation to questions of equity, since decision-makers have an inevitable propensity to set this aside in favour of more pressing concerns, and the selection of ideas that reach their attention may be practically random or filtered through outmoded presuppositions. It follows that there is a place for research devoted to the following questions:

– How do research findings and theories influence decision-making centres in the State, elites in the private sector, the leadership of popular organizations and the general public?

– How do planning bodies, advisers charged with oversight of current research and the mass media contribute?

[7] "Our prevailing conditions and our universities produce economists who are blind to politics, politicians who are deaf to economics, and political "experts" who are not the least bit disturbed by the lack of communication between the foregoing two parties. This is why, in the political processes of our countries, there is direct contact –but no real communication– between two actors who speak different languages and follow incompatible theories: conventional politicians and conventional technicians" (translation from Carlos Matus, 1990)

– Can better approaches be proposed for sifting the important from the secondary, formation of common understandings permitting fruitful dialogue in the negotiation of social pacts, and the incorporation of research into decisions?

ii) The intergovernmental organizations and many national institutions have years of experience in advice to governments bearing on different dimensions of equity, but efforts to derive useful lessons from the history of such advice have been few. The following questions deserve systematic attention:

– To what extent did the governments act on expert advice or ponder it sufficiently to give reasons for not acting?

– To what extent did later missions study the experience of their predecessors and draw lessons from it?

– How do participants in advisory missions evaluate past experience and reasons for success or failure?

iii) Advances toward greater equity require, inter alia, that the people as a whole and particularly the disadvantaged sectors achieve a confidence, based on realities, that the laws and regulations are not unduly biased against their interests nor incomprehensibly complicated and contradictory. The manner of enforcement may be even more important that the content of the laws; equity requires fair and easy access to the courts and administrative agencies for assertion of rights and redress of grievances. Consequently:

– How do the State institutions actually function from this standpoint?

– How do the disadvantaged perceive their functioning?

– What is the experience of new institutions being introduced to make their functioning more equitable?

iv) By now, a good many countries have long and varied experience of the negotiation of social pacts and multiclass alliances designed to mobilize broad support behind national policies for development or readjustment. As was stated above, the experience of such pacts has been disappointing, but governments and peoples have no alternative to continuing the effort. This therefore gives rise to the following questions:

– What can be learned from this experience?

– To what extent have the pacts constituted unrealistic attempts to achieve consensus behind basically inequitable distributions of sacrifices in which criteria of economic rationality have masked subordination to the distribution of power?

– To what extent have the pacts over-relied on shock treatments and promises of rapid transformation that could not be fulfilled?

– To what extent have the experiences generated alienation and cynicism, and to what extent have they generated positive lessons that can be built on in the unavoidable next effort?

– Finally, it there are lessons, how can changing regimes and changing popular leadership retain them?

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The social actors and structural adjustment

*Eugenio Tironi**
*Ricardo A. Lagos***

This paper presents several hypotheses on the social and political context of the application of the so-called structural adjustment policies and their effects on the social organization and patterns of conduct of the collective actors involved. The central idea put forward here is that, quite apart from the crisis (economic, social and sometimes political) which precedes and generally accompanies the application of these policies, they ultimately bring about profound and lasting changes in the social structure of the countries implementing them. These changes, although assuming different features in each region and in the different countries, have taken on a universal and trans-ideological scope. So far, much of the economic and social research has been concentrated on analysing the social disorganization which accompanies this transition, but it now seems necessary to devote greater attention to the new social order which arises with the process of structural adjustment. There are not sufficient empirical studies to make it possible to draw general conclusions in this respect: consequently, this study limits itself to putting forward some hypotheses designed to further the debate on this matter. It should be noted that, although structural adjustment is a process taking place in almost the whole world, this paper takes as its basic field the developing countries, and especially those of Latin America.

*Sociologist: Director of the Department of Communication and Culture of the Executive Office of the President of Chile (Ministerio Secretaría General de Gobierno).

**Economist: Staff member of the International Labour Organisation, Geneva.

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I

Structural adjustment

Since the early 1980s, the concept of structural adjustment has come to be a central element of economic policy as a result of the signals emitted by the multilateral finance and development institutions: the International Monetary Fund (IMF) and the World Bank. Structural adjustment means the way in which national economies must adapt to the new conditions of the world economy, characterized both by technological changes which demand greater flexibility within enterprises and greater decentralization of production and by more competitive and unstable world markets (Cortázar, 1989).

In the developing countries, the application of structural adjustment policies has pursued three main objectives (Mosley and Toye, 1988):

a) A *financial objective*, namely, that of providing resources for those countries which have acute external debt and balance of payments problems, since securing relief through greater liquid resources is an essential requisite in this case for the application of more structural economic reforms.

b) A *macroeconomic adjustment objective* which seeks to recover external balance in the short term through control over aggregate demand (expenditure-reducing policies). The measures in this field are aimed at reducing government expenditure (especially social and infrastructural expenditure), lowering or eliminating subsidies, securing a contraction in the money supply, and increasing real interest rates. Although the direct objective of these policies is to restore the external balance, it cannot be overlooked that they have more general effects.

c) A *microeconomic adjustment objective* aimed at improving economic efficiency through measures affecting supply (expenditure-switching policies) designed to promote growth by exploiting comparative advantages and making more effective use of capital and the other factors of production. To this end, efforts are made to change the relative price structure (real wages, interest rates, exchange rates) in order to encourage the transfer of resources from the production of non-tradeable goods to that of tradeables and, more generally, to increase the degree of response of supply. This is what leads to such measures as devaluations, trade liberalization, elimination of State subsidies, privatization of public enterprises, elimination of price controls, etc.

The objectives pursued by structural adjustment policies are not greatly different from the efforts at restructuring that take place in some socialist economies and which are characterized by assigning a more important role to the market in resource allocation, encouraging forms of private ownership, promoting foreign investment and favouring integration into international trade.[1] Consequently, even though there may be differences with regard to the starting point, sequence and intensity of the measures taken and the instrument used in each national system or case, it is undeniable that all over the world the same megatrend is to be observed: a move towards deregulation, freedom of the market, privatization and internationalization.

Now, if we look at the various national cases, we see that the structural adjustment policies have been applied in two principal ways: through shock policies (that is to say, a broad set of measures applied simultaneously to secure immediate effects) or through gradualist policies involving corrective measures applied over a lengthy period of time and against a background of reactions from public opinion and the social and political actors. An interesting point to note here is that the selection of one or the other method does not depend primarily on the ideological stamp of the government in question.[2]

If ideological considerations are not the determining factors in this respect, then what does determine whether the structural adjustment is carried out through shock policies or through a gradualist approach? A comparative analysis makes it possible to identify certain economic, social and political conditions which, together, seem to help decide whether one or the other solution is selected:

a) The presence or absence of an active economic crisis with its inevitable social consequences is a factor that strongly influences the type of structural adjustment effected. If there is only a latent crisis, most probably a gradualist policy will be preferred, but if there is an open crisis (manifested in acute inflation, fiscal and balance of payments deficits, extreme social conflict, etc.) these conditions will tend to lead governments to select shock solutions.

b) The degree of independence enjoyed by the countries *vis-à-vis* multilateral agencies such as the IMF and the World Bank is another factor influencing the type of structural adjustment applied. Until recently, these agencies favoured the application of shock policies in their recommendations. The adoption of a gradual approach, however, depends partly on the amount of resources that can be obtained abroad for financing the transition. If a country is highly dependent on external financial assistance, it will have to follow those agencies' recommendations, but if, on the other hand, it has a greater degree of independence, it will have more leeway for applying gradualist policies.

c) The degree of resistance aroused by the structural adjustment among the social actors (especially among the trade union movement, business associations, professional associations and high public officials) will also affect the government's possibilities of applying one type of adjustment in preference to another.[3] Thus, if there is strong resistance, it will most likely prefer to adopt gradualist policies, but if there is little resistance this opens up the possibility of selecting a shock policy. The resistance of the social actors is determined by two factors: firstly, their degree of political identification with the government in question, and secondly their level of organization. The less the degree of political identification of the social actors with the government, the greater their resist-

[1] This type of restructuring is clearly observable in the cases of Hungary, Poland and China, but the economic policies followed by the Soviet Union also aim in the same direction (Duchêne, 1989)

[2] For example, it cannot be maintained that shock policies are typical only of authoritarian political regimes, since they have been applied by democratic governments which were themselves of differing ideological characters. On the other hand, there are regimes with an authoritarian reputation which have set about processes of restructuring through gradualist means, as in the case of the Soviet Union.

[3] The social actors' capacity for resistance, in turn, is conditioned by the existence and functioning of democratic institutions (parliament, free press, freedom of association, etc).

ance to the adjustment will be,[4] and the more powerful they are, the more effective their resistance will be. The power of the social actors is also related to the existing level of corporatism of the societies and the degree of severity reached by the economic crisis (an open crisis weakens the social actors structurally and organizationally and thus reduces their capacity to block government policies).[5]

d) The political strength of governments is another factor conditioning the type of adjustment applied. A government which is strong (either because it has broad electoral support, because it is backed up by a majority coalition, or because it has the backing of powerful armed forces) will have more possibilities of implementing a shock policy and if necessary overcoming the resistance of the social actors. In contrast, a weak government will be obliged to seek compromises with the different political and social forces and will have difficulty in applying a consistent policy from the start, because it will also encounter opposition within the State apparatus itself. Democratic governments are usually stronger in the first half of their periods of office, so that unless shock policies are carried out in this first period they will subsequently have little possibility of success. It may also be noted that the failure of an attempted structural adjustment based on shock policies weakens the government responsible to such an extent that it will not even be in a position to attempt a gradual adjustment later.[6]

e) The success of structural adjustment policies –and this is true both for gradual and for shock policies– is partly conditional upon the existence of a competent public administration capable of applying the corresponding measures in a consistent and ongoing manner, for –leaving aside the liberal discourse surrounding structural adjustment policies– it must be acknowledged that they involve drastic State intervention.[7] And if shock measures are applied, then an effective State bureaucracy is vital for overseeing the application of the measures and controlling their effects: in contrast, if a gradual approach is adopted, there are more possibilities of building up this bureaucracy in the course of the process.

In short, the more intense and generalized the economic and social crisis of a country is; the greater its dependence on multilateral finance agencies; the weaker the will and capacity of the social actors to resist the new policies; the stronger the Government; and the more highly organized the State administration, the greater will be the possibility that the adjustment will be carried out through shock policies. On the other hand, if the economy of a country is relatively stable, it has some independence *vis-à-vis* the recommendations of the multilateral agencies, the social actors have the power to block the application of certain economic measures, or the government is politically weak and does not have a disciplined body of civil servants, the most likely outcome is that the adjustment will take the form of a gradualist policy. In the final analysis, the adoption of such a strategy or of shock measures will depend on the mutual interrelations of some of these factors rather than on the ideology of the government in question.

[4] In the case of the trade union movement, for example, the fact that the government is in the hands of a party holding similar views will predispose them to accept its policies, since this will give them confidence (at least in principle) that the present sacrifices and future benefits will be shared out equitably and that the power of the trade unions and their participation in the highest levels of negotiation will be preserved (Tironi, 1988). When there is an understanding of this type, resistance is reduced to the minimum and the government can apply shock policies with relative ease.

[5] The case of the British trade union movement in the recent past is interesting in this respect. Although the unions declared their total opposition to the structural adjustment proposed by Mrs. Thatcher they were not able to organize effective resistance because of their internal weaknesses and their scant support from public opinion, both of which were the result of the long-standing crisis of the British economic and social model.

[6] This was what happened with the Government of Alfonsín in Argentina. When it tried to carry out an adjustment with shock policies, it no longer had the necessary legitimacy for this, so that all it managed to do was further multiply the reigning economic chaos. Alfonsín's problem, however, was that he did not have sufficient power when he began his period of office either, since at that time, immediately after an authoritarian regime such as that which existed in Argentina up to 1983, the democratic State was still very weak. It may be inferred from this example that a government cannot *simultaneously* tackle the reconstruction of the democratic political system and the economic and social remodelling involved in a structural adjustment process. In other words, structural adjustment policies would only appear to be viable either before a transition to democracy, or after the consolidation of the latter.

[7] As noted by Jessop, Jacobi and Kastendiek (1986), *all* economic restructuring (and this is just as true of the present process as of that which took place after the war) involves strong State intervention which will tend to slacken later when the new order has reached its peak.

II

The transition

Structural adjustment policies are being applied under different names is all regions of the world and by regimes of the most diverse ideological leanings. These policies are bringing about the restructuring of patterns of accumulation or development and of the form of regulation of the economy and of social relations.[8] These sweeping changes are not due to any accidental causes but to the decline (at both the international and the national level) of the previously existing economic and social order. In line with this approach, the structural adjustment may be interpreted as the moment of transition, strongly impelled by national States and by multilateral agencies such as the IMF and the World Bank, from one mode of accumulation and regulation to another. Like every transition on this scale, it is accompanied by some degree of disorder, but such great changes can only be understood from their long-term projections, and not from their more immediate effects.

The structural adjustment must be understood in the context of the end of one phase in the world and national economies and the beginning of a new one. This transition has been precipitated by exogenous factors –the 1974 oil shock, the external debt problems of the 1980s, and the structural adjustment policies recommended by the IMF and the World Bank– but it has a basic endogenous cause: the crisis of a pattern of accumulation and regulation ("Fordism") based on mass production and mass consumption (Jessop, Jacobi and Kastendiek, 1986; Lipietz, 1984). Among the salient features of the order which is coming to an end, mention may be made of the following:

[8] The influential French school on regulation associated with the names of Aglietta, Brender, Boyer and Lipietz uses two concepts which are important for the purposes of this study. The first of these is the "*regime of accumulation*", which refers to "a form of distribution and systematic reallocation of the social product which brings about, over a lengthy period of time, some degree of mutual adaptation between the changes in production conditions... and the changes in final consumption conditions" (Lipietz, 1984, p. 4). The second concept is that of the "*mode of regulation*", defined as "the set of institutional forms, systems and explicit or implicit rules which ensure the compatibility of behaviour within an accumulation regime, in keeping with the state of social relations, over and above the contradictions and the conflictive nature of the relations between the social actors and groups" (Lipietz, 1984, p. 6).

a) From the point of view of production, it is characterized by mass production based on the system of automatic machines ("Taylorism"), with a form of collective organization of labour at the enterprise level which has led to the expansion of semi-skilled labour at the expense of skilled and unskilled labour.

b) From the point of view of consumption, it is characterized by the "growing importance of the mass consumption of standardized goods and/or the collective consumption of goods and services provided by the State, in contrast to the consumption of individualized goods and/or home produced goods and services" (Jessop, Jacobi and Kastendiek, 1986, p. 3).

c) From the point of view of the form of regulation, it is characterized by the combination of the following institutional forms (Lipietz, 1984): i) the generalization of wage relations in all sectors (including the tertiary sector) and types of activity (including those of management and control), at the expense of home, craft or independent work; ii) the fixing of wages (with, in most cases, a minimum guaranteed by the State) through long-term collective contracts generally adopted at the level of industrial branches, regions or the entire country, thus displacing direct ongoing negotiation between the employer and employee; iii) the growing importance of the State, both for ensuring economic growth and stability and full employment through Keynesian instruments and for guaranteeing the social security of the population through the Welfare State.

d) From the socio-political point of view, Fordism was characterized by what some writes have called the "Keynesian consensus": a political exchange which involved on the one hand the acceptance of private control over the means of production, that is to say, the de-politicalization of the productive sphere, and on the other hand, the acceptance of the capacity of the State to intervene in the economic process in the spheres of circulation and realization" (Altvater, Huebner and Stanger, 1986, pp. 19-20). This same idea has been conceptualized by Przeworski (1983; 1985) as the "class compromise", whereby the workers consent to control by the capitalists over the means of production in exchange for the security (guaranteed by the State) that their material interests will be satisfied (Tironi, 1988).

Between 1945 and the mid-1970s, the Fordist model –which took shape through the experience of the industrialized countries– became the paradigm for economic policy in almost all countries of the world.[9] In some cases (for example, in the most industrialized countries of Latin America, such as those of the Southern Cone), it came to represent what Lipietz (1984) called "peripheral Fordism" or what was called in Latin American economic literature "inward-looking development" or "substitutive industrialization".

The world crisis of the 1930s did, in fact, precipitate the adoption of an industrialization strategy induced and protected by the State in Latin America. As Tokman (1989) points out, that strategy endowed these countries with an industrial base with modern technology (that is to say, it installed a Taylorist organization of labour); it turned industry into the motor of growth and the main source of the generation of increasingly specialized jobs (that is to say, it extended wage relations and drove out craft workers); it led to a constant rise in real wages (that is to say, it generated mass consumption); and it led to a constant increase in the number and breadth of collective contracts negotiated between the parties (that is to say, it institutionalized the ongoing collective fixing of wages).[10] The "Keynesian consensus" extended to these societies too: the central role assigned to governments in ensuring effective demand that would permit sufficient levels of expansion of production and employment, and the responsibility assigned to the State for protecting the poorest groups and incorporating them into social benefits, constituted a tacit agreement committing the most important social and political forces.[11]

The 1974 oil shock set off the first great economic recession since the end of the war (with severe effects on employment and wages) and precipitated the collapse of the Fordist accumulation regime and mode of regulation in the industrial countries. The roots of the crisis of Fordism went back further than that, however, and had been evident since the late 1960s in the fall in productivity increases and a significant explosion of labour conflicts (Lipietz, 1984; Crouch and Pizzorno, 1978). In addition to this, there was the problem of the introduction of new technologies which are incompatible with the Taylorist organization of labour, since they call for greater flexibility and decentralization (Montero, 1989). Thus, while this crisis affected Keynesian policies –that is to say, the concept of relying on budgetary policies that permit manipulation of aggregate demand in order to achieve full employment and stable economic growth– it went further than that, since it extended to the entire accumulation regime and mode of regulation (Jessop, Jacobi and Kastendiek, 1986). This explains why the crisis has not been limited solely to countries with a Keynesian-type Welfare State, but has taken on a universal character.

In Latin America, the crisis of Fordism assumed certain special forms which differ according to the type of country. In the nations of relatively greater development, it was reflected in the difficulties both in keeping up the expansion of industry (which involved entering the "difficult stage" of substitution of intermediate and capital goods and expansion of markets) and speeding up the processes of social incorporation, and this culminated in social and political upsets which often ended in authoritarian regimes (Foxley, 1985; Tironi, 1985; Hirschman, 1986). In its most open form, however, the crisis only broke out in 1982, when international interest rates rose spectacularly. Up to then it had been possible to put off the arrival of the crisis in Latin America because of the availability of resources due to the high interna-

[9] It should be noted that many of the features of Fordist accumulation and regulation are also to be observed –in some cases to extreme degrees– in the Eastern European socialist countries. "Socialism" and "capitalism", it would seem, merely designate two "forms of industrialization" –one directed by the national bourgeoisie and other directed by the national State– without any major differences with regard to the organization of labour and production and class relations (Touraine, 1984).

[10] This peripheral (or Latin American) Fordism was of course only partial, since the modern sector, represented by industry, co-existed with a "marginal" (Germani, 1969) or "informal" (PREALC, 1978) sector which could not be absorbed because of the "insufficient dynamism" typical of peripheral capitalism (Prebisch, 1976), thus giving rise to a "dual" or "heterogeneous" economic and social structure (Cardoso, 1968; Pinto, 1970).

[11] The notion of the "popular national State", as well as the concept of the "committed State", bear witness precisely to an effort to describe this "Latin American-style Welfare State" which is recognized as having played a central role in the economic development and social integration of the countries of the region between the 1930s and 1960s.

tional liquidity, but once the latter phenomenon came to an end this marked the beginning of economic recession, with its sequels of unemployment, de-industrialization, an increase in the number of informal-sector workers, wage reductions, etc. (Tokman, 1989).

In the industrialized countries, overcoming the crisis meant a transition to a new system of production and regulation –given the name of "post-Fordism"– in the context of a reorganization of the world economy (Jessop, Jacobi and Kastendiek, 1986). The fundamental features of this new order are the following:

a) The introduction of new technology based on microelectronics, which brings about important changes in the Taylorist organization of labour. The flexibilization of production means the end of the homogenization of the labour force, which is now polarized between unskilled manual workers (many of them not employed on a permanent basis) and highly specialized workers with creative and supervisory functions (Montero, 1989; Jessop, Jacobi and Kastendiek, 1986; Piore and Sabel, 1984).

b) The abandonment of the goal of full employment and, along with it, the expectation (characteristic of the Fordist model) of increasingly high levels of mass consumption (Jessop, Jacobi and Kastendiek, 1986). The mass market gives way to an increasingly segmented market, and increasingly personalized goods take the place of mass-produced articles.

c) The generalization of unstable, temporary or atypical forms of employment with low levels of social protection and high dependence on very short-term economic situations, which means that the core of steady wage earners is increasingly small (Córdova, 1986).

d) The extension of subcontracting and individualized wage levels, which is both a result of the decentralization of production and the greater flexibility in the work process, and at the same time acts as a further incentive for them. Not only does the mass of wage-earners become smaller, but it also loses internal cohesion, since wages and working conditions are no longer negotiated collectively.

e) The abandonment of Keynesian polices and the dismantling of the Welfare State (Jessop, Jacobi and Kastendiek, 1986). This means that: i) the privatization of the public sector and deregulation of the private sector are encouraged; ii) although the State continues to intervene in the economy, it no longer does so in order to regulate the market forces but instead to stimulate them through its management of monetary and fiscal policy, and iii) the social services are transferred to the market, and the social policy of the State is focused on certain target groups in line with minimalist criteria.

Just as the developing countries were not impervious to the crisis of Fordism, nor can they stand aside from the new tendencies characterizing the so-called post-Fordism (Tokman, 1989). Indeed, the transition to a new system of production and economic and social regulation is nothing new to the countries of the periphery. It must be repeated once again that the fact that this transition is being directly induced by governments through the structural adjustment policies pressed on them by the IMF and the World Bank should not lead anyone to think that the changes now taking place are accidental or transitory.[12] The changes underway cannot be interpreted from a purely economic point of view, since they are linked with significant changes in social relations and actors, as well as in the political system and the ideological climate, which transcend the immediate effects of the crisis and the transition.

[12] Exogenous factors enter into every historical change of any scale. This is even more true in the case of the developing countries. Even when there is no foreign power which exercises dominant influence, it is the State itself which exerts a decisive influence on the economy and society (Touraine, 1988). In the recent past, the whole weight of the State was put behind the promotion of Fordist-type industrialization and modernization. Today, that same weight of the governments and of the elites associated with them has been brought into play to carry out the structural adjustments considered necessary in order to progress to a new economic and social order.

III

The resistance of the social actors

The social actors (that is to say, groups of individuals with common interests whose realization depends on their capacity for organized collective action) generally develop an attitude of resistance to structural adjustment policies which seek to bring about transition from the Fordist to the post-Fordist order. Obviously, this reaction is motivated by the perception that such policies will adversely affect those common interests, and/or the uncertainty generated by any change in the economic and social system.[13]

The main resistance to structural adjustments undoubtedly comes from the trade unions. These immediately perceive the negative effects on the living conditions of the workers and the power of the trade unions which will result from greater unemployment and casual labour, the flexibilization of the labour market, the dismantling of public social security systems, and the reorientation of the economy towards external markets. There is also immediate resistance from the employees of the State and public enterprises, because except in the case of high-level technicians and bureaucrats, the trend towards privatization leads to cuts in the number of such employees and a decline (at least for a time) in their economic and social status. The professional associations are just as critical of the changes, since deregulation takes away from them a large part of their functions, which are transferred to the market. Moreover, even though structural adjustment policies seek to foster entrepreneurial activities, they are also opposed by part of the business community, especially producers of goods which are non-tradeable or are oriented towards the domestic market.

In principle, therefore, structural adjustment will generate resistance among most of the social groups or actors. This may or may not be sufficiently effective to prevent or paralyse the implementation of the measures designed to bring about economic and social change. Whichever of these two results takes place will depend basically on the level of "corporatism" of the society: that is to say, the existence of a socio-political system based on encompassing intermediate bodies which practically monopolize the relation between individuals and the State (Schmitter and Lehmbruch, 1979). Thus, if there is a long history of corporatism in a society, the social actors' possibilities of resistance will be much higher, so that it may be necessary in some cases to abandon the efforts at restructuring or apply gradualist strategies on more consensual bases. This is a dynamic phenomenon, however. Thus, for example, the social legitimacy of a corporatist structure may be eroded precisely as a result of the blocking actions which it imposes. In these circumstances, the capacity of the social actors for *real* resistance to structural adjustment policies –leaving aside speeches and declarations– may turn out to be much smaller than might have been expected. It may be added that, in general, the social actors' possibilities of opposition are reduced if there is an open and prolonged economic crisis, since this will lead to the fragmentation of the common interests and organization on which any collective action must be based.

Any government which proposes to apply economic and social restructuring or structural adjustment measures must therefore break down the resistance of certain social actors, the effectiveness of which will depend on the factors mentioned above. If it does not manage to do this, this may lead to an impasse which will prolong the crisis or disorder accompanying the exhaustion of the old system of accumulation and regulation and hold up the transition to a new one.

A comparative analysis makes it possible to identify four models whereby governments have managed to overcome the opposition of the social actors:

a) The first model ("*authoritarian*") is that in which the resistance of the social actors is broken

[13] There is also another reason for this resistance, however. As Touraine (1984) points out, the social actors are not a force for social *change*; on the contrary, they are at the centre of the *functioning* of a society. In the transition now underway, for example, the initiative lies mainly with the State and the elites; the social actors, in contrast, tend to display a reaction of defence of the system within which they operate.

through the use of force, i.e., through the suspension or limitation of the rights of association and petition. This procedure can be applied by military governments (as happened in Chile) but also by democratic governments (as for example in Bolivia). This model is usually imposed after a profound political crisis.

b) The second model ("*co-optation*") is that in which the government manages to divide the social resistance front by winning over to its policies the support of businessmen and part of the middle groups. The more acute the "perceived threat" (O'Donnell, 1977) of other social and political forces feared by these sectors, the readier they will be to support the plans of the government.

c) The third model ("*political*") is that in which a government that is in a strong electoral position (either because it has obtained a substantial majority in recent elections or because it is supported by a broad coalition) appeals directly to the population or public opinion and wins their support for attacking and overcoming corporatist resistance.

d) The fourth model ("*compromise*") is that in which the government wins the support of the trade unions for the implementation of restructuring policies which will involve costs for the workers, in exchange for long-term guarantees and greater institutional participation in the design of economic policy.[14] In order to reach a compromise of this type, the trade unions must place their confidence in the government, and this usually occurs when political parties closely associated with them have some degree of participation in the government.

The above-mentioned models are of course ideal types which are not observed in a "pure" form in any particular national case; instead there is usually an original combination of these types. What is important to note, however, is that firstly, there will always be some degree of resistance by the social actors to changes in the system of accumulation and regulation, and secondly, if this resistance is broken by the government (as in the first three cases), the social actors will thereafter be severely weakened. Thus, the manifest inability of these actors to defend the common interests of their members immediately leads to a preference for individual action, generally along the lines of conformist efforts to secure some adaptation of the new economic and social order which is being created.[15] In the case of trade unions and professional associations, this attitude is reflected particularly in loss of membership and a high degree of independence of action of "primary" level organizations with respect to "secondary" and "tertiary" bodies; in the case of business organizations, this leads to the paralyzation of their corporative activity.

IV

Social disintegration and reorganization

Structural adjustment policies are carried out by governments in order to bring about a transition from a rapidly deteriorating system of accumulation and regulation to a new system. They are therefore always applied in a context of economic, social and often also political crisis, which may be of varying degrees of intensity. Initially, the adjustment measures will tend to make this global crisis *more acute*. This state of disorder brings with it fragmentation of the system of social stratification. At the same time, it leads to a state of anomy in which individuals oscillate between apathy and rebellion, since they cannot perceive common interests around which to establish collective action. This situation of social disintegra-

[14] This trading of "immediate economic goods" for "political goods" (such as greater participation by the trade unions in the taking of economic decisions) is what Pizzorno (1978) called *scambio político*.

[15] Olson (1965, p. 7) points out that obviously for an individual there is no point in belonging to an organization when disorganized individual action can serve his interest as well as or better than action through such a body.

tion means that the elite and the State will assume leading roles.

From the point of view of social stratification, such a situation of crisis and transition will be accompanied by reduction of the functional differentiation of social classes or groups and the expansion or strengthening of conglomerates (sectors, marginal groups, elites) which do not stem from economic relations. The result of this is that the whole structure of status and roles loses complexity and becomes highly unstable. This likewise has the effect of strengthening –as a defence reflex– the internal links of the primary groups, thus increasing social segmentation. Prolonged mass unemployment, for example, upsets the whole system of stratification (from social classes down to the family itself) and de-socializes the individual, who tends to join up with his closest groups (Jahoda, Lazarsfeld and Zeisel, 1971).

These global crises have manifestations which go beyond the fragmentation of the material base of the social groups, however. They also involve a severe weakening of the reference values and symbols which hold a society together. In extreme cases, this may result in a situation of anomy, i.e., the absence of rules capable of governing the behaviour of individuals. This is particularly so in the case of rapid processes of replacement of one economic and social system by another. If this process lasts too long in time or fails along the way, the probabilities of sinking into a situation of anomy are very high, since the "modern" pattern has suddenly become inaccessible, while the "traditional" pattern no longer exists.[16] When there are no rules that provide stable patterns of conduct, the interest groups disintegrate, the bonds of affective solidarity which link individuals with society as a whole are weakened, and what results is disaffection *vis-à-vis* the social order, or individualism.

The absence of regulation of social relations gives rise to an unstable and unsatisfactory environment from the affective point of view, and in some individuals this gives rise to idealistic "substitution images". When they fall into a mental state of "romanticism" –as Parsons called this phenomenon– individuals have a high proclivity to cast aside their apathy in favour of short, intense mobilization –which may even take the form of violent revolt– that gives them an image of themselves as strong, respected persons (Kornhauser, 1959): this makes the masses visible, takes them out of the anonymity and mediocrity of everyday life, and allows them to experience a feeling of solidarity: in short, it gives a meaning to their existence (Graumann and Kruse, 1984).[17]

Consequently, in conditions of crisis and social disintegration there are no longer social actors, but only forms of conduct aimed at defence or adaptation and expressive mobilizations which are often manipulated by the elites. The intermediate associations disappear or are weakened, and in the face of the insecurity produced by atomization, individuals tend to retreat into primary groups based on links of an affective nature, thus further increasing their isolation and social segmentation. Defence actions –which may take the form of mass revolt, especially by marginated groups– are aimed fundamentally at defending the identity of a group or registering a moral protest rather than at furthering common interests based on the economic and social structure (Touraine, 1984; 1987). The dissatisfaction or frustration generated by social disintegration does not lead to reactions involving collective violence, however, since this implies the existence of social groups with their own identity, organization and resources, which does not occur in a situation like this.[18]

It should be borne in mind that symptoms of social disintegration are present in every transition from one economic and social order to another. These are periods when the fate of the individual is dissociated from that of the community, thus reducing the importance of collective action of the social actors. It is literally a form of decadence of society, but from the historical point of view it

[16] When a process of transition from one social order to another is aborted, individuals are exposed to strong tensions. After having been forced to adapt to the "new order" –with all the psychological tensions that this involves– they suddenly find that their efforts were in vain, since this order never managed to consolidate itself.

[17] It is the psychological instability caused by a situation of social disintegration which makes individuals vulnerable to the appeal of charismatic leaders of the masses, of prophet-like figures of religious origin who offer the restoration of the lost community in the "hereafter", and of authoritarian ideologies of different ideological types (Kornhauser, 1959; Moscovici, 1981).

[18] As we have shown in other studies (Tironi, 1989a and 1989b), conditions of social disintegration do not give rise to a particular propensity to resort to violence but, on the contrary, generate an attitude of passive resignation.

may be asserted that the loosening of social links is a phenomenon which always precedes the "rebirth" of civilizations, since when the routines are broken this also breaks up conformity, and this stimulates creativeness and reflection by societies about themselves.[19]

Save in exceptional cases, a situation of social disintegration cannot last indefinitely, as seems possible in the midst of the crisis. A new order is gradually being born out of the disorder; continuity emerges afresh after the disruption. New myths arise and old ones are reformulated, and these once again give society a common destiny. New rites are gradually consolidated by continued use and resume their function of integrating the individual into society and transforming disorganization into regularity and disorder into order (Balandier, 1988). The economic and social structure takes on increasingly regular forms which gradually determine routines, expectations and roles. Finally, new norms and institutions are consolidated (at both the political and social levels) and gain increasing legitimacy with the passage of time. The adaptation to the new order is effected first of all by individuals, but these are subsequently followed by the collective actors, both political and social.

Overcoming the crisis and the state of social disintegration –as well as the speed at which this can be done– will depend on a number of factors, among which mention may be made of the following:[20]

a) The existence of a governmental elite which perseveres in the application of the economic and social restructuring project;

b) The presence of a business class with capacity to learn and change and to adapt itself to the new system of regulation and the new international insertion of the economy concerned, instead of trying to reproduce the attitudes and forms of conduct typical of the old Fordist-Keynesian system;

c) Support for the adjustment policies among sectors of the middle classes which may be interested in participating in a new "business culture" as well as of privileged working class groups interested in protecting their status;

d) The application of institutional reforms which remodel the social relations in certain key areas, such as reforms designed to remodel the labour market and deregulate labour relations.

The social actors will emerge from their prostration and recover their leading roles only when the economic and social restructuring process has been consolidated. Indeed, they can hardly be expected to rearticulate themselves within a context of economic crisis, reorganization of the systems of production and regulation, and institutional and political change.[21] This is why it is often noteworthy that the "silence" of the social actors continues beyond the turning point after which the crisis begins to be overcome. This is only normal, however: there will always be a gap between the moment of economic and institutional reorganization and the moment of the rearticulation of the social actors, since the latter process rests upon the former.

[19] As the most recent scientific advances prove, crises, together with disorder and "chaos", are not just symptoms of a "dysfunction" of society: they are also moments which "generate innovations", permit the "simultaneous flowering of a host of new possibilities" and represent "a point in time at which society becomes more communicative" and more transparent, thus highly favouring "the capacity of the social system to reflect on itself" (Balandier, 1988). Crises and periods of social disintegration thus lead to profound redefinitions of the social actors, both because of the changes in their material basis and in the institutional regulations to which they are subject and because of the superior level of knowledge of themselves and of the system which is attained in this way.

[20] This list naturally excludes strictly economic or economic policy factors such as the international terms of trade situation or the consistency of the macroeconomic measures applied.

[21] As already noted, the social actors are not agents of change, but of the functioning of societies (Touraine, 1984). Consequently, they cannot begin to assert themselves until a certain degree of economic stability is recovered and a suitably regulated political and social "arena" is created.

V

Social segmentation and collective action

The end put to the Fordist regime of accumulation and regulation by the structural adjustment policies brings with it profound changes in the social structure and, hence, in the social actors and the system of relations between them and the State. To put this briefly, these changes overturn the old paradigm of modernization, according to which this process impels societies towards growing homogenization (of their beliefs, attitudes and economic and social organization) around the industrialization model, through mass production, consumption and communication. On the contrary, with the end of Fordism there is a strengthening of the image of a society made up of various segments organized "around different rules, processes and institutions which produce different systems of incentives and disincentives to which individuals respond" (Berger and Piore, 1980, p. 2). These segments are likewise "a coherent whole which draws its unity both from the consistency of its internal rules and organization and from the stability characterizing its relations with the rest of society" (Berger and Piore, 1980, p. 2). Until some time ago, segmentation and dualism seemed to be exclusively features of societies *in the process* of modernization, but with the end of Fordism, segmentation and dualism seem to have become features of modernization itself: consequently, the interpretation of the changes which are taking place in the different parts of the world can draw upon the same set of concepts.[22]

Many of the tendencies which, at times of crisis and structural adjustment, seem to point towards social fragmentation and/or disintegration, finally turn out to be factors helping to shape this new social order: for example, fragmentation turns into segmentation; disintegration turns into pluralism, and so forth. To the extent that social heterogeneity is consolidated and institutionalized, this reduces to a minimum the range of "common interests" referred to by Olson (1965). This leads to the decline of centralized collective action and leading social actors and the rise, in contrast, of individual action, organization centered around primary or local groups, and segmented and decentralized social action, focussed on particular issues and articulated basically through political parties or the State.

This tremendous set of changes has far-reaching effects on the trade unions, as a social actor, on the business community, and on their mutual relations. It raises queries about what will happen with the groups which occupy the most marginal positions in the dualist structure, now that the modernist objective of social integration as homogenization is disappearing. Finally, there remains the question of the role to be played by the State in a society based on segmentation, when it has lost many of its regulatory instruments and its role in the production and distribution of basic social services.

1. *The trade unions and the business community*

There is general agreement in the literature that the trade unions will come out of the current changes severely weakened (Regini, 1986; Córdova, 1986; Piore, 1986). During the crisis which accompanied the economic and social restructuring, they had to suffer the effects of unemployment, the decline in wages, the increasingly precarious nature of employment, and in many cases also the failure of their efforts to resist the structural adjustment policies.

The weakening of the trade unions as a social actor has causes that go beyond this, however. These are connected with certain features of the new regime of accumulation which erode the conditions on the basis of which trade unions and collective negotiation were developed. Thus, there is a tendency towards the disappearance of full-time wage employment: that is to say, employment in big industrial plants with a stable wage negotiated collectively, depending always on the same employer and enjoying the protection of social laws

[22] This means that what is happening in Colombia or Singapore, for example, is no different, structurally, from what is happening in Italy or Great Britain. Consequently, now more than ever, the analysis of the major trends of contemporary societies may be carried out using a single frame of reference, and not one which separates the "developed" countries from the "developing" nations. This represents a challenge, but it also offers immense possibilities for progress in the social sciences.

and benefits guaranteed by the State (Córdova, 1986). The displacement of industry by services, technological change, and the decentralization of production, together with other factors, have led to the generalization of atypical forms of employment, including self-employment through independent activities or the formation of micro-enterprises, moonlighting, informal employment, and the expansion of contracts with one or more of the following characteristics: subcontracting, part-time work, fixed-term contracts, or flexible wages.[23] These changes in the labour market have fragmented the social base of the trade union movement, reducing its capacity to represent the aggregate or common interests of workers and to channel their mobilization in an organized way (Regini, 1986). In the long term, this is what explains the drop in trade union membership (Córdova, 1986) and the increasingly common occurrence of wildcat strikes which are out of the control of the trade unions and affect certain specific categories of workers.

But the weakening of the trade union actors is also related with the end of the conditions which made possible some degree of concertation or consensus-building in the formulation of economic policy between the trade unions, businessmen and the State: what has been called in Europe the "neo-corporatist arrangement". With regard to the trade unions, this arrangement involved "a high degree of centralization and concentration ... combined with the monopoly of the unions as representational bodies" (Regini, 1984 and 1986), the latter feature being increasingly rare because of the decline in trade union power as a result of the fragmentation of their social base.[24]

The concertation-based model also assumed the existence of an interventionist and regulatory State capable of organizing and enforcing agreements and possessing public resources (social and fiscal benefits, jobs) which form part of the negotiation process, all of which disappear with the dismantling of the Keynesian Welfare State (Goldthorpe, 1984).

But just as it weakens the trade unions, the economic reorganization strengthens the business sector. In the case of the developing countries, the sector most favoured in this way is that connected with the international economy as producer of tradeable goods and financial and trade services; in contrast, the traditional industrial sector oriented towards a protected domestic market is adversely affected by the restructuring process, since it must now compete with imports. The degrees and forms of incorporation of the business community into the new accumulation regime are therefore very varied, and the tendency towards segmentation does not leave this sector untouched. Such segmentation has repercussions on the corporative organization of the business community. As in the case of the trade unions, these organizations can no longer pretend to represent the "common interests" of the sector in a centralized manner, thus leading to their gradual weakening. In addition, there is the presence of a State which has abandoned a considerable part of its prerogatives with regard to the regulation of the economy, so that the organization of businessmen to exert pressure on it no longer makes sense. In a more segmented economic and social structure, where regulation is carried out by the market forces, the most likely outcome is that the tendency of businessmen to act as individuals will be strengthened, while their corporative organization will decline.[25]

As a general trend, the end of Fordism and of the Welfare State and the deregulation and privatization measures adopted mean that the power relations will be altered in favour of the business community *as a whole* (Regini, 1986). This causes many businessmen to imagine that class conflicts can now be left to the market forces once again, making it possible to eliminate the forms of economic and social concertation of the past, to which they now take a negative attitude. In most countries, however –especially European countries with

[23] Córdova (1986) gives some impressive figures on the expansion of this type of atypical employment. Thus, for example, in 1985, 28% of all those employed in Norway were working on a part-time basis; in recent years, two-thirds of new contracts in Portugal and Sweden were on a fixed-term basis; in 1984, 18% of the Spanish labour force were moonlighting, and in Korea one-third of the labour force is engaged in atypical forms of employment.

[24] This process affects above all the so-called "tertiary" trade union organizations (national or regional confederations), since the reason for their existence is precisely to represent aggregate interests, which become more and more elusive because of segmentation. The "secondary" and "primary" bodies (federations and factory unions, respectively) are in a better position to resist these tendencies.

[25] As in the case of the trade unions, this decline in corporative organization will affect the business confederations (at the national and regional level) more than the federations or other bodies at the industry or local level.

a social-democratic tradition– it is not possible to do without the consent of the trade unions altogether. Business strategy is therefore directed towards increasing bargaining power by taking advantage of the dualization of the economic and social structure and the segmentation of trade union power and industrial relations: in the sectors or enterprises where the unions are weak, the owners will act at their discretion, while in sectors or enterprises where the unions are stronger, their co-operation will be sought through local compromises (Regini, 1986). In both cases, however, it is a question of removing the negotiations from the more political level (as when they are carried out at the regional or national scale) and putting them on the level of industries or firms, since the more direct the negotiation, the less possibility there is of an open conflict.[26]

In the face of this strategy by the business community, and in a context characterized by segmentation, the trade union movement finds itself at a crossroads (Goldthorpe, 1984). One road involves opposing "dualism" in the name of the general interests of the working class. In this case, the action of the trade unions will be oriented basically towards the "political market", where it will represent the "working class" as a whole (including the unemployed and workers in atypical forms of employment) in order to secure the adoption of legislation which reduces dualism and to try to negotiate a new social contract. The other road open to the trade unions is to accept segmentation and concentrate on the defence of the specific sectoral interests of their members at the level of the units of production: this is what has been called "micro-corporative forms of unionism" (Regini, 1986, Goldthorpe, 1984). The situations and styles may vary from one country to another, but the general tendency is towards an accommodation of trade unionism to the new social structure, sometimes even after having tried the first of these two roads.

[26] In many cases the structural adjustment policies are accompanied by reforms in labour institutions deliberately designed to discourage negotiation at the industry or national level and promote instead negotiation at the enterprise level, as well as to limit the power of the secondary and tertiary trade union organizations.

2. *The marginal groups*

Among the segments making up present-day society, some of them occupy the most precarious positions in the labour market (unstable and/or low-productivity occupations) or are simply excluded from it altogether because they are at the lowest levels of the scale of incomes, live in particular geographical areas, and lack their own means of social mobility. In the developing countries, this segment has come to be called "marginal" or "informal".[27] Although this phenomenon is not exclusive to these societies it is obvious that in them it is on a much more massive scale than in the industrialized countries; furthermore, in the first-named countries the gap between the marginal segment and the other segments of society is much more marked.[28] In the non-industrialized countries, the economic and social restructuring brought about by the structural adjustment policies has greatly increased the size of this marginal segment, accentuated the social distance between it and the other sectors of society, and narrowed the channels of social mobility open to marginal groups (channels of mobility historically associated with the social action of the State).

The position of the marginal groups in the economic and social structure makes it difficult for them to become traditional social actors. This segment is made up of a multitude of subsegments with little internal unity and almost without mutual interrelations. Consequently, it is not possible to identify common interests which can give rise to collective action and be represented by an organization in institutionalized organs of participation.[29] For this reason, the action of marginal groups has

[27] Abundant literature has been published on the subject of "marginality" and the "informal sector" since the 1960s, especially in Latin America. Some recent reviews of the subject are to found in Tironi (1990) and Tokman (1978 and 1987).

[28] Originally, the notion of *dualism* was used in Latin America to describe a society divided into two completely independent, discontinuous or "afunctional" segments (see for example, Nun, 1969). The term was subsequently extended by Piore and Sabel (1984) to refer to segmentation and discontinuity *in general*, which is observed both in the developing and the developed countries.

[29] The presence of great marginal segments, divided and without independent representation, has been interpreted as one of the factors which has hindered solutions based on social concertation in Latin America and also as one of the factors which has precipitated populist solutions in which the incorporation of these groups is the direct responsibility of the State.

historically been heteronomous with respect to the State. Before the structural adjustment, the latter made an effort to meet their demands, but under the logic of the new order this responsibility is left basically to the functioning of the market. The marginal groups see in this the indefinite crystallization of a form of dualism which they reject. The frustration generated by this largely explains the outbreaks of violence that take place periodically in Third World cities in connection with the application of structural adjustment policies. Inasmuch as these forms of mass behaviour do not bring about any change in the situation, however, they are followed by an attitude of resignation and conformist behaviour (Tironi, 1989b).

The hypothesis has been advanced that the trade union movement could represent these marginal segments, thus giving a more organic character and a wider projection to their actions. However, the trade union movement of today tends precisely towards the opposite, that is to say, it tends to concentrate on the defence of the sectoral interests of its members, giving up generic appeals to whole classes and, *a fortiori*, the people as a whole. In a society experiencing a process of increased dualism, the marginal sectors tend to waver between anomic or mass movements, resignation and conformity, or dependence on the State.

3. *The State and the political parties*

The termination of every form of Welfare State means that the State gives up its role as a body seeking *social* integration. The provision of society-wide social services had redistributive effects as well as opening up channels of mobility, thus reducing segmentation and hence favouring social cohesion. The transfer of these services to the rules of the free market and, at the same time, the trend towards precisely focused, discretional and minimalist social action, simply reproduces segmentation or "dualism" or even serves to establish it. When there is no possibility of returning to the old order, States are obliged to make up for the tendencies towards social segmentation by making the fullest possible use of the factors of political integration open to them. This would appear to explain the value assigned to the revival of national symbols and the attention devoted to the functioning of institutions. In this respect, the role of the political parties assumes fundamental importance. All over the world, they are less and less representative of specific social segments in conflict and instead have become bodies which appeal to national unity and have a heterogeneous social base.

In short, it is a question of trying to compensate for the contraction of the *social* role of the State by strengthening its *political* role. It remains to be seen, however, if this is sufficient to contain the risk that in the developing countries segmentation or "dualism" will eventually turn into social disintegration.

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CEPAL REVIEW No. 44

Selectivity as the crux of social policies

*Percy Rodríguez Noboa**

The social cost of the crisis of the 1980s and the consequent application of adjustments to the economy has been giving rise to a number of problems in the region which, together with the marked regression in the main vital indexes, are causing fresh social tensions in the systems of institutions as well as taking other forms of expression too, despite the substantial advances made in the exercise of representative democracy in recent years.

In view of the complexity of the situation, the countries of the region have redoubled their quest for fresh institutional and technical channels for increasing the redistributive capacity of their economies, optimizing benefits, and lending greater dynamism to the mechanisms available to society for furthering the satisfaction of personal and collective needs.

In these circumstances, it is worth stopping to analyse the behaviour of fiscal investment and expenditure, its links with social compensation programmes, and the corresponding institutional frameworks made up by the current emergency and social investment funds. In the case of social compensation, targeting (or selectivity) has come to be one of the instruments most used in recent years. The application of this instrument, however, calls for some clarifications and caution, as set forth in the present article.

The issue of social compensation raises conceptual and technical challenges which are evident from the many recent national experiences in the establishment or functioning of social funds. Among other items, queries have arisen in connection with the limits between objectives of social welfare and the efficiency of investments, the viability of social policies in the short term, and the implications of the expansion of the informal sector or popular enterprise in the region.

*The author is Principal Technical Advisor to UNDP/ILPES Regional Project RLA/86/029, "New planning techniques". This paper was originally presented at the Seminar on Fiscal Decentralization and Social Projects, sponsored by the World Bank Economic Development Institute (EDI) and the Latin American and Caribbean Institute for Economic and Social Planning (ILPES), and held at ECLAC Headquarters in Santiago, Chile, in October 1990.

Introduction

The long-standing and familiar debate on effective ways of linking the economic and social variables of growth is far from over. The instances of dissatisfaction and deterioration registered in the 1980s have highlighted fresh limitations on those links, as well as emphasizing the need to expand the channels for the political and technical interaction of these two dimensions of development at a moment of grave crisis for the region which has led to the application of economic adjustment measures of high social cost.

The social shortcomings of recent years have given rise to a new phenomenon in development planning: the rapid expansion in the formulation and execution of emergency social policies. This has meant that short-term social measures, put off for decades because of the long periods over which social phenomena unfold by their very nature, have rapidly become –under various names and in various forms– a leading instrument of public and non-governmental action through the concept and practice of social compensation programmes.

Thus, measures to compensate for social shortcomings and rigidities have become a temporary means for recovering lost levels of living, which, however, can only achieve its purpose within the framework of a set of economic policies whose objectives coincide with each other and give prominence in the short term to criteria of both growth and redistribution, essential in order to make emergency social programmes effective.

Among the economic variables most closely linked with social behaviour in the present situation, public investment and spending call for some comments which will be briefly set forth in this article in order to try to contribute to the recent advances in the knowledge of these matters and, more generally, of the effects of fiscal behaviour on short-term social programmes.

Within the framework of the examination of the scope and possibilities of short-term social policies carried out by UNDP/ILPES Regional Project RLA/86/029, an analysis is also made here of the concept and practice of selectivity or targeting, which has become one of the central elements of the new efforts being made in the region to correct in the short term the most serious adverse consequences of the crisis and the economic adjustments.

At the same time, together with the rapid expansion of these new social programmes, other noteworthy features are the establishment of new institutional forms consisting of social or social investment funds, and the valuable instrumental and operational experience being accumulated by the region in the field of social compensation, since such programmes are being applied in almost all the countries of Latin America.

The implementation of compensation programmes has given a boost to the consideration of important complementary aspects such as systems of formulation, evaluation and management of social projects, and has also been linked with current issues such as the expansion of popular enterprises, the emphasis on regional decentralization programmes, the strengthening of local government, and the adaptation of the basic social services to the new demands of the region.

I

Economic adjustments and social compensation

The severity of the crisis of the 1980s, and the application of stabilization and adjustment programmes in recent years, has led to an acute deterioration of the living conditions of the population in the region. The regression registered in the most important economic and social indexes brings out the true magnitude of the situation and the difficulty of securing a significant reversal of this process in the 1990s.

The most obvious consequences of the deterioration of the standard of living of broad sectors of society are to be seen not only in the unsatisfied needs for goods and services but also in the demands expressed through various forms of social action and the further dissolution of the structure of society.

The most systematic response of the public sector and civil society as a whole to these increasingly massive needs has been expressed, since the second half of the 1980s, in a set of emergency and short-term social policies and in the organization of flexible and effective institutional responses which, with additional domestic resources and others obtained from external co-operation, are taking the form of concrete programmes of social compensation for the most under-privileged sectors of society.

In this way, efforts are being made to set afoot specific action within the State and non-governmental sectors to recover average levels of satisfaction of basic needs and stable economic benefits designed to match, initially, those reached before the process of regression began. For planning purposes, these levels could be taken as those prevailing at the beginning of the 1980s, although they will naturally vary according to the conditions of each country and the overall behaviour of its main economic and social indicators.

It is essential to establish the numerical magnitude of these main social indicators, together with their most significant directions and trends, in order to have a reliable empirical basis for determining more precisely the objectives and goals of the compensation effort (ECLAC, 1989a). This shows the need for the rapid and effective adoption of specific economic policies with a high capacity for redistribution, together with social policies which are in line with the operational criteria and give the opportunity for equitable access to the economic development process and to the benefits of modern life to all social groups, but particularly to those suffering most seriously from the effects of the crisis and the recessive adjustments of recent years (ECLAC, 1990, p. 123). In this way, it may be sought to obtain valid, homogeneous and comparable instruments for the identification and follow-up of the short-term evolution of the main variables and their most significant indexes with regard to social promotion or "human development" (UNDP, 1990, p. 320).

II

The economic impact of the crisis

The contraction of the economy in the 1980s was reflected in a sharp slackening in growth and accentuations in external constraints and in the shortage of resources for growth and expenditure. The stabilization and adjustment programmes, applied at a high social cost, have mainly sought to recover the principal macroeconomic balances through the reduction of inflation, the expansion of exports, some selective increases in purchasing power, a marked reduction in public spending and increases in indirect taxes in order to reduce the fiscal deficit (Rodríguez Noboa, 1988, p. 52).

When we look at the social demands of the 1990s, we see the need for substantial changes in the current distribution of the benefits of the economy. Distributive change alone, however, even if authentic and structural, will not be enough unless there is a process of expansive growth and greater resources are available from the processes of domestic accumulation and saving in order to keep up a suitable rate of investment. Growth must restore the "reproductive capacity of the economy" and hence ensure the expansion of productive employment and income creation; at the same time it must seek to satisfy mass demands through the production of essential goods and services in order to overcome the poverty which currently affects 40% of the population of Latin America (Castillo and García Hurtado, 1990).

Widespread dissatisfaction and social contradictions have led to dramatic expressions of unsatisfied essential needs, to socio-political pressures, and to demands for the fulfilment of compensatory institutional goals, all of which can hardly wait for the trickle-down effect of growth, which in any case has its own priorities and limitations.

Consequently, the strategies of the 1990s must include systematic proposals for integrating the above-mentioned variables of economic behaviour with social processes which give a leading place to consensus-building as a means of uniting objective wills in order to expand the production process and make it more equitable and to further the exercise of democracy by easing it through its critical phases and helping to clarify the current prospects of the region.

III

The social implications of investment

When dealing with the subject of public investment and its links to social policy, the following points must be taken into account:

Firstly, the decline in economic activity sharply reduces the domestic saving available for financing investment and keeping up public expenditure (Gambarotta, 1988). Criteria of efficiency and the incremental approach to investment continue to prevail as the framework for resource allocation in the region, both for objectives of growth and for social development, bearing in mind the residual position that the latter has occupied historically in fiscal expenditure.

Secondly, while it is important to give uniform treatment to public investment with a view to the well-planned utilization of scarce resources, at the same time it is necessary to apply precise criteria of social promotion in the assignment of resources to the social components, even though the magnitude of the latter may be small compared with overall levels of investment and expenditure.

Thirdly, it is necessary to keep in mind the possibility of optimizing the use of non-monetary domestic resources –"work for food" systems, informal production, community contributions of services, forms of direct marketing, and intensive utilization of the participative capacity of the population– as well as the possible procurement of extra external resources through the conversion of debt paper with a view to applying them in social programmes and international co-operation projects.

Finally, it may be noted that various social or social investment funds have been seeking specific forms of return (or differentiated internal benefits) from their programmes by trying to replace those of an essentially assistance-oriented nature by others of a promotional character, while taking care to maintain the efficiency of investment in social projects of varying characteristics and sizes. This highlights the importance both of the processes of formulation and evaluation of social projects in project banks and possible "virtuous circles" in investment which are reflected in integrated systems of social projects.

IV

The economic variables of recovery

With regard to the set of economic variables which have the greatest and most direct effect on the social situation of the region and hence represent the main instruments for laying the basis for subsequent recovery, the following points should be taken into consideration:

Short-term social programmes need priority access to public or private investment resources in order to promote economic activity in those sectors, programmes or specific activities which can bring about significant social advances, particularly in providing stable *employment* for the labour force, and which can ultimately generate greater *income* and better primary distribution, thus facilitating the access of the population to strategic goods.

Traditionally, a predominant role in the financing of social sectors or programmes has been played by public expenditure, and especially social expenditure, which is directed above all to the provision of essential public services but which showed a downward trend in the 1980s. There are various clear guidelines, which have been applied in various countries, for *optimizing the use made of social expenditure* (Montiel, 1988) through the establishment of clear priorities, the reduction of administrative costs, increases in the productivity of investment, the adaptation of the supply of strategic mass-consumption goods to current needs, the suppression of leakages, etc.

In view of the limited resources available to society, social programmes try to give special weight to the *economic benefits of social investment* by focusing attention both on their immediate and their longer-term yields which are of importance for achieving the promotional purposes of the expenditure –particularly in the sectors of nutrition, health and education– and their real effect on production and productivity, institutional development, and the elimination of marginal costs, *inter alia* (World Bank, 1980).

Participative forms of action connected with the production of community goods and services are now being used in an effort to consolidate existing mechanisms or apply new means of enhancing the redistributive capacity of State or private investment and expenditure and increasing employment and real family income.

Among the promotional instruments and mechanisms for furthering and complementing strategic *redistributive capacity* for social compensation purposes, mention may be made of the following:

i) Measures designed to facilitate the access of small-scale *production units* (Necochea, Durán and Trivelli, 1990) –generally micro-enterprises, small firms and associative forms of production– to preferential lines of credit and especially production assets, in order to further the linking up of the most common informal activities with the global economic process, or the extension of increasingly important forms of "popular enterprise".

ii) Policies and *specific measures* to further and strengthen the redistributive orientation of *economic policy*. Among the first-named are policies on relative prices, wages and taxation, while among the second type of measures are subsidies and transfers which channel benefits to under-privileged social sectors, within the limits permitted by the need to maintain the stability of the economy in different national situations.

If the orientation and management of the economy have a compensatory aim, this can have a marked influence on demand by facilitating the access of the poorest sectors of the population to mass-consumption goods and essential services and linking up these aims with changes in the *system of production*, particularly of goods of strategic importance for mass needs: for example, those forming the basic shopping basket, plus others which are no less essential such as goods connected with sanitation (water), and the most commonly used medicines and construction materials.

With regard to *basic services*, in recent years various measures have been adopted to maximize the use of the installed institutional capacity in order to keep up the *real coverage* of such services –particularly those provided by public establishments– in the face of growing demand and to improve their quality and orientation and make them compatible with strategic policies for the recovery of economic growth and with the new demands of the process of changes in production patterns (Tedesco, 1989).

In social sectors heavily dependent on mass-consumption staple goods, programmes designed to change *consumption patterns* can be very useful, since they can significantly raise the level of satisfaction of personal and family needs by inducing changes in cultural forms and traditional values. In order for these programmes to be successful it is necessary that there should be clearly defined collective processes linked with the socio-cultural identity of broad sectors, together with educational processes which can achieve positive results in a short space of time.

V

Social and institutional components

In addition to the compensatory orientation that can be imparted to economic policy, there are also substantive social and socio-political instruments which can be of value in the operation of short-term programmes.

The intervention of the beneficiary population or of the most depressed social sectors is particularly important for the proper orientation and functioning of social promotion programmes and, in general, for the taking of decisions affecting them. The *mobilization* and subsequent *participation* of the population heighten the representativeness of community action, act as positive factors in the execution of social projects through their contribution to effective management and have other well-known effects such as saving of resources, control over the process of implementation, and better use of the existing infrastructure.

Furthermore, participation can promote quicker *project execution* through the encouragement of traditional systems of community action or mutual help or the generation of new processes of grass-roots solidarity in order to meet primary needs collectively. There are many examples in the region of effective support for the execution of specific projects through participation.

An institutional component of a politico-territorial nature which involves public action and has important territorial expressions (Boisier and Silva, 1989) is the furthering of *decentralization and deconcentration* of public organization and action in order to achieve greater *effectiveness and representativeness* in the management of social programmes in particular areas or functions (Palma and Rufian, 1989). Processes of regionalization or differentiated spatial development, together with the corresponding systems of regional, local or community government and their participation in the democratic and pluralistic exercise of power, have a well defined and effective role in short-term social policies (Johnson and others, 1989)

The institutional capacity of the public authorities and of private or non-governmental sectors has markedly increased its importance in the management of social programmes. This has been achieved through the promotion of agents or bodies with a high level of autonomy, dependent on the highest political levels, freed from the need to comply with the cumbersome rules of the central administration and flexible in their management and financial administration. These agents or bodies can attain a remarkable level of dynamism –as has happened in almost all the social compensation funds– which enables them to act with the effectiveness and promptness that the unsatisfied social needs demand.

Furthermore, the nature and urgency of emergency programmes have given rise to generally concerted action by *society as a whole*, and especially by non-governmental institutions of wide coverage and high organizational capacity which –according to the particular needs of each country– have come to play leading roles in compensatory processes of extensive scope. The action of the church, trade unions, private enterprise and other representative institutions has been particularly noteworthy in many such initiatives.

In the politico-institutional field, much interest has also been shown in establishing, within the central administration of the State, a *social authority* or similar institutional mechanism which can ensure the co-ordination, promotion and complementation of social sectors and programmes and can also put forward the demands of the population at the highest level of political and technical decision-making.

VI

Redistribution and targeting

Since the beginning of the stabilization or adjustment programmes applied in the economies in crisis in the region, and especially since the initiation of the reforms of public social services, continued stress has been laid on the importance of taking measures of a selective nature to support the social sectors bearing the brunt of the crisis. Thus, in the 1980s many Latin American countries pursued the criterion of selectivity rather than the principle of universality, and one of the means used was that of compensation funds or programmes. The Social Investment Fund of Bolivia, for example, incorporated the experience of the previous Emergency Social Welfare Fund which operated between 1986 and 1990; it further developed it in some areas and placed emphasis on the importance of increasing the absorption capacity of the beneficiary social groups through activities in the medium term in strategic sectors, particularly health and education (Bolivia, Emergency Social Welfare Fund of the Presidency of the Republic, 1990, and World Bank 1990).

The criterion of selectivity is applied through the targeting of resources and benefits onto the neediest groups in the corresponding social universe, in combination with such policies of comprehensive scope as it is possible to apply in each case. The selection naturally covers broad social sectors, so that it transcends operational divisions at the level of projects or specific actions.

In view of the rigidity of economic and social policies in the medium term, the fact of selecting a particular targeting option –even though such an option does not constitute a paradigm– means the adoption of a criterion which will have many promotional effects in the short term and which can also help to orient future public action aimed at avoiding the generational reproduction of poverty.

In principle, the criterion of selectivity in the allocation of benefits or targeting of access to essential goods and services represents a positive response which seeks to restore levels of equity, to make it possible to meet vital and urgent concrete needs of the most under-privileged groups, and to permit orderly operation by simplifying and optimizing resource allocation. At the same time, it is not easy to attain the redistributive aims pursued by short-term economic policies when social objectives are by their very nature many and complex, and targeting helps to secure a better redistribution of benefits by proposing a simple and practical criterion for their allocation.

The clearer concept which now exists of targeting, however, and particularly some conclusions and recommendations on concrete experiences of its application, have led to the proposal of some limits on selectivity which call for further clarification (ECLAC, 1989b).

As a rule, the time context in which targeting is proposed and practiced covers only short periods. The social compensation programmes in which it is usually included as a fundamental element are generally *of short duration*. Thus, the corresponding social funds and institutional management systems generally lay down periods of three years for the execution of their specific projects and programmes, as is now the case, for example, in Mexico, Honduras and Panama.

Since they are *designed to bring about the recovery* of particular objectives, short-term programmes, as already noted, generally seek to recover average indexes and levels of living similar to those of the early 1980s. This confirms that their purpose of compensation is of quite different scope from the objectives pursued by structural changes or alterations in the system of social relations typical of processes of social change.

The correct application of targeting calls for a *system for the provision of precise information* on changes in the levels of satisfaction of the needs of the groups to which it is directed, for the constant fluctuations in the line separating poverty from extreme poverty, for example, cause appreciable changes in the factors affecting decisions on the supply of goods and services and complex systems of organization, infrastructure and supply. This may result in the mistaken maintenance of emergency treatment for groups which are now in a better relative situation, or the failure to provide support measures for sectors which have only just sunk into a situation of extreme deprivation.

With regard to urban middle-income sectors, various concerns have been expressed, from various points of view. The "middle classes" of the region, which have special social characteristics and frequently distorted consumption patterns, generally come from sectors which are "fully employed", but at real wages which are below minimum requirements; from under-employed groups engaged in informal activities; or from groups holding only temporary jobs. In different ways, and in line with different recent experiences recorded in the region, these strata tend to suffer from abrupt drops in real income in both absolute and relative terms. As they are not protected by wage systems and have no organized forms of representation and presence in the regular statistical systems, they are not covered by the prompt application of compensatory measures which should really include them for normal purposes of social promotion.

Public sector targeting is directed towards the neediest and often most numerous sectors of the population, thus involving limitations in both the coverage and the quality of the protection provided. On the demand side, however, this gives rise to a repeated tendency towards increased benefits for the relatively better-off sectors and concentrates improved benefits on these groups, as in the case, for example, of some elitist trends in educational services and various forms of privatization or increased cost of health services.

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Latin America's return to the private international capital market

Peter J. West *

A necessary condition in order for Latin America to attain acceptable economic growth is the reduction of the negative resource transfer abroad. In addition to the reduction of the existing external debt burden, a substantial volume of fresh external financing is needed, but commercial bank loans will continue to be limited and official lenders can hardly satisfy all the region's needs.

This article explores the possibilities of obtaining resources on the private international credit market, in the light of the recent experience of three countries: Mexico, Chile and Venezuela. Two main channels of financing are identified: bond issues, and foreign portfolio investment in shares. Securities backed up by export income are particularly interesting, as they have made it possible to improve the creditworthiness of borrowers in a number of cases. With regard to foreign portfolio investment, three variants are examined: specialized investment funds; direct sales of stock on domestic stock exchanges, and the offer of shares in Latin American companies on foreign exchanges.

It is shown that the three countries in question have secured considerable amounts of resources in these ways. The growing globalization of the international financial market suggests that there are good prospects for the future expansion of this form of financing. However, the conditions demanded by foreign investors will limit the access of many countries to this market. Furthermore, even for those countries which have managed to return to the market it is necessary to evaluate both the costs and the benefits of these forms of financing and take the necessary precautions to avoid the danger of renewed over-indebtedness.

* Principal Economic Affairs Officer, ECLAC International Trade and Development Division.

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Introduction

In order for the nations of Latin America to return to the path of sustained growth in the 1990s, it is essential that gross fixed investment, as a proportion of output, should recover from the sharp drop which it suffered in the 1980s.[1] In order to achieve this, however, it will be necessary to mobilize a large amount of financial resources. It is estimated that in order to raise real output by 5% it would be necessary to increase total saving by 7-8% of the gross domestic product –that is to say, by between US$75 and 85 billion per year– which gives an idea of the magnitude of the effort required. In order to generate such a large volume of resources it will be necessary to obtain a substantial amount of fresh external financing, since domestic saving would hardly be able to cover the whole of the amounts in question. By way of illustration, it has been calculated that even assuming very favourable conditions with regard to reduction of the external debt, improvement in the terms of trade and increases in productivity, it would still be necessary to obtain between US$10 and 15 billion per year from external creditors (Massad, 1991).

Part of the external resources required will come from official agencies. According to the latest estimates of the World Bank, the net resource flow (disbursements less amortization payments) from official creditors to Latin America and the Caribbean rose from US$3.1 billion in 1989 to US$9.6 billion in 1990. However, this increase was due largely to exceptional disbursements in connection with external debt reduction programmes arranged with the commercial banks under the Brady Plan (World Bank, 1990a). For 1991, it is expected that there will be a reduction in the net contribution by official creditors, so that these resources will drop to US$4.9 billion this year.[2] Looking further ahead, it may be noted that

[1] Average gross fixed investment for 19 countries of Latin America and the Caribbean went down from 22.8% of the gross domestic product in 1980 to 15.9% in 1984, after which it remained at a similarly low level, standing at only 16.2% in 1989 (ECLAC, 1990a).

[2] World Bank, 1990b. It may be noted that net transfers from official creditors (disbursements less payments of principal and interest) were positive in 1990 after having been negative during the period 1987-1989, but they are expected to become negative again in 1991.

many countries of the region will have to face heavy repayments of principal to these agencies in the coming years. In view of the impossibility of restructuring this kind of commitments with the multilateral agencies, the net flow of resources from them will obviously be limited, despite the expansion of the lending capacity of the Inter-American Development Bank (IDB) after the recent increase in its capital. Nor can rapid growth be expected in the financing granted by bilateral export credit agencies, in view of the budgetary restrictions that they are facing.

As for private creditors, there are no grounds as yet for expecting that the international commercial banks will resume the granting of loans on a general basis for balance-of-payments financing, except in the case of involuntary loans connected with programmes for restructuring old debts. The problems currently being faced by various United States banks in their domestic operations, especially with regard to real estate financing, have driven even further away the already remote possibility of their granting significant loans on a general basis to Latin American countries.

The procurement of resources on the international capital market, which has latterly undergone a rapid process of globalization, is another way of obtaining external resources; indeed, for two or three years now several Latin American countries –especially Chile, Mexico and Venezuela– have been registering an increasing share in that market. The purpose of the present article is to examine the nature and magnitude of the operations which have been carried out in this sphere. For the countries involved and the region as a whole, this could mean the beginning of a return to the voluntary private international credit market, although on different terms from those observed in the 1970s, when syndicated bank loans predominated.[3]

Section I below makes a very brief analysis of some salient features of recent trends in the international capital market, with the aim of explaining the context in which the new financial flows to some Latin American countries have arisen. In the subsequent sections, which form the core of the study, an analysis is made of the different ways in which the resources from the world capital market are being channelled to Latin America. Thus, section II deals with financing through bonds, section III analyses loan instruments backed up by export income, and section IV deals with foreign portfolio investment. Finally, section V briefly considers the role that the commercial banks could play after the external debt crisis, while section VI presents the conclusions of this study.

I

The globalization of capital markets

Financial market trends in recent years have been characterized by a process of growing integration between countries, market segments, institutions and financial instruments (IMF, 1990, pp. 6-7). The trend towards the international integration or globalization of markets is to be seen in the increase both in financial transactions between residents and non-residents in the national currency of the former and in transactions of foreign-currency assets, regardless of the country of residence of the parties involved.

The integration of the international financial market has been based on various factors. Among these, mention may be made first of all of the adoption by the industrialized countries, in the 1970s and 1980s, of policies aimed at exchange and financial deregulation, with measures aimed in particular at the elimination of controls on the international movement of capital and of restrictions on foreign investment in the financial sector, together with the liberalization of domestic financial markets. A recent change in this respect is a new rule, known as *Rule 144A*, which came into force in April 1990 in the United States and has

[3] Such loans accounted for the major part of the big expansion in external financing in Latin America in the 1970s, taking the place of official credits and foreign direct investment (Devlin, 1989, pp. 9 to 64).

improved the access of foreign enterprises to the private loan market of that country.

The technological advances which have taken place in recent years in systems of telecommunications and computation have also played a fundamental role in the process of the globalization of markets, since they have immeasurably improved the machinery for the transmission of payments between countries and have made it possible to acquire, analyse and disseminate information more rapidly and cheaply.

Finally, the increasingly dominant position of institutional investors (pension funds, insurance companies and mutual funds) in the world capital market has also contributed to the growth of international financial transactions. Institutional investors have more capacity than individual investors for analysing the credit-worthiness of a wide range of borrowers as well as for following markets and responding to their changing conditions. In recent years, many of them have adopted a strategy of greater geographical diversification of their portfolios of assets, with the aim of maximizing and stabilizing their profits.

Table 1 gives a summary of the evolution of the international capital market over the last decade. As may be seen from it, the total value of transactions grew steadily between 1983 and 1989, coinciding with a long expansionary phase in the economic cycle of the developed countries. In the first eight months of 1990, however, there was some slackening in the total volume of operations effected, largely because there was a sharp contraction in the issue of bonds with equity warrants by Japanese enterprises. This contraction was due to the sharp fall in stock prices on the Tokyo exchange in this period.

Table 1

LOANS TAKEN OUT ON THE INTERNATIONAL CAPITAL MARKETS

(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Bonds	75.5	77.1	111.5	167.8	227.1	180.8	227.1	255.7	228.8
Stock	...	...	0.3	2.7	11.7	18.2	7.7	8.1	7.3
Syndicated loans [a]	98.2	67.2	57.0	43.0	52.4	91.7	125.5	121.1	118.2
Committed facilities [b]	5.4	9.5	28.8	42.9	29.3	31.2	16.6	8.4	6.3
Subtotal	179.1	153.8	197.6	256.4	320.5	321.9	376.9	393.3	360.6
Uncommitted borrowing facilities [c]	...	...	...	23.2	67.6	71.0	76.6	73.2	64.7
Total	**...**	**...**	**...**	**279.6**	**388.1**	**392.9**	**453.5**	**466.5**	**425.3**

Source: Organization for Economic Co-operation and Development (OECD), *Financial Market Trends*, various issues.
[a] Excluding renegotiations.
[b] Including Euronotes.
[c] Euro-commercial paper and other non-underwritten operations.

Table 1 also shows that there have been substantial changes in the market structure with regard to financial instruments, favouring securities and adversely affecting syndicated bank loans. Thus, the share of bonds in total transactions (excluding freely disposable lines of credit) increased from 42.2% in 1982 to 63.4% in 1990. At the same time, the share of syndicated loans fell sharply from 54.8% of the total in 1982 to only 16.3% four years later, although it later partly recovered, rising to 32.8% of the overall total in 1990. This recovery took place basically in the developed countries and was due to a substantial increase in loans to private non-financial enterprises, of which a significant proportion went to finance the restructuring or acquisition of companies. The share of the developing countries has remained at a low level, and in the Latin American region has been limited almost exclusively to credits granted in respect of the reprogramming of existing bank debt.[4]

Table 2 gives more details on the behaviour of the international bond markets as from 1982. There was extremely rapid growth up to 1986, both in gross and net issues, followed by a setback in 1987 and fresh increases in 1988 and 1989. Throughout the entire period, however, the share of the developing countries was low, going down from 5.4% of the total in 1982 to only 1.4% in 1989. In 1982, Mexico managed to secure a substantial amount of resources through bonds, but in subsequent years it was Asian economies such as India, Malaysia and South Korea which accounted for most of the operations effected by developing countries.

Table 2

INTERNATIONAL BOND ISSUES

(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Gross issues	75.5	77.1	111.5	167.8	227.1	180.8	227.1	255.7	228.8
Developed countries	59.3	59.5	93.7	137.7	201.2	156.0	198.2	223.9	188.5
Developing countries	4.1	2.6	3.5	6.3	3.1	2.0	4.5	3.6	4.3
International organizations, etc.[a]	12.1	15.0	14.3	23.8	22.8	22.8	24.4	28.2	36.0
Payments of interest and principal	13.1	18.6	19.5	36.1	64.2	76.0	84.9	89.7	110.8
Net issues	62.4	58.5	92.0	131.7	162.9	104.8	142.2	166.0	118.0
Memorandum item: Gross issues, valued at constant December 1986 exchange rates	...	...	124.9	191.4	233.4	169.8	205.9	244.5	203.9

Source: Organization for Economic Co-operation and Development (OECD), *Financial Market Trends*, various issues.
[a] Including Eastern Europe and the Socialist countries of Asia.

With regard to international stock transactions, the figures in table 1 only cover primary issues of new stock, initial public offers, and the sale of existing stock to non-residents through special instruments established for that effect (for example, closed investment funds). Between 1983 and 1987, there was a sudden increase in transactions of this nature, due partly to substantial sales of stock to non-residents under the privatization programmes of some countries (such as the United Kingdom). International issues of new stock contracted sharply in 1988 as a result of the slump in world security exchanges which took place in October 1987, and the Persian Gulf conflict negatively affected the volume of operations in the latter months of 1990.

It is estimated that the total volume of stock transactions on the international market (that is to say, all transactions involving non-residents) grew at an average annual rate of almost 17% between 1979 and 1989, reaching a value of US$1 528 billion in the latter year. The net value of these transactions (purchases less sales) came to the unprecedented figure of US$92 billion in 1989, and at the end of the latter year the total value of stock belonging to foreign investors stood at US$830 billion, equivalent to 8% of the total capital of the world stock market at that moment.[5]

[4] The syndicated loans granted to Colombia (US$957 million in 1985/1986, 1 000 million in 1987/1988, 1 464 million in 1989/1990 and 1 575 million in 1991/1994) have represented a partial exception to this, since although they were connected with the refinancing of amortization commitments, they did not form part of formal operations for the restructuring of outstanding maturities.

[5] The figures given in this paragraph are from Howell and Cozzini, 1990.

Apart from the rapid growth in the volume of transactions, another noteworthy element in the evolution of the international financial market in recent years has been the marked accentuation in the volatility of exchange rates, interest rates and prices of financial assets. As a form of protection against the greater risks involved in such fluctuations, a number of new financial products have been developed, such as futures contracts, options and swaps applied both to interest and exchange rates and to stock price indexes. These products practically did not exist at the beginning of the 1970s, but from then on they have registered spectacular growth, both in the volume and the level of sophistication of the instruments employed (Levich, 1988).

Everything indicates that the integration of the international capital market will become even more marked in the 1990s.[6] This process of increasing globalization offers both important opportunities and challenges to the countries of Latin America and other developing regions. The amount of resources mobilized on the international market is already enormous,[7] and, as noted in a recent study by the International Monetary Fund, the investment of only a small proportion of these resources in the developing countries could have a substantial impact on the inflow of capital into those countries (IMF, 1990, pp. 12 and 13). The increasingly global view taken by institutional investors and their interest in incorporating high-yield instruments in their portfolios of assets means that there is an interesting potential supply of funds, at least for certain developing countries which have profitable investment projects and stable macroeconomic conditions. In the following sections, we shall see that in recent years some Latin American countries have begun to take advantage of these possibilities.

II

The reopening of the bond market for Latin American borrowers

Before the Latin American external debt crisis broke out in August 1982, the region played an active part in the international bond market. According to statistics compiled by OECD, the annual value of the issues made by the Latin American countries between 1977 and 1982 averaged over US$2 billion.[8] Although the bulk of these operations involved Mexico, Brazil, Venezuela and Argentina, a substantial number of other countries, including Chile, Colombia, Costa Rica, Ecuador, Panama and Peru, also managed to secure resources on a smaller scale by this means.

As from 1982, however, the bond market was closed to the Latin American countries, although at the world level it registered extremely rapid growth, as we saw in the preceding section. Latin America's lack of access to this market was directly connected with the serious balance of payments problems suffered by the region during the 1980s, which culminated in the application of stringent macroeconomic adjustment programmes and successive efforts to reprogramme commitments with the international commercial banks. Even so, however, in spite of all the external constraints which arose, there were very few cases of failure to comply with the originally agreed terms for the payment of interest and principal in respect of commitments entered into in the international bond market.

Although there were some sporadic bond issues by Latin American countries after 1982, altogether they were of little significance.[9] This situation of almost total isolation of the region

[6] See, for example, Smith and Walter, 1991.

[7] The magnitude of the respective financial flows can also be appreciated from the balance of payments statistics, which indicate that in 1989 the net outflow from the industrialized countries in respect of foreign portfolio investment came to US$272 billion, i.e., 35% more than in 1988. See IMF, 1991, p. 29.

[8] Calculated on the basis of information presented in OECD, 1984, tables 1.11 and 1.21.

[9] Colombia, for example –the only important debtor country in the region which has not had to negotiate formal reprogramming of its maturities with the commercial banks– issued US$39 million of bonds for private sale in Japan in 1986, while the following year it issued US$50 million on the Eurobond market.

began to change somewhat in 1988, however. In that year, Venezuela made three issues totalling US$256 million.[10] Subsequently, in June 1989, the National External Trade Bank of Mexico obtained US$100 million through a private issue on the Eurobond market: the first issue by a Mexican State body since 1982. A few months later, a private industrial enterprise carried out a similar operation amounting to US$150 million through a branch in the United States.

The volume of operations expanded considerably in 1990, when Mexico took the lead (table 3). In that country, the borrowers were both public bodies and well-known private enterprises, with the national oil company, PEMEX, carrying out the largest volume of operations. It is worth noting that the Mexican State did not enter the market until the beginning of 1991. Previously, the only public bond issuers were financial institutions and enterprises producing goods or services. In February 1991, however, the Mexican State floated an issue amounting to 300 million deutsche marks, which represented the first operation by the Government as a sovereign borrower in the Eurobond market since 1982. Issues have been made in US dollars, German marks, and in one case Austrian schillings. Fixed-interest-rate bonds have been the most common type of instrument, although it may be noted that a private cement manufacturer, CEMEX, has issued bonds convertible into equity: the first operation of this type registered in the region.

For its part, Venezuela made three fresh issues in 1990. Two private enterprises sold non-guaranteed bonds, while the State oil corporation, PDVSA, carried out an operation totalling 200 million German marks through a branch in the Bahamas.

The figures given in table 3 refer to the par or nominal value of the bonds issued. As may seen, the amounts involved have been substantial: in the case of Mexico they came to some US$1.2 billion in 1990. It should be noted, however, that the figures given in the table overestimate the actual contribution of these operations to the balance of payments of the countries in question for various reasons. To begin with, it is necessary to take into account the payment of commissions for the sale of the bonds, normally at the rate of around 2 to 2.5% of the par value of these instruments on the Eurobond market.[11] Furthermore, some Mexican bonds have been placed on the market at a certain discount. It should also be borne in mind that several bond issues have been carried out through

Table 3

MEXICO AND VENEZUELA: IDENTIFIED INTERNATIONAL BOND ISSUES [a]

(Millions of dollars)

	1988	1989	1990	1991 (January-April)
Value of issues				
Mexico	52	250	1 175	517
Public sector	-	100	753	447
Private sector	52	150	422	70
Venezuela	256	10	211	-
Public sector	256	10	131	-
Private sector	-	-	80	-
Number of issues				
Mexico	1	2	15	4
Public sector	-	1	8	3
Private sector	1	1	7	1
Venezuela	3	1	3	-
Public sector	3	1	1	-
Private sector	-	-	2	-
Number of issues, by currency				
Dollars	3	3	13	3
German marks	1	-	4	1
Austrian schillings	-	-	1	-

Source: Compiled on the basis of data from LatinFinance, Financial Times, International Financing Review, El Mercado de Valores and LDC Debt Report.

[a] Excludes issues made as part of the restructuring of existing commitments with the commercial banks. Also excludes instruments guaranteed with export income. The issues denominated in European currencies were converted into dollars at the average exchange rate of the month in which they were made.

[10] There was also another issue of US$500 million of bonds, but this mostly consisted of the conversion into bonds of existing commitments with the international banking system. The US$100 million of fresh resources obtained through this issue were directly connected with this conversion operation, so that they were of a similar nature to the fresh involuntary loans made in the context of the restructuring of the old debt. A similar operation totalling US$263 million which was carried out early in 1989 was designed to pay off the obligations of a State-intervened private bank.

[11] The commission paid in respect of foreign bonds in Germany and Japan is around 2%, while on the United States market it is between 0.5 and 1%. See Grabbe, 1986, p. 290.

overseas branches, so that the amounts collected in respect of their sale have not always entered the national foreign exchange market. Finally, in the case of two issues made by private Mexican enterprises, the bonds were guaranteed with cash deposits in foreign currency, giving the impression that the main motive of the borrowers was to gain prestige on the international market. Nevertheless, even if we only take account of the issues made by public bodies, most of which were sold at close to their par value, the resources effectively obtained (after deduction of commissions at the maximum rate of 2.5%) are estimated to have come to nearly US$730 million, which is by all accounts a significant amount.

With regard to the origin of the resources obtained through recent bond issues, the main purchasers of the initial flotations were Latin American investors, so that these issues acted as a mechanism for the repatriation of private capital. Subsequently, however, the composition of the purchasers became more diversified, with increased participation by foreign investors, both institutional and individual. According to OECD, for example, the main purchasers of Mexican securities in 1990 were United States insurance companies and mutual funds specializing in high-yield bonds and investments in Latin America. Some traditional bond investment funds also showed some interest in investing in the new issues of Mexican bonds (OECD, 1990, p. 71).

Various specific factors have played a part in the return of Mexican and Venezuelan issuers to the international bond market. On the demand side, as already noted in the preceding section, there are investors who are interested in diversifying their portfolios through the incorporation into them of relatively high-yield financial instruments. Likewise, the progress made in the restoration of macroeconomic stability and in economic reforms aimed at giving a bigger role to the market forces have inspired confidence among foreign investors, especially in the case of Mexico. The favourable impressions of the path being followed by the Mexican economy were strengthened when the authorities announced in mid-1990 their decision to reprivatize the commercial banking system of the country, as well as their intention to begin negotiations with the United States with a view to the establishment of a free trade area between the two countries. In Venezuela, the structural adjustment process has made less progress, since it was only begun early in 1989, but even so the country's balance of payments has been markedly strengthened, especially after the rise in oil prices as from August 1990.

The attitude of the international financial market has also been positively influenced by the agreements reached by Mexico and Venezuela for reprogramming and reducing the burden of their existing bank debt.[12] The reductions in the debt and in interest payments thus achieved have been described as relatively modest (ECLAC, 1990b, pp. 21-22), but the agreements have cleared the way for improved future relations of these countries with their international private creditors. Although the proportion of commitments represented by bonds in the total external debt of the countries in question has increased markedly through the conversion into bonds of a large part of the old bank loans, it is still believed that the servicing of the new bonds issued directly on the international capital market will have priority over all other categories of commitments with private creditors (Purcell, Damran and Franklin, 1990). At the microeconomic level, the financial solvency of the issuing bodies has been a necessary condition for gaining access to the market, especially in the case of private enterprises, which are usually seen as involving higher commercial risks than public bodies. Another element which has aided the positive reception given to the bonds by investors is the fact that a number of the issuers have substantial foreign exchange income from exports. Enterprises which are mainly oriented towards the domestic market have sometimes had to put up special guarantees in order to gain a better reception.[13]

On the supply side, the factor which has most strongly impelled Mexican and Venezuelan firms to resort to the international capital market has

[12] Mexico reached preliminary agreement with the creditor banks in July 1989, signed the final agreement in February 1990, and carried out the exchange of old commitments for new instruments in March of that year. For its part, Venezuela reached agreement on the main lines of its reduction scheme with the bank advisory committee in March 1990 and signed the final agreement in December of that year.

[13] For example, the Mexican cigarette company "Empresas La Moderna", whose foreign exchange income represents less than 3% of its total sales, offered shares in two of its subsidiaries as a guarantee to back up its US$ 65 million Eurobond issue made at the beginning of 1990 (see *LatinFinance*, 1990a).

been the shortage and high cost of domestic financing. The domestic credit markets are usually neither big enough nor diversified enough to cover all the financial needs of big national firms –public or private– which are carrying out substantial investment projects aimed at expanding and converting their production capacity. Until recently, domestic interest rates in Mexico were very high in real terms. For this reason, external financing has been attractive in spite of its relatively high cost in international terms and the exchange risk inherent in taking out loans in foreign currency.[14]

In addition to the insufficiency and high cost of domestic credit, another probable motivating factor for Latin American bond issuers was the desire to diversify their sources of financing. Finally, as already noted, in a few cases the main reason was apparently a desire to gain prestige and greater prominence on the international financial market.

To begin with, the cost of the financing obtained on the external market was quite high. Thus, the initial yield of the first issues was between seven and eight percentage points over the six month LIBOR rate. In addition to compensating investors for the sovereign risk factor, this high yield may also have reflected certain shortcomings of the market with regard to the measurement of the creditworthiness of the issuing bodies; up to a certain point, this was a price that had to be paid in order to return to the market. As 1990 progressed, however, there was a clear decline in the yield of the new issues by Mexican public bodies, which went down to levels of three to four percentage points over LIBOR. In contrast, towards the end of that year the issues floated by private companies were still paying LIBOR plus around six percentage points, reflecting the higher commercial risk perceived by the market in respect of these instruments.

The downward trend of the risk premium on Mexican issues shows that the confidence of investors has been rising in proportion as they have become more familiar with the financial situation of the issuing bodies. Furthermore, the consolidation of the process of structural reform of the country's economy and the conclusion of the process of restructuring the outstanding debt with the commercial banking system have also helped to improve the credit rating of Mexican bonds. According to some experts, the trend towards lower yields should be further consolidated in the near future, as the degree of liquidity of Latin American bonds on the market increases (Purcell, Damran and Franklin, 1990).

In addition to having a relatively high cost, especially in the first issues, the bonds issued by Mexico and Venezuela have also had comparatively short maturities. In the case of the instruments issued by public bodies, the maturities have been between three and five years, while they have been somewhat shorter for most of the issues by private enterprises. Consequently, it will be necessary in the future to keep up a continual flow of new issues in order to prevent the net transfers associated with this form of financing from becoming negative after a short time.

Finally, it may be noted that the financial agreements between the Chilean Government and the international commercial banking system signed in September 1990 include the issue of US$320 million of Chilean treasury bonds in two stages: US$200 million in March 1991 and a further US$120 million in March 1992. Although this issue is connected with the reprogramming of the existing debt, it departs from the normal pattern of fresh credits associated with restructuring agreements. It is usually demanded that all bank creditors should contribute to the new loans (this is why they are called "involuntary"). The Chilean bonds, however, were sold to a small number of major creditors (20 banks altogether) which have a long-term commitment with the country. The successful flotation of this issue naturally represents an important step forward in Chile's return to the international private capital market.

[14] By way of illustration of the high cost of financing in national currency in Mexico, it may be noted that the annualized real interest rate of Treasury Certificates (short-term instruments issued by the Mexican Treasury, known as CETES) was 38% in the first half of 1989. Although the rate went down somewhat in the second half of the year after agreement in principle was reached with the international commercial banking system, the real rate still remained at a high level, and for the year as a whole, the cumulative real interest rate for CETES came to around 30%. Moreover, when domestic rates were translated into foreign currency, they showed a highly favourable difference compared with external rates (see Banco de México, 1990). However, as from March 1990 a substantial decline in interest rates was registered in Mexico, especially in real terms.

III

Financial instruments guaranteed by export income

A segment of the international capital market which has grown in recent years after first emerging in the United States financial market is that of securities backed up by assets –such as accounts receivable, mortgages and export income– belonging to the issuing body. Generally these assets are placed in trust in order to guarantee the servicing of the instruments issued. This improvement in creditworthiness enables the borrower to obtain resources on more advantageous terms. This system has been used with success when certain assets of a particular issuing body have a higher credit rating than the body as a whole. Thus, the sale of instruments guaranteed with assets could provide the countries of the region with an important means of obtaining fresh external financing, and this type of security will therefore be analysed separately in this section.

This system has been used in recent years by some Mexican borrowers who have offered their foreign currency accounts receivable as guarantees. The pioneer in this respect was the national telecommunications enterprise TELMEX, which obtained US$420 million of financing in 1987 and US$364 million in 1988 by pledging to the United States enterprise AT&T its future accounts receivable in respect of the positive balance in TELMEX's favour in connection with international telephone communications. TELMEX gained further access to this type of financing at the end of 1989 and the beginning of 1990 in amounts of US$324 million and US$335 million, respectively (*LatinFinance*, 1990b, pp. 28-29). Similar operations were carried out in 1990 by two commercial banks, which offered their accounts receivable in respect of credit card transactions as guarantees, and by the Federal Electricity Commission, which placed in trust its future electricity sales to the State of California. It is estimated that the total resources secured by Mexico in 1990 through such operations came to US$900 million. Early in 1991, TELMEX carried out a fifth issue for the unprecedented amount of US$570 million on the basis of its accounts receivable: an operation described as the biggest voluntary financing achieved in the international market by a Latin American body since 1982. Moreover, unlike previous issues, institutional investors from both Europe and Japan participated in this issue as well as United States investors (*Financial Times*, 1991).

A somewhat different method was used in 1990 by a Venezuelan aluminium manufacturer in order to obtain a credit of US$45 million to complete the financing of a project for the expansion of the firm's production capacity. In this case, the resources were supplied as prepayment for future exports of metal. Two similar operations were carried out in the same year by a private steel company, which obtained a total of US$90 million in new financing in this way.

From the point of view of the issuers, operations of this kind have an important advantage: according to the available evidence, the rate of interest paid for the resources thus obtained is less than in the case of traditional bonds. Thus, for example, the last issue made by TELMEX was placed at a rate of only 1.5 percentage points over the rate for United States treasury bonds. A disadvantage of this method, however, is that it may deprive the issuing bodies of a certain amount of flexibility in the future handling of their foreign currency income. Moreover, the arrangement of these operations usually involves technical and legal problems that increase the initial costs.

It would be well worth studying in greater detail the feasibility and desirability of the possible sale by other countries of the region of securities like those described in this section, which share the common feature of being backed up by foreign currency income. Since this form of financing involves a substantial reduction of the sovereign risk factor for investors, it could be used by countries which have not yet fully restored their credit reputation on the international financial market.[15] This

[15] It may be noted in this connection that in the first part of 1990 the Brazilian enterprise EMBRATEL managed to obtain external resources by the advance sale of US$50 million of accounts receivable in respect of international telephone communications. It is reported that similar transactions on a more modest scale have also been arranged by enterprises in Argentina and Jamaica (see *América Economía*, 1990, p. 11).

could also become a suitable means for making initial contact with private external financing sources, leaving the sale of non-guaranteed instruments for a later stage.

IV

Foreign portfolio investment

1. *Foreign direct and portfolio investment*

The importance of the contribution that foreign direct investment can make to the growth and economic modernization of the developing countries, including those of Latin America, is now widely recognized. This situation contrasts markedly with the questioning of the role of transnational corporations which was common in the past, particularly during the 1970s, when the dependency theory gained much currency. Much less attention has been given to foreign portfolio investment, however, although there has recently been growing interest in the specialized media in the evolution of stock exchanges in the so-called emerging markets, generally located in developing countries.

The basic difference between direct investment and portfolio investment is that in the first-named, the investor seeks to secure a permanent and effective share in the management of the enterprise in which the investments are made, whereas in the second case the investors do not seek management control.[16] Consequently, foreign participation in total equity tends to be greater in the case of direct investment, although it is not always necessary to own the majority of the common stock of an enterprise in order to gain a decisive influence in its management.

It is useful to distinguish between foreign direct investment and portfolio investment, because there are significant differences in both the characteristics and the motives of the respective investors. Portfolio investment is generally carried out by individual investors or, increasingly often, by institutional investors. These agents' decisions regarding the composition of their portfolios are determined solely by considerations of profitability and risk. In contrast, most direct investment is made by big enterprises producing goods or services. This type of investment takes into account not only the general factors of profitability and risk, but also specific elements concerning the market structure in particular industries and, above all, the possibility of exploiting monopolistic advantages (technology, management capacity, product diversification, access to the international market, etc.) through foreign investment.[17]

The topic dealt with in this section is that of foreign portfolio investment and its potential contribution to the external financing of the region. Until recently, this form of foreign investment was of little significance in Latin America, and indeed this is still the case in many countries of the region. There are various factors which explain the low level of participation by foreign investors in the Latin American stock markets. These include in particular the restrictions imposed by the countries themselves on the entry and exit of foreign capital; the restricted size of the formal securities markets and the big fluctuations observed in stock prices; the shortcomings which have often existed in the institutional and regulatory framework, which have deprived the market functioning of some degree of transparency; the frequent instability of the macroeconomic environment, typified by sudden heavy devaluations and exchange losses for external investors, and finally, the lack of reliable and up-to-date information on the behaviour of the stock markets of Latin America and other developing regions.

[16] The usefulness of this distinction has been widely recognized in the literature on foreign investment. Furthermore, the International Monetary Fund recommends its use in classifying capital flows in the balance of payments. It should be noted, however, that according to the definitions suggested by the IMF, portfolio investment includes not only stock and other forms of participation in equity, but also long-term bonds, whereas in the present article these flows are analysed separately (IMF, 1977, pp. 142-153).

[17] The first study which analysed the determining factors in direct investment from this point of view was that by Hymer, 1960. A more recent study which includes the theoretical advances made during the intervening period is that of Lall, 1980.

However, the obstacles to foreign portfolio investment have begun to go down in recent years, more rapidly in some areas than in others, and this has furthered a substantial flow of external resources by this means to various Latin American countries.

It may be noted that some of the stock markets in the region, like others in various developing countries of other regions, have shown considerable growth since the mid-1980s. Table 4 shows the evolution of the Latin American markets between 1984 and 1989, along with comparative figures both for other emerging markets and for the markets of developed countries. As may be seen from the table, in terms of US dollars the markets of Mexico and Chile rapidly increased their capital value (total value of the stocks quoted, on the basis of current prices) during the period in question. The markets in Jamaica and Argentina also registered high growth rates over the same period. The markets of other countries turned in a much less favourable performance, however, and the total capital handled by the Latin American markets as whole, as a proportion of the world total, declined somewhat so that it stood at less than 1% of the latter at the end of 1989. Indeed, even in the most dynamic markets of the region the growth rates of the total value capitalized were lower than those registered in some emerging markets in Asia.

The markets of Mexico and Chile continued to expand briskly in 1990 and in the early months of 1991, while the Venezuelan market, after having suffered a sharp decline in 1989, increased very rapidly in the following year. In view of the favourable rates of profitability registered in the recent past, it is no surprise that some institutional investors in world financial centres have begun to show interest in certain Latin American markets. This willingness to invest in emerging markets, which was observed first of all in the case of Asian and Southern European countries and has latterly spread to Latin American markets, is based on the modern theory of diversification of risks. This theory was developed in academic circles in the 1960s, and it holds that the global risk of a portfolio can be reduced and its expected yield increased if the portfolio of investments is diversified, even though some of the component securities may be high-risk. At the same time, there has been a notable improvement in the quantity and quality of information available on the behaviour of emerging markets, especially through the efforts made by the World Bank's International Finance Corporation (IFC).

Table 4

SIZE OF EMERGING STOCK MARKETS

	Number of companies quoted		Capital value (billions of dollars)	
	Dec. 1984	Dec. 1989	Dec. 1984	Dec. 1989
Latin America	**1 692**	**1 747**	**37.9**	**85.5**
Argentina	236	178	1.2	4.2
Brazil (São Paulo)	522	592	29.0	44.4
Chile	208	213	2.1	9.6
Colombia	180	82	0.8	1.1
Costa Rica	41	78	0.2	0.2[a]
Jamaica	36	45	0.1	1.0
Mexico	160	203	2.2	22.6
Peru	157	265	0.4	0.8[b]
Trinidad & Tobago	36	31	0.8	0.4
Venezuela	116	60	1.1[c]	1.2
Other emerging markets	**6 449**	**8 835**	**55.9**	**525.7**
Taiwan	123	163	9.9	237.0
South Korea	336	502	6.2	140.9
India	3 882	6 000	8.0	27.3
Malaysia	217	238	19.4	39.8
Others	1 891	1 932	12.3	80.5
Developed markets	**17 472**	**18 690**	**3 328.0**	**11 095.4**
Japan	1 444	2 019	644.4	4 392.6
United States	7 977	6 727	1 862.9	3 505.7
United Kingdom	2 171	2 015	242.7	826.6
Germany	449	628	78.4	365.2
France	504	668	41.1	364.8
Others	4 927	6 633	458.4	1 640.5

Source: International Finance Corporation, *Emerging Stock Markets Factbook 1990*, Washington, D.C., April 1990.

[a] 1986.

[b] 1987.

[c] 1985.

Likewise, there has latterly been some easing of the controls on foreign investment in general in the region, and in some cases specific measures have been adopted in order to promote foreign portfolio investment in particular. Serious administrative and tax hindrances continue to exist in a number of countries, but in general terms the barriers to foreign portfolio investment have been greatly reduced. Nevertheless, the gloomy macroeconomic outlook which still persists in a substantial number of countries of the region forms a strong deterrent to foreign investors seeking new areas to invest part of their portfolios.

There are three forms of foreign portfolio investments: investments made through a specialized fund; investments made directly in the domestic stock markets, and the purchase by foreign investors of shares of Latin American enterprises quoted on the securities market of some industrialized country.

2. *Foreign investment funds*

Up to now, a significant proportion of the external resources obtained through portfolio investments have been made through foreign investment funds (country funds). These funds are run by specialized financial bodies which manage their participants' investments in return for a commission. There are two types of funds: closed funds, where a participant who wishes to withdraw must sell his rights to another investor, and open funds, which carry out purchases and sales of securities on the local securities market in response to the net deposits and withdrawals of investors. Furthermore, the funds can either be public companies whose shares are quoted on a securities market abroad (normally London or New York), or private companies, when the resources are contributed directly by foreign investors.

The first Latin American foreign investment fund was launched on the New York stock exchange in 1981 in order to channel resources amounting to US$150 million to Mexico. A little later, the economic crisis connected with the external debt problem broke out, with its inevitable adverse effect on the willingness of foreign investors to risk their resources in the region. Only after six years was the establishment of funds for foreign investment in Latin America resumed, with the formation in 1987-1988 of four bodies of this type in Brazil. In 1989-1990, there was a considerable expansion in the number of funds established. Outstanding in this period was the experience of Chile, which is analysed in some detail in this section in view of its importance, and three new funds were also set up in Mexico. Various regional funds for Latin America have also been established, whose portfolios are made up of investments in various countries, while some global funds for emerging markets have made investments in Latin American securities.[18]

In Chile, the establishment of foreign investment funds has been encouraged by the special legal framework set up under Law No. 18 657, enacted in September 1987. Private or public funds which procure resources outside Chile for the purchase of publicly offered securities issued in that country can take advantage of these regulations.[19]

A condition which public investment funds must fulfil in order to take advantage of this special legislation is that they must be closed. Consequently, when an investor in a fund decides to withdraw his contribution, he must sell his rights on the securities market abroad on which those membership shares are traded, thus ensuring that the net worth of the fund in Chile is not affected by this situation. This aims to prevent the risk of possible instability in the functioning of the securities and foreign exchange markets. The legislation also demands that these funds must have a capital of at least US$1 million and lays down a minimum period for their functioning, namely, five years.

In order to prevent foreign investors from crowding out local shareholders in the ownership and control of domestic companies, it is laid down that the investments by a fund cannot exceed 5% of the voting shares of a particular company. This proportion may be increased to 15% when the extra 10% corresponds to new equity purchased and paid for by the same fund, but in no case may the funds as a whole own more than 25% of the shares of a given limited company.

[18] Various external debt conversion funds have also been established in countries like Chile, Argentina and Venezuela. Although these funds make investments in the securities markets of the country in question, they do not procure new resources, since they are financed through the conversion of external debt paper into national currency.

[19] Two funds have also been set up which operate under Decree-Law 600, the basic rules governing foreign investment in the country. According to the latest information available (end of February 1990), these funds have brought in capital amounting to US$24 million. See Superintendencia de Valores y Seguros de Chile, 1989.

Furthermore, investments in instruments issued or guaranteed by a given issuer may not exceed 10% of the total assets invested by the fund in Chile, except in the case of securities issued or guaranteed by the State or the Central Bank. Likewise, the total investments of the fund in securities issued or guaranteed by companies belonging to the same business group may not exceed 40% of its assets.

With regard to the composition of the investments, the Chilean regulations provide that at the end of the first year of operation of the fund, at least 20% of its assets must be invested in shares of open limited companies, while after the third year this figure must be not less than 60%. In addition, at least 20% of the total assets of the fund must be made up of long-term financial instruments after the third year of operation.

With regard to taxation, the rate of taxation levied on the repatriation of profits of the funds is 10%, and there are no restrictions on their remittance abroad. It should be noted that this represents preferential tax treatment compared with that applied to economic transactions carried out by foreigners who are not resident in Chile, whose profits are subject to a net rate of taxation of 32%. This special treatment explains why these funds have become the main mechanism for channelling external savings to the securities market of the country.

In 1989 and 1990, 10 funds were authorized to operate in the country, and they plan to invest a maximum capital of US$1 105 million in the local market (table 5). During 1989, a total of US$86 million entered the country, while in 1990 the amount was US$252 million. This mechanism has thus made possible the procurement of substantial amounts of external savings. By way of illustration, it may be noted that altogether the funds effected almost 43% of the entire foreign investment made in the country in 1990, other than that connected with external debt conversion.[20]

[20] According to preliminary figures of the Central Bank of Chile, in 1990 net foreign investment, excluding capital invested under Decree-Law 600 and conversions under Chapter XIX of the Compendium of International Exchange Regulations, came to US$594 million.

Table 5

OVERSEAS INVESTMENT FUNDS IN CHILE [a]

(Millions of dollars)

Name of fund	Market on which quoted	Date of authorization	Maximum capital to be invested	Capital invested in 1989	1990	1991[b]	Total
Chile Fund Inc.	New York	8/89	200	44	23	-	67
Equity Fund of Latin America	Private fund	8/89	100	20	3	17	40
Genesis Chile Fund Ltd.	London	10/89	200	22	38	-	60
Emerging Markets Chile Fund	Private fund	12/89	75	-	15	1	16
GT Chile Growth Fund Ltd.	London	12/89	150	-	90	-	90
Five Arrows Chile Fund Ltd.	London	1/90	150	-	65	-	65
New Frontiers Development Trust plc F.I.C.E. [c]	Private fund	1/90	5	-	5	-	5
Latin America Investment Fund, Inc.	New York	7/90	100	-	11	-	11
Latin America Investment Trust plc	London	8/90	50	-	2	3	5
Baring Puma Fund Limited	London	12/90	75	-	-	-	-
Total, all funds			1 105	86	252	21	359

Source: Superintendency of Securities and Insurance Companies of Chile.
[a] Refers to funds governed by Law No. 18.657.
[b] January - March.
[c] Originally called CDFC Trust plc F.I.C.E.

At the end of 1990, 79% of the portfolio of the funds was made up of stock; 19% consisted of debt paper: that is to say, time deposits, bonds issued by enterprises, mortgage certificates, and bonds and promissory notes issued by the State and the Central Bank, while the remaining 2% consisted of other types of investments and assets. So far, however, only a marginal part of the investments by the funds has been devoted to new equity, so that they have not contributed directly to the creation of new fixed assets. This could be considered a drawback, since after the initial entry of foreign exchange into the country there is a prolonged outflow abroad in the form of remittances of dividends and, possibly, repatriation of capital, without fresh sources of generation of external income being established as a counterpart. Even if the investments by the funds are not devoted to new equity, however, at all events they promote demand for publicly offered securities and create more liquidity in the market. Thus, indirectly they increase the possibility that enterprises quoted on the market can obtain additional resources for financing fresh fixed investments, and perhaps also new sources of generation and saving of foreign exchange.

For foreign investors, this form of investment has the advantage that it enables them to have a diversified portfolio in the country without needing a detailed knowledge of the domestic securities market. This involves a cost for them, however, since they must pay commissions to the domestic and external managers of the funds. Consequently, public investment funds are not a particularly attractive mechanism for big institutional investors who have their own capacity to analyse emerging markets. These investors usually operate directly on foreign stock exchanges, but as already noted, in the Chilean case there is a severe tax deterrent to this.

Finally, it may be noted that at the end of 1990 the market value of the shares owned by the foreign investment funds (US$359 million) represented only 2.6% of the total value of the shares quoted on the Santiago stock exchange (US$13 636 million). This highlights the fact that the growth possibilities for the funds' investments in Chile are still considerable, even after the notable expansion registered in 1990.[21]

3. *Direct share purchases on the domestic securities markets*

Mexico is the country which has managed to attract the biggest inflow of external resources in recent times through the direct purchase by foreign investors of stocks quoted on the stock exchange. An important event which has encouraged the entry of foreign capital into that country was the enactment in May 1989 of the new legal provisions designed to reduce the controls affecting foreign investment. The new rules expand the range of sectors in which foreign investment is permitted to almost 550 of the 754 existing economic activities, permitting majority participation in many of them.[22] Within this context, over half of the main companies quoted on the Mexican stock exchange allow participation by foreign investors (*El Mercado de Valores*, 1990a).

At the same time, the new legislation also established the system of a "neutral fund" to facilitate the entry of foreign capital into the country's stock exchange. This system provides for the authorization of trust funds through which foreign investors can acquire shares reserved exclusively for Mexicans (series "A" shares), which are represented by ordinary investment certificates. These certificates only cover the pecuniary rights of the shares forming the fund's assets, and therefore do not give a right to vote. The shares placed in the trust fund form series "N" or neutral series and are not taken into account when determining the total amount and share of ownership of foreign investors in the equity of the issuing companies. In accordance with this measure, authorization was given in October 1989 for the formation of a trust fund in Nacional Financiera S.N.C. (NAFIN), the State development bank, in order to permit foreign investors to acquire shares in Mexican companies quoted on the country's stock market (*El Mercado de Valores*, 1989). By the end of 1990, NAFIN's "neutral fund" had built up total assets of

[21] The current regulations are not a significant restriction in this respect. Since the legislation permits the funds as a whole to own up to 25% of the shares issued by a given limited company, the total investment of the funds could have amounted to as much as US$3 409 million at the end of 1990.

[22] The activities which continue to be reserved for the State include oil and natural gas extraction; oil refining; basic petrochemicals; generation, transmission and supply of electricity, and rail transport.

US$686 million, after having totalled only US$36 million at the end of the previous year.

In addition to the investments made through NAFIN's neutral fund, it is estimated that holdings of freely obtainable shares (series "B") by foreign investors amount to some US$2 to US$3 billion, representing between 5% and 8% of the total capital of the market (Heyman, 1990). It is therefore clear that in Mexico foreign portfolio investment has become an important mechanism not only for procuring external savings, but also for satisfying the finance needs of large companies quoted on the stock exchange.

4. *Stock issues on foreign stock markets*

Chile has made use of the third form of foreign portfolio investment referred to above, that is to say, the issue of shares on a foreign stock market. In July 1990, the telecommunications company "Compañía de Teléfonos de Chile" (CTC) carried out an operation of this type through American Depositary Receipts (ADRs).

ADRs are negotiable certificates issued by United States banks (known as "depositary banks") which represent shares in a non-United States enterprise. They facilitate the access of foreign issuing bodies to the United States securities market, since they are freely traded in that country, are quoted in dollars, and their dividends are paid out in the same currency. In order to make an issue of ADRs, it is necessary to obtain the approval both of the Securities and Exchange Commission, which is the body governing the United States securities market, and of the specific stock exchange where it is planned to trade the certificates.

The placement effected by the CTC, the main shareholder of which is the Spanish corporation "Telefónica de España", was carried out on the New York Stock Exchange and represented the first operation of this type by a Latin American company since 1963 (*Wall Street Journal*, 1990). Altogether, 6.5 million ADRs worth US$98.3 million were sold, backed by 110.5 million shares of new equity in the company. After deduction of the commission paid to the corresponding consortium of foreign financial institutions for underwriting the issue, which came to almost 6% of the total value of the placement, the Chilean company received around US$92.5 million. This sum, which represented approximately 13.5% of the equity of CTC at that time, will help to finance the investment plan of the company, which is calculated at US$1.7 billion for the period 1990-1996.[23]

Issues of certificates like those effected by CTC were possible because the Chilean authorities had previously enacted special regulations in this respect. These new regulations were published as Chapter XXVI of the Compendium of International Exchange Regulations, and among the requirements laid down in them are the following: the United States depositary bank must have a net worth of not less than US$1 billion; the ADRs must represent shares that constitute an increase in the capital of the Chilean enterprise; the external capital thus obtained must not be less than US$50 million, and the market value of the shares of the Chilean issuing company, before the increase in capital by this means, must not be less than US$100 million.

Quite apart from the specific provisions laid down in Chile, it is obvious that only a relatively small number of Latin American enterprises could hope to obtain resources on the United States securities market through the issue of ADRs. This is due partly to the strict requirements for approval and registration imposed by the competent bodies of the United States (the Securities and Exchange Commission and the relevant stock exchange). An enterprise which seeks this kind of financing must, at the very least, be relatively large and have a solid financial position. Moreover, in order to attract a sufficient number of foreign investors, it is essential that the macroeconomic position of the country where the enterprise is located should be reasonably strong. Despite these limitations, there are undoubtedly possibilities for considerable expansion of the use of this option in Latin America in the future. Thus, in addition to other Chilean enterprises, several Venezuelan firms are apparently evaluating this mechanism, while it is expected that the privatization of the telecommunications enterprises of Mexico and Venezuela will involve substantial offers of shares on the international securities market.

Finally, it may be noted that although several Mexican enterprises made use of ADRs in 1990,

[23] Subsequent sales of ADRs of the company generated an additional foreign exchange inflow of US$14.3 million between July 1990 and January 1991 (*El Mercurio*, 1991).

these operations –unlike the case of the CTC– did not involve new equity, since they did not provide for the procurement of fresh capital for the issuing companies but only permitted trading in existing shares on the United States securities market.

5. *The potential for foreign portfolio investment*

The details given in this section indicate that the various forms of foreign portfolio investment could become an important source of external resources for many countries of the region in the 1990s. An objection which might be made to this form of external financing is that it is very expensive for the host countries, since it is its high yield which constitutes its main attraction for foreign investors. After the initial entry of foreign capital there may be the drawback of heavy remittances of resources abroad in future years.

In this respect it is worth drawing a distinction between withdrawals of capital on the one hand, and remittances of dividends on the other. With regard to the former, it has been argued that the fact that a substantial proportion of the profitability of stock exchange investments corresponds to capital gains probably means that there will not be immediate pressures on the foreign exchange market. If investors tried to withdraw their funds on a large scale, the prices of the shares would fall and a significant proportion of the profits would disappear (Lessard and Williamson, 1985, pp. 59-60). Nevertheless, this argument does not dispel the possibility of substantial withdrawals of funds by foreign investors –even though this might mean capital losses for them– when the economy of the host country is going through difficult moments. This is undoubtedly a risk that must be borne in mind in connection with foreign portfolio investment.

With regard to the second consideration, since the rate of profitability of enterprises tends to be procyclical, it is possible that remittances of dividends to foreign shareholders would go down in periods of macroeconomic difficulties and restrictions on foreign exchange availability. It might be asserted that this is one of the main advantages of foreign investment as a means of external financing, in contrast with indebtedness through bank loans or the issue of bonds. However, empirical research in greater depth is called for in order to determine exactly how remittances of both dividends and capital in connection with foreign portfolio investment will behave in different phases of the economic cycle.

In a full evaluation of the advantages and disadvantages of this form of external financing it would also be necessary to take account of the effect that the increasing participation of foreign investors would have on fluctuations in stock prices on Latin American securities markets. Although the greater liquidity caused by the entry of foreign capital should act as a factor to stabilize prices, there is also the risk that the greater presence of foreign investors might give rise to the more rapid and intensive transmission to national securities markets of upsets originating on the world's great stock markets.

V

Financing from the international commercial banking system

Although it is not the intention of this article to go into the recent trends in financial flows between Latin America and the international commercial banking system, which have been analysed at length in other documents (ECLAC, 1988 and ECLAC 1990c), some brief comments are called for on the future prospects for financing from this source. The first comment to be made, as already noted in the introduction to this study, is that there is indeed virtually no possibility that Latin America and other developing regions will witness in the near future the restoration of the big syndicated loans for global balance of payments financing which predominated in the 1970s. This state of affairs, which has been confirmed on many occasions by spokesmen of the international banking system itself,[24] is partly due to the losses suffered by the banks in the 1980s on their Latin American portfolios on account of their overexposure in the preceding period. Moreover, the overindebtedness with the banks which persists in many countries of the region (and which is reflected in the big discounts on bank debt observed on secondary markets) constitutes a further deterrent to the granting of fresh loans. Finally, even the few countries which have managed to solve their problem of overindebtedness will probably find that the banks are reluctant to grant loans for general purposes. This may be due to a certain degree of inefficiency in the capital market, in the sense that the creditor banks do not draw any distinction between the different countries of the region with regard to their payment capacity (Devlin and Guerguil, 1991).

However, the fact that the market for balance-of-payments loans to governments is generally speaking closed does not mean that there is no possibility whatever of obtaining external resources in this way. Some banks, particularly those which were not involved in the process of overexpansion of lending to the region in the 1970s, may be interested in granting loans of this type, probably in relatively small amounts, to countries which have taken firm steps towards restoring their international creditworthiness. This is shown by the loan of US$20 million, with a term of eight years and an annual interest rate of 1% over LIBOR, granted towards the end of 1990 to the Republic of Chile by the Dutch bank NMB Postbank. This loan was the first non-guaranteed credit granted on a voluntary basis (that is to say, without being linked with an agreement for the restructuring or refinancing of existing commitments) to a Latin American government since the external debt crisis broke out in 1982. It should be noted that NMB Postbank had not made any loans to Chile before this operation. Although there may be other operations of this type in the future, however, they will probably be relatively isolated and involve limited amounts of funds, so that it is doubtful that on the whole they will become a significant source of external financing for the region.

In general terms, it may be expected that the contribution by the commercial banking system in the form of new loans which are not linked with the restructuring of existing debt will be restricted to short-term external trade financing and, in the case of medium and long-term loans, to the financing of investment projects.[25] Credits for external trade operations are of a revolving nature and are considered to represent relatively low risks for the creditors. Consequently, they have always been available for financing Latin American imports, except in extreme cases of non-fulfilment of payments. Normally, they will tend to grow automatically in line with the expansion of imports. Nevertheless, efforts should be made to find a way of improving the terms on which credits for financing the region's imports are granted and, above all, ways of establishing more flexible and efficient mechanisms for financing the region's exports.

With regard to loans for financing investment projects, it should be noted that bank credits for this purpose usually have external guarantees, either from an official credit agency of some industrialized country, from foreign investors participating in the project, or from foreign exchange income generated by projects oriented towards the external market. In these circumstances, the risks associated with the credit are not borne by the bank but by the agency granting the guarantee. However, guarantees are not usually comprehensive, so that there is often a residual element of risk for the banks.[26] Furthermore, financial packages for big investment projects sometimes include a bank credit component without formal guarantees. In this respect the International Finance Corporation (IFC) –a World Bank subsidiary which provides support for the private sector in developing countries– is playing a role of increasing import-

[24] For example, in a document issued in 1987 at the behest of the main commercial banks of the world it is stated that as private intermediaries whose prime responsibility is to their depositors and shareholders, the banks never thought they would have to assume the main role in granting ongoing balance of payments financing, and that in view of what happened as from 1982, the commercial banks can no longer accept this responsibility, since it is incompatible with their obligations under the trust deposited in them (*Institute of International Finance*, 1987, p. 10).

[25] A document issued by the international commercial banking system itself states that in future bank credits will move progressively away from balance-of-payments financing and return to the financing of trade and investment transactions, so that general-purpose financing will increasingly have to be provided by official creditors (*Institute of International Finance*, 1989, p. 17).

[26] For example, export credit agencies of the industrialized countries only give guarantees up to a maximum of 85% of the total value of a loan.

ance in forming consortia of banks to contribute to the financing of its projects. Although these syndicated loans do not have external guarantees, they do not represent the resumption of voluntary bank loans, since in practice the special status of the IFC has ensured that no loan of this nature is included in any restructuring of the external debt of a borrower country. Nevertheless, the prospects for continued growth of this kind of financing in the future are promising.[27]

Finally, it is necessary to stress the importance of foreign direct investment as a catalyst in the mobilization of external resources from various sources, including the commercial banks, for the contribution made by foreign investment projects to balance-of-payments financing often considerably exceeds that of direct contributions to equity. In Chile, for example, in the five-year period 1986-1990, credits associated with foreign investment totalled US$1.8 billion net, while foreign direct investment (excluding investment funds, ADRs, and the capitalization of investment loans made with external debt promissory notes through Chapter XIX) came to only US$700 million, according to data provided by the Central Bank of Chile.

VI

Conclusions

The main message emerging from the analysis made in the preceding pages is that although access to fresh external capital continues to be difficult for the Latin American region, there are some interesting ways and opportunities for attracting resources from the international private capital market. The two main mechanisms for channeling such financial flows are international bonds, including instruments backed up by foreign exchange income, and foreign portfolio investment. There is also substantial potential connected with project financing, particularly that involving foreign direct investment.

The recent experience of some countries of the region –above all Mexico, Chile and Venezuela– confirms that it is feasible to carry out these kinds of operations and shows that a significant volume of external financing can be obtained through them.[28] It also suggests that there are a number of minimum conditions for obtaining this kind of financing, including the solution in one way or another of the problem of the existing external debt, the existence of a stable macroeconomic environment, and –with regard to borrowers– a solid financial position. At all events, for those countries which have not yet managed to meet these conditions to the full, the system of securities backed up by export income could be a way of obtaining a certain amount of financing without excessive delay and thus initiating a process of return to the international capital market.

The financial instruments analysed in this article, especially conventional bonds, have clear features in common with the type of external financing obtained by the Latin American countries before the credit explosion of the 1970s, which centered predominantly on the commercial banking system. However, there is a fundamental difference in the international context which means that the mechanisms described here now have greater development potential than in preceding periods. This difference consists in the profound changes which have taken place in the international financial market, which now displays a higher degree of integration and sophistication. There is now a growing volume of resources which the institutional and individual investors of the industrialized countries would be willing to invest in emerging markets such as those of Latin America in appropriate circumstances. There is also a much

[27] In the fiscal year 1990, syndicated loans for developing countries organized in conjunction with the IFC totalled US$622 million. See International Finance Corporation, 1990.

[28] With regard to Mexico, the Under-Secretary for International Financial Affairs of the Ministry of Finance and Public Credit of that country was not exaggerating when he stated towards the end of last year that "Mexico's return to the capital markets is already a reality and was achieved much earlier than had been expected". José Angel Gurría, "México: una nueva era en el financiamiento externo", address delivered during the symposium "Investment in Mexico", 23 October 1990, and published in *El Mercado de Valores*, 1990b.

wider range of instruments available for satisfying the specific needs of particular borrowers.

Finally, it should be noted that integration into the dynamic conditions characteristic of international private capital movements could have consequences which are not entirely favourable for developing countries such as those of the region. In particular, the unstable and procyclical nature of such movements means that an external financing strategy based on them could raise serious problems with regard to macroeconomic management. Any reluctance of the international capital market to keep up the flow of financial resources could aggravate possible balance-of-payments deficit situations. On the other hand, in conditions of economic boom and relative abundance of foreign exchange there could be an excessive supply of external resources which could be reflected in other difficulties such as increases in the real exchange rate of the national currency and excessive increases in the external debt. Furthermore, integration into the international financial market means greater exposure to fluctuations in international interest rates and in the exchange rates of the main currencies, and both these types of fluctuations have been increasing in magnitude and frequency in recent years (UNCTAD, 1990, pp.122-130). These are potentially serious costs of the forms of financing analysed in this article. It therefore appears necessary to make a systematic evaluation of the use of these financial instruments, comparing them with other possible sources of external financing such as bilateral and multilateral credits and foreign direct investment. Moreover, it would be necessary to monitor –and if necessary regulate– the entry of private capital in order to avoid a repetition of the excesses of the 1970s, when unrestricted openness to private external financing (on that occasion from the commercial banking system) led to a situation of overindebtedness which culminated in the painful process of adjustment and recession experienced in the 1980s.

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Debt/equity conversion

*Michael Mortimore**

The intention of this article is to provide certain guidelines and experiences in an area that has been characterized by a good deal of complexity and confusion. Numerous business publications have presented the case in favour of debt/equity conversion (DEC) programmes, usually from a simplified and orthodox macroeconomic perspective which justifies them in terms of the potential double benefit of both reducing the existing external debt (and therefore future debt service) and increasing investment (and therefore future growth) in struggling developing countries. In this sense, it is often maintained that DEC programmes offer the promise of killing two birds with one stone. In this article it is agreed that these two potential benefits are worth striving for, but a broader perspective is utilized to attempt to define at what cost and in what context those benefits can be obtained by the country implementing this instrument. Analysis of the experience of the major debtors which have implemented DEC programmes, stressing the central aspects of each programme rather than the myriad of differing details, allows some significant conclusions to be drawn.

*The author is a staff member of the Joint ECLAC/CTC Unit on Transnational Corporations.

I

The context of debt/equity conversion

Debt/equity conversion does not take place in a vacuum and should not be analysed in one, rather it should be examined in the context of the international debt crisis and, particularly, the behaviour of transnational banks (TNBs) (Mortimore, 1989; CTC, 1991). Debt/equity conversion represents one instrument in a battery of debt conversion alternatives. To date, it has been the most important instrument in terms of the volume of debt exchanged, gaining particular force during the 1987-1990 period (Business International Corporation, 1987 and 1988, and *The Economist,* 1987).

Debt conversion became central to the international debt crisis when it became clear to debtors, multilateral institutions, creditor governments, and –most of all– transnational banks that the forced adjustment phase of that crisis was not producing the expected results. The poor results stemming from the second phase of the crisis, known as the Baker Plan or the adjustment-with-growth phase, created severe fissures in the creditor bloc between the multilateral institutions and the TNBs, between certain creditor governments and the TNBs, and between different categories and nationalities of TNBs themselves. Subsequently, in early 1989, the Brady initiative legitimized debt reduction as a new approach to the international debt crisis.

The debt reduction focus of the Brady initiative was simply a recognition of the reality 'the market' had imposed on the debt crisis. As tables 1 and 2 demonstrate, TNBs began to reduce their exposure in the highly indebted countries as of 1987, once the secondary market discounts on the TNB debt of those countries began to rocket. It may be noted in passing that the major debtors which subsequently implemented the higher-volume debt/equity conversion programmes are, with the partial exception of Venezuela, precisely those countries located at the top of the list of TNB exposure in the highly indebted countries.

Several important characteristics of the debt crisis are evident in table 1. The debt crisis consisted of two phases in terms of overall exposure: the 1982-1986 period of increased exposure, particularly for non-United States banks, and the 1987-1989 period of reduced exposure, especially for the regional and smaller U.S. banks. It is interesting to observe that the top nine banks of that country, which totally dominated the bank advisory committees that imposed the first debt strategy on these highly indebted nations (Mortimore, 1989; CTC, 1991), did not increase their own net exposure there. Indeed, they did not even succeed in convincing other smaller United States banks not to vote with their feet. It was the non-United States banks which provided most of the resources for the forced adjustment phase.

When it became clear that forced adjustment was not going to produce repayment in full and the adjustment-with-growth phase did not produce growth, the top nine United States banks proved as adept as their regional and smaller compatriots in reducing exposure in these countries. Finally, increased exposure during the first phase was concentrated in those countries which subsequently implemented debt/equity conversion programmes, whereas the reduction of exposure during the 1987-1989 period was quite generalized across the board.

In other words, the major debtors which received new money facilities during the first phase of the debt crisis corresponded closely to the major debtors which implemented debt/equity conversion

Table 1

TNB EXPOSURE IN HIGHLY INDEBTED COUNTRIES, 1982-1989

(US$ billion)

	As of December 1982				As of December 1986				As of December 1989			
	All BIS reporting[a]	Non US[b]	US All[c]	US (Top 9)[d]	All BIS reporting[a]	Non US[b]	US All[c]	US (Top 9)[d]	All BIS reporting[a]	Non US[b]	US All[c]	US (Top 9)[d]
Mexico	62.9	38.6	24.3	(13.1)	71.4	47.9	23.5	(13.5)	59.7	44.5	15.2	(11.3)
Brazil	60.5	38.5	22.0	(14.2)	67.3	43.7	23.6	(16.2)	60.9	43.7	17.2	(14.0)
Venezuela	27.5	16.3	11.2	(7.6)	26.9	18.2	8.7	(6.3)	23.1	16.4	6.7	(5.5)
Argentina	25.7	17.1	8.6	(5.6)	30.7	21.7	9.0	(6.4)	27.1	22.5	4.6	(3.6)
Philippines	12.6	7.1	5.5	(3.8)	13.8	8.9	4.9	(3.6)	9.7	6.9	2.8	(2.3)
Chile	11.6	5.7	5.9	(3.2)	14.3	8.1	6.2	(4.0)	9.3	5.8	3.5	(2.7)
Yugoslavia	9.8	3.9	5.9	(3.7)	9.9	7.9	2.0	(1.3)	7.7	6.3	1.4	(1.1)
Nigeria	8.5	6.8	1.7	(1.3)	9.2	8.6	0.6	(0.5)	7.3	6.8	0.5	(0.4)
Colombia	6.3	2.6	3.7	(2.6)	6.1	3.9	2.2	(1.5)	6.3	4.5	1.8	(1.4)
Peru	5.4	2.9	2.5	(1.3)	4.6	3.4	1.2	(0.7)	3.1	2.9	0.2	(0.1)
Ecuador	4.5	2.4	2.1	(1.2)	5.2	3.2	2.0	(1.2)	4.1	3.2	0.9	(0.7)
Morocco	3.9	3.2	0.7	(0.5)	4.7	3.9	0.8	(0.6)	4.6	4.0	0.6	(0.5)
Cote D'Ivoire	3.4	2.8	0.6	(0.5)	3.2	2.8	0.4	(0.3)	3.3	3.1	0.2	(0.2)
Uruguay	1.5	0.6	0.9	(0.6)	2.3	1.4	0.9	(0.7)	2.6	1.8	0.8	(0.6)
Costa Rica	1.3	0.8	0.5	(0.2)	1.4	1.0	0.4	(0.2)	1.0	0.9	0.1	(0.1)
Bolivia	0.9	0.5	0.4	(0.2)	0.6	0.5	0.1	(...)	0.3	0.3	(...)	(...)
Jamaica	0.5	0.3	0.2	(0.2)	0.5	0.4	0.1	(0.1)	0.5	0.4	0.1	(0.1)
Total	**246.8**	**150.1**	**96.7**	**(59.8)**	**272.1**	**185.5**	**86.6**	**57.1**	**230.6**	**174.0**	**56.6**	**(44.4)**

Source: Calculated by ECLAC/UNCTC Joint Unit (Economic Commission for Latin America and the Caribbean/United Nations Centre on Transnational Corporations) from Bank for International Settlements (BIS), *The Maturity and Sectoral Distribution of International Bank Lending*, various numbers, and US Federal Financial Institutions Examination Council, *Statistical Release: Country Exposure Lending Survey*, various numbers.

[a] These comprise the Group of Ten countries plus Austria, Denmark, Finland, Ireland, Luxembourg and Spain.

[b] Calculated as the difference between the values of all BIS-reporting banks and US banks.

[c] Covers 173 US banking organizations.

[d] The top nine are Bank of America, Citibank, Chase Manhattan Bank, Manufacturers Hanover, Morgan Guaranty, Chemical Bank, Continental Illinois, Bankers Trust and First National Bank of Chicago.

schemes. Linkage and leverage were present from the beginning.

Table 2 offers certain information which is essential for comprehending aspects of the debt crisis that served as important contextual factors for the debt/equity initiative. For the five major debtors which came to implement the most important debt/equity conversion (DEC) programmes, the original secondary market discount was initially very similar –in the range of 26 to 40%– at the time that the first programmes became operational. Towards the end of 1987, however, that situation changed dramatically (except in the case of Chile), as steep market discounts were registered for Argentine and Brazilian debt paper and considerable increases took place in the discounts on Mexican and Philippine debt. Even the prized Chilean debt paper experienced an appreciable decline during late 1987-1989. In other words, the similar initial conditions in the secondary market for major debtors subsequently underwent changes which differentiated the situation of those debtors. Those changes significantly affected the behaviour of both TNBs and the major debtors themselves.

Table 2

MAJOR DEBTORS WITH DEC PROGRAMMES: SECONDARY MARKET PRICES FOR TNB DEBT, 1986-1990

(Percentage of face value)

	Chile	Mexico	Philippines	Argentina	Brazil
June 1986	67	59		65	74
December 1986	67	56	72	66	74
June 1987	70	57	70	52	62
December 1987	61	51	50	35	46
June 1988	60	51	52	25	51
December 1988	56	43	49	21	41
June 1989	61	40	47	13	31
December 1989	59	36	47	13	22
June 1990	65	45	52	13	24
November 1990	73	43	49	17	26

Source: United Nations Department of International Economic and Social Affairs, based on bid prices according to Salomon Brothers, High Yield Department.

It is evident that TNB behaviour varied considerably according to the situation faced by each major creditor, but nonetheless, the behaviour of the principal United States banks which dominated the bank advisory committees and were the architects of the strategy for the first phase of the debt crisis was fundamental to the birth of the DEC instrument as one means of dealing with that problem. It is not by chance that these major banking organizations developed an avid interest in the DEC mechanism. Within the TNB advisory committees for major debtors, these big banks usually chaired the deliberations. At the same time they represented the interests of the myriad of other United States banks with exposure in those particular debtor countries. When the regional and smaller United States banks began not to heed the TNB advisory committee requests to put up new money and demonstrated a notable interest in exiting definitively from the problem, this provided an exceptional opportunity for the major United States TNBs which dominated the committees and had extensive knowledge of investment possibilities in those debtor countries. It is no coincidence, therefore, that these major United States TNBs also became the most active dealers in the exposures of the regional and smaller U.S. banks.

The debt/equity mechanism provided an outlet for the debt paper of the smaller United States and other banks with relatively marginal exposure in developing countries and provided significant income for the principal United States banks by way of substantial commissions charged by them as intermediaries. The loss implicit in the secondary market was taken by the smaller banks wishing to escape from the debt crisis, and it was an attraction for transnational corporations interested in investing cheaply in the country in question. The original country DEC programmes paid something close to par (in local currency) for the debt. In sum, the major United States TNBs were able to generate income from the very contradiction contained in their own strategy for dealing with the crisis –that is, that not all the banks were willing to play the role assigned to them by the major United States banks– and that contradiction accounted in good part for their initial interest in the instrument. The debt/equity mechanism was the first real innovation on the original strategy.

Coupled with the subsequent increase in the secondary market discount for TNB exposures in major debtor countries, it was the arrival of an apparently permanent state of arrears in several major debtor countries which created a new situation for the debt crisis. Table 3 shows that by 1987 fully nine of the 17 highly indebted countries registered arrears with respect to their TNB debt.

Table 3

HIGHLY INDEBTED COUNTRY INTEREST ARREARS OUTSTANDING TO TNBs, 1985-1990

(US$ billion)

	1985	1986	1987	1988	1989	March 1990	%
Argentina	0.4	0.3	0.2	1.9	5.1	6.2	36
Brazil	-	-	3.4	-	3.3	5.3	31
Peru	0.5	0.9	1.4	1.9	2.5	2.8	16
Ecuador	-	-	0.4	0.8	1.2	1.3	8
Cote D'Ivoire	-	-	0.2	0.4	0.6	0.6	4
Costa Rica	-	0.1	0.2	0.2	0.3	0.3	2
Nigeria	0.3	0.6	0.8	0.6	0.3	0.3	2
Bolivia	0.2	0.3	0.3	0.2	0.2	0.2	1
Morocco	0.1	0.1	0.1	-	-	-	-
Total	**1.5**	**2.3**	**7.0**	**6.0**	**13.5**	**17.0**	**100**

Source: The Institute of International Finance, Inc. (IIF), *Improving the Official Debt Strategy: Arrears are not the way*, Washington, D.C., May 1990, figure 1, p. 6.

Over the next two years or so, arrears more than doubled, amounting to US$17 billion in March 1990. Moreover, most of that appreciable amount corresponded to only two of the major debtors, namely, Argentina and Brazil. Evidently, the existing strategies for dealing with the international debt crisis were not working in general, and the negotiations with particular countries, like Argentina and Brazil, were obviously unproductive. The intractable nature of the crisis thus forced TNBs to pursue other avenues in search of a solution to their particular situations and problems.

Debt reduction instruments became the least bad alternative for most participants in the debt crisis. Table 4 indicates that four kinds of operations have characterized the 1985-1990 period. Debt/equity conversion has dominated the situation in terms of the volume of face value of debt converted, accounting for 40% of the total. Other initiatives, such as local currency operations (debt-for-pesos exchanges not requiring an authorized investment project) and private sector restructurings, have displayed a certain importance. Nevertheless, it is discounted operations associated with the Brady strategy for dealing with the debt crisis which presently show the most promise. The exchange of TNB debt paper for reduced-value bonds of major debtor countries seems to have become the most popular means by which those countries can take advantage of the now sizeable secondary market discount. As we shall see further on in this article, recent changes in the operation of most DEC programmes have given the major debtor countries increased possibilities of capturing a significant portion of the secondary market discount. The point to note, however, is that the debt/equity conversion instrument –an innovation utilized by the major United States TNBs primarily in their own self-interest (to earn commissions, to get a higher price for their debt and to participate in the best deals that they themselves organized)– is to a large extent being replaced by alternatives

Table 4

DEBT CONVERSION INSTRUMENTS UTILIZED IN DEVELOPING COUNTRIES, 1985-1990

(Face values in US$ billion)

	1985	1986	1987	1988	1989	1990 (prelim.)	Total	%
Debt/equity conversions [a]	0.5	0.8	3.2	6.2	4.5	8.9	24.1	40
Local currency operations [b]	0.2	0.5	0.9	4.8	3.7	3.2	13.3	22
Private sector restructuring [c]	0.1	0.3	3.5	4.3	3.1	0.5	11.8	19
Discounted operations [d]	-	-	-	1.9	1.0	8.5	11.4	19
Total	**0.8**	**1.6**	**7.6**	**17.2**	**12.3**	**21.1**	**60.6**	**100**

Source: M. H. Bouchet, *Transnational Banks and External Indebtedness of Developing Countries*, November 1990, report of the UNCTC.

[a] Debt/equity conversion necessarily involves an investment authorized by local authorities.

[b] Any exchange of debt paper for local currency. No mandatory investment is included.

[c] New arrangements negotiated directly between non-guaranteed private sector debtors and TNBs.

[d] Discount bonds, par bonds, buybacks, interest rate reductions, etc., utilized in Brady-style accords.

more beneficial to major debtors or being modified to achieve the same outcome. DEC is only one instrument in the arsenal of debt management options and is not necessarily the most important one at this point in time.

Creditors, and to a lesser extent, debtors, both have diverse opinions on their options. An important element in the success of the discounted loan sales associated with the Brady strategy is that they are favoured by the regional and smaller United States banks and non-United States TNBs (Madrid, 1990). The major United States banks which dominate the advisory committees prefer the original version of the debt/equity conversion instrument because it left them in control and –as already mentioned– provided an opportunity to generate income via commissions; it meant that they suffered smaller losses through secondary market discounts; and it allowed them to participate directly in the best deals which they themselves put together. For some debtors, however, the selectivity of the Brady initiative has proved a problem, as only five major debtors (Mexico, Costa Rica, Philippines, Venezuela and Uruguay) have been formally included. This does indicate, though, that the old "Citicorp versus Brazil" depiction of the debt crisis has lost relevance from the point of view of both the TNBs and the major debtors (CTC, 1991). With this new context in mind, we now turn to the task of analysing the practical experience with debt/equity conversion programmes.

II

Debt/equity conversion programmes in practice

Before examining, in comparative fashion, the DEC programmes of particular debtor countries, it makes sense to review, however briefly, the essence of the DEC instrument. Figure 1 assists in conceptualizing the separate segments of the operation and identifying the principal participants in it. Thus, the foreign investor, the original lender bank and the intermediary foreign bank, on the one hand, can be distinguished from the local intermediary, the original debtor and the local company receiving the investment on the other. In the simplest of DEC conversions –that is, a TNB capitalizing its own exposure through a subsidiary operating in the financial sector of the debtor country– the foreign investor, the original lender and the foreign bank intermediary would all be the same company. There were relatively few such conversions, however. More typical would be the case of a non-financial TNB utilizing a DEC programme to pay off local currency liabilities, to reinvest in a subsidiary or to undertake a new investment in the debtor country. Another salient aspect of DEC programmes is the crucial role which might be played by the domestic financial sector in facilitating the handling of the local currency proceeds exchanged for the external debt paper.

Practice has shown that DEC programmes are best analysed from three distinct perspectives: i)the investment authorization criteria: that is, how investment (specifically, foreign direct investment) is promoted and how it is channeled into priority areas; ii) financial aspects: that is, how the cake is divided among the participants; and iii) how negative impacts (i.e., inflationary pressures, speculative practices, etc.) are controlled. At a more general level, it is relevant to determine the priority of the DEC programme within the overall national debt management strategy and the extent to which national rather than creditor objectives are supreme in the design of the concrete DEC programme. Table 5 provides the information needed to carry out some of this comparative analysis for the principal DEC programmes of the major debtors. The following short analysis of each country programme will help to appreciate that table better.

Chile. This was the first major formal DEC programme[1]. The Chilean Government faced a

[1]Information for this and other national case studies comes principally from CTC, 1990 and the corresponding workshops held in Caracas and New York, plus consultant reports prepared in the context of another UNCTC/ECLAC joint effort, as well as other available sources. In the case of Chile, these included Chile, 1988; Mary L. Williamson, 1990; Ffrench-Davis, 1990; Lagos, 1989; and Fontaine, 1988.

Table 5

SUMMARY OF THE PRINCIPAL FEATURES OF FORMAL DEBT/EQUITY CONVERSION PROGRAMMES FOR MAJOR DEBTORS

	Chile	Mexico 1	Mexico 2	Philippines	Argentina	Brazil
Dates in force	V.85-[a]	IV.86-X.87[b]	VII.90-	VIII.86-[c]	V.87-IV.89[d]	IV.88-I.89[e]
A. Investment authorization criteria						
1. Eligible investors:						
Non-residents	X	X	X	X	X	X
Residents	f	g	X	X	X	
2. Acceptable uses:						
New equity	X	X	X	X	X	X
Existing equity [h]	X	X	X	i	X [j]	X
Local debt	X	X				
Country fund	X	X		incipient		incipient
3. Explicit priorities:						
Sectoral	k	X	X	X	X	
Foreign exchange earning	X	X		X	X	
Geographic						X
4. Normal FDI regulations apply?		X	X	X	X	X
5. Special restrictions: [l]						
Profits	4	5 [m]	?	4 [n]	4	
Capital repatriation	10	12	?	3-5	10	12
6. Matching fund requirement [o]	minor		50	0-60 [p]	30	
B. Financial aspects						
1. Eligible debt:						
Public sector	X [q]	X [r]	X [s]	X [t]	X [v]	X [w]
Central Bank	X [q]	X [r]	X [s]	u	X [v]	X [w]
Private sector	x			y	X [z]	
2. Valuation of debt:						
Close to par	X [aa]	X [bb]		X [cc]		dd
Much less than par			X		X	X
3. Fees charged:						
Administrative [ee]	>10	0-25		7-24		
Tax		X				X
4. Exchange rate used:						
Official	X			X		X
Parallel		X	X		X	
5. Allocation of conversion rights:						
Auction			X		X	X
Administrative decision	X	X		X		
C. Controlling negative impacts:						
1. Inflation: quotas [ff]			1000 [gg]	implicit	400	1800
2. Inflation/fiscal deficit: privatization	X	X	X	X	hh	
3. Speculative activities: company audits	X	X	?	X		

Source: ECLAC/UNCTC Joint Unit on basis of official information

[a] This programme was significantly modified in August, 1990 in such a way that investment quality rather than the quantity of debt reduction became emphasized.

[b] New applications for investment authorization were no longer received after October, 1987, however, the huge backlog of existing application s was worked off over the following years.

[c] In March, 1987 some new activities (banking/finance and the privatization of non-performing public sector assets) were added to the list of explicit sectoral priorities. In February of 1988, both the eligible debt and acceptable uses were restricted.

[d] Before 1987, a kind of debt/equity conversion mechanism existed for outstanding private sector liabilities with foreign exchange guarantees.

Conclusion of Table 5.

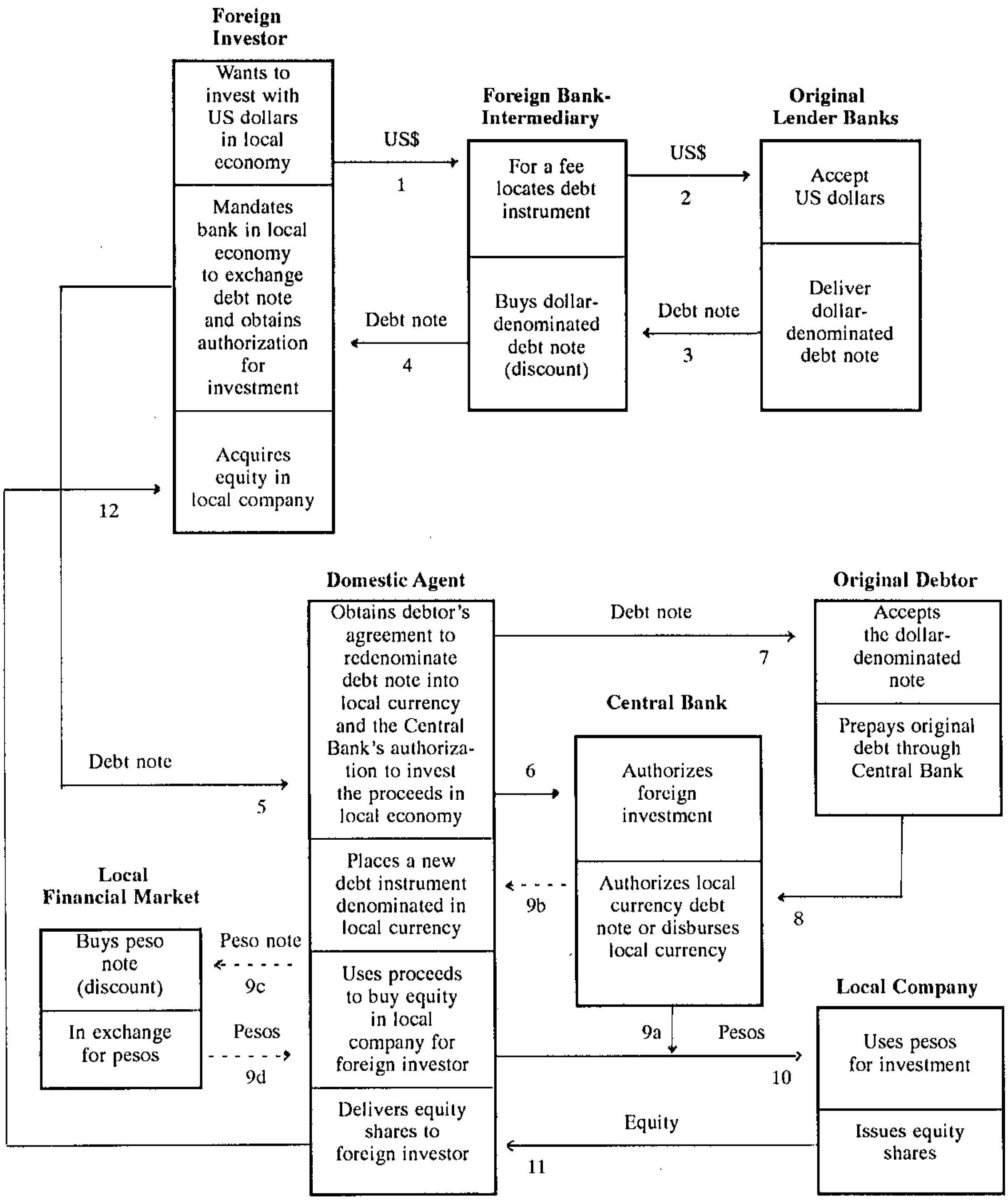
[e] Although considerable conversion look place before 1988, it was only with the establishment of a formal programme via Resolution 1460 that DEC volumes rose appreciably.
[f] Chapter XVIII of the Compendium of Foreign Exchange Rules deals with the conversion of TNB debt to pesos by nationals. No investment is required.
[g] In September of 1987, nationals were also permitted to engage in DECs, however, new applications for investment authorizations were suspended shortly thereafter.
[h] Most countries lay down limits on the purchase of existing assets.
[i] This was severely limited as of November, 1986.
[j] Limited to the original debtor in the case of private sector debt.
[k] A new, more sectorally-oriented, focus was introduced by way of the modifications of August, 1990.
[l] Expressed in terms of the number of years that external remittances are prohibited or severely restricted.
[m] Must be less that the value of the original interest payments during the first five years.
[n] For non-priority investments only.
[o] Expressed as a percentage of the value of the approved investment project.
[p] There is a sliding-scale relationship between matching funds and administrative fees, in the sense that higher matching funds correspond to lower administrative fees and viceversa.
[q] Essentially the 1985 and 1987 restructuring agreements, including new money facilities. Non financial private sector TNB liabilities do not carry a State guarantee and therefore are not included.
[r] In general terms, the TNB debt included that corresponding to the 1985 and 1987 restructuring agreements, including new money facilities; however, TNBs that did not fully contribute to the original new money facility were apparently excluded.
[s] That included in 1989 restructuring agreement. Limited to guaranteed TNB debt paper, such as the discount bonds, the par bonds and the United Mexican States paper for which there is an obligation to provide new money.
[t] Includes that referred to in 1987 restructuring agreement (including new money advances) plus all private sector TNB liabilities (whether restructured or not) except financial sector ones. Trade credits were initially included but later made ineligible.
[u] Restrictions were placed on the use of Central Bank liabilities as of February, 1988.
[v] A very wide variety of National Government, Central Bank and other public sector liabilities are included and generally referred to in the 1987 restructuring. Exit bonds were excluded.
[w] That referred to in the 1988 restructuring agreement (the multiyear deposit facility plus new money). Brazil Investment Bonds were included.
[x] Public guarantee extended to private financial sector debt of US$2.6 billion, as part of 1984 restructuring agreement.
[y] Public guarantee extended to private financial (US$1.6 billion) and private corporate (US$1.1 billion) debt as part of 1985 restructuring agreement. Reprogrammed trade credits were originally included for conversion purposes.
[z] Private external debt with exchange rate guarantees was included in a separate debt capitalization programme during 1984-87. A similar situation obtained for onlending facilities to the private sector.
[aa] The interest rate on the peso bonds received by the investor is less than a strictly market rate.
[bb] The higher the priority of the investment project, the lower are the administrative fees charged to the investor. There is a 20 per cent tax on the difference between the face value and the redemption value of the TNB debt.
[cc] The higher the amount of matching funds agreed to by the investor, the lower the administrative fees charged. Fees also vary according to the category –priority or nonpriority– of the approved project.
[dd] All debt/equity conversion carried out before the formal programme came into effect in 1988 was converted at par.
[ee] Percentage of face value of external debt converted via DEC programme.
[ff] In US$ millions per year.
[gg] The original target was US$3500 million over 3.5 years; however, that quota was reached after only 6 months of operation.
[hh] The original 1987 programme prohibited the use of the debt/equity mechanism for privatization.

relatively more difficult debt situation due to the high level of external indebtedness to TNBs and the dimensions of the crisis in the local financial sector. The national authorities took the bull by the horns and turned a pitiful bargaining situation into a strong position by gambling all on a liberal market strategy coupled with big concessions to TNB creditors, in the form of *ex post facto* State guarantees for the debt owed by the Chilean private financial sector to TNBs. Debt reduction was central to a debt management strategy which rested on a debt-for-peso exchange programme, a debt/equity conversion programme, and other operations, including debt buybacks. This active strategy succeeded in reducing the TNB debt by 1990 by about US$10 billion, or over 50% of the total. Its success in creditors' eyes was also manifest in the relatively higher price enjoyed by Chilean debt paper in the secondary market.

The DEC programme itself focussed on promoting the highest possible volume of foreign direct investment in the context of the debt reduction strategy. The very liberal and separate treatment of FDI via debt/equity conversion was characterized

Figure 1

PRINCIPAL ELEMENTS INVOLVED IN DEBT / EQUITY CONVERSION PROCEDURES



Source: ECLAC/UNCTC Joint Unit, based on World Bank, *World Development Report 1987*, Washington D.C., Oxford University Press, 1988.

by the exchange of TNB debt for pesos at close to the par value of that debt, coupled with few restrictions on the acceptable uses of the conversion proceeds, little initial concern for channeling those resources to specific activities, and an absence of explicit monetary controls or DEC conversion quotas (due to the absence of a severe fiscal deficit and the efficient functioning of the reformed local financial market). In essence, the DEC programme established a case-by-case bargaining situation between individual foreign (not Chilean) investors and national authorities of a liberal bent in which the authorities allowed the secondary market discount to serve as an incentive to foreign investors. They did not attempt to capture a significant part of that discount.

The DEC programme was exceptionally successful in improving the foreign investment climate, although it became apparent that it was in fact originally too permissive in permitting direct conversions in the financial sector and simple buyouts in that and other sectors. The only significant restriction was that limiting the use of DEC in the mining sector. Nonetheless, as the programme progressed and the original crisis lessened, national authorities became more adept at 'suggesting' investment priorities, matching fund requirements and limiting simple buyouts. As of August 1990, the DEC programme took on a much more selective character in so far as investment authorization was concerned, and investment 'quality' replaced FDI volume as the formal aim of the programme.

The results of the DEC programme up to August 1990 have been impressive in terms not only of debt reduction but also of FDI inflows, the positive economic impact, and the diversification of foreign investors. The DEC programme has accounted for US$3.6 billion of new FDI, of which US$1.3 billion was registered in 1989 alone. Almost three-quarters of that new FDI was registered in tradeables sectors such as industry (36.6%), agriculture, forestry and fishing (24.4%) and mining (13.1%), and has had a very positive impact on Chilean export performance, imparting a new dynamism to it. Finally, there was a healthy diversification of FDI by source country. Although United States investors still dominate the statistics with a little less than 40% of the FDI total via DEC, foreign investors from other countries have become relatively more evident, such as those from the United Kingdom (11.9%), New Zealand (10.6%), Spain (6.1%), France (4.1%), Sweden (3.2%) and Switzerland (2.9%). Thus, the Chilean DEC programme can be considered as very successful in terms of the aims of the national authorities. The value of the DEC in promoting FDI, coupled with the relative success of the liberal economic model (benefitting also from much improved copper prices), has permitted the Chilean authorities the luxury of spurning the Brady initiative and relying more on their privileged relation with international financial institutions, which was one of their priority aims.

Mexico. The debt crisis is usually considered to have begun in August 1982, when Mexico could not meet its external obligations. This initial ignominy for Mexico was worsened by a severe earthquake in 1985 and the steep fall in the international price of petroleum. These dire straits did not offer much of a bargaining position for this major debtor. In somewhat similar fashion to Chile, Mexico opted for a liberal market alternative; however, unlike Chile, the Mexican variant took place totally within a crisis context and therefore it was only when the principal aspects of the crisis had been to a certain extent attenuated that the trade and investment liberalization measures became more apparent. The debt management strategy rested more on restructurings combined with new money, initially, and on collateralized discounted debt exchanges, later, than on the debt/equity programme itself; nevertheless, the latter was essential in promoting a revival of foreign direct investment inflows. It is noteworthy that, while the Mexican authorities did implement a scheme (FICORCA) to guarantee the availability of foreign exchange to pay unguaranteed private sector external debts, Mexican officials did not feel obliged to extend a State guarantee to such private sector debt, which was later dealt with by heavily discounted buybacks very favourable to major groups such as ALFA and VISA.

The DEC programme appeared in two distinct phases of the TNB debt restructuring process: the 1984-1985 restructuring, in which the Mexican bargaining position was quite weak, and the 1989-1992 restructuring, in which it had strengthened considerably. One factor which assisted Mexico notably was that it was considered the test case of the Brady initiative by United States officials. Altogether, over the period 1982-1990 it reduced its TNB debt by over 20%.

Mexico implemented two very distinct debt/equity conversion programmes, which we shall refer to as DEC 1 and DEC 2.[2] The emphasis of DEC 1 was to promote FDI and channel it into priority sectors and activities. The investment authorization procedure gave preference to the privatization of State companies and to investments that produced exports from enterprises with positive trade balances, that increased productive capacity, that incorporated new technology, and that increased the level of national content, *inter alia.* Ten investment categories were defined, and a sliding scale of higher administrative fees (ranging from 0% to as much as 25% of the face value of the debt for lower-priority investment projects) was implemented. Although the FDI effected via debt/equity conversion was dealt with within the context of the existing legislation (the restrictive 1973 Law to Promote Mexican Investment and Regulate Foreign Investment), the regulations were considerably liberalized in the late 1980s. Furthermore, apparently much use was made of the DEC programme by existing subsidiaries which thus paid off local debt more cheaply.[3] Consequently, the investment authorization criteria were perhaps not as rigid as the official rules suggested. What is clear is that little attempt was made to capture a significant part of the secondary market discount, as the TNB debt was converted at over 80% of its face value on average for the life of the programme. DEC 1 was opened to Mexican nationals in October 1987, but one month later the receipt of new applications was suspended (although the accumulated balance was worked off over the following period).

In terms of results, DEC 1 did succeed in reviving FDI inflows, although apparently at the expense of certain inflationary pressures. The Mexican scheme did not count with a reformed and liberalized private financial market, as in Chile. In fact, the Mexican authorities felt it necessary to nationalize the banking sector during the initial days of the crisis. Over US$3.1 billion in FDI was registered via the DEC facility up to mid-1990. It was concentrated in priority sectors such as tourism (29.1%), the automotive industry (16.9%) and the in-bond (maquila) industry (11.5%), all of which produced significant foreign exchange earnings. The DEC-related investments in the automotive sector were central to the substantial increase in manufacturing exports from Mexico during the 1984-1990 period. Although most of the new FDI came from just one country –the United States (47.8%)– there was considerable diversification by country of origin: United Kingdom (13.8%), Germany (5.7%), Japan (3.7%), France (3.0%) and Spain (2.9%). As already noted, the Government's share in the secondary market discount did not exceed 19% of the face value of the TNB debt exchanged. The programme was shut down in November 1987, as far as new applications for investment authorization were concerned, due to the need to use existing foreign reserves for the enhanced structural adjustment programme then being initiated.

DEC 2 was implemented in 1990 in a very different context: one of a much more stabilized and liberalizing economy emerging from crisis. The new programme aimed explicitly at capturing a major portion of the secondary market discount. The key new feature was the use of the auction mechanism to distribute limited conversion rights for authorized investment projects, originally US$3.5 billion over three and one half years. The scheme was designed to take advantage of strong inflows of private Mexican deposits held in the United States, as well as continuing FDI inflows. For that reason, it was open to Mexican nationals. Although restricted to the privatization of State companies and infrastructural projects and, within those categories, limited to a maximum of 50% of the value of each investment project and available only for TNB debt with new money obligations, demand was very strong, as can be judged from the results. Over US$10 billion in investment projects has been approved and, facing this strong demand (and increasing discount), the Mexican authorities decided to liquidate their entire quota for three and one half years during two auctions held in 1990. The Government's take was the equivalent of 52% of the face value of the TNB debt exchanged (which compares very favourably with their initial expectations of 35%). It is not yet clear if a further quota will be available.

The Mexican DEC programmes have both been quite successful in terms of the distinct pur-

[2] Basic information on the Mexican programme is to be found in Mexico, 1986 and 1990a and b, and in Godinez, 1990.

[3] This was confirmed during the author's interviews with the largest foreign firms. See Mortimore and Huss, 1990.

poses assigned to them by the national authorities. DEC 1 was very useful in reviving FDI inflows and channeling them into priority areas during the crisis period, while DEC 2 performed well in terms of capturing a major portion of the secondary market discount on Mexican TNB debt. Nevertheless, the focus of the Mexican debt management strategy appears to rest with Brady-style initiatives, particularly direct discounted operations.

Philippines. The crisis suffered during the early 1980s was doubly difficult because the debt crisis was superimposed on a political crisis which was not resolved in any clear fashion until 1987. The weak bargaining position of the Philippines was manifest in the *ex post facto* State guarantees given to national private sector TNB debt as part of the first restructuring agreement in 1985 (which, incidentally, provided for the debt/equity conversion programme). The economy enjoyed more stability as of 1987; however, a continuing fiscal deficit and a permanent threat of military intervention in the nascent democratic government complicated matters. The debt management strategy rested primarily on rescheduling capital payments and obtaining new money during the first phase, and on discounted operations combined with new money in the second phase. The DEC programme was envisioned by local authorities as a 'spark plug' for investment, offering a clear incentive to investors, rather than as a principal means to pursue debt reduction (Philippines, 1986; Suratos, 1990, and Dytianquin and Sicat, 1988). Nonetheless, the Philippine authorities did reduce the TNB debt by 22.3% between 1984 and May 1990, mainly by way of concerted buybacks and prepayments.

Given the crisis conditions then experienced by the country, the original purpose of the DEC programme was to 'revitalize' the economy through investment via foreign direct investment and returned flight capital. Philippine nationals were included in the programme from the beginning. The investment authorization criteria were central to the programme, especially after the acceptable uses of DEC proceeds were tightened in November 1986. The authorities prepared a detailed list of preferred investments, giving clear priority to investment projects oriented towards exports or foreign exchange-earning activities. Although FDI undertaken by way of the DEC programme remained subject to the normal, relatively restrictive foreign direct investment rules, those rules were liberalized in October 1987, when two new categories of preferred investments were permitted: the privatization of non-performing public sector assets and banking/finance. It is notable in the case of the Philippines that a large number of investment project applications were rejected by government officials. A concern for investment quality was apparent in spite of crisis conditions.

Once a significant discount on Philippine TNB debt appeared in the secondary market, the Philippine authorities sought to capture a part of it without losing the investment quality focus of their DEC programme. Part of the October 1987 reforms entailed establishing a linked sliding scale of administrative fees (0-20%) and matching fund requirements (0-50%) for preferred investment projects. That is to say, within the category of priority investment projects, a greater contribution of fresh funds relative to DEC-related resources resulted in lower administrative fees. Given the level of the secondary market discount, most investors opted for the administrative fee, thereby providing the Government with a good share of the discount without sacrificing the investment quality focus of the DEC programme. Subsequent restrictions on the use of Central Bank and public sector debt paper as of February 1988 also reinforced selectivity in the authorization of investment projects. Finally, negative impacts were controlled to a certain extent by way of implicit DEC quotas, the emphasis given to the privatization of non-performing assets, and concern for investor identification and company audits. The Philippine DEC programme demonstrates a clear evolution from a completely investment-centred programme to one in which capturing a part of the discount assumed increasing importance.

In terms of results, the Philippine DEC produced investments (both foreign and national) of the order of US$895 million up until the end of June 1990, although it must be mentioned that annual flows began to decline as of 1988. These investment projects had a significant impact on the improved situation of the economy as they were heavily concentrated in preferred areas: export enterprises (34.9%), privatization (27.8%), priority investments (10.4%), banking/finance (9.1%) and other preferred fields (7.2%), even though only US$473 million in FDI resulted from the DEC programme (Filipinos accounted for 37.7% of the overall investment value of US$895 million). The FDI came primarily from the United States (33.8%), financial centres (15.3%), Hong Kong/ China (22.2%), Japan (16.2%), Taiwan (4.3%), Canada (3.1%) and Korea (1.6%). It would seem that the DEC programme did act in a minor way as a kind of 'spark plug' to help reactivate the Philippine economy at a time of crisis. It is equally clear that new considerations became increasingly important once a significant discount appeared in the secondary market. Even so, the overall debt management strategy relied more on other instruments, especially restructuring and buybacks.

Argentina. Argentina's situation was even more complex than that of the Philippines, in the sense that it not only combined the debt crisis with political instability, but added a lost war on top of that. This triple set of problems, plus a heavy dose of flawed economic management, has left Argentina in a terribly debilitated state. Its interest/exports and debt/exports ratios are among the highest in Latin America. Per capita GDP growth over 1981-1990 was -24,3%, that is, it declined by a quarter, and inflation remained out of control according to the statistics on consumer prices for 1989 (4 924%) and 1990 (1 833%). Speculative activities have characterized all aspects of the debt crisis, from the original contracting of TNB credits to virtually all attempts to manage the crisis (Schvarzer, 1983; García and Junco, 1987; Balino, 1987; and Calcagno, 1987). As might be expected in these circumstances, the Argentine debt management strategy has been ineffectual and the relationship with creditors has been extremely difficult and, at times, acrimonious. Although Argentina did restructure TNB debt in 1985 and 1987, so far its high level of arrears (about US$7 billion) has prevented any kind of Brady-style initiative. Its only real hope for debt reduction in the shorter term seems to be by way of an *ad hoc* privatization programme begun in 1991.

Argentina's experience with debt/equity conversion has been somewhat confusing (Argentina, 1987; Fuchs, 1990; Dreizzen, 1988, and Bouzos and Keifman, 1990). Although its formal programme resulted from the 1987 restructuring, it did have some activity previous to that programme as of 1984, in which about US$490 million of national private sector TNB debt with State foreign exchange rate guarantees was converted into equity investments, resulting in US$215 million in foreign direct investment. This first scheme had no clear investment authorization process and its results are unclear.

The formal programme was a package consisting of three elements: a debt/equity programme, a scheme for capitalizing on lending facilities in the private non-financial sector, and a mechanism for converting Central Bank rediscounts and loans to the private sector. The first element was the only one with a clear investment authorization process, and as it accounted for two-thirds of the TNB debt converted by way of this formal programme it will therefore be the centre of our analysis. The principal aim of the DEC programme, according to the local authorities, was to capture a significant part of the secondary market discount. A secondary aim was to establish a strict investment authorization process to ensure quality projects on the part of both foreign and national investors.

In terms of the first aim, it was implemented by way of an auction mechanism in which previously qualified investment projects vied for conversion rights strictly according to the discount offered. In six auctions held during 1989-1990, the average discount offered in the auctions rose from 38 to 75% (as the secondary market price of Argentine TNB debt paper plummeted). Officials tried to limit qualified projects to new capital goods, industrial plants, or activities that would improve the balance of payments. They originally demanded that investors provide matching funds in the same amount as the debt converted and that the official rather than the parallel exchange rate be used, but the lack of results convinced the authorities in September 1987 to limit the matching fund requirement to 30% of the value of the investment project and to use the parallel rate of exchange. In an attempt to control negative impacts, a conversion ceiling of US$300-400 million per year was established for the 1988-1993 period, but the programme was suspended in April 1990. Considering the inflationary environment in Argentina, it was surprising that the programme originally excluded privatization operations (characterized by their neutral monetary impact) from the DEC programme. The new *ad hoc* version, in contrast, is centered on privatizations.

It can be stated that the Argentine DEC programme was fairly successful in capturing a substantial portion of the secondary market discount on TNB debt, especially after the original disincentives in terms of matching funds requirements and the exchange rate used had been eliminated. Furthermore, of the investment projects implemented by foreign investors, slightly over half represented new investment, concentrated in relatively more dynamic sectors such as the automotive (54%), food and beverage (35%) and chemical industries. On the down side, the Argentine programme was characterized by a low volume of activity and relatively small projects, both of which prevented the programme from providing any kind of substantial and cumulative impact on the economy. Only about US$715 million of TNB debt was converted, with steep discounts for investment projects by foreigners, so that it actually represented FDI of the order of US$400 million. The *ad hoc* privatization scheme utilizing TNB debt paper is currently contemplating deals for the national telecommunications company and the national airline in the order of US$7 billion. That would make the privatization-DEC programme into a central feature of the debt management strategy. To date, that strategy has had no clear focus, and speculative activities continue to accompany new initiatives.

Brazil. This country lived less of a crisis than most others and it did not face too demanding political uncertainties, nor did it lose a war; nevertheless, its stormy relationship with creditors, especially TNBs, has complicated its macroeconomic performance and debilitated its debt management strategy. During 1990, inflation reached 2 360%, the trade balance weakened and the debt burden increased (although it is nowhere near Argentina's). Brazil's situation has generally deteriorated since it decided to do battle with TNBs by imposing a moratorium on TNB debt payments in 1987, which had severe repercussions on individual TNB accounts. The problem central to Brazil's poor economic performance, however, has been the fiscal deficit, not the relationship with external creditors.

The original debt strategy seems to have been to maintain a tough attitude, restructuring only relatively minor amounts while securing new money and trade/interbank facilities. That strategy began to falter when TNBs did not permit any agreement in 1985 and offered no new money in 1986. That paved the way for the moratorium of 1987 and, when the TNBs did not relent, the collapse of the strategy. The restructuring of 1988 involved US$61 482 million, some new money, the restoration of trade and interbank facilities and a formal debt/equity programme. The new approach did not succeed in establishing a new relationship with the TNBs, and arrears again built up the following year as the macroeconomic situation worsened. The existence of significant arrears prohibited any kind of Brady-style initiatives on the part of the creditor bloc, while Brazil demanded a radical solution (discounted operations involving the creation of 45-year bonds). The Brazilian debt strategy did not produce any significant reduction (estimated at less than 20%) in TNB debt, and it was debt/equity conversions in all their manifestations which provided the lion's share of that value.

In Brazil, debt/equity conversion has come in many forms and went through several mutations before a formal programme became active in 1988 (Brazil, 1988 and 1989; Bielschowsky, 1990; De Freitas, 1988; Wald, 1988, and De Moraes, 1988). DEC was carried out and had a certain economic significance during the 1982-1987 period through temporary or *ad hoc* mechanisms. A decline in foreign direct investment inflows convinced the authorities to offer tax incentives for the capitalization of relending operations for foreign enterprises, and US$1.3 billion was registered up until the programme was severely restricted in November 1984. Thereafter, and until the programme was suspended in July 1987, debt/equity conversions were limited to direct capitalizations only, with no tax incentive. Even so, US$2 billion worth of investment took place in this manner. These first operations in the field of debt/equity conversion took place at face value: that is, Brazil paid in local currency 100% of the original value of the converted TNB debt.

The new formal programme which came into operation in November 1987 consisted of two components both aimed at a common purpose: to capture as high a proportion as possible of the discount in secondary markets. The first element was an auction-based DEC programme which resulted in US$2 billion of conversions. The second element was a case-by-case programme limited to non-mature debt placed on deposit with the Central Bank, which produced US$850 million of conversions. Our analysis will focus solely on the formal auction programme, for which more official information is available, even though the temporary and *ad hoc* mechanisms were at least as important in volume terms as the formal auction programme.

The central feature of the formal DEC programme was the auction mechanism, subject to US$150 million monthly limits, which was based on the discounts offered. No fees were charged, but the use of the official exchange rate was considered a disincentive. In terms of the investment authorization criteria, with one exception, they were identical to the liberal foreign investment regulations. The exception was that 50% of the monthly quotas were restricted to certain areas of the country, namely, the less developed States in the areas coming under the Superintendency for the Economic Development of the Northeast (SUDENE) and the Superintendency for the Development of Amazonia (SUDAM), plus Espirito Santo and Vale do Jequitinhonha. It may be noted that the programme allowed for liberal 'accepted uses' of the resources converted; however, the purchase of shares in existing companies was not to lead to the denationalization of Brazilian companies. There were no special limits on profit remittances, but companies which had repatriated capital during 1985-1987 were supposedly excluded from the programme. Basically –until it was suspended in January 1989 due to the initiation of a new anti-inflation plan– this formal DEC programme was designed to capture a significant part of the secondary market discount and channel foreign direct investment to the poorer parts of the country.

The formal auction-based DEC programme has enjoyed some success, and some benefits have been registered. The discount arrived at in the auctions increased from an average of 17.6% to 34% during the ten auctions, meaning that Brazil ended up with about half of the secondary market discount. Furthermore, about half of the investment generated by the DEC programme went into depressed areas of the country. The investment projects were for the most part in priority areas: electric machinery (10.3%); chemicals (10.1%), paper (7%), metals (6.4%), food products (6.2%), tourism (5.8%), etc., although it is not clear how this affected exports or the availability of foreign exchange. There was also considerable dispersion as regards the country of origin of this investment: United States (29.6%), financial centres (22.3%), Japan (15.3%), France (8.9%), United Kingdom (4.9%) and Switzerland (4.5%).

In a more critical light, it is evident that the volume of transactions of the formal programme was rather pitiful for a country the size of Brazil, and the operation of the programme did not give a clear sense of direction to investors. This makeshift approach to debt/equity conversion in Brazil characterized that country's confused strategy with regard to DEC in particular and debt management in general. It is noteworthy that the volume of the formal auction-based DEC programme of 1987-1988 did not even exceed that of the restricted direct capitalization programme of 1984-1987. In addition, informal DEC of the order of US$4.3 billion has been recognized by the Central Bank authorities. If, indeed, all debt/equity conversion mechanisms utilized in Brazil did produce foreign direct investment of the order of US$4.5 billion during 1985-1989, this gives rise to a clear feeling that additionality has been low, and that TNCs used the DEC mechanisms for subsidized reinvestment purposes or as a substitute for normal foreign direct investment. Round-tripping and speculative practices seem to have been tolerated by officials even though they did not result in major new inflows of FDI or the significant reduction of Brazil's TNB debt on terms favouring national stability and growth.

The analysis of these five national programmes for debt/equity conversion demonstrates that the debt/equity instrument can be used to pursue different goals according to the situation in which the debtor country finds itself. Furthermore, an established programme can suddenly be modified to serve new aims. Tables 6 and 7 offer a summary of available information relevant to the goals of foreign direct investment promotion and debt reduction for these five programmes.

Table 6 demonstrates with considerable clarity that only one programme –that of Chile– has succeeded in turning the DEC mechanism into the principal means of promoting FDI, in a situation of increased FDI flows.[4] Eighty per cent of the value of the 1985-1989 FDI flows (which were more than double the value of those of the 'boom' period, 1978-1982) was channeled through the DEC

[4] TNBs have lauded the example of Chile. See The Institute of International Finance, Inc., 1990.

Table 6

SELECTED MAJOR DEBTOR COUNTRIES:[a] IMPORTANCE OF DEBT/EQUITY CONVERSION (DEC) FOR FOREIGN DIRECT INVESTMENT (FDI)[b]

(US$ millions and percentages)

	FDI via DEC 1985-1989 (1)	Total FDI 1985-1989 (2)	Total FDI 1978-1982 (3)	FDI via DEC (1) / (2)	Level of FDI (2) / (3)
Mexico	3 052	10 098	8 279	30	122
Brazil	4 529	7 687	11 775	59	65
Chile	3 160	3 947	1 424	80	277
Argentina	731	3 646	2 183	20	167
Philippines	473	2 306	582	21	396
Total	**11 945**	**27 684**	**24 243**	**43**	**114**

Source: ECLAC/UNCTC Joint Unit on Transnational Corporations, based on official information and IMF balance-of-payments data.

[a] The purpose of this table is to standardize available information in terms of discounted TNB debt which had been formally converted into materialized foreign direct investment, excluding the impact of any matching fund requirements or complementary investments.

[b] Includes only that portion which corresponds to foreign enterprises.

Table 7

SELECTED MAJOR DEBTOR COUNTRIES: IMPORTANCE OF DEBT/EQUITY CONVERSION FOR TNB DEBT REDUCTION, 1985-1989

(US$ millions and percentages)

	TNB debt 1987 (1)	Reduction via DEC 1985-1989 (2)	Total debt reduction 1985-1989 (3)	Percentage reduced (3) / (1)	Percentage reduced via DEC (2) / (3)
Brazil	65 700	8 559	12 900	20	66
Chile	14 800[a]	3 426[b]	9 100	61	38
Mexico[c]	74 500	4 162	8 700	12	48
Argentina	30 600	2 276	2 400	8	95
Philippines[d]	11 700	849[b]	1 700	15	50
Total	**197 300**	**19 272**	**34 800**	**18**	**55**

Source: ECLAC/UNCTC Joint Unit, on the basis of official information, and IBRD, *World Debt Tables, 1990-1991. External Debt of Developing Countries, vol. 2, Country Tables*, World Bank, Washington, D.C., 1990.

[a] This figure is for 1985, the high point for TNB liabilities within the period 1985-1990

[b] To June 1990.

[c] An important reduction in existing TNB claims, of the order of US$6 900 million (excluding additional new money liabilities) was registered in 1990.

[d] An important reduction in existing TNB claims, of the order of US$1 300 million (excluding additional new money liabilities) was registered in 1990.

programme. The Brazilian programme succeeded in channeling almost 60% of the FDI flows through the DEC programme, but it was 60% of a greatly reduced inflow. For its part, Mexico guided almost one-third of the increased FDI inflow through its DEC programme. Both the Philippines and Argentina had some success in raising FDI inflows, but their DEC programmes were not particularly important in that result. The admittedly deceptive average for these five countries suggests that while FDI inflows increased slightly, over 40% of those inflows was accounted for by DEC programmes during 1985-1989. This indicates that it is the character of individual programmes in changing national circumstances which is of importance when viewing results in a comparative manner, not the aggregates.

A similar case holds true for the goal of debt reduction. Table 7 indicates that only one country programme –again, that of Chile– succeeded in both significantly reducing the TNB debt (by 61%), and doing so in large part (38%) via the DEC programme. It is quite true that *all* other major debtors did make more use of DEC for debt reduction, but their level of reduction was minor, ranging from 8% to 20% of the debt stock. It should be mentioned that both Mexico and the Philippines implemented Brady-style debt and debt service reduction schemes in 1990, but in neither case was the DEC programme the principal instrument. Again, the average for the group gives a rather inaccurate picture of the situations of these individual DEC programmes in terms of the TNB debt reduction goal.

III
Conclusions

As is by now evident, there has been a clear tendency in the debt/equity programmes of major debtors to de-emphasize the goal of promoting direct foreign investment and to concentrate instead on capturing a significant part of the secondary market discount available on the TNB debt of those countries. That tendency accelerated as secondary market discounts grew explosively from 1987 onwards. While TNBs, especially those that dominate the advisory committees for these debtors, like DEC programmes (particularly those that emphasize FDI promotion and that convert TNB debt at something close to face value), it is clear that such programmes are no longer the best means available to capture a portion of the discount. Brady-style discounted operations are becoming more popular.

In spite of the decline in popularity of the DEC mechanism, it is important to point out that such programmes can still be useful in promoting the goals defined by national authorities, even if they are often an imposition of creditors. In order to be useful they must be carefully designed to focus on a *single* principal goal and, to the extent possible, to reflect national priorities. The analysis of individual DEC programmes –not aggregate statistics– offers a means of learning from the experiences of others. Examination of the data on DEC-based FDI flows and TNB debt reduction bears this out.

Along with the general swing in the focus of DEC programmes from FDI promotion to capturing a piece of the discount, there was a tendency on the part of most major debtors to replace crisis management with debt management. The countries which did this are those that have achieved most in terms of the political economy of debt/equity conversion. Those that have achieved least are the major debtors which have not implemented serious structural adjustment policies.[5] In a situation of macroeconomic instability, the negative impacts of DEC programmes often considerably outweigh any positive contributions, with inflation and speculative practices usually being the consequences. In these circumstances, it is probably a safer bet to focus DEC programmes on capturing the largest possible discount within the context of a serious privatization scheme, so that the impact on mon-

[5] An interesting table on policy reform in Latin America during the 1980s was presented in *Latin Finance*, No. 15, March 1990, p. 63. It was based largely on John Williamson (ed.), 1990.

etary variables is minimized. Furthermore, DEC programmes can be used to seek certain waivers from TNBs, such as those dealing with the sharing and prepayment clauses of existing loan contracts, which will be useful for posterior debt and debt service reduction agreements.

Learning from the concrete experiences of other major debtors and being alert to potential initiatives are two ingredients which have often been missing from the debtors' shelves but which are necessary for the preparation of their 'menu' of options.

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CEPAL REVIEW No. 44

Options for Latin American reactivation in the 1990s

*Colin I. Bradford, Jr.**

This article analyses the current internal and external situation of the various countries of Latin America and poses the question of whether this situation closes the door on the growth prospects of the region in the 1990s or, on the contrary, creates conditions and opportunities for the restoration of growth.

The recent economic literature on growth and development is also examined with regard to these issues and it is concluded that although external restrictions pose a major problem, they do not in themselves determine the future growth prospects of the region.

It is held that emphasis should be placed on improving various internal conditions in order to improve the productivity and growth of the national economy. Competitiveness is seen as the driving force which will facilitate and be facilitated by integration into the world economy. Exports, which must play a fundamental dynamic role, depend on a range of elements which activate the growth process, rather than on sectoral policies. The traditional dichotomies between import substitution and export promotion must be discarded in favour of approaches that combine the best of both aspects.

Emphasis is also placed on the need for compatibility between income distribution and growth, and it is concluded that there are a number of factors within the economic authorities' grasp, in contrast with the view that exogenous forces are determinant in the development process.

*Head of Research Programme, OECD Development Centre, Paris. This study was also published in Louis Emmerij and Enrique Iglesias (eds.), *Restoring Financial Flows to Latin America*, Paris, OECD Development Centre, 1991.

Introduction

The 1980s is now widely considered to have been a "lost decade" for Latin America. The heritage of that decade is the accumulated external debt which looms as a burden and potential constraint on Latin America's prospects for the next decade (Davrieux, 1990). Furthermore, the availability of new external financial resources is likely to be severely constrained in the 1990s from the supply side. The competition for external resources will be greater, with the United States, Eastern Europe, the Soviet Union and Southeast Asia (ASEAN) vying for funds, whereas Latin America was virtually alone in the 1970s as a willing and credible borrower. Social issues, poverty and equity are becoming more pressing priorities in economic policy in Latin America than previously.

These various pressures on Latin America raise the fundamental question of whether the countries of the region can restore economic growth in the 1990s.

The question briefly addressed in this article is to what extent the current conjuncture of external and internal pressures creates circumstances which close the door on growth prospects for Latin America for the 1990s, as many observers believe, and to what extent they create conditions which can be capitalized on by much of Latin America to initiate a restoration of growth over the coming decade. In particular, reference is made to some of the recent literature on economic growth and development against the background of the mixture of internal and external pressures in evaluating the possibilities for restored growth in the region.

I

Growth-led exports or export-led growth

In recent years, there has been some re-examination in economics of our understanding of the growth process. Several of the issues taken up by this relatively new literature relate to each other and, more importantly for our purposes here, affect our thinking about how economic policies influence growth. One issue is the relative weight of the quantitative accumulation of factor inputs versus the qualitative improvement of such inputs. The importance of human capital *vis-à-vis* physical capital is one dimension of this issue. Another issue is the importance of technological change and how it should be treated analytically. Whether technology is exogenously or endogenously determined is one dimension of this issue. Still another issue is whether export growth is supply determined or demand driven. In essence, the question is whether cases of dynamic growth are cases of growth-led exports or export-led growth.

The recent literature on these issues sheds light on the fundamental conceptual perspective in the light of which development strategies are formulated: whether the process is one of structural reform of the national economy for domestic competitiveness which results in dynamic growth and an increased supply for export or whether it is one of trade policy reform for international competitiveness which allows the economy to respond to external demand. While many of the specific policy reforms would be the same under either formulation, the alternatives make quite a difference in how the development process is conceived and executed, as between achieving integration into the world economy through trade, on the one hand, or achieving national economic integration and dynamism through increased competitiveness, on the other.

Elhanan Helpman put the problem very well: "We need a theory that can address fundamental questions, such as: Does growth drive trade or is there a reverse link from trade to growth? Many authors have emphasized the role of free trade in promoting growth. Nevertheless, there also exist arguments that trade policy was central in the promotion of fast growth in Japan and some of the NICs. Current theory is not suitable to deal in a satisfactory way with these alternative views" (Helpman, 1988, p. 6).

Conventional models with diminishing returns to capital led to the hypothesis of convergence among countries. The idea was that wage rates and capital-labour ratios would converge, since the rate of return on investment and the rate of per capita output growth are decreasing functions of the level of per capita capital stock. Since we have been witnessing a world of divergent growth in the 1980s, a re-examination seems appropriate.

In a frequently cited article in 1986 Paul Romer began with the point that if the assumption in conventional models of constant returns to scale in production held, then, of course, the output growth would be completely accounted for by the quantitative growth in factor inputs. The growth accounting work of Kendrick (1976), he noted, found the rate of growth of output to be between 1.06 and 1.30 times the rate of growth of inputs in the period from 1929 to 1969, and this was evidence that the rates of growth of human and non-human, tangible and intangible inputs were not sufficient to explain the growth of output (Romer, 1986, p. 1013).

This suggested to Romer the possibility of a new formulation involving three assumptions. First, knowledge is viewed as a capital good with an increasing marginal product. Capital stock is assumed to be a composite good where the knowledge component has increasing returns to scale which outweigh the decreasing returns of the physical capital stock component. Second, technological change becomes endogenously determined like any other input with a price and a marginal product which determine its economic role, rather than exogenously given as it is in most models. And third, the returns to new knowledge cannot be captured only by the firm generating it but constitute an externality that can be reaped by other economic agents. This creates a divergence between social and private return which must be addressed.

These assumptions represent major differences with regard to how the growth process is understood and activated, and they have been taken as the basis for further work by others.

For example, Jaime de Melo and Sherman Robinson (1990) have formulated three types of knowledge externalities that help explain the dynamism of the growth process associated with high export-GDP and import-GDP shares. These are trade promotion externalities, import externalities and export externalities. Trade promotion externalities are those that are provided by governments through information services, market development advice, assistance in design and packaging, etc., which can be appropriated by firms with ambitions to export. Import externalities result from the learning opportunities made possible by importing capital goods and intermediate goods with embodied technologies. Export externalities are those that accrue from meeting international market standards, product quality specifications, quality criteria and distribution and marketing challenges, which, once achieved, can be generalized to other products and processes.

De Melo and Robinson find that when their model included measures of these externalities rather than relying solely on factor accumulation and exogenous technical change it improved the fit of export-GDP and import-GDP with patterns of structural change in output and trade in Korea and Taiwan.

These results and the theoretical ideas behind them lead to a different concept of the benefits of outward orientation and openness to the world economy. The benefits of trade derived from this line of work are the knowledge generation and spillover effects generated by export experience, importing embodied technologies, and trade promotion linkages. The knowledge generation effects of trade complement the already extant stock of knowledge from internal sources –education, previous economic growth, science and technological development, R&D promotion, etc. If knowledge is critical to growth, as Romer argues, the fact that much of the world's stock of knowledge is in industrial countries creates an imperative for openness to trade as a means of capturing knowledge from abroad and internalizing it. Romer (1989), in another paper, using a regression of 90 countries, finds that openness as measured by the export-GDP share leads to increases in the rate of technological change and higher marginal productivity of capital, whereas exogenous increases in savings and investment are less potent in affecting these variables.

The conceptual innovation here is something more than putting the "A" term for the residual of the production function inside the parenthesis of the production function itself. It makes explicit the endogeneity of the knowledge generation process, the dynamic effects to be realized from it due to increasing returns, and the "public good" quality of knowledge which means that firms and institutions will have to devise strategies to capture the externalities. It is the endogeneity of the knowledge absorption process through openness that generates dynamic national economic growth which then yields rapid growth in the supply of exports. This is not the same as demand-driven export-led growth that results primarily from getting internal market conditions to reflect international prices. In the new formulation, it is the internalization of knowledge that spurs dynamic growth of the domestic economy, thus providing the surplus supply of exportable goods. These newer theories of growth fit rather well with patterns of investment-led, structural-change-driven, and supply-push exports derived from empirical research on the NICs in different regions in the 1980s (Bradford, 1987).

Helpman (1988, pp. 15-16) concludes: "The extremely fast growth of exports in some of the NICs gives the impression that international trade plays an important role in the process. It can nevertheless be argued that the co-movement of output and exports stems from internal sources that bring output growth, which induces in turn export growth ... Causality is from growth to trade rather than the other way around".

II

Industrialization, market size and the "big push" revisited

Quite apart from the preoccupations with explaining rapid growth in trade, some recent literature has gone back to themes and ideas from an earlier period, which have been marginal to mainstream development discourse for thirty years, and re-examined them in the light of more recent thinking. These articles explore intersectoral linkages, market size and increasing yields from simultaneous investments, which had been first articulated in the balanced growth, big push industrialization literature from as long ago as the 1940s and 1950s.

These issues are explored in two articles by Kevin Murphy, Andre Shleifer and Robert Vishny (1989a and 1989b). The first incorporates the idea of increasing returns as a central element. Indeed, industrialization is defined as the "substitution of increasing returns technologies for constant returns technologies in the production of some goods" (1989a, p. 542). The intersectoral story that follows is in some ways quite familiar, with growth in agriculture being important to generating enough demand to make domestic manufacturing viable from an economic point of view.

The supply side complement to this idea is provided by the interesting finding by Jean-Claude Berthélemy and Christian Morrisson (1989, p. 9) that the supply of manufactured goods is a critical motivating factor for farmers to generate agricultural goods. Without manufactured goods to buy, farmers have no incentive to produce more, because there is nothing on which to spend their income. "It follows that a shortage of manufactured goods (consumer goods and inputs) can quickly cancel out agricultural development efforts and lead to a cumulative process in which the crises in both the agricultural and non-agricultural sectors fuel each other, the non-agricultural sector being gradually paralyzed by the drop in imports resulting from the decline in agricultural exports".

From the demand side, however, Murphy, Shleifer and Vishny (1989a) argue that income distribution is not just compatible with industrialization but necessary for it, citing Chenery, Robinson and Syrquin's figures that 80 to 90% of manufacturing output in developing countries is for the domestic market. Industries with increasing returns technologies, which often require high fixed costs of R&D or capital equipment or both, are frequently hampered in their development by lack of sufficient demand.

The old argument that improving the distribution of income would erode domestic sources of savings by reducing the income shares of upper income earners with a higher propensity to save in favour of lower income earners with a lower propensity to save has been refuted by recent evidence and behaviour. Greater awareness of the importance of hidden savings in the informal sector, which constitutes over 30% of total non-agricultural employment in Latin America (Turnham *et al.*, 1990), and the evidence of capital flight and rentier behaviour among wealthy Latin Americans undermines the savings argument for the "growth-with-inequalities type of development pattern" (Armendáriz de Aghion, 1990).

Murphy, Shleifer and Vishny (1989a, p. 560) conclude by saying that "for both a closed economy and an economy with some open markets, our analysis stressed the role that composition of demand, as determined by the distribution of income, plays in industrialization. We identified the role of the leading sectors, such as agriculture or exports, in driving industrialization, but also showed that a boom in a leading sector might not suffice. For industrialization to take place, benefits from such a boom must be equally enough distributed to create large markets for domestic manufactures. Focusing on increasing returns and the size of domestic markets seems to offer insights that would be hard to obtain otherwise".

In a second article (1989b), again focused less on trade than on the reasons for "stalled" industrialization, the same three authors address the issue of how an economy overcomes the circumstance of small internal market size inhibiting investment by firms whose profits would not be large enough, if they invest alone, to justify the lump sum investment required for increasing returns technologies. The issue then is one of pecuniary externalities as against the technological externalities stressed by Romer.

The solution is quite straightforward and quite familiar. Simultaneous investment by several firms increases incomes sufficiently to create a large enough market to render each firm's profit stream large enough to justify an investment that would not have been possible if each firm invested in isolation. The argument is extended to infrastructure, where the public good is amortized over the income stream of multiple simultaneous investments, thus making it feasible, whereas the incremental approach would yield a lower level equilibrium.

This line of reasoning leads to the conclusion that simultaneous, multiple-sector investments result in a profitable, economically viable and more dynamic growth path where increasing returns can be realized, and that in the same way it is possible to execute economically viable shared infrastructure projects that would be otherwise impossible if investments were evaluated and executed separately. The pecuniary externalities that make this analysis a reality can be appropriated by an intersectoral approach which actively seeks to capture these externalities and the gains from increasing returns technologies. For the authors, "the bottom line is the overwhelming importance of domestic demand for most domestic industry" (Murphy *et al.*, 1989b, p. 1007). It is interesting to note that a National Institute of Statistics survey in Mexico found that among firms unwilling to invest in Mexico in 1988, 35% of the respondents mentioned exchange rate uncertainty and 45% mentioned "insufficient future demand".

III

Conclusion: implications for Latin America in the 1990s

The articles referred to above provide interesting perspectives when considering the prospects for restoring economic growth in Latin America in the 1990s. Perhaps the most interesting general conclusion that can be drawn is the fact that, if the central elements in the theorizing in these articles are in fact powerful driving forces for growth in the future, then the external financial constraint does not appear to inevitably and unavoidably condition the region's growth prospects in the next decade. In other words, the fact that the outlook for significant financial flows to Latin America in the 1990s is bleak, does not necessarily doom the growth outlook for the region.

These perspectives place greater emphasis on getting the internal trajectory right as a means of improving the productivity and growth of the national economy and highlight the internal instruments and agents which can impact on the domestic economy. Competitiveness is conceived of as the centrepiece of a national economic project which generates a more dynamic domestic economy. This competitiveness cannot be achieved without reference to international prices and exposure to them through opening the economy, nor without access to technologies from abroad through imports and export experience. National economic competitiveness would facilitate and be facilitated by integration into the world economy. But the *raison d'être* and driving force behind the development strategy is national economic competitiveness and dynamism which create their own imperatives for openness, competition, deregulation, privatization, macroeconomic stability and structural reform, rather than exports becoming the *sine qua non* of development.

The difference in emphasis is fundamental. Focusing on exports and the trade reforms that are necessary to achieve them is only part of the story. The export-led growth idea is based on the notion that if conditions are right, exports will occur, but the theory does not specify the agents of dynamic export growth beyond the efficiency gains from the static allocative effects of getting prices right. The growth-led export idea is based on a richer range of elements which activate the growth process. These focus on the knowledge generation process both domestically (through education, training, literacy, R&D support and the like) as well as in respect of the crucial absorption of technologies from abroad through open-economy policies. Learning by doing, investing in increasing returns technologies in industry, obtaining embodied technologies through imports, gaining export experience, and reaping the externalities of trade promotion all provide elements for dynamic economic gain in this conceptualization of the process.

There is more for economic agents to do in the growth-led export framework. The emphasis on getting the domestic economy going for domestic reasons animates and roots the reform process within the national economic, institutional and political framework where it has more salience and power. The opening of the economy to international competition becomes part of and driven by a commitment to reinforcing domestic reforms to enhance national competitiveness. Export-led growth policy ideas are still vital, but they are now within a larger and more complex framework involving the whole society. We have for too long been involved in debates about dichotomous options rather than searching for "combinatoria" of elements (Calvino, 1988, p. 20). A good example of the "combinatoria" approach is in the recent study led by Fernando Fajnzylber (ECLAC, 1990) on *Changing Production Patterns with Social Equity* (see especially but not exclusively pp. 83 and 98-100).

The second element that surfaces from this review of recent literature is the renewed confidence in the potential compatibility between income distribution and growth, which give greater weight to the size of the domestic market and inter-sectoral approaches in spurring growth. For the large and medium-sized economies in Latin America, these factors provide another set of positive elements for facing the policy dilemmas and challenges of the 1990s.

Taken together, these various lines of argument provide a more solid basis for a positive outlook for Latin America in the future. The common feature of these various elements is that they are fully within the region's grasp. National economic agents can act to realize the potential which exists within the national economy by internalizing technological knowledge and innovation from abroad and to exploit the advantages of a large internal market. The external trade and financial context remains important, of course, but is not necessarily determining. The view that dynamic export expansion is largely supply-determined and more the result of rapid economic growth than its cause places the responsibility and the prospect of restoring growth in the region more in the hands of Latin America itself, rather than making them subject to the fate of exogenously determined external economic forces. This can only be viewed as a good thing for a region that is more and more bent on getting its house in order for its own reasons as democracy returns to the region.

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CEPAL REVIEW No. 44

Productivity: agriculture compared with the economy at large

*Gerardo Fujii**

This paper posits the need for a study in greater depth to identify the special features of the structural heterogeneity of the Latin American economies. Such a study is needed regardless of whether this phenomena is defined ultimately as the presence of marked inequalities in the productivity of labour between different sectors of the economy or whether the heterogeneity of the economies of Latin America is understood fundamentally as a significant relative lag of agriculture compared with other sectors of the economy. It is demonstrated in this article that on the one hand, in many currently developed economies there is even now a significant gulf between the productivity of labour in agriculture and productivity levels in the economy at large, while in two countries of late industrialization studied here (Italy and Japan) it is observed that until a few years ago the productivity differential had continued to grow to the point that, in the case of Japan, it reached levels similar to those of some Latin American economies of a medium level of development. Finally, the background information presented suggests that there is a more or less well defined uniform relation between productivity in agriculture and in the rest of the economy: at the beginning of the industrial development process, both indicators register very similar levels, but as industrial growth speeds up, agriculture begins to fall behind in terms of productivity. Subsequently, however, this leads to a phase in which agricultural productivity grows faster than the average levels, thus leading to a narrowing of the gap between this sector and the rest of the economy.

The methods used to arrive at these conclusions include both cross-sectional studies and studies of the long-term behaviour of the ratio of agricultural productivity to economy-wide levels.

*Faculty of Economics, National Autonomous University of Mexico.

Introduction

One of the most outstanding features of the Latin American economy is its internal heterogeneity. This is expressed in the existence side by side of capitalist and pre-capitalist sectors, which is reflected in enormous intersectoral differences in productivity. With regard to the latter aspect, Aníbal Pinto held that in the light of the changes brought about by industrialization, the structure of production of Latin America can be broken down into three main strata. On the one hand, there is the so-called "primitive" stratum, whose levels of per capita productivity and income are probably similar (or even sometimes inferior) to those prevailing in the colonial economy and even, in some cases, the pre-Columbian economy. At the other extreme there is a "modern" pole made up of export, industrial and service activities operating at levels of productivity similar to the *average* levels of the developed economies, while between the two there is the "intermediate" stratum which in some respects corresponds more closely to the average productivity of national systems (Pinto, 1973, pp. 105-106).

For the vast majority of the Latin American countries, the most typical representative of the "primitive" sector of the economy is agriculture, with its low relative level of productivity. This assertion should not be allowed to conceal two facts, however: firstly, that Latin American agriculture likewise displays internal heterogeneity and contains a modern sector which must be distinguished from the traditional sector, while secondly, two countries of the region (Argentina and Uruguay) do not display the profound imbalances between labour productivity in agriculture and that in the rest of the economy which are characteristic of the other countries of Latin America.

The foregoing general assertion is illustrated by the figures of table 1, which shows the arithmetic means of the shares of agriculture in employment and added value for a set of six Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico and Peru), as well as the ratio of labour productivity in agriculture to average productivity in the economy at large.

Table 1

LATIN AMERICA: SHARE OF AGRICULTURE IN EMPLOYMENT AND ADDED VALUE AND RATIO OF AGRICULTURAL TO GENERAL PRODUCTIVITY

	Share of agriculture[a] in:		
	Employment	Added value	Agricultural/ general productivity[b]
1950	50	23	0.46
1980	29	12	0.41
1986	24[c]	11	0.46

Source: Maddison, 1989, p. 20 and calculations by the author on the basis of World Bank (1985).
[a] Arithmetic mean for Argentina, Brazil, Chile, Colombia, Mexico and Peru.
[b] The productivity ratio was calculated according to the methodology set forth in the annex of this study.
[c] Data for 1985, excluding Peru.

The table shows that on the one hand, the agricultural sector's share in employment is more than double its share in the product, which is due to the fact that the productivity of labour in agriculture is less than half that of the average productivity of the economy. On the other hand, although the share of agriculture in employment has displayed a rapid decline between 1950 and 1986, the same trend has been observed with regard to the percentage of the total added value in the economy generated in this sector, so that between 1950 and 1986 there was no improvement in the negative productivity differential of agriculture. Ultimately, however, these data could be an indication that the economies of Latin America have now passed through the phase in which the productivity gap was moving against agriculture and that this has subsequently given way to a stage in which agricultural productivity is growing more rapidly than the average.

The aim of this study is to determine, through empirical data, whether the relation between agricultural productivity and the average productivity of the economy has shown any definite trend, in the course of the economic growth process, which could make it possible to determine whether the situation of heterogeneity displayed by Latin America in this field is in keeping with the regular patterns of behaviour of the development process and the trends which may be expected in the future in this respect. The behaviour of this relation was determined through a cross-sectional study and a study of the long-term trends of this relation in the development process of some selected countries.

I

Cross-sectional study

Table 2 shows the ratio of the productivity of labour in agriculture to the average productivity of the economy towards the end of the 1950s for groups of countries ordered in rising levels of per capita gross domestic product.

Table 3 gives three estimates of the same ratio, obtained by grouping together the countries in table 2 in five strata by per capita product levels and calculating the weight of agriculture in the product and in employment by extrapolation (see Kuznets (1972), p. 110).

Table 4 shows the same ratio at the beginning of the 1980s for 113 countries grouped in three major categories by per capita income levels.

Table 2

WORLD (SELECTED COUNTRIES): RATIO OF AGRICULTURAL TO GENERAL PRODUCTIVITY AT THE END OF THE 1950s[a]

Per capita GDP strata	Ratio of agricultural to general productivity
I	0.67
II	0.70
III	0.57
IV	0.54
V	0.60
VI	0.80
VII	0.62
VIII	0.79

Source: Calculations by the author on the basis of Kuznets, 1972, pp. 104 and 200.

[a] Notes on the original data on the share of agriculture in the product and employment which served as the basis for the calculations:

- Share of agriculture in GDP: based on data for 57 countries.
- Share of agriculture in employment: based on data for 59 countries.
- The data on the share of agriculture in GDP and employment were based on the above numbers of countries in the case of strata II, III and V-VIII. In the case of stratum I, the share of this sector in the product and employment was based on data for 6 and 5 countries, respectively, while in the case of stratum IV it corresponded to 15 and 18 countries, respectively.
- The strata were defined on the basis of the per capita GDP in US dollars in 1958.
- The share of agriculture in employment corresponds to the period around 1960.
- The levels of per capita GDP corresponding to strata I-VIII for the share of agriculture in GDP were: 51.8; 82.6; 138; 221; 360; 540; 864 and 1382 US dollars
- The levels of per capita GDP corresponding to strata I-VIII for the share of agriculture in employment were: 72.3; 107; 147; 218; 382; 588; 999 and 1501 US dollars.
- Agricultural GDP corresponds to crop-farming, stock-raising, forestry, hunting and fishing.
- GDP was taken at factor cost.

Table 3

WORLD: RATIO OF AGRICULTURAL TO GENERAL PRODUCTIVITY AT THE END OF THE 1950s

Per capita GDP[a]	A[b]	B[c]	C[d]
70	0.60	0.60	0.63
150	0.58	0.58	0.63
300	0.57	0.57	0.63
500	0.60	0.60	0.65
1 000	0.66	0.69	0.75

Source: Calculated by the author on the basis of Kuznets, 1972, pp. 111 and 203 (columns A and B) and p. 209.

[a] Per capita GDP in 1958.

[b] Ratio in 1958.

[c] Calculated according to the share of agriculture in the product (1958) and in employment (1960).

[d] The total GDP used as a basis for the calculations does not include income in respect of banks, insurance companies, real estate, or ownership of property.

Table 4

WORLD: RATIO OF AGRICULTURAL TO GENERAL PRODUCTIVITY AT THE BEGINNING OF THE 1980s

	Per capita GNP (in current 1983 dollars)[a]	Ratio of agricultural to general productivity[ab]
I. Low-income countries (35 countries with a per capita GNP under US$400)	250	0.50
II. Middle-income countries (59 countries with a per capita GNP between US$400 and US$7000)	1 310	0.34
– Lower middle income (37 countries with per capita GNP between US$400 and US$1500)	750	0.41
– Upper middle income (22 countries with per capita GNP between US$1500 and US$7000)	2 050	0.37
III. Industrialized market economy countries (19 countries): USA, Canada, Australia, New Zealand, Japan and European market economy countries)	11 060	0.50

Source: Calculations by the author on the basis of World Bank, 1985, pp. 198, 199, 202, 203, 238 and 239.

[a] Both the per capita GNP data by strata and the figures for the share of agriculture in the product and in employment used to calculate the productivity ratios for each stratum are weighted averages.

[b] The data on the share of the agricultural labour force in the total correspond to 1981.

Two main conclusions may be drawn from the above information. The first one is that whatever the per capita product stratum, there is a significant gulf in labour productivity against agriculture. According to the data in table 4, even in the industrialized capitalist countries, which are those that have the most homogeneous economies, the productivity of agricultural labour is only half the average: that is to say, the same ratio as in the least developed countries. Tables 2 and 3 show that at high levels of per capita income there are smaller differences in productivity against agriculture, but these are still substantial. There are exceptions to this rule however. At the beginning of the 1980s, in the group of industrialized countries, the United States and the United Kingdom registered levels of productivity in agriculture equal to the average level for the economy, while at the other extreme there was Japan, where the ratio between the two indicators was only 0.33. The ratio in Europe was closer to the average for the whole group (Federal Republic of Germany and France: 0.50; Italy: 0.55; Sweden and Norway: 0.60; and Netherlands: 0.67).[1]

The group of upper middle income countries, which includes the five relatively most developed Latin American economies (Argentina, Brazil, Chile, Mexico and Uruguay), also includes three cases which considerably exceed the average ratio of productivity of the group. These are Argentina (0.92), Uruguay (1.1) and Israel (0.86). In contrast, among those which show the biggest productivity differential against agriculture are Mexico (0.22), South Africa (0.20) and Portugal (0.29).

The set of countries making up the stratum of lower middle income countries generally display a smaller dispersion of the ratio of agricultural to general productivity around the average (0.34). Among the countries in this group with relatively high agricultural productivity are Colombia (0.77) and Costa Rica (0.79), whereas the ratio is extremely low in Peru (0.20), Ecuador (0.27) and some African countries, notably the Congo and Zimbabwe.

Finally, among the low-income countries there is likewise greater concentration around the average for the group.

The second conclusion deriving from the foregoing data is that as one progresses from countries of low per capita product to those with a higher level of product, the productivity ratio tends initially to deteriorate to the detriment of agriculture as one passes from the group of poor countries to the middle-income nations, but as one continues towards the group of developed countries a second phase in which the productivity gap tends to narrow is observable. Thus, among the extremely poor countries (with a per capita GNP of less than US$250 in 1983) the ratio is generally over 0.60 (it is lower in only four of the 13 countries), while in the 67 countries which have a per capita product of between US$260 and US$7 000 it is only higher in seven of them, yet in the 19 countries making up the group of developed capitalist nations, nine of them register a higher ratio.

II

Long-term trends

The foregoing data suggest the existence of a regular pattern in the ratio of agricultural to general productivity in line with the levels of development of the countries. In this section, the search for this pattern will be further pursued through the study of the behaviour of this ratio over time in the long-term development process of some advanced countries.

Table 5 shows the trend in the ratio in question in six currently developed countries from periods near the beginning of their processes of modern economic growth up to the 1950s and 1960s.[2] Tables 6 and 7, for their part, show the annual

[1] These calculations, together with the others in this section, were made by the author on the basis of World Bank, 1985.

[2] According to S. Kuznets, the initial years of modern economic growth were 1765-1785 in the United Kingdom; 1831-1840 in France; 1834-1843 in the United States; 1850-1859 in Germany; 1861-1869 or 1895-1899 in Italy, and 1874-1879 in Japan (see S. Kuznets, *op. cit.*, p. 24).

Table 5
SELECTED DEVELOPED COUNTRIES: LONG-TERM TRENDS IN RATIO OF AGRICULTURAL TO GENERAL PRODUCTIVITY, 1801-1967

	United Kingdom	France	United States	Germany	Italy	Japan
1801	0.91[a]					
1801-1811	0.99[b]					
1839			0.67[c]			
1839/1840		0.67[c]				
1841	0.96[a]					
1850-1959/1952-1858				0.76[d]		
1851-1861	0.93[b]					
1860-1869/1852-1858				0.59[d]		
1861-1865/1861-1871					0.96[c]	
1861-1870/1861-1871					0.94[e]	
1869-1879			0.40[f]			
1869-1879/1870			0.39[f]			
1872-1982/1886		0.98[c]				
1876-1880/1871					1.08[g]	
1878-1882/1872						0.74[h]
1878-1882-1877						0.76[h]
1879-1883/1882						0.75[h]
1891-1900/1881-1901					0.83[e]	
1901	0.67[a]					
1905-1914-1907				0.49[c]		
1904-1913/1920						0.75[h]
1907-1911	0.53[b]					
1908-1910/1911		0.17[c]				
1919-1928/1929			0.58[f]			
1919-1929/1929			0.55[f]			
1923-1927/1920						0.48[h]
1924/1921	0.52[b]					
1924-1933/1925						0.43[h]
1929			0.44[i]			
1935-1938/1933				0.47[d]		
1936/1939				0.52[j]		
1939-1948/1950			0.75[i]			
1947-1954/1950			0.58[g]			0.50[h]
1949/1950		0.70[g]				
1950						0.54[h]
1950-1952/1951					0.74[e]	
1951-1952/1951					0.65[e]	
1948-1954/1951	1.20[k]					
1950/1946				0.36[l]		
1950-1954/1951					0.74[g]	
1950-1954/1954					0.63[g]	
1953/1950			0.46[e]			
1954/1951		0.60[e]				
1951-1955/1954					0.61[c]	
1952-1953/1950						0.47[h]
1955/1951	0.94[m]					
1955/1961	1.27[m]					
1959-1961/1960						0.41[h]
1959-1964				0.66[n]		
1960-1964				0.53[n]		
1962		0.45[e]				
1963/1962		0.42[o]				
1962/1964						0.50[h]
1961-1963/1965			0.70[i]			
1963-1967/1961	0.92[m]					
1963-1967/1964				0.40[n]	0.52[c]	0.43[h]
1963-1967/1965			0.58[e]			

Source: Calculations by the author on the basis of Kuznets, 1972, pp. 144-147 and 250-252; Kuznets, 1973, pp. 88-91 and 106-107; and Kuznets, 1964, pp. 51-53.

[a] Great Britain, national income. [b] Great Britain, net domestic product. [c] National income. [d] With pre-World War II frontiers; gross domestic product. [e] GDP. [f] GDP at 1929 prices. [g] National product. [h] Net domestic product. [i] National income. [j] With frontiers of the Federal Republic of Germany, excluding the Sarre and West Berlin; net domestic product. [k] Great Britain, national product. [l] Federal Republic of Germany, excluding the Sarre and West Berlin; gross domestic product. [m] United Kingdom, gross domestic product. [n] Federal Republic of Germany, including the Sarre and West Berlin; gross domestic product. [o] GDP at 1954 prices.

Methodological Notes: 1) Calculated on the basis of data on the share of agriculture in the product and employment. 2) When the data in question were not all available for the same year but for years close to each other, the productivity ratio was calculated on the basis of the share of agriculture in the product in the years indicated to the left of the slash and its share in employment in the years shown to the right of the latter. 3) When the source used gave two different figures for the same year, the arithmetic mean was taken. 4) Except where otherwise indicated, the data on the share in the product were based on series at current prices. 5) Where different sources gave two figures for the same period, the most recently published data were used.

average rates of change in the productivity of labour for the agricultural, industrial and services sectors in the period 1913-1984 and the ratio of agricultural to general productivity in 1950 and 1978 for five of the six countries examined in table 5 (excluding Italy).

Table 6

SELECTED DEVELOPED COUNTRIES: GROWTH IN LABOUR PRODUCTIVITY (ADDED VALUE PER PERSON EMPLOYED), BY SECTORS, 1913-1984

(Average annual growth rates)

	Agriculture			Industry [a]			Services		
	1913-1950	1950-1973	1973-1984	1913-1950	1950-1973	1973-1984	1913-1950	1950-1973	1973-1984
United Kingdom	2.5	4.6	4.2	1.4	2.9	2.9	0.7	2.0	0.6
France	1.8	5.9	4.8	1.4	5.2	3.1	0.4	3.0	1.1
United States	1.6[b]	5.4	2.5	1.5[b]	2.2	0.8	1.0[b]	1.4	0.4
Germany (Fed. Rep.)	-0.4	6.3	4.5	1.3	5.6	2.7	-0.2	2.8	1.7
Japan	0.5	7.3	2.1	0.7	9.5	3.7	0.9	4.0	1.9

Source: Maddison, 1988, p. 45.
[a] Including construction.
[b] 1909-1948.

1. *Behaviour of the ratio in question in each country studied*

a) *United Kingdom.* At the beginning of the nineteenth century, when England was initiating its modern industrialization process, the level of productivity in agriculture was almost equal to the general level, but as the weight of the industrial sector in the economy increased there was a growing lag in agricultural productivity, so that at the beginning of the present century it was only half that of general productivity. Subsequently, it was observed that the economy tended to become increasingly homogeneous, since agriculture has tended to come closer to the average level of productivity of the economy. This trend towards the narrowing of the productivity gap is the result of the faster growth of productivity in agriculture than in the other sectors of the economy between 1913 and 1984. It may be seen from table 6 that between 1913 and 1950 the productivity of agricultural labour in the United Kingdom grew at a significantly higher average annual rate than that of industry and services (2.5% versus 1.4% and 0.7%, respectively), and this growth differential in favour of agriculture was maintained between 1950 and 1984, so that according to A. Maddison the ratio of agricultural to general productivity rose from 0.47 in 1950 to 0.88 in 1978 (see table 7).

Table 7

SELECTED DEVELOPED COUNTRIES: RATIO OF AGRICULTURAL TO GENERAL PRODUCTIVITY

	1950	1978
United Kingdom	0.47	0.88
France	0.41	0.58
United States	0.31	0.63
Germany (Fed. Rep.)	0.34	0.51
Japan	0.40	0.37

Source: Maddison, 1986, p. 151.

b) *France*. Chronologically, this was the second country to develop industry. In the initial phases of this process, it displayed the same situation observed in the case of the United Kingdom, that is to say, levels of agricultural productivity almost equal to the general level. According to table 5, up to the 1960s the trend in productivity ratios continued to deteriorate to the detriment of agriculture, which at the beginning of that decade had a level of productivity only a little over 40% of that of the economy as a whole, although the data in table 6 indicate that France too has embarked upon the trend towards the equalizing of intersectoral productivity levels. Indeed, even in the period 1913-1950 agricultural productivity grew at an annual rate slightly higher than that of industry (1.8% versus 1.4%), and this situation was maintained between 1950 and 1973 and accentuated between the latter year and 1984, over which period the growth rate of agricultural productivity was 55% higher than that of industry. This caused the ratio of agricultural to general productivity to increase from 0.41 in 1950 to 0.58 in 1978 (see table 7). In contrast with the United Kingdom economy, however, French agriculture still registers a level of productivity which is significantly below the average.

c) *United States*. The available data give grounds for asserting that the trend in this ratio has been rather similar to that observed in the United Kingdom: agricultural productivity was relatively high in comparison to the general level in the first third of the nineteenth century, subsequently dropped to a lower level, but has more recently tended to rise again, this being particularly marked as from 1973, so that the ratio of agricultural to general productivity rose from 0.31 in 1950 to 0.63 in 1978 (table 7). There is an important difference between the two cases, however: in the United States, agricultural productivity has persistently been substantially lower than the general level. Whereas in the United Kingdom this only occurred in the middle chronological phase of the industrialization process, in the United States this phenomenon has always been present throughout the period under review.

There are also clear similarities and differences between the United States and France in this respect: on the one hand, both countries displayed a high degree of internal heterogeneity to the disadvantage of agriculture up to the 1970s, while on the other hand, in the initial phases of the French industrialization process the difference in productivity levels was very small, but according to the available data this was not so in the case of the economic development of the United States.

d) *Germany*. In this country, which is one of the cases of relatively late industrial development, the behaviour of the ratio under examination tends to fit in with the identified pattern, i.e., after a long phase in which the productivity ratio was against agriculture this gave way to a phase in which agricultural productivity began to grow more rapidly than that of the rest of the economy, the transition in this respect being observed in Germany in the 1950s and becoming more marked from 1973 onwards.

Even in recent years, however, German agriculture displayed a considerable relative lag (in 1978, the productivity of this sector was only 51% of the general level): a feature it shares with France and the United States. A further characteristic shared by the German and United States economies is the fact that even in the initial phases of the industrialization process there was a significant productivity gap against agriculture.

e) *Italy and Japan*. These two cases of late industrial development share the feature that even up to relatively recent times the ratio of agricultural to general productivity has continued to deteriorate. In Italy agricultural productivity was only half that of the national average in the 1960s, while in 1987 Japan was the country which displayed the severest imbalance in these ratios of all the countries reviewed: in 1950 the ratio of agricultural to general productivity was 0.4, while in 1978 it was only 0.37 (even though labour productivity in agriculture grew at an extremely high rate between those years), and it continued to decline up to 1984. Whereas in Italy agricultural productivity was almost equal to the average level at the beginning of that country's industrialization process, in Japan (as in the United States) agricultural productivity was substantially below the general level at the beginning of the process.

The above historical background information gives grounds for reasserting one of the conclusions suggested by the cross-sectional study: that the ratio of agricultural to general productivity follows a fairly regular pattern over the course of the long-term economic development process. It can clearly be seen that at the beginning of the industrial growth process agricultural productivity was quite close to the average level, but subsequently it fell behind, later progressing, however, to a phase in which the productivity gap tends to narrow. This full cycle has been observed in the economies of the United Kingdom, United States, France and Germany. The extent to which these economies have completed this cycle is not the same in all cases, however: whereas in the first two countries the productivity differential against agriculture is relatively slight[3], in France and Germany there is still a significant productivity gap against agriculture. The two cases of late industrial development examined (Italy and Japan) show that up to recent years these economies were still in the first phase of the productivity cycle: i.e., the phase in which agricultural productivity grows less than general productivity, thereby explaining the increase in the differential between the two indicators.

III

Conclusions, and some fresh questions

The foregoing details point to the need for a study in greater depth in order to identify more precisely the nature of the structural heterogeneity of the Latin American economies. Clearly, reducing the essence of this characteristic exclusively to the existence of significant international productivity gaps is not enough, since this feature is also present in highly developed economies.

The view has recently been expressed in the economic literature that one of the determining causes of the loss of dynamism of the Latin American economies is the emphasis placed on industrial growth to the detriment of agriculture. In particular, it has been stressed that one of the factors which explains the economic dynamism of Japan and the newly industrialized countries of Asia is that they have followed a development pattern which maintains a relative balance between industry and agriculture (Fajnzylber, 1990, pp. 56-58). However, the information on the Japanese economy gives grounds for asserting that the productivity gap between agriculture and the rest of the economy is currently as big as or even bigger than that existing in many Latin American economies, yet this has been no obstacle to the dynamic growth of the economy. This raises the question of reformulating the whole issue of the role of agriculture in the economic development process, the internal features of that sector which determine whether or not it is an element that promotes development, and the type of relations between agriculture and industry that are characteristic of a dynamic economy.

Since the foregoing data indicate that in a certain phase of industrial growth it is normal that there should be profound imbalances in levels of productivity to the detriment of agriculture, then if balanced development merely means the absence of significant differences in this relationship, it would appear that the normal state of affairs in economic growth is *unbalanced* development: the significant progress of industrial productivity compared with average productivity. This is why there is a need to study the nature of the imbalances and balances which are created in the process of economic development and the ways in which these are overcome.

Finally, it is necessary to study in greater depth the elements which cause a graph showing the relation between agricultural productivity and general productivity to have the form of a letter U. Explaining why this coefficient is at a high level in the first phases of industrial development is not difficult. Since in this stage the fundamental sector of the economy is agriculture, the average productivity of the economy as a whole will obviously be decisively influenced by the level of productivity in that sector. The problems come later: How is it that agriculture can lag behind without this being an insoluble obstacle to growth? How is it that in a later stage agriculture can become the most dynamic sector of the economy in terms of productivity?

[3]This situation is borne out by *all* the data on the United Kingdom economy, whereas in the case of the United States there are appreciable disparities between different sources with regard to the relative level of agricultural productivity.

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Annex

Methodology

Since labour productivity links the output obtained with the amount of labour used in its production, it can be expressed as follows:

$$\pi = \frac{P}{L}, \text{ where: } \pi : \text{productivity of labour}$$

P : product

L : amount of labour.

In this study, we are interested in the behaviour of the ratio of agricultural productivity to average productivity, that is to say, the following coefficient:

$$\frac{\pi_a}{\pi_m} = \frac{\frac{P_a}{L_a}}{\frac{P_t}{L_t}}$$

where π_a : productivity of labour in agriculture

π_m : average productivity of labour in the economy as a whole

P_a and P_t : agricultural product and total product, respectively.

L_a and L_t : agricultural labour and total labour, respectively.

From the foregoing expression we obtain the following:

$$\frac{\pi_a}{\pi_m} = \frac{\frac{P_a}{P_t}}{\frac{L_a}{L_t}}$$

That is to say, the ratio of the productivity of labour in agriculture to the average productivity of labour equals the coefficient of the shares of agriculture in the total product and in total employment.

The behaviour of the ratio of the productivity of labour in agriculture to the average productivity of the economy was established through the following methods:

i) A cross-sectional study, that is to say, a study at a given point in time to detect the size of this ratio at different levels of per capita product, and ii) A study of the trend displayed over time by this same coefficient in the long-term economic development process of some selected countries.

CEPAL REVIEW No. 44

Scenarios for the new era

*Ernesto Ottone**

This article aims to present some salient aspects of the reflections of the distinguished thinker José Medina Echavarría on the problems of peace, the cold war and the prospects for *détente*.

In his analysis of these prospects, Medina Echavarría considers three possible scenarios for *détente*: *competitive détente, conflictive détente*, and *co-operative détente*. The latter scenario assumes the abandonment of the Cold War mentality.

Although for a number of years this prospective exercise seemed to be totally divorced from the course of events, the turnaround in the international situation which has taken place in recent years has brought this kind of analysis back into the limelight.

In view of this, the present article takes up various concepts of surprising actuality put forward by Medina Echavarría fifteen years ago, in order to try to identify the most important features of the present international scene, its consistency and the risk of another turnaround, and to analyse its possible evolution towards a "co-operative order".

*Deputy Secretary of the Commission. The author wishes to express his gratitude for the comments made by Aníbal Pinto.

I
The structure of the cold war

In 1976, José Medina Echavarría published his most extensive essay on the problems of peace, the cold war and *détente*, presenting some highly perceptive reflections on the structure of the peace that was formed after the war, with particular reference to its effects on the development of Latin America[1].

That structure, which we know as the "Cold War", was characterized in particular by the division of the world into opposing and antagonistic ideological and military blocs which implied the existence of separate worlds with different and irreconcilable characteristics. It came into being after a brief consensual interregnum after the Second World War in which, as a result of that terrible experience, the victorious powers aimed to set up a structure of permanent co-operation which assumed its institutional form in the creation of the United Nations.

Although that institutional form survived, however, the spirit of that period did not last long: within a few years, the bounding rivalry of the victorious powers took possession of the entire international scene.

Although originally there were marked differences between the United States of America and the Soviet Union in economic, technological and military power, the equality generated by the possession of nuclear weapons on both sides soon gave rise to a balance of power which prevented any irresistible hegemony on either side and favoured instead the establishment of two opposing hegemonic projects. This situation was to last for years and to give rise to the basic rules of the game.

As from 1948, in Medina Echavarría's words, "a situation arose in which, just as in the lasting social stratification of the *ancien régime*, everybody was perfectly conscious of the place he should and in fact did occupy. All the forms of internal or external, national and international con-

[1] See José Medina Echavarría, Latin America in the possible scenarios of détente, *CEPAL Review*, No. 2, Santiago, Chile, second half of 1976. All the quotations from Medina Echavarría in this article come from that essay.

duct only exist and can be understood as obvious in the light of the inevitably present antagonism. This is so up to the point that when in certain years some countries define themselves as non-aligned, they do not need to declare the meaning of this nor ask what it means to abandon the ranks".

This historical process of division into separate worlds, however, was to have the common feature of rapid economic growth and a shared faith in development, while a Third World was to emerge, generated by the breaking up of the colonial world.

Paradoxically, this process of worldwide growth was to take place against the background of the ever-present danger of total war and the expressions of latent conflicts which would give rise to constant local conflicts or to support for such conflicts in terms of global rivalry: in the words of Medina Echavarría: "On both sides, whether or not fully aware of the facts, the people seemed to be living quite happily the same paradox of enormous development in the shadow of catastrophe". Not only did the existence of the opposing blocs tend to crystallize international loyalties, whether willing or unwilling, as allies or satellites, or both of these at once, but also: "the structure of the Cold War, with its rigorous limitation of the enemy and of antagonistic doctrines, at the same time fixed the ambit of the internal confrontations: both the admissible and the inadmissible. The play of political ideas and organizations was restricted by the peril represented by the presence of the enemy".

As everyone knows, however, history does not admit of crystallization, and already by the end of the 1960s and the early 1970s the scheme was beginning to crumble.

The Third World emerged with new prominence after the oil crisis of 1973; new poles of economic power such as Japan and Europe were consolidated and broke up the symmetrical structure of military and economic power.

On the international agenda, side by side with the East-West conflict, ever-increasing importance was assumed by the contradictions that grew up between the North and the South, whose relative weight became increasingly unequal and generated enormous gaps between the levels of living of the respective populations.

It was already clear by now that the arms race could not be won by anyone and that it was doomed to a perverse dead-heat, at increasingly dangerous levels. All these new realities tended to severely erode the whole scheme of the Cold War and to generate defections and a search for fresh independence on both sides.

Economic growth, which had seemed to be following an upward trend for all concerned, began to slacken in the North and to stagnate in the South, thus ushering in a prolonged period of crisis.

Latin America lived through the years of growth as a natural part of the West, linked with the United States by the closest possible military, economic and political links.

Despite its sharp repercussions, the Cuban Revolution remained an isolated case of "changing sides". After the period of rapid growth, however, the symptoms of the crisis hit the region hard also, and in Medina Echavarría's words: "substitution industrialization, for example, seems to stagnate when it reaches a certain level, the biggest obstacle lying in external factors. This is a point which brings in, through the relative marginalization in the merchandise market and the financial field of investment, consideration of the newly confirmed validity of the hypothesis of "external strangulation" and the realities of growing indebtedness".

This already obvious exhaustion was to lead from the 1970s onwards to a long period of neoliberal experiments, of the further heightening of exclusions, and of authoritarian solutions as formulas for regaining the lost growth and maintaining a threatened social order. This cycle was not to avoid the worsening of the crisis, however, and in the 1980s it was to show a tendency to be reversed through the processes of democratization, which, however, were not able to change the increasingly negative trends in economic and social matters.

The beginning of the crisis in the structure of the Cold War, which was to be expressed in the form of the loss of importance of bipolarism and the emergence of more complex situations in the power circles of the world, was to coincide with a world economic crisis which was to have far-reaching effects on Latin America.

II

The crisis in the structure of the cold war, and the possible scenarios

Medina Echavarría's reflections on the possibility of the end of the Cold War were based on these new realities which had been emerging in the world.

It may be recalled that in the mid-1970s there were large-scale political and diplomatic efforts among the great powers to reach certain agreements. These were the years of nuclear arms restrictions and of the Helsinki Conference on Security and Co-operation in Europe: the years of "*détente*".

Everything seemed to indicate that the conviction had grown among the superpowers that, in the face of a more disaggregated and complex world, there were no possibilities for either a "pax americana" or for the triumph of "real socialism" in the world, and that the United States of America and the Soviet Union seemed to be doomed to a permanent military stalemate.

On the basis of his observation of the new tendencies which were emerging, Medina Echavarría constructed an interesting set of three possible future scenarios for *détente* which, of course, would not be expressed in a pure form in real circumstances: competitive *détente*, conflictive *détente* and co-operative *détente*.

Briefly, *competitive détente* represented the prolongation of the situation established from the 1960s onwards and would be characterized by the persistence of the existing limited conflicts, and by a number of shared aspirations or common fears.

Conflictive détente is marked by the intensification of conflicts and by its character of total and absolute confrontation, from which a nuclear holocaust cannot be excluded.

Co-operative détente, for its part, which will be analysed in greater detail below, postulates positive changes in the existing situation whereby the conflict is reduced, the bipolarization of international relations becomes less marked, and previously unknown levels of independence and consensus are achieved.

This set of scenarios has two virtues and one limitation.

The first of these virtues is that it includes possible scenarios which involve the end of the Cold War: a prospect difficult to conceive at that time because of the intellectual weight of the division of the world, in the light of which the international situation was visualized.

The second virtue is the flexible nature of the projected scenarios and their indicative character, which makes it possible to grasp the various forms and combinations in which history can evolve.

The limitation, as we can now see with hindsight, lies in the tremendously precarious nature of the moment of *détente*.

This precariousness lay in the persistent view among those negotiating agreements that they were living in two separate and competing worlds. What impelled them to negotiate was not the perception of some common ground around which a natural association could grow up, but the impossibility of the victory of one side over the other. Both superpowers were convinced that they were the exponents of the model of the future, but at the same time they realized that at least for the moment it was impossible to impose that model.

An agreement whose significance to the parties involved is merely that of giving a breathing space which enables them to rebuild their forces or gain advantages can necessarily only be short lived, and indeed, the moment of *détente* lasted a very short time.

The "uses of *détente*" were seen in terms of power considerations, so that although it was possible to consolidate the Yalta scheme and to preserve peace in the North, conflicts were multiplied in the South.

Quite apart from their various causes, which included anticolonial, religious, nationalist or ethnic reasons, such conflicts were "picked up" in a sense by the great powers and were supported or combated, fed or throttled, as a function of their real or artificial proximity to their respective ideological symbols.

Within a few years, the United States felt adversely affected by the situation thus created, well as weakened in its role of leader of a W which had slowly but surely been recovering fro the shock of the 1973 energy crisis and had decisively strengthened its central position in the world economy.

The Soviet Union, for its part, increasingly sought to expand its alliances and influence in the South in order to achieve a new global balance of power. All this naturally led to a conflictive situation, to the blockage of the main agreements, and to the reappearance of overtones of the Cold War and the prevalence of a mentality based on the idea of blocs.

If we use the same set of scenarios as Medina Echavarría, we must admit that at the beginning of the 1980s, not only had events not resulted in a scenario of co-operative *détente*, but the situation of competitive *détente* which could be described as characterizing the structure of international relations in the 1960s had tended to deteriorate towards a conflictive scenario in the sense that he had in mind when he said that such a scenario "does not refer so much to the existence of conflicts, which are always possible in any circumstances, but to the higher degree of their intensity, to the moment in which quantity is transformed into quality, once again giving the conflicts involved a total and absolute character".

Thus, the situation at the end of the 1970s and the early part of the 1980s was midway between the competitive and conflictive scenarios.

Those years witnessed the consolidation of the rapid growth of the United States economy and the multiplication and strengthening of various other economic centres, especially Japan and the European Economic Community.

In Eastern Europe, the first signs began to be observed of economic and political crises whose subsequent intensity was beyond anyone's imagination, and it was in a climate of reform that China re-entered the international community after years of isolation.

The contrast between the more developed and less developed parts of the world became still greater, and the imbalance in economic relations arrived at the absurd point of the existence of an ongoing flow of millions of dollars of resources from South to North in respect of debt payments, leading to a brutal weakening of the peripheral countries, from which few escaped, and the heightening of regional conflicts, accompanied by the resurgence of old and new forms of fanaticism, intolerance and racism.

This black picture was perhaps relieved by some positive features such as the successes registered by the newly industrialized countries and the beginning of the democratization process in Latin America, but there can be no doubt that the situation in the mid-1980s was by no means hopeful as far as world peace and equity were concerned.

III

The great turnaround

In view of the foregoing, it is easy to understand the astonishment caused by the bewilderingly rapid turnaround in the international situation and the tremendous acceleration of past rates of change, which rules out any kind of predictability.

While it would be absurdly pretentious to try to explain this great turnaround in a few lines here, we can at least note that it was neither the result of the success of the two sides involved, nor their failure, nor their meeting in the middle of the road.

In reality, what is happening is the collapse –above all political, but also economic– of the great design which arose with the Russian Revolution and was transformed into "sides", "blocs" and "systems" as from the end of the Second World War.

The magnitude of the turnaround is due to the "revolutionary" rather than "reformist" nature of the movement set afoot in the East by the ruling Soviet group, which has probably gone further than they originally intended.

The present movement would appear to be directed towards a "revolution" in the classical marxist sense, aimed at transforming the production relations, the power structure and the horizon of values of these societies.

We do not know what the situation in Eastern Europe will be like in a few years' time, but unless there is a violent reversal of events, which should not be ruled out at least in the Soviet Union, everything seems to indicate that the Eastern European countries are tending to assimilate themselves to their surrounding historical, geographic and cultural world, that is to say, fundamentally to the economic, political and ideological scheme of Western Europe. The European part of the Soviet Union, too, is strongly drawn towards this universe, but it is held back by conservative tensions and fears which increase in proportion as the breakdown of the old unitary structure seems inevitable and the non-European Soviet regions are shaken by the ethnic and religious nationalist storms which the old order concealed.

At all events, the forms of domination, association or settlement of conflicts inside what used to be the "socialist field" will completely change and will also bring about a change in international relations as a whole.

The new situation which has been created shows us how necessary it is to view the future without thinking of it as a mere prolongation of the present and to remember that all established situations are ultimately extremely fragile.

In the light of this new situation, it seems to us very valuable to return to Medina Echavarría's reflections on a possible scenario of co-operative *détente* in order to try to gain a clear idea not so much of the future as of the present situation and its possible evolution.

The first description that he gave was that of "a growing generalization of attitudes guided by universalist points of view" which tend to bring about an awareness by all those concerned of "the reciprocal demands of effective world interdependence".

This description undoubtedly coincides with the present situation, in which there has been a rapid advance by the concepts of a common world, the unity of the human race, and shared responsibility for nature. Never before has there been such a worldwide awareness invoked by all as the ultimate foundation for action.

Naturally, the prevalence of this awareness is not the same thing as the coherent action of all people in all fields, nor does it lead to the disappearance of "dependence", profound imbalances, and the conflict between the worldwide interest in the preservation of nature and the mentality of making profits at all costs, but it does tend to lead to the establishment of generally shared requirements for the implementation of coherent international discussion and action.

Increasingly, failure to take account of universal implications and a desire for autarky are seen to be in opposition to the "force of events", not only because of their unrealistic nature *vis-à-vis* science, technology, economics and communications, but above all because of the spread of a worldwide ethos of shared values and the generation of a horizon of common political bases for human government. For this reason, the voices still expressing a longing for the opposition of blocs and systems seem increasingly pathetic and marginal.

A second element which is characteristic of the scenario of co-operative *détente* is also of value in analysing the present situation: we refer to the concept of "de-satellization", understood as "more flexibility in the international behaviour of all countries, without there being any fear or threat of immediate conflicts". That definition is perhaps over prudent, however, for its author could hardly imagine at that time that the magnitude of the turnaround would bring into question the very nature of the two sides involved.

The "de-satellization" that we are witnessing, particularly with regard to Eastern Europe, is a process which involves much more than increased flexibility over specific matters: it amounts to the questioning of the entire existing structure of relations which arose from the Cold War, the revision of the Yalta agreements, and the already agreed end of the Warsaw Pact and of the division of Europe.

What is proposed now is the generation of a new structure of international relations with new possibilities for independence, separation, union and groupings obeying historical, geographical or ethnic reasons which the structure of the Cold War had kept silent.

Although "de-satellization" represents the breakup of a conflictive order marked by the lack of independence of many of those involved and brings with it positive elements, it is not automatically the bearer of a juster and more harmonious new order. It also opens the way to new potential conflicts and the resurgence of old spectres which it was believed had been laid to rest.

Undoubtedly, however, what appears to predominate is the positive opportunity for greater levels of independence and greater consensus in international relations.

Perhaps the most symbolically impressive event in this respect has been the reunification of Germany, effected through a process of negotiation whose rapidity has been quite astonishing.

Another event which has been a tremendously eloquent demonstration of the completely new situation was the outcome of the meeting of Heads of State of the 34 member countries of the Conference on Security and Co-operation in Europe (CSCE)[2], which adopted on 21 November 1990 the "Paris Charter for a New Europe" which breaks with the entire Cold War mentality in the Old World and establishes a set of political mechanisms for regional management based on a new mentality of unity.

In addition to the foregoing, there are other elements noted by Medina Echavarría which could also begin to take shape in the present situation. These include the prospect of establishing "functional authorities with worldwide competence to deal with all the questions and problems of indivisible common interest which can only be settled by the voluntary acceptance of universal decisions".

Until a short time ago, talking in this way would have seemed like sheer utopia, but today this is no longer so, although it is true that we are still far from overcoming the idea of the individual sovereignties of nation-states and establishing regional and international levels of government for some areas where treatment at the purely national level is increasingly at odds with reality. Even so, however, there are processes currently underway at the regional level, as in the case of Europe, where in many spheres these national sovereignties are being overtaken by the force of integration.

Another clear tendency is the strengthening of the *political role* of the United Nations, which appeared to be severely weakened before the turnaround in the international situation. In some spheres, the need for its role as an arbiter has grown so much that it could reasonably be said that the new situation which has grown up could restore to the United Nations the credibility that it had when it was set up in 1945 as an organ of world unity, with the capacity to help solve the differences and conflicts arising in relations between countries on the basis of the universally accepted principles contained in its Charter.

This assertion is backed up by the examples of a number of conflicts whose solution seemed, to say the least, far off but which have now reached a negotiated solution or are in the process of doing so, almost always with the active participation of the United Nations. Mention may be made in this respect of Afghanistan, the Iraq-Iran conflict, the process of Namibian independence, the changes in South Africa, the negotiations over Kampuchea and Western Sahara, and the progress made in Central America, to name only a few. Without a doubt, the new situation created by the closer contacts and identity of views between the powers which were previously in conflict lies at the very base of this possibility of serving as an arbiter. The future validity of the Organization will depend on the consolidation of this situation.

Among the most perceptive comments made in Medina Echavarría's analysis is undoubtedly his statement that "in a world climate of co-operative *détente* non-authoritarian political regimes would finally prevail": a tendency which would be accompanied by "a lasting period of ideological "decentralization" involving "the possible loss of validity of some traditional ideologies as monolithic bodies".

Both these tendencies have attained far-reaching dimensions and are taking place in an intertwined manner. This is particularly evident in the revolutions in Eastern Europe, whose dimension cannot yet be grasped in all its magnitude but where each of them has as its central elements anti-authoritarianism and the loss of validity of the official ideology.

This is also undoubtedly a dominant trend in Latin America of the 1980s, where liberal democratic ideas and pluralism are making their appearance with irresistible legitimacy.

This phenomenon goes even further, however, extending to the recently decolonized Third World, where for various reasons these elements previously had little place.

A factor which militated against this was the desire on the part of ruling groups to consolidate incipient nation-state situations in which the multiparty system seemed likely to aggravate the religious, ethnic or tribal rivalries that the old colonial

[2] The 32 European countries, plus the United States and Canada (Albania has been an observer since June 1990).

frontiers had left unsolved. There were also cases of cultural and religious contexts that were unsympathetic to pluralistic concepts, while sometimes there was simply a desire to reject the ideas of the ex-colonizing power.

With a few exceptions, the great majority of those regions which went through the process of decolonization that began after the war and became widespread in the 1960s were long characterized by authoritarian or single-party regimes or those based on the existence of a single official ideology. This was so in Africa, where the concept of the "one-party State" was totally predominant in different ideological forms.

In the new world situation, the "total" States of the Third World are seen to have fewer and fewer possibilities of directing and representing their societies and solving their problems.

This could mean that the trend towards democracy and pluralism could encounter in that region too a new legitimacy which it had never before attained. On the other hand, this prospect is made more difficult by the other aspect of the world situation: the growing gulf between North and South which tends to encourage relapses into autarkic and integralist solutions "that use the egocentricity of the rich as a pretext for rehabilitating the egocentricity of the poor" (Hussein, 1989).

IV

Towards a global reformist project

As we have seen, high hopes are held out by the new international situation in which an extremely conflictive and ideologized bipolar world whose division represented a threat of catastrophe for the human race has been steered away from the system of opposing blocs. However, unless the abysmal lack of equity, the dramatic struggles for survival by whole continents and the indiscriminate abuse of nature are satisfactorily solved, they may give rise to heart-rending new contradictions capable of leading to fresh tragedies.

This is why it is important to avoid the "idolization" of the present situation and the uncritical view which sees that situation as the best of all possible worlds and identifies the end of the Cold War with "the end of history", as does Francis Fukuyama (1989), basing himself on some rather superficial reading of Hegel and Kojeve. In any case, that post-history and post-conflict world seen by Fukuyama actually corresponds to the central countries and not to the periphery, which will have to continue to struggle with the "miseries of history" for quite a time to come.

The truth is that even after the end of the Cold War there are still great challenges for the human race which it is not in a position to solve in the present conditions: the frequently mentioned dissipation of the world's resources because of the desire to increase production and maximize profits at all costs; the contradiction between the processes of internationalization of economic and financial activities and the absence of supranational regulations and controls; and the global dimension being assumed by the spread of poverty all point to the need for a new form of modernity able to include everyone, to halt the physical deterioration of the world, and to achieve a form of development acceptable in human terms.

The dramatic events of the Gulf War have shown that the end of the Cold War has not resulted in a peaceful and harmonious international situation, and that the aggressive political will of a developing country located in an economically strategic area and armed to the teeth, as in the case of Iraq, can go far beyond all its local effects and turn the invasion of a neighbouring country into a peril for the whole world by upsetting global balances.

The Gulf War has given a clear picture of the new international situation: the striking military pre-eminence of the United States, the reality and irresistibility of the post-Cold War consensus, and at the same time the need to base that consensus on a form of legitimation which is built on solid principles and is of universal scope: something which clearly points to the security mechanisms of the United Nations.

In this respect, the fact that –despite the continued use of force and the importance of private interests– the principles of universality are taking on fresh prominence as mechanisms of legitimation is of great importance for the shaping of a less conflictive international situation.

It also shows that there is still a long way to go in order to reach such a more desirable international situation. While not questioning the necessarily important role of the United States in world affairs, this "pax cooperativa" cannot be "americana" or of any other single power, but must reside in a form of truly shared authority capable of generating mechanisms for the guidance and solution of conflicts in the post-Cold War era, definitively doing away with double standards, anticipating disputes and eliminating their causes.

All this places at the centre of international life the issue of world government, not as a hegemonic project for the victors nor as a utopia for dreamers, but as something which it is perfectly possible to construct through regional and international bodies. This calls for the prevalence of an awareness of common destiny, interdependence and the need for consensus.

The eclipse of revolution must also be accompanied by the eclipse of counter-revolution and must give way to a revitalization of the idea of reform, of the value of gradual and step-by-step approaches and of changes involving the modification of existing societies rather than upheavals in entire systems.

In this field, too, Medina Echavarría was equally perceptive and clear-sighted when he noted that there has been a veritable intellectual interdiction of the idea of reform, particularly in Latin America. In this respect, he spoke of "the tabu maintained by many in recent years through the existence of ideologies which have identical presumptions of absolute truth, thus consigning to oblivion everything that has been due in past history to the patient building up of successive timely reforms which, although they may themselves lack the luminous halo of the great radical formulas, capable of mobilizing great efforts, nevertheless do not have to be paid for with big doses of sacrifice and suffering".

For Medina Echavarría, the furthering of this trend in the developing countries should be based on the recognition, within a more universal market, of the right of all countries to seek and find more favourable terms of trade, together with a situation in the field of multilateral credit and financial aid relations in which the non-economic conditions are reduced to the minimum.

If we look at the scenario which is taking shape, however, we see little room for a "material base" for reform and for an awareness of world interdependence.

As already noted, the great events of the years 1989 and 1990 did not have an automatically positive effect on North-South relations in the economic field; instead, they raised fresh uncertainties in view of the precarious situation and massive needs of the Eastern group of countries which are demanding aid.

The political strengthening of the United Nations has not been reflected in the strengthening of its economic and social dimension or in the creation of new multilateral mechanisms designed to secure more equitable treatment of the problems of the developing countries. This situation cannot be changed by matching forces, but only by the awareness on the part of the stronger countries that in the long run their future is inseparable from that of the weaker nations and that in a more interdependent world contagion with problems may be rapid and catastrophic.

A North which is made up of partners and not of adversaries can undoubtedly impose an irresistible peace on a South which is weak and racked by conflicts, but a peace which perpetuates or worsens the present situation would simply lead to fresh ruptures, fresh conflicts, and fresh destruction of human beings and nature.

In this respect, it is worth heeding the warning given by Ruffolo (1990), who, while recognizing the dynamic force of Western capitalism, points out the need for those in power (democracy) to play a more humanistic role, to bring back some balance into a unilaterally individualistic view, and to tackle the current decline in justice and social solidarity which could lead us to a regressive crisis capable of ending in fresh barbarism.

The option for this involves the extension of political reform to a global reform of international relations. The realization of such an option holding out the hope of advances towards harmonization of interests, channeling of conflicts in the right direction and shared solutions for the whole human race is thus a possibility and not an automatic trend.

If we had to define the central features of this reform, we would have to recognize the universal nature of democratic values, rights of the individual, the right to differ and respect for minorities; reject the concept of mankind as "Lords of Creation"; accept a new relation with everything that is not human (nature), which must be protected and cared for; and adopt a view in which the old ideological contradictions between the State and society, public and private affairs, regulation and the market, are replaced by non-unilateral pragmatic views which effectively combine the roles of all the actors in order to achieve just and non-exclusive solutions.

Against this background of shared values, the differences and contradictions which will naturally continue to exist can be dealt with in a manner more and more removed from a mentality of war and domination and fresh international relations can be established.

For Latin America, this is of vital importance. Never before had there been such a widespread advance in the region in the legitimation of democracy, respect for human rights, pluralism and alternation in power. Never before had there been such general acceptance of a culture of negotiation, pragmatism, agreements and shared responsibility in the generation and maintenance of non-authoritarian scenarios. Never before had international relations been viewed in terms so free from ideologies and so imbued with recognition of the inevitable interdependence of all nations.

At the same time, however, these tendencies exist side by side with a serious situation of regression in many fields that has led to the coining of the lamentably apt concept of the "lost decade" of the 1980s: greater concentration of wealth and greater inequality, an increase in exclusions and poverty, unsuitable and precarious forms of insertion in world activities, weakening of public institutions, misuse and plundering of natural resources, and industrial and technological obsolescence.

Even though not everything in the picture is negative, the crisis is nevertheless extremely serious, and returning to the path of development with equity raises enormous challenges (ECLAC, 1990). Of these, only a part can be solved by the Latin American countries alone, the other substantial part being related with the external environment (external debt, opening of international trade). As the ECLAC study cited above so correctly states: "for example, on the one hand it is necessary to strengthen democracy, while on the other countries are called on to adjust their economies, stabilize them, bring them into a world of intensive technological change, modernize their public sectors, increase savings, improve income distribution, introduce more austere consumption patterns, and moreover do all this within the context of environmentally sustainable development" (ECLAC, 1990, p. 12).

If, in the midst of the present precarious material conditions, it does not prove possible to generate the domestic forces needed in order for the democratic leaders and the citizens governed by them to undertake these tasks –which involve a project of far-reaching changes to be effected with the intervention of all concerned, diversified and not totalizing with regard to the real situation– then democracy will be increasingly precarious and fresh divisions, more or less civil wars and new authoritarian regimes could appear on the horizon.

The key to the future, then, lies in strengthening democracy, extending agreements and consensus, making shared sacrifices and efforts, and internalizing a post-Cold War culture.

However, this effort can only be crowned with success if the countries really learn to transcend national horizons and there is a common ambition to improve and transform the form of insertion of the region in the present-day world.

What is involved is a complex design, calling for the co-ordination of multiple impulses, but its historico-cultural base is extremely powerful, and today it can find, in the needs of the crisis and the legitimation of democracy, valid new reasons for its existence and for achieving what Medina Echavarría called "the reunification of the lost whole".

One author wondered whether austerity and scarcity might form a more favourable context for achieving consensus than abundance (Tedesco, 1990). Perhaps, in the paradoxical history of Latin America, the answer might be affirmative.

At all events, the impulses for national and regional reform can only be successful within the context of the global reform to which we already referred, which is why it is so vitally important to follow up with close attention its possibilities of successful implementation. Unless we keep our eyes on the world as a whole, we are bound to be unpardonably short-sighted in seeking to grasp what surrounds us more closely.

The opportunities opened up in this post-Cold War era are enormous, but there are also great dangers, as is shown by the central position of war and violence in the daily news and the dangers of disintegration, regression and balkanization in the processes of change. In order to build the future, we need something more than passive and short-sighted consensus: we need to generate a pluralistic, shared will to build our destiny in which all the people see themselves as participants.

In mid-1980, when the international situation seemed more than gloomy, Aníbal Pinto –reflecting on these same essays of Medina Echavarría– pointed out that the negative tone of the current situation should not prevent the reader from seeing their long-term validity and stressed the importance of doing everything that we can to attain a minimum model of peace (Pinto, 1981).

Today, what is possible is much closer to what is desirable: closer to a permanent programme of peace and development with justice which holds out not only the hope of survival but also a better life for all. What remains unchanged is the ethical, intellectual and practical duty to do everything that is possible and necessary to this end.

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Industrial and urban pollution: policy options

*Hernán Durán de la Fuente**

This article reviews the conditions that must be fulfilled by the countries of the region in order to tackle and solve their growing problems of pollution from industrial and urban wastes, and the role that should be played in this by industry, science and technology is analysed. The industrial pattern of the region is compared with that of the developed countries and its specific structural shortcomings are indicated. These lie fundamentally in the insufficient development of the most sophisticated industrial branches –metal products, machinery and transport equipment– and of the scientific and technological facilities normally linked with them. In the developed countries, technological solutions and the production of the equipment needed to solve the problems of contamination are specifically focused on these industrial branches and their technical and scientific base. Consequently, as a path to be followed by the countries of the region, it is proposed that emphasis should be placed on the industrial development of these branches and also of the endogenous scientific and technological base connected with them. Economic, scientific and technological co-operation and integration between the countries of the region is also suggested. Through this approach, the larger and more advanced countries, which already have a certain capacity for developing anti-pollution technologies and equipment, should find a broader market in the region for sustaining this development. Progress in these structural conditions will facilitate the application of effective policies against industrial and urban pollution, instead of the inadequate policies so far applied, while it will also permit the region to take advantage of this challenge to develop its industrial, scientific and technological capacity, which is a factor intimately linked with development.

*Expert in the ECLAC Environment and Human Settlements Division.

Introduction

When levels of industrial production were low and there was no excessive urban concentration, the management of urban and industrial wastes did not represent a problem, or, to put this in more subjective terms, such a problem did not *appear* to exist because the population did not understand that the growing amount of contaminants could endanger their health or that the deterioration in their environment would prejudice their quality of life.

As the perception of the population has changed and they are beginning to press for improvements in the quality of the environment, it has become clear that there are efficient technological solutions for reducing the current levels of contamination and that the problem is connected with development options and, above all, decisions of a political nature.

The technological solutions are not neutral, however: some of them can alter the lifestyles of the population, others may affect economic development itself by absorbing greater resources, and in some cases they may prove to be unsuitable because they were conceived for other conditions. For this reason, the selection of the technology to be used plays a decisive role in sectoral policies.

In developing these views, a central thesis was confirmed: both the solution of the health problems caused to the population and the maintenance and improvement of the ecosystems of the region are the responsibility of those who cause the disturbances (the principle that the originator of the problem is automatically responsible). The effective reduction of levels of contamination involves changes in the production patterns of the industrial sector, which must modernize its activities by improving its levels of productivity, raising the international competitiveness of its products, and investing in creativity, intelligence, engineering, organization, planning, science and technology. This approach to seeking a solution is actually of benefit to industrialists, as it improves the profitability of their activities and opens up possibilities for new business. In order for this process to take place, however, it is necessary that the relevant public bodies should combine demands (taxes, monitoring, control measures, legislation, etc.) with incentives (credits, tax differentials, etc.).

The region has before it the challenge of taking advantage of the experience of the developed countries in order to create its own technological options (in the light of the specific characteristics of the pollutants involved) and generating an industrial base capable of implementing these options. These tasks involve the whole of the region, which is why the final proposal made here is to promote concrete regional co-operation activities.

In section I of this paper, Latin America's industrialization pattern is compared with that of the developed countries in order to draw conclusions on the contamination generated by the sector and the region's possibilities of progressing towards a solution of this problem. Section II examines possible solutions, and it is seen that these can form the basis for new industries, investments, jobs and other components of development. Section III analyses the formulation of anti-pollution and environmental protection policies, the difficulties and factors involved, the various strategies used and other elements, illustrated with examples from countries which have made more progress in this field.

Finally, this paper takes into account the experience built up by ECLAC in this field within the conceptual framework of a recently initiated project on policies for the environmentally appropriate management of urban and industrial wastes. This project is being carried out with the support of the German Co-operation Agency, Gesellschaft für Technische Zusammenarbeit (GTZ).

I

Environmental features of industrial development

1. *Background*

It may justifiably be said that up to the early 1970s, the industrial and technological development which was taking place in the world, while offering a growing volume of increasingly sophisticated goods, was also capable of causing serious health problems to workers and to the population in general, as well as causing deterioration in the environment. Albeit commensurately with the different degrees of industrialization, the ill-effects were equally serious both in the most highly industrialized countries and in the Third World, including Latin America. Since then, the experience of the industrialized countries has shown that, with a coherent national development policy, industry can also generate suitable technology and equipment for reversing the negative effects of this trend. The developing countries are also seeking solutions, albeit slowly and timidly. However, they do not always themselves generate the anti-pollution technology and equipment they need. Why is this? What features of industry in these two groups of countries are responsible for these differences? What kind of industrial development is needed in order to avoid the ill-effects referred to?

The answers to these questions are to be found in a comparative analysis of the development of the two groups of countries, designed to identify the factors which make possible this advantage and thus suggest the direction in which the structural changes in the countries of the region should be oriented.

2. *Latin America's industrial development pattern compared with the rest of the world*

Latin American industry accounts for a little over 5% of world production. A rapid review of each of the industrial branches shows which of them are over this percentage and which of them are under it.[1] Those branches which are over the 5% level may be said to represent the dominant development style of the sector, while those that are under it represent a non-dominant style.[2]

[1] Branches classified according to the International Standard Industrial Classification (ISIC), Rev. 2, at the three-digit level.

[2] The analysis was based on statistical information provided by ECLAC.

This latter group (that with a smaller share) is made up of the following industries: printing and publishing, industrial chemicals, metal products, non-electrical machinery, electrical machinery and transport equipment. The first of these industries is linked with the degree of diffusion of knowledge, which constitutes a further index of the development and improvement of the cultural resources of the region. The chemical industry and all the others classified under the metal products and machinery branch have dynamic effects on the economy as a whole and assist in providing the capacity needed for proper management of industrial and urban wastes.

It is worth noting that, in relative terms, the region has a higher proportion of polluting industries than would normally correspond to it in line with its share in world industry. Of these industries, oil refineries and chemical plants (ISIC 352) are the most important, followed by beverages, tobacco (which has direct and indirect harmful effects) and basic industries.

If we look at the evolution of the industrial sector in the region in the second half of the twentieth century, the first thing that is noted in general terms is the decline in growth rates after the 1970s, which became even more marked as from 1980, and the second point is that growth shows big differences between countries. According to ECLAC data, between 1950 and the mid-1980s Uruguay increased its industrial production by a factor of 1.9, while Argentina and Brazil did so by factors of 2.8 and 12.6, respectively.

The region's structures of production have undergone substantial changes over the last 30 years, and this undoubtedly raises new challenges with regard to the management of industrial pollutants and their environmental impact. In the large countries of Latin America, with bigger domestic markets (Argentina, Brazil and Mexico), the situation is more reminiscent of recently industrialized countries than of the countries of the Organization for Economic Co-operation and Development (OECD), while in the medium-sized (Chile, Colombia, Peru and Venezuela) and small countries (the remainder) the proportion of industry accounted for by non-durable consumer goods amply exceeds any of the cases in question.

The relative importance of the *intermediate goods industry* in the region is not very different from its importance in the OECD countries and the recently industrialized nations. This sector is of greater relative weight in the domestic markets of the three large countries than in the smaller countries. Furthermore, in the large countries this share is tending to increase, while in the small nations it tends to stagnate. This situation is explained by the fact that in the latter countries the basic oil refining and cement manufacturing industries were established in mid-century, and there have not been suitable conditions for going on to higher levels of demand which would justify the expansion of the sector. It may be noted that these industries are serious sources of pollution if not run efficiently.

If we look at the changes in the share of each of the sectors in the industrial product (the gross domestic product of manufacturing) it may be seen that the changes which have taken place in the second half of the twentieth century have given the intermediate goods sector a greater relative share than that of non-durable consumer goods. While the latter have remained important, they have shown less dynamism than the former, and still less than the metal products and machinery sector.

The intermediate goods sector of the region covers various industrial branches whose relative weight in respective world production exceeds that of manufacturing as a whole: this is particularly so in the cases of wood, paper, other chemical products, rubber, ceramics, glass, cement and lime, and iron and steel. At the same time, this is the sector with the greatest and most varied harmful effects on the environment, so that proper management of pollution should be given particular importance in it.

Finally, mention must be made of the sectors of the metal products and machinery industry producing consumer durables and transport equipment. There has been much talk of the technical and economic importance of these production activities, both for development in general and for the possibility of creating an endogenous technical and industrial nucleus capable of ensuring non-polluting industrialization.

In the Latin American countries, the situation of this sector varies considerably. In Brazil, for example, it is of great importance. The share of the consumer durables industry in the industrial product, though less than in the most highly developed countries, is very similar to that of a recently industrialized country such as India, and higher than that of the Republic of Korea. In Argentina, its share is smaller and there has been some slackening in the tendency displayed by that country in the 1960s, which was characterized by strong development of the metal products and machinery industry in general, with activities which were competitive even at world level. In most of the small countries, the sector displays a weakness which gives rise to concern about the possibility of ensuring future development of the anti-pollution industry.

It may be concluded from this comparison between the industrial patterns of the countries of the region and those of the most highly developed countries that the industrial sector is of significant relative weight in the region, where the most highly polluting industries, and those producing toxic and dangerous wastes in general, have reached a level of development which confirms what is known about their tendency to cause environmental deterioration and increasing health problems for the population. It may also be assumed, at this level of aggregation of the analysis, that the nucleus which could be expected to serve as a basis for the creation of technology, the production of anti-pollution options and better management of pollutants has a level of development directly proportional to the size of the countries and their degree of development, displaying a disquieting weakness in the region. For this reason, from the environmental standpoint horizontal co-operation and economic integration are essential for the countries with smaller domestic markets.

Unless suitable policy measures are adopted, two types of effects may be expected: i) there will be no technological response to the environmental problems caused by the industrial sector, so that the present levels of environmental deterioration will be maintained or increased, or ii) the response will be on the basis of technologies from abroad, without any endogenous scientific and technological development. In other words, if the present inertia persists, either the region will continue to move towards environmental collapse, or yet another opportunity for trying to break the vicious circle of dependence will be wasted. Policy measures alone, of course, would not be sufficient to ensure industrial development or the creation of an endogenous technological development nucleus.

Thus, it may be concluded from this rapid comparison of industrial development patterns that industry in the region has reached levels of development which endanger the preservation of the environment, while it lacks the more dynamic branches that could ensure the correction of this structural weakness.

3. *General background on the population and urban development of the countries of the region*

In order to supplement the foregoing analysis, some background information on the population of these countries is called for. There are two reasons for this. Firstly, at this level of knowledge of industrial development it is obvious that its main support base is the domestic market: there are no known successful examples of industrialization which have based their growth on the external market without first of all having strong support from the domestic market. Some examples from Europe show that market integration can make up for some objective weaknesses of countries with only small populations. At the same time, empirical experience confirms that the size of the domestic market depends not only on the number of inhabitants in a country and the degree of openness of its markets, but also on income distribution (Fajnzylber, 1990). Secondly, urban development means urban wastes, and in order to avoid their harmful effects on the environment it is necessary to take joint action with the industrial sector along the lines already indicated.

As is clear from various studies, the degree of industrialization –understood as the share of the industrial gross domestic product in the global gross domestic product– is closely related to the size of the population. Thus, in general terms and for similar levels of per capita income, the greater the population, the greater will be the share of industry in the product. It is also clear that a similar relationship tends to exist between per capita income and the degree of urbanization. Both these trends follow the development pattern of the industrialized countries. In Latin America's case, however, there is an unusual fact: the degree of industrialization is not always directly related to the degree of urbanization. This is so, for example, in Brazil, where severe social inequalities persist in spite of the high degree of industrialization reached. In the long term, however, the disparities with the degree of urbanization should tend to diminish.

The region displays a large number of special features. Quite apart from the heavily recessionary situation of recent years, it may be noted that in spite of the levels of industrialization reached by Brazil in recent decades, the development of the Brazilian domestic market is still only slight compared with that country's population. In other words, the differences between the size of the populations of Argentina and Brazil, for example, are not always reflected in the levels of consumption of many industrial goods, because of the more unequal income distribution in the latter country. The same conclusion can be drawn from the analysis of other cases, thus showing how important equity is for these purposes. The generation and treatment of domestic wastes will inevitably be strongly influenced by this factor.

II

Towards an industrial solution of the problem of pollutants

1. *Economic aspects*

Contrary to what was believed until recently, there is no proof that an environmental protection policy has any adverse effects on business and industrial development. Indeed, leading authorities on the matter believe that environmental pollution control is an important source of new business, particularly in hydrocarbon processing, which in 1985 accounted for only 12% of the US$3 billion of new plant construction. In the Federal Republic of Germany, US$50 billion was spent on environmental control during the 1971-1980 decade. The Governmen's current programme to remove sulphur dioxide and nitrogen from power station wastes has created a new market worth about 20 billion German marks during 1986-1990 (Whitaker, 1987, pp. 1-2). These elements suggest that the anti-pollution industry could become an important source of industrial and technological development for the region, and this fact should be duly taken into account.[3]

Likewise, "According to OECD's figures, the impact of environmental measures on the growth of GNP has been very limited, with control measures bringing about a slight increase in economic growth in the short term. In the longer term, the economic impact of such measures might be slightly positive or slightly negative, according to the specific circumstances in the country concerned .... In the United States, the benefits of air and water pollution control had been estimated at 1.6% of GNP in 1978".[4]

From the above information, it is obvious that the problem of contamination and wastes can no longer be considered solely as an economic burden. It is clear that the action taken to solve these problems generates activities which, because of their complexity and interest, act as a stimulus for development and may give rise to a new virtuous circle of growth in which technological development, the production of capital goods, increased employment, and the reduction of pollution are all linked together.

In previous studies it has been indicated that, if the example of United States industry is applied to the region, it may be estimated that the new investment needed in order to avoid the harmful effects of industry alone averages some 10% of the capital invested in that sector.[5] Naturally, if the measures were applied in advance and not after the fact, these percentages would tend to go down.

Before going further with these reflections, it is worth seeing in greater detail what happens in the case of some specific solutions.

[3] This topic is dealt with in greater detail in Durán, 1988.

[4] Statement by Erik Lykke, Director of Environment of the Organization for Economic Co-operation and Development (OECD), at the World Industry Conference on Environmental Management (Versailles, 1984), quoted in *Industry and Environment*, Special Issue No. 5, 1984, Nairobi, United Nations Environment Programme (UNEP), pp. 3-4.

[5] See, in this respect, Durán, 1981.

2. *Development of new technological and production activities as a result of the problems caused by industrial pollutants*

It is difficult to estimate the magnitude of the problem of toxic pollutants in the region and the solutions applied to deal with them. There are some interesting experiences, however, which would not demand special processes if applied in the region.

Thus, for example, in the cement industry toxic wastes can be dealt with as part of the normal production process, since the clinkering temperatures of around 1 500º C at which the rotary kilns operate are considered more than sufficient to eliminate some pollutants. In a Norwegian cement factory, it was estimated that the investment needed to incinerate 20 000 tons of dangerous wastes per year would be approximately US$2.5 million. The annual operating costs would be US$365 000, while the increased production costs would be US$400 000. These figures take account of the increased shutdown time for maintenance of the kilns and dumping of electrostatic precipitator dust, owing to the higher concentration of inorganic chlorides. They do not include increased liability insurance costs, however, since it seems likely that the burning of waste in a cement kiln will not require increased cover. The annual income from the charges made for the incineration services was calculated at US$980 000, while the annual fuel savings were estimated at 16 000 tons of coal or 10 000 tons of petroleum (Viken and Waage, 1983, p. 78). It may be noted, in this connection, that cement industries exist in all the countries of Latin America.

In spite of the experience acquired, it is obvious that the problem of eliminating this type of pollutants has not yet been solved. In addition to technological policies based on successive advances towards the achievement of endogenous development, suitable control policies, instruments and regulations are needed. For this reason, it is worth referring once again to the Norwegian experience, in which it was stated that: "A scheme of direct State grants covering 66% of investment costs and 34% of loans has been extended. Selective economic assistance to increase collection of specific types of waste will not be introduced before experience with various regulatory actions and collection sites is gained" (Viken and Waage, 1983, p. 78). Furthermore, it would appear that the general policy being followed in many countries of the region is to progress on an industry-by-industry basis, analysing each case separately.

Thus, solutions are not only connected with the search for specific techniques, but also with activity regarding the endogenous technological development nucleus and specifically the promotion of the various design engineering specialities. Some comments made by Whitaker in 1987 illustrate what we have just been saying and make it possible to gain a clearer idea of the mechanisms involved:

a) "The business strategies presently being followed ..... focus on financial engineering techniques, although cost minimization programmes and the application of new technologies also play a key role in them".

b) "The present annual worldwide investment volume in new industrial plants is estimated to be in the range of US$150-200 billion ...... In 1984, plant engineering firms based in the United States accounted for nearly 40% of the world market, followed by Japan (over 20%), the Federal Republic of Germany (13.5%) and the United Kingdom (11.4%)".

c) "In terms of increased business volume, Japanese engineering contractors have expanded most rapidly during the past decade. Their share of the world market rose from 2% in 1977 to 12% in 1980 and over 20% in 1984, largely at the expense of United States contractors, whose share of the world market declined accordingly. In the view of Dr. Lothar Jaeschke, the success of Japanese firms can be ascribed to their readiness to accept large risks while offering low prices". (Whitaker, 1987, pp. 1-2).

The problem of wastes is clearly just as much industrial as urban. This has been clearly understood in the developed countries as a result of observation of what is happening in the Third World. Among the most noteworthy observations is that contained in an article on the pollution of the Love Canal, in the south of Taiwan, and also of the entire region, which has been characterized by rapid industrial development. The estimated cost of merely cleaning up the Love Canal at Haohsiung comes to hundreds of millions of dollars. The task has attracted the interest of United States businessmen, who have offered all kinds of equipment, from enormous electrostatic precipitators and sophisticated waste incinerators to delicate and sensitive monitoring instruments (Sease, 1987).

Robert McIlvaine, a consultant to Northbrook III, estimates that the figures involved in tackling the problem of atmospheric pollution in the world market will be of the order of US$13.6 billion in 1997, of which over half will be invested outside the United States and Europe. David Haines, an international sales executive of the Westinghouse Corporation, has stated that Taiwan plans to build 23 waste incineration plants at a cost of over US$100 million each. The Republic of Korea is engaged in talks on the construction of some 15 plants. India's ambitious energy plan for the coming years will cost some US$15 billion, a considerable part of which will be devoted to the reduction of atmospheric pollution.

Once again, the United States Government has acted in support of the external trade activity of that country's enterprises through the State Department's Trade Development Program. This department considers that the export of equipment for reducing contamination is a promising line of business, and it has budgeted over US$2 million for seminars and feasibility studies in various Asian countries (US$900 000 for Taiwan and US$500 000 for Malaysia and Thailand). The link between technological and production development is nothing new in the Government's support policy, which finances consultants and engineers who can make an important contribution to the penetration of new markets: it is considered that if they can win contracts to identify the contamination problems and propose solutions, those solutions will be built predominantly around equipment manufactured in the United States, rather than in Europe or Japan (Sease, 1987).

3. *Industrial management of urban wastes*

Since there are no detailed reports on the ways in which wastes are eliminated in the region, it is necessary to have recourse to other information. A preliminary idea in this respect can be gained on the basis of what is happening in the United Kingdom. In that country, the method most frequently used in the early part of this decade was the treatment of wastes in sanitary landfills. More sophisticated processes were less prevalent then, and still are (Durán, 1988). No information is available on what this means in terms of environmental deterioration, but there can be no doubt that that country's experience, especially after the unfortunate events due to atmospheric pollution in London in the 1950s, has generally been better than that of our own region.

The sanitary landfill method of treating domestic wastes does not rule out the recycling of some of the products contained in them. In the less developed countries, however, the rubbish is not only less abundant in per capita terms than in developed countries but also has a physical and chemical composition which makes it of low calorific value.

In Santiago, Chile, for example, the calorific value is less than one thousand kilocalories per kilogram of refuse, which means that it cannot be autocombustible in an incineration process except by spending large amounts on external energy. Moreover, the products capable of being recycled –many of them of higher thermal value– never arrive at the refuse dumps, since veritable armies of scavengers from the poorest sectors search for them and take them away from the households in the sectors which generate most refuse. This does not happen in most of the cities of the developed countries, where the refuse is more abundant and more autocombustible. In order for the organization of a landfill to be effective, action is required which involves a typical challenge of an industrial nature. It may be noted in this connection that in Santiago, Chile, the production of methane gas from landfills has made it possible to replace up to 18% of the commercial piped gas, and it is hoped that this figure can be further improved with some technical advances.

In Rio de Janeiro, successes similar to those described above have been registered. In short, landfills with domestic refuse could become an interesting energy source for quite a few industrial processes.

In the United Kingdom, licensed landfill capacities range between 10 000 and 200 000 tons per year: considerably more than the maximum capacity of a typical incineration plant, which can only handle about 20 000 tons per year (Pearce, 1983).

It is estimated that the United States produces 54 million tons of dangerous wastes every year, and approximately 80% of these are eliminated in landfills. The Eckhardt survey, carried out in 1979, concluded that between 1950 and 1978 a total of 54 of the biggest chemical companies in the country had eliminated 93% of their wastes on-site in their own facilities. Landfilling, land treatment and surface impoundment accounted for 84% of the wastes; deep well injection, 10%, and incineration, 4%.

The total volume of dangerous wastes of industrial origin produced in the member countries of the European Community (EEC) is between 15 and 20 million tons per year, of which approximately 7 million tons are eliminated through treatment, incineration or landfilling. The annual growth rate of waste generation, in both the United States and the EEC, is between 2% and 4% (Pearce, 1983, p. 58).

Returning to the subject of the technological options available, experience has shown that incineration –the only means of direct destruction– has the drawbacks of not being suitable for certain types of wastes and of generating toxic gases and unburnt particles. There are also the problems of eliminating heavy metals from the chimneys and preventing damage to the structure of the incinerators. Innovative techniques such as pyrolysis, which considerably reduce the problems of air pollution, have worked well at the experimental level and could become important methods of waste treatment in the future. At present, however, there is a serious shortage of thermal installations, and the capacity of the existing plants is low compared with the volume of waste that can be received by sanitary landfills. Moreover, the costs of incineration are approximately two and half times greater than the latter (Pearce, 1983, p. 58). It is important there should be an exchange of information on this matter in the region in order to find out which options have been the best from the economic and sanitary points of view. Likewise, it would be necessary to find out whether experiences like those of the Norwegian cement industry could be repeated in the region, or if it is possible to use the pottery industry or other industries which are more abundant in Latin America in order to eliminate specific wastes.

Still looking at the matter from an economic standpoint, it may be asserted that –returning to the problem of the lack of treatment of waste water– the most suitable methods of treatment of liquid wastes for the developing countries are, firstly, settling ponds, which have a cost of US$10 per inhabitant, and secondly, deep oxidation pits, which have a cost of US$14 per inhabitant (Boré, Pizarro and Cabrera, 1986, p. 5). According to these figures, an investment of between US$650 million and US$1 billion would be needed to treat the waste waters of the entire urban population of Argentina, Brazil, Chile and Uruguay.

This option is open to a good deal of doubt: it assumes the existence of land with an opportunity cost equal to zero, which is not very likely, especially in the big cities of those countries. On the other hand, the equipment needed for more mechanized treatment plants is not excessively complex (motors and water pumps, flotation tanks, etc.) and it would be easy to construct it in the region itself. It has not been possible to obtain more information with respect to the latter possibility, however.

In short, it may be seen from the foregoing that there are various techniques for eliminating urban and industrial wastes and that the best solutions are not necessarily the most expensive ones. Finally, there is clear technical interest in seeking joint solutions, although this has not yet been expressed at the political, legislative and institutional level.

III

Environmental control measures, instruments and policies

1. *General political and institutional considerations*

As the world has experienced a succession of serious social and environmental crises, the issue of the environment has been occupying an increasingly important place among social and political concerns. At this level, what is involved is the problem of the survival of all forms of life on earth, which are threatened by a style of development that has not been capable of creating suitable conditions for environmentally sustainable growth.[6]

It is possible that the energy crises, first of all in 1973 and again in 1979, were among the factors which did most bring about an awareness of the links between environmental problems and those of economic development. There has been no radical change in the situation, however: the global economic crisis, among other things, prevented the correction of all of the underlying problems, but at least there were qualitative advances which may eventually take a quantitative form. The majority of the other problems referred to have had rather local or sectoral importance.

In the course of this study it has been noted that, in addition to the population, which now sees for different reasons that its very survival is threatened by environmental problems, other new power groups have emerged which are interested in reducing the effects of pollution. These groups are to be found in the consultancy firms which provide technical services (engineering services) and in the capital goods industry. The figures involved are such as to bear comparison with any other branch of economic activity. Looking back, it can be seen that this interest is an important new development which gives more hope of generating moves in favour of change among the political groups which exercise power but which so far have been reluctant to act in a decided manner.

[6] For a better understanding of the concept of "environmental sustainability", see Gligo, 1987.

Latin America must generate an endogenous development nucleus which gives priority to the development of local capacity, instead of simply being a source of profits for foreign consultancy firms, as is usually the case. As the scales of production of the polluting industries increase, the temptation not to take corrective action is increasingly strong, representing a clear conflict of interests. The attitude of the authorities will be decisive in deciding which way the balance tips: in favour of the environment or in favour of those who are polluting. If there is no awareness of the problem at the governmental level, it will be very difficult to find environmentally acceptable solutions.

The political dispute goes beyond the strictly national context, however. A new ally of the defenders of the environment –unexpected and highly inconsistent with some of their ideals– is beginning to emerge as the processes of internationalization of production and trade openness increase: namely, producers in developed countries who have to compete with the commodities or manufactures of the developing countries. These producers are beginning to demand tariffs applicable to the domestic market which compensate for the higher operating and capital costs that they have to incur because of being obliged to treat their wastes and practice environmental management. At the same time, they are pressuring their own governments and international public and private project financing agencies to demand that producers in developing countries should take anti-pollution measures so as to avoid unfair competition on third markets.

Curiously enough, the sectors most reluctant to apply such measures are the governments themselves, and this is reflected in legislative and institutional weaknesses. In countries such as Chile, the legislation is incomplete and therefore inoperative, while in others (Argentina, Mexico, Venezuela, etc.) the legislation is applied in an inefficient manner is spite of the existence of departments or ministries responsible for these matters. In all cases, the environmental management and control functions are poorly allocated and do not enjoy the necessary independence. The arguments put forward by those who are reluctant to take action range from the need to carry out cost/benefit studies –involving factors that are open to question on each side of the matter– to the need to assign resources in line with criteria where social considerations prevail over those of an environmental nature, as though the two things were in opposition.

It is not the aim of this article to refute such arguments; for the moment, it is only desired to identify the actors and define their positions in order to find possible bases for promoting environmental protection and improvement policies and selecting suitable arguments to make possible the co-ordinated functioning of the new emerging branch of activities dealing with industrial waste management.

2. *The approach taken by some developed countries and the role of their industrialists*

The need to formulate policies and the manner of doing so is a task imposed by specific urban/industrial development objectives at given moments.

In Japan, for example, according to Norishige Hasegawa, Chairman of the Sumitomo Chemical Corporation and Vice-President of the Japanese Federation of Economic Organizations (KEIDANREN), the dramatic reduction in environmental pollution was the result of industry having to operate under severe regulatory standards. What is remarkable, however, is the way that Japanese industry has managed to remain competitive. Indeed, one of the lessons constantly reiterated was that industries which set out to curb their pollution, through recycling and the application of low- and non-waste technologies, were often able to achieve greater profitability than competitors who had stuck with older, more polluting technology. During the 1960s, there were outbreaks of ailments such as Minamata disease (mercury poisoning), Yokkaichi asthma, and cadmium poisoning, due to the consumption of contaminated rice. Not surprisingly, the public demanded action from the government to restrict pollution from industry, and industry had to comply. Japanese motor vehicle manufacturers, for example, had to come up with vehicles able to comply with exhaust emission standards more stringent than anywhere else in the world. Today, total exhaust emissions of carbon monoxide are only 5%, those of hydrocarbons 4% and those of nitrogen oxides 8% of the levels prevailing before the application of the rules. The aluminium smelting industry has devised means of collecting almost all the emitted hydrogen fluoride, while in the city of Yokkaichi, once world-renowned because of its environmental pollution, sulphur dioxide levels have fallen from 0.083 parts per million in 1965 to less than one eighth of that level today. At the same time, the chemical oxygen demand of the liquid wastes discharged into the Seto inland sea has dropped by 65% in three years, when the target set for industry was for a reduction over that period of 50% (UNEP, 1984, pp. 2-3).

It may be concluded from the foregoing that the formulation of policies for these activities is made more difficult by the need to reconcile the interests of different sectors of the population. On the one hand are the goods producers –who currently represent the group which is polluting– while on the other hand there are the government officials who must reconcile the various interests involved, as well as specialists in public health who represent the population. The latter see the problem in the following terms: "the task of environmental policies and legislation is now, as it was formerly with legislation on industrial hygiene, to get industry to comply with the provisions. There is always some dissension from vested interests, but the underlying difficulties are cultural and educational. To overcome these difficulties, the first essential is the establishment of a specific agency responsible for environmental protection, which must have exclusive competence, independent of all other Ministries, especially that of the Economy. Such a body must have consulting, supervisory and controlling functions, including supervision and implementation of adherence to regulations, with the power to suspend economic activities and public or private construction work. Further, it must have the right of intervention in any project which could have a deleterious effect on the environment. Such a body should be answerable to the Head of State" (Magariños de Mello, 1983, pp. 52-53).

The government authorities, for their part, consider that prevention is much better than cure. In the view of Erik Lykke, "clean technologies turned out to be beneficial both to the public and to industry. Not only had some 200 000 people found employment in "eco-industries", but a

French survey on the use of 200 "clean" technologies indicated that their application led to savings in energy and in raw materials in approximately half the cases. In Denmark, the use of clean technologies had led to financial benefits in 44% of the cases, that benefit averaging some 13% of the investment cost. Nevertheless, clean technologies still remain little used in industry. They are used in about one-third of polluting plants in Denmark, and they represent about 20% of pollution control investment in the United States, and probably much less in most other countries. It must be stressed that sustainable economic growth cannot be achieved in a badly managed environment and with a seriously degraded resource base".[7]

With regard to the effects of such policies on production processes proper in the capital goods industries and technological development, it would seem that industrialists are tending to take a new attitude. Dr. Otto Koch, Director of Bayer AG, has stated that: "The best solution clearly lies in new, environmentally safe technologies with which products can be manufactured without any significant waste generation, or such that it is easily manageable. This solution of the future will nevertheless require one or two decades for the research, development and industrial start-up. Environmentalists, journalists and politicians without any scientific or technical back-up often do not appreciate this fact".[8]

Furthermore, the manner of combating pollution differs according to the size of the enterprises involved. Thus, small and medium-sized industries cannot tackle their pollution problems on their own: "governments and local authorities ..... must determine what kind of regulation is required, how long should be given for it to come into effect, and whether control would be best achieved through a system of penalties and fines or through incentives in terms of tax concessions, capital grants and advice, or through a combination of several methods" (UNEP, 1987, p. 2).

[7] Statement by Erik Lykke, Director of Environment of the Organization for Economic Co-operation and Development (OECD), reproduced in *Industry and Environment*, Special Issue No. 5, 1984, Nairobi, United Nations Environment Programme (UNEP), p. 4.

[8] Quoted in *Industry and Environment*, Special Issue No. 5, 1984, p. 21.

It may be asked what practical response there has been to this challenge. According to the information collected at the Stockholm Conference in 1972, only 26 countries then had national bodies connected with the environment. A review carried out 10 years later revealed that by that time 144 countries had such bodies. This growth had been accompanied by the establishment of over 5 000 non-governmental bodies connected with this issue, many of them located in developing countries. A recent survey carried out among persons involved in environmental protection matters in 72 developing countries revealed that a high proportion (88%) considered that the current protection efforts were inadequate (in the developed countries, the percentage was 55%) (Sammy, 1982).

3. *The institutional response*

In some countries, joint ministries have been set up for the environment and housing or natural resources, while in others interministerial commissions have been established. A number of countries have environmental plans, and most of them include environmental considerations in their national plans. In a substantial number of countries, quality standards and procedures have been established for evaluating environmental impact (Gladwin, 1987, chapter 1; Bustamante and Torres, 1990, pp. 109-122).

As a background consideration for the analysis, however, it would appear that the establishment of environmental policy bodies and environmental protection agencies outside the polluting sectors has not given satisfactory results.

It would therefore be desirable that in policy definition, the industrial development bodies themselves –whether they are ministries or corporations– should play a fundamental role, together with health and environmental protection bodies. The execution of a project should not be authorized without the approval of the control body. These rules should, of course, be extraordinarily strict, should be brought to the notice of the population, and should form part of a comprehensive programme which makes it possible to correct the heavy burden of past errors.

Finally, what has been stated regarding the degrees of industrialization achieved shows that there is still a certain amount of structural fragility in the region with regard to the assumption of all the tasks called for by an industrial environmental protection policy. Because of this structural fragility, the countries of the region are not –alone and unaided– in a position to find the technological and production responses to the problems encountered. It is therefore clearly urgent to achieve closer horizontal co-operation links.

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International insertion and institutional renewal

*Fernando Fajnzylber**

In the 1990s, we may expect to see the convergence of tendencies which had been developing in the 1980s but which will now presumably have greater impact, interrelations and political relevance. What is involved is the intensification of international competition, increasingly based on the incorporation and spread of technical progress, within a context of generalized awareness of the economic and political importance of environmental sustainability.

This article explores some of the effects that these trends could have on Latin America in the 1990s. Part I makes an empirical analysis of the competitive performance of the countries of Latin America in comparison with the developed and developing countries of other parts of the world. In section II, an element which gives a special character to the international insertion of Latin America –its stock of natural resources and their incidence on environmental sustainability– is introduced, and it is linked up analytically with technical progress and the goals of growth and equity. Finally, some reflections are formulated against this background on the institutional changes demanded by the international insertion of the region in an increasingly globalized and regionalized world economy.

*Director, Joint ECLAC/UNIDO Industry and Technology Division. The author wishes to express his gratitude for the comments by Colin Bradford, Carlota Pérez and Alejandro Schejtman, as well as by his colleagues in the Division in question.

I
The competitive performance of Latin America

This first section of the article presents the initial results of an evaluation exercise to quantify the competitive performance of the countries of Latin America compared with other developing and developed countries. First of all, the concept of competitiveness used will be defined and various approaches for identifying the factors of competitiveness will be examined, after which the results obtained on the basis of the approach adopted will be described and finally, some of the limitations of the methodology used will be discussed.

1. *The concept of competitiveness used*

There is general consensus on the importance of international competitiveness, but as often happens in these cases, this consensus is far from being reflected in identity of views on the agents whose competitiveness is being evaluated, the markets in which it is measured, the level of aggregation of the products considered, the correct length of time for carrying out these measurements, and the specific indicators used in the measurement. In the present exercise, attention was centered on the countries competing for the import market of the Organization for Economic Co-operation and Development (OECD) in the period 1978-1989. The level of aggregation of the analysis will be the three-digit level of the Standard International Trade Classification (SITC), Rev. 2.

The method used could also be applied to a broader market than that of the OECD, at other levels of aggregation, for other periods of time, and, if suitable information were available, to enterprises instead of countries.[1]

The definitions adopted were inspired by the aim of contributing to the design of national and sectoral strategies and policies, as well as by the need to have updated information.

[1] For a detailed description of the methodology used and its theoretical and practical background, see Mandeng, 1991.

2. *The factors influencing competitiveness*

a) *The simple approach*

One frequently hears simple and specious formulations such as the following:

— The competitiveness of countries increases with per capita income. Consequently, the gap between poor and rich countries is increasing.
— The competitiveness of countries increases with the degree of openness of their economies. Consequently, the higher the export coefficient of the countries, the higher their international competitiveness.
— The competitiveness of countries is favoured by a relative reduction in the size of the State sector.
— The competitiveness of countries increases with their size.
— The competitiveness of countries increases with their spending on research and development.
— The competitiveness of countries increases with the level of educational coverage.
— The competitiveness of countries is associated with their capacity for expanding their exports of manufactures.
— The competitiveness of countries both favours the growth of the national economy and is also based on it.

If competitiveness is defined on the basis of the variation in the share of the OECD's imports between the end of the 1970s (average 1978-1979-1980) and the end of the 1980s (average 1987-1988-1989), and if it is then compared with the corresponding indicators (level of per capita income, export coefficient, relative weight of public spending in the product, degree of insertion in the international market at the beginning of the period, share of non-natural resource based manufactures in total exports of each country, educational coverage and performance, spending on research and development and, finally, growth in the per capita product over the period reviewed), it may be concluded that none of the foregoing assertions has a rigorous empirical basis (within the context of the simple linear regressions carried out, the results of which are given in table 1). The aspects which seem to have greatest weight with regard to competitiveness are the share of non-natural resource based exports of manufactures and the growth rates of the national economies. Even in these cases, however, the empirical evidence is far from conclusive.

The foregoing does not mean that the factors in question have no influence on competitiveness; what it does suggest is that their influence is neither total nor insignificant. Competitiveness is influenced by a set of factors through relations which cannot be quantified in a simple manner. More important that the size of the State is the quality of the relationship between the government and production activity (as clearly illustrated by the contrast between the United States and Japan, whose public sectors are of similar relative weight, but which are radically different in the nature of the links between the government and production activity. The degree of openness of the economies, educational coverage and spending on research and development favour competitiveness to the extent that they are effectively reflected in greater incorporation and spread of technical progress in production activity as a whole. A high export coefficient based on goods with a low technological content and low technological dynamism makes less of a contribution to competitiveness than a lower export coefficient based on items with high technological dynamism and content. With regard to educational coverage and spending on research and development, a factor which is just as important as the absolute level of those variables, if not more so, is the type of linkages which they have with production activity, the agents participating in them, and the quality of the results obtained.

Consequently, in order to make progress in the design of strategies and policies that favour a better international insertion, it is necessary to consider various factors simultaneously, leaving aside the well-beloved and ubiquitous simple solutions. A first limited step in this direction is attempted in the methodology set forth below.

b) *The approach used*

An attempt is made here to progress in the task of determining the competitiveness of countries, as measured by the changes in their presence in the OECD market between the beginning and end of the 1980s.

To this end, the concepts of *competitive position* and *efficiency* are introduced. Competitive position, in this context, means the relative dynamism of a given line of production in the im-

Table 1

"WINNING" AND "LOSING" COUNTRIES: SIMPLE LINEAR REGRESSION ANALYSIS, 1979-1988

Variable Y= Increase in global share

	Observations: Total	Observations: Not taken into account	R^2	Value of F	Proba-bility	Y inter-cept	X coef-ficient
Variable X= Following items:							
Natural-resource-based manufactures	33	0	0.26	10.94	0.24	0.78	-0.03
Non-natural-resource-based manufactures	33	0	0.30	13.27	0.10	-0.48	0.01
Growth rate of per capita GDP (%)	28	5	0.51	27.53	0.00	-0.08	0.16
Export coefficient (X/GDP)	27	6	0.02	0.42	52.41	0.42	-0.01
Per capita income (Per capita GDP, US$)	28	5	0.07	1.92	17.75	0.46	0.00
Public expenditure as a percentage of GDP	27	6	0.05	1.43	24.23	0.47	-0.01
Educational coverage							
Primary (% of enrolled age-group)	15	2	0.05	0.76	40.06	205.60	-1.85
Secondary (% of enrolled age-group)	15	2	0.05	0.64	43.66	56.82	-0.46
Higher (% of enrolled age-group)	15	2	0.00	0.00	96.59	18.43	-0.04
R & D spending, as a percentage of GDP	16	1	0.00	0.04	84.38	24.90	-2.62
Educational achievement							
Grades 4/5 (10 years of age)	14	3	0.27	4.44	5.69	56.41	-5.11
Grades 8/9 (14 years of age)	16	1	0.00	0.00	98.55	20.77	-0.04
Biology	12	5	0.00	0.00	97.98	11.45	0.06
Grades 12/13 Chemistry	12	5	0.10	1.09	32.05	32.33	-2.72
Physics	12	5	0.03	0.36	56.41	23.97	-1.61
Students of other disciplines	8	9	0.02	0.12	73.73	11.73	1.92

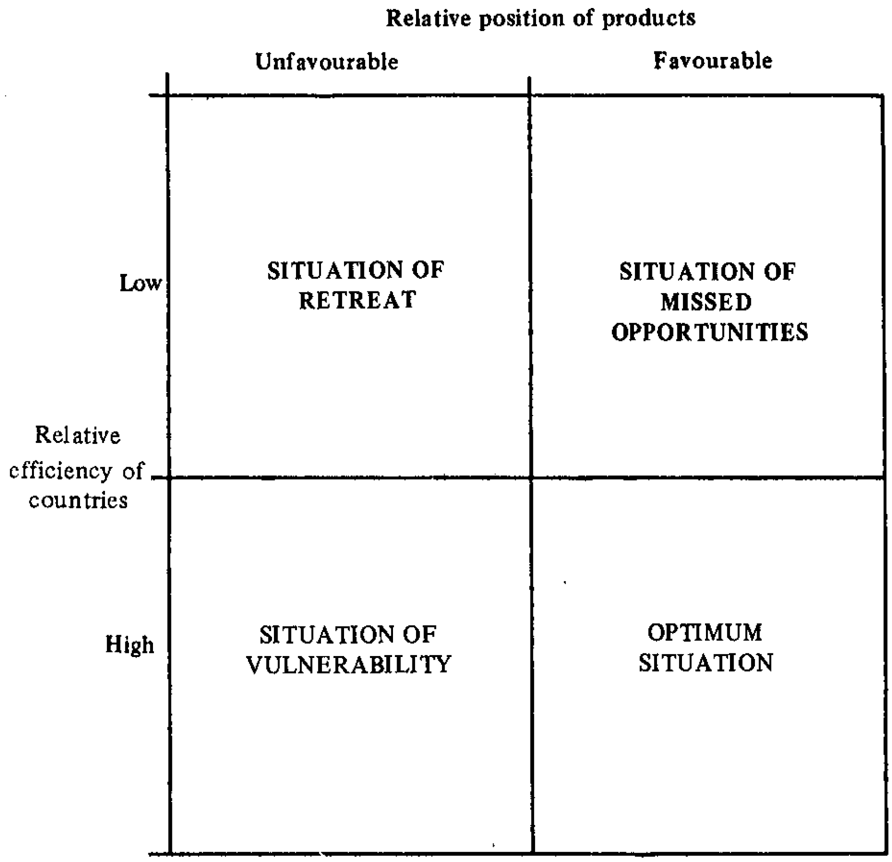
Source: Joint ECLAC/UNIDO Industry and Technology Division, on the basis of World Bank, *Poverty*, World Development Report 1990, Washington, D.C., Oxford University Press; International Association for the Evaluation of Educational Achievement, *Science Achievement in Seventeen Countries, A Preliminary Report*, New York, Pergamon Press, Inc., 1988 and UNESCO (United Nations Educational, Scientiific and Cultural Organization), *Statistical Yearbook, 1990*, Maxéville, France, 1990.

ports of the OECD, being considered favourable when the share of those imports increases and unfavourable when it decreases. Efficiency, for its part, as used in this study, means the relative share of a country in sales of a given product line, this efficiency being considered high when the share in the imports of the OECD increases, and low when it decreases. In other words, a country is poorly placed when it exports goods of low relative dynamism, and it is inefficient when, regardless of the types of goods concerned, its share in the market goes down compared with that of other countries exporting to the region in question.

If we combine the features mentioned above, we can distinguish between four strategically different situations (figure 1): i) favourable competitive position and high efficiency (optimum situation); ii) favourable competitive position and low efficiency (a situation of missed opportunities); iii) unfavourable competitive position and high efficiency (a situation of vulnerability);

Figure 1

INSERTION IN INTERNATIONAL TRADE: COMPETITIVE POSITION AND EFFICIENCY



Source: Joint ECLAC/UNIDO Industry and Technology Division, on the basis of Ousmene Mandeng (1991), *Competitividad internacional, especialización y dinamismo de los mercados*, Santiago, Chile, Joint ECLAC/UNIDO Industry and Technology Division, *mimeo*.

and iv) unfavourable competitive position and low efficiency (a situation of retreat).

The incorporation of technical progress influences competitiveness both through the *competitive position* –inasmuch as, in general, dynamism is associated with the technological content of the products, as reflected in their design and manufacture– and through the *efficiency* of production, that is to say, the systemic and organizational capacity to produce goods of levels in keeping with the demands of the international market.

The insertion of each country in international trade is defined here, then, through the composition of its exports according to this classification and their share in the imports of the OECD countries. On this basis, we can identify the countries which increased their share in the 1980s (the "winners") and those which have lost ground (the "losers"), and we can determine their shortcomings in terms of competitive position and efficiency, as well as in respect of the other variables mentioned in the foregoing paragraph.

This analysis gives rise to some indications which are of importance for a strategy to improve a country's insertion in international trade.

3. *Results*

a) *Winners and losers*

The first important distinction is between the countries which maintained or increased their share in OECD imports in the 1980s and those which lost ground in this respect. Of the 51 countries considered in this analysis, 26 were in the first group, which increased its relative share of OECD imports from 44% to 56%. The second group contains 25 countries, whose share went down from 29% to 23%. The totality of the countries in question increased their share in the OECD's imports from 75% to 79% over the decade. The "winners" increased their share of the market by 27%, while the "losers" saw their share go down by 9% (table 2).

Figure 2 shows the structure of the exports of the "winners" and "losers". Of the total exports of the "winners", 45% correspond to dynamic products in which the producer countries are also more efficient than their competitors (an optimum situation); 22% correspond to dynamic products in which there has been a deterioration in the relative position of the countries (a situation of missed opportunities); 24% correspond to products which are of lower dynamism, but in the case of which the relative position of the countries has improved compared with their competitors (a situation of vulnerability), while only 10% correspond to low-dynamism products in which, moreover, the countries are losing their market share (a situation of withdrawal). In the case of the "winners", optimum situations in which the favourable competitive position of the products is accompanied by efficiency on the part of the exporting country prevail, and in fact 67% of the exports of those countries are of dynamic products.

In the countries which are losing market shares (the "losers"), the largest proportion of exports are those combining an unfavourable competitive position with lower relative efficiency (a situation of retreat) (32% of total exports). These are followed by exports of products of low dynamism but which the countries produce efficiently (a situation of vulnerability) (30% of the total). Thus, in these countries the less dynamic products form 62% of total exports, and in half of these exports the low dynamism of the goods is accompanied by lower relative efficiency. Dynamic products which these countries can produce efficiently (the optimum situation) account for only 17% of their total exports, while dynamic products in which they are losing relative efficiency (a situation of missed opportunities) account for 21% of the total.

If we compare the global structure of the exports of the two groups of countries, we see that the fundamental difference between them lies in the fact that the winners display a combination of good competitive position with high efficiency, whereas the losers display the opposite situation: poor competitive position and low efficiency. Both groups of countries register comparable proportions of dynamic products where there is a loss of relative position and non-dynamic products where there is an increase in relative position. Consequently, in both of them there are varying situations with regard to competitive position and efficiency. This suggests that proposals based on one-dimensional approaches should be rejected out of hand.

If we analyse the structure of exports of the "winners" and "losers" by types of goods (table 2), we see that in the first-named there is a predominance of non-natural resource based manufactures (58%), which are over two and a half times their exports of natural resources, including petroleum (21%). In the "losers", in contrast, the most important exports are those of natural resources, including petroleum (50%), while exports of non-natural resource based manufactures amount to 30%. The relative weight of natural resource based manufactures is similar in both groups of countries.

With regard to the other indicators mentioned earlier, it is noted that the "winners" are more dynamic, have a higher level of per capita income, a similarly higher coefficient of public spending with regard to the gross domestic product, and a similar export coefficient (table 2).

It should be noted that among both the "winners" and the "losers" there are very varied situations with regard to level of development, structure of production, and institutional makeup. This topic is dealt with below.

Extreme cases illustrating the above statement are the United States and Japan. The first of these countries, with a share of 10% in the imports of the OECD, lost 1.5% of its share in the 1980s, while the latter country, with a share of 8% in the OECD's imports, increased its share by 76% over the decade (figure 3). The lines of goods where Japan is in an optimum situation all originated, from the technological and industrial point of view, in the United States: motor vehicles, computers and telecommunication equipment. Paradoxically, motor vehicles and computers now represent "lost opportunities" for the United States: that is to

Table 2

"WINNING" AND "LOSING" COUNTRIES: INSERTION IN INTERNATIONAL TRADE

	Share in OECD imports			Situation in terms of competitive position and efficiency				Export structure				Aggregate indicators			
	1979	1988	% variation	Optimum	Vulnerable	Missed opportunities	Retreat	Natural resources	Energy	Manufactures: Natural resource based	Manufactures: Non-natural resource based	Per capita GDP (US$)	Per capita GDP %	Export coefficient (X/GDP)	Public expenditure as % of GDP
								"Winning" countries							
Group 1[a]															
China	0.56	1.44	157	66	30	1	2	14	10	11	66	330	9.2	12.8	
Republic of Korea	0.92	2.10	128	83	10	6	1	4	1	5	90	3 600	7.7	35.4	15.7
Spain	1.10	1.58	44	58	24	15	3	16	4	18	62	7 740	2.0	11.9	34.1
Finland	0.77	0.85	10	53	11	22	14	3	3	52	42	18 590	2.7	23.6	30.2
Japan	4.63	8.15	76	80	4	11	5	0	0	4	96	21 020	3.4	9.3	17.0
Mexico	1.03	1.48	44	51	32	13	4	10	23	9	57	1 760	-1.4	11.7	27.9
Portugal	0.27	0.52	93	75	12	10	3	5	2	23	71	3 650	1.9	24.5	45.3
Dominican Republic	0.08	0.08	0	52	22	8	17	16	0	17	62	720	-1.6	19.3	15.3
Singapore	0.46	0.78	70	69	5	15	11	3	10	5	82	9 070	5.8		35.0
Thailand	0.30	0.52	73	65	23	10	3	33	1	17	50	1 000	3.8	27.3	16.4
Turkey	0.15	0.36	140	56	33	1	11	22	12	8	58	1 280	3.0	18.1	22.0
Yugoslavia	0.31	0.43	39	52	20	21	7	7	3	24	65	2 520	-0.1	20.7	7.5
Total	**10.58**	**18.29**													
Average	0.88	1.52	73	63	19	11	7	11	6	16	67	5 940	3.0	19.5	24.2
Group 2[b]															
Brazil	0.99	1.18	19	41	46	8	4	30	3	29	38	2 160	1.2	10.4	25.1
Chile	0.24	0.25	4	14	33	3	50	39	0	54	3	1 510	-0.1	31.9	33.4
Costa Rica	0.07	0.07	0	37	57	1	5	69	0	4	27	1 690	0.2	27.3	28.0
Greece	0.29	0.33	14	29	26	27	17	22	7	19	52	4 800	0.1	13.2	50.9
Israel	0.30	0.38	27	40	38	14	7	42	1	16	42	8 650	1.5	21.4	50.6
Norway	1.01	1.06	5	15	49	29	7	8	43	24	24	19 990	3.8	24.7	41.5
Uruguay	0.04	0.04	1	17	40	31	12	26	0	23	35	2 470	-1.4	21.0	23.7
Total	**2.94**	**3.31**													
Average	0.42	0.47	13	28	41	16	15	34	8	24	32	5 896	0.82	1.4	36.2
Group 3[c]															
Federal Republic of Germany	10.66	12.54	18	29	8	55	7	2	1	15	81	18 480	2.0	26.8	29.9
Canada	4.48	4.91	10	43	15	27	15	9	9	29	52	16 960	2.3	25.6	23.4
Denmark	1.06	1.13	7	31	20	40	9	19	3	21	56	18 450	2.3	30.7	41.2
France	5.93	6.41	8	23	11	54	12	9	1	21	68	16 090	1.2	17.0	43.1
Italy	4.35	5.01	15	35	13	46	6	4	2	13	82	13 330	1.7	15.5	51.3
Sweden	1.92	2.06	7	22	12	57	8	3	3	27	67	19 300	1.9	31.2	40.8
Switzerland	2.14	2.22	4	22	18	51	10	9	0	12	70	27 500	1.6	27.4	
Total	**30.54**	**34.28**													
Average	4.36	4.90	12	29	14	47	9	8	3	20	68	18 587	1.9	24.9	38.3
Average for all the "winning" countries	1.69	2.15	27	45	24	22	10	16	5	19	58	9 333	2.1	20.7	28.8

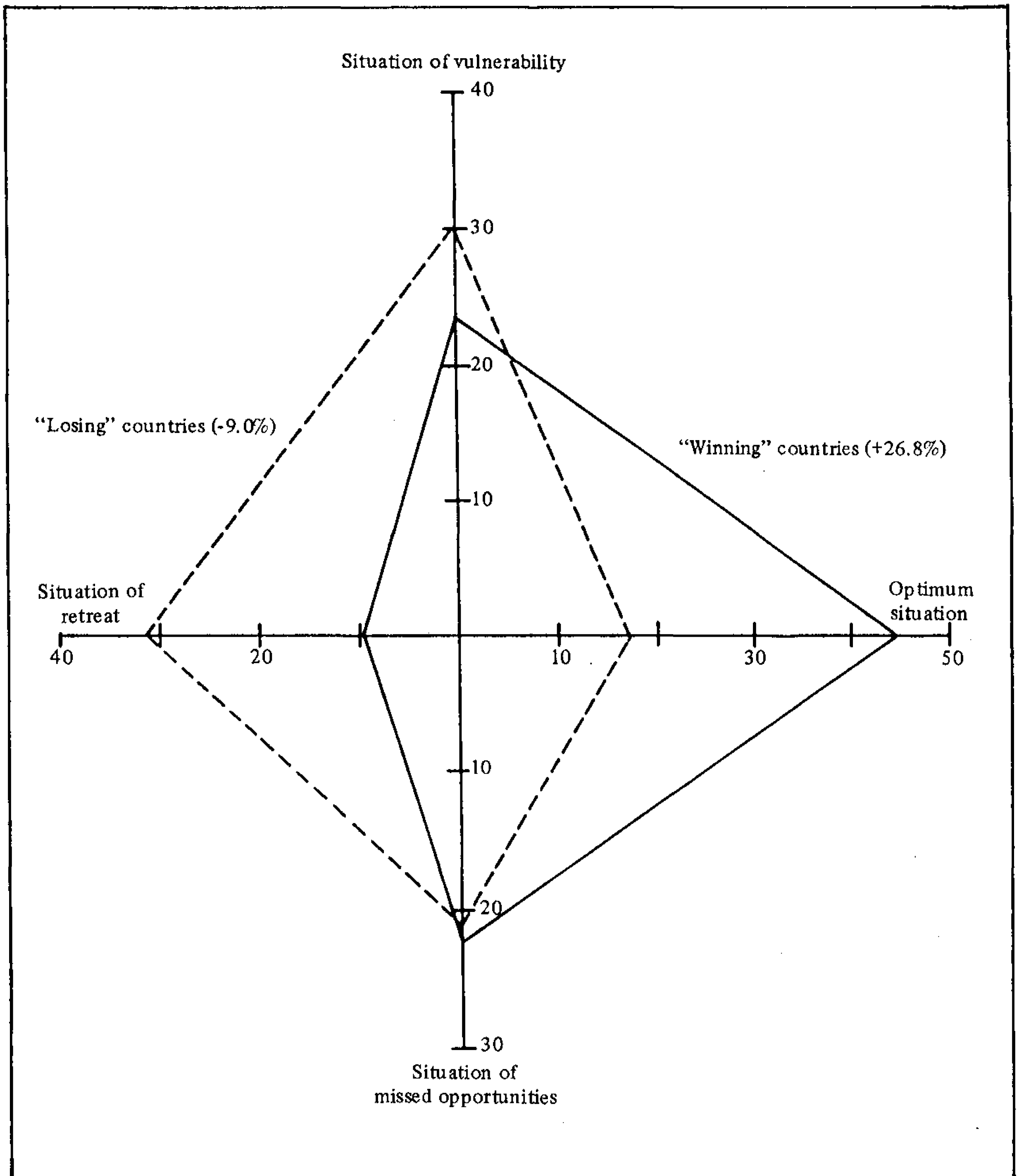
Table 2 (conclusion)

	Share in OECD imports			Situation in terms of competitive position and efficiency				Export structure				Aggregate indicators			
										Manufactures					
	1979	1988	% variation	Optimum	Vulnerable	Missed opportunities	Retreat	Natural resources	Energy	Natural resource based	Non-natural resource based	Per capita GDP (US$)	Per capita GDP %	Export coefficient (X/GDP)	Public expenditure as % of GDP
						"Losing" countries									
Group 4[c]															
Bulgaria	0.07	0.04	-43	18	12	39	31	19	13	25	42				
Czechoslovakia	0.23	0.19	-17	14	18	42	26	8	10	24	57				
United States	10.23	10.07	-2	11	8	66	15	12	3	13	71	19 840	2.1	6.5	22.9
Philippines	0.39	0.32	-18	35	10	28	28	22	1	23	53	630	-2.4	18.0	15.6
Hungary	0.21	0.20	-5	26	22	31	21	21	7	25	47	2 460	1.8	35.4	58.3
Malaysia	0.68	0.66	-3	25	37	21	17	26	15	17	43	1 940	1.3	60.1	31.3
Netherlands	4.54	4.49	-1	24	14	41	19	14	11	27	49	14 520	1.1	45.2	55.7
German Dem. Republic	0.15	0.13	-13	21	28	39	12	6	10	21	63				
United Kingdom	5.25	5.24	-0	20	17	51	12	7	11	16	66	12 810	2.8	20.7	37.6
Romania	0.25	0.19	-24	13	41	37	9	3	30	17	49				
Total	**22.00**	**21.53**													
Average	2.20	2.15	-2	21	21	39	19	14	11	21	54	8 700	1.1	31.0	36.9
Group 5[d]															
Australia	1.15	1.06	-8	18	57	6	18	38	19	27	14	12 340	1.7	10.3	28.7
Ecuador	0.12	0.10	-17	27	51	1	21	67	26	5	2	1 120	-1.1	21.4	17.1
Indonesia	1.35	0.80	-41	14	52	4	30	18	51	19	12	440	1.7	23.6	22.7
Paraguay	0.04	0.02	-50	9	63	2	25	82	0	13	5	1 180	-2.1	15.2	7.9
Total	**2.66**	**1.98**													
Average	0.67	0.50	-26	17	56	3	24	51	24	16	8	3 770	0.0	17.6	19.1
Group 6[b]															
Argentina	0.40	0.25	-38	13	28	22	37	36	3	43	18	2 520	-1.6	11.5	21.6
Bolivia	0.04	0.01	-75	4	35	5	56	49	0	22	5	570	4.3	12.6	15.8
Colombia	0.28	0.23	-18	12	44	4	40	58	27	3	11	1 180	1.2	13.7	14.7
El Salvador	0.08	0.03	-63	5	3	21	71	77	0	4	19	940	-1.8	10.5	11.3
Guatemala	0.09	0.05	-44	17	22	7	54	76	2	7	15	900	-3.1	13.3	12.1
Honduras	0.06	0.05	-17	20	21	4	54	83	0	7	10	860	-1.7	23.8	
New Zealand	0.32	0.31	-3	31	25	10	34	45	2	34	18	10 000	0.6	22.1	49.1
Peru	0.20	0.11	-45	17	37	3	42	37	10	37	16	1 300	-1.2	10.5	14.6
Poland	0.43	0.27	-37	14	11	34	41	19	15	24	42	1 860	1.7	40.4	
USSR	1.62	1.12	-31	8	49	8	35	11	57	19	10				
Venezuela	0.78	0.42	-46	11	50	1	38	6	81	8	5	3 250	-2.4	16.1	21.8
Total	**4.30**	**2.85**													
Average	0.39	0.26	-34	14	30	11	46	45	18	19	15	2 338	-1.3	14.9	22.4
Average for all the "losing" countries	1.16	1.05	-9	17	30	21	32	34	16	19	30	3 626	-0.2	15.6	20.0

[a] This group is marked by predominance of the optimum situation: favourable competitive position and high country efficiency.
[b] This group is strongly marked by a situation of vulnerability: unfavourable competitive position and high efficiency.
[c] This group is strongly marked by a situation of missed opportunities: favourable competitive position but low efficiency.
[d] The predominant situation in this group is one of retreat: unfavourable competitive position and low efficiency.

Figure 2

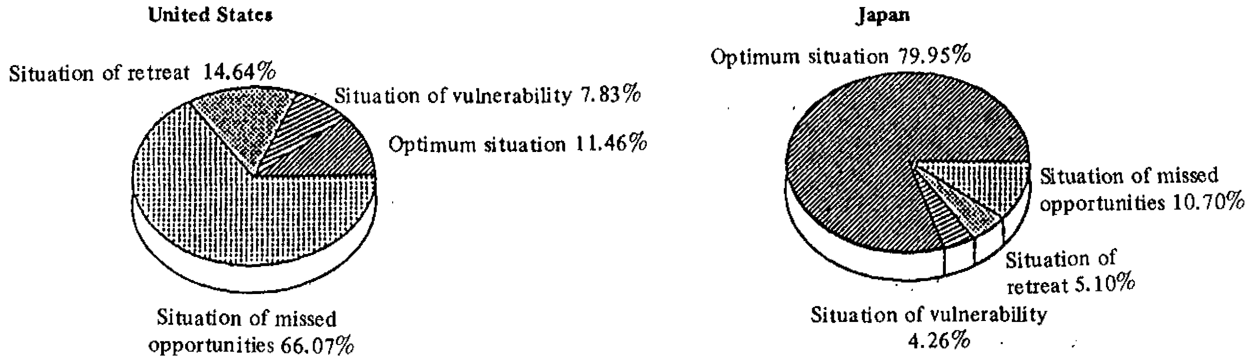
"WINNING" AND "LOSING" COUNTRIES: VARIATION IN SHARE OF OECD IMPORTS, 1979-1988



Source: Joint ECLAC/UNIDO Industry and Technology Division.

Figure 3

UNITED STATES AND JAPAN: GLOBAL BREAKDOWN OF COMPETITIVENESS



Situation in 1989, by main product groups[a]

	Japan	United States
Global share 1987-1989	8.15%	10.07%
Variation compared with 1978-1980	+76.09%	-1.54%
Optimum situation	Motor vehicles (781) Telecommunications equipment (764) Computers (752)	Non-electrical machinery (714) Wood pulp (251) Fresh fish (034)
Situation of vulnerability	Cameras (881) Machinery (723) Textile fibres and articles (653)	Fresh fruit (057) Other wood (247) Fresh meat (011)
Situation of missed opportunities	Gramophones (763) Radio receivers (762) Television receivers (761)	Computers (752) Automobile parts (784) Aircraft (792) Motor vehicles (781)
Situation of retreat	Motorcycles (785) Universal milling machines (674) Watches (885)	Oilseeds (222) Rubber (322) Animal feedstuffs (248)

Source: Joint ECLAC/UNIDO Industry and Technology Division.

[a]The three digits in parentheses indicate the corresponding group in the Standard International Trade Classification (SITC), Rev. 2.

say, dynamic lines of products in which that country is losing its share, partly because of the process of internationalization of its own enterprises. The lines in which the United States is increasing its share are predominantly natural resources, with different degrees of processing, but two-thirds of the country's total exports are dynamic lines of goods in which the United States is losing its relative share. In marked contrast, 80% of Japan's exports consists of dynamic lines in which that country is increasing its relative share.

This explains the latent presence of protectionist tendencies in the United States, as well as the varied and growing criticism of Japan's "interventionist" practices. One of the many attempts made to tackle this situation by the two governments is the recent bilateral exercise termed the "Structural Impediments Initiative", which will be referred to later on in this article.

b) *The "winners"*

Among the "winners", it is possible to distinguish at least three groups which differ from each other in respect of emplacement and relative efficiency (figure 2). The first of these groups is made up of 12 countries in whose exports products combining good emplacement and efficiency account for a larger share than for the "winning" countries as a whole (45%).[2] These countries increased their share in the market by 73% during the 1980s (from 11% to 18% of OECD imports). Product lines in which a good emplacement is accompanied by efficiency account for almost two-thirds of their total exports (63%) (figure 4). The exports of this group of countries consist predominantly of non-natural resource based manufactures (67%), while natural resources, including petroleum, account for only 17% (table 2).

Only two of the 12 countries included in this group have a level of per capita income over US$10 000 (Japan and Finland), and only in Finland do natural resource based manufactures exceed those which are not based on such resources. In the other countries of the group, non-natural resource based manufactures predominate to an overwhelming extent, representing over 80% of exports in Japan, the Republic of Korea and Singapore (countries with only poor natural resource endowments).

The two Latin American countries forming part of this group (the Dominican Republic and Mexico), together with China, Portugal, Singapore, Spain, Thailand, Turkey and Yugoslavia, participate in the international market with non-natural resource based manufactures, thanks largely to the process of globalization of international trade whereby the leading companies in the developed countries have moved towards the use of suppliers with low labour costs and various forms of co-production, including assembly activities.[3] In the case of the Republic of Korea, this form of activity does exist, but it is combined with a strong national industrial base which tends rather to reproduce the Japanese model.

The two Latin American countries are the only ones in the group which registered an increase in competitiveness accompanied by a drop in per capita income in the 1980s. This situation, which is observed in almost all the countries of Latin America, is due to the fact that progress in the form of greater international insertion has been accompanied by heavy external debt service burdens.

Two clear examples of greater insertion in international trade as a result of the process of its globalization and regionalization are Mexico and Spain (figure 5). They register both similar shares in the OECD market (1.5%) and similar degrees of increase in their share of that market in the 1980s (44%). The most important similarities, however, are in the leading place occupied in them by the motor vehicle industry and the relative weight of the different categories of exports, defined according to the dynamism of the products and the relative efficiency of the country in their production.

A second group of "winning" countries is made up of those in which the major part of their exports are characterized by a high degree of efficiency of production, although their competitive position is not favourable (predominance of non-dynamic lines of goods). These countries increased their share of the market by 13% during the decade, accounting for a little over 3% of the total imports of the OECD.[4] Products which are in a situation of vulnerability, together with natural resources, predominate in their exports, along with a high proportion of natural resource based manufactures (see figure 4 and table 2). Of the seven countries making up this group, only one of them (Norway) has a high per capita income, while four

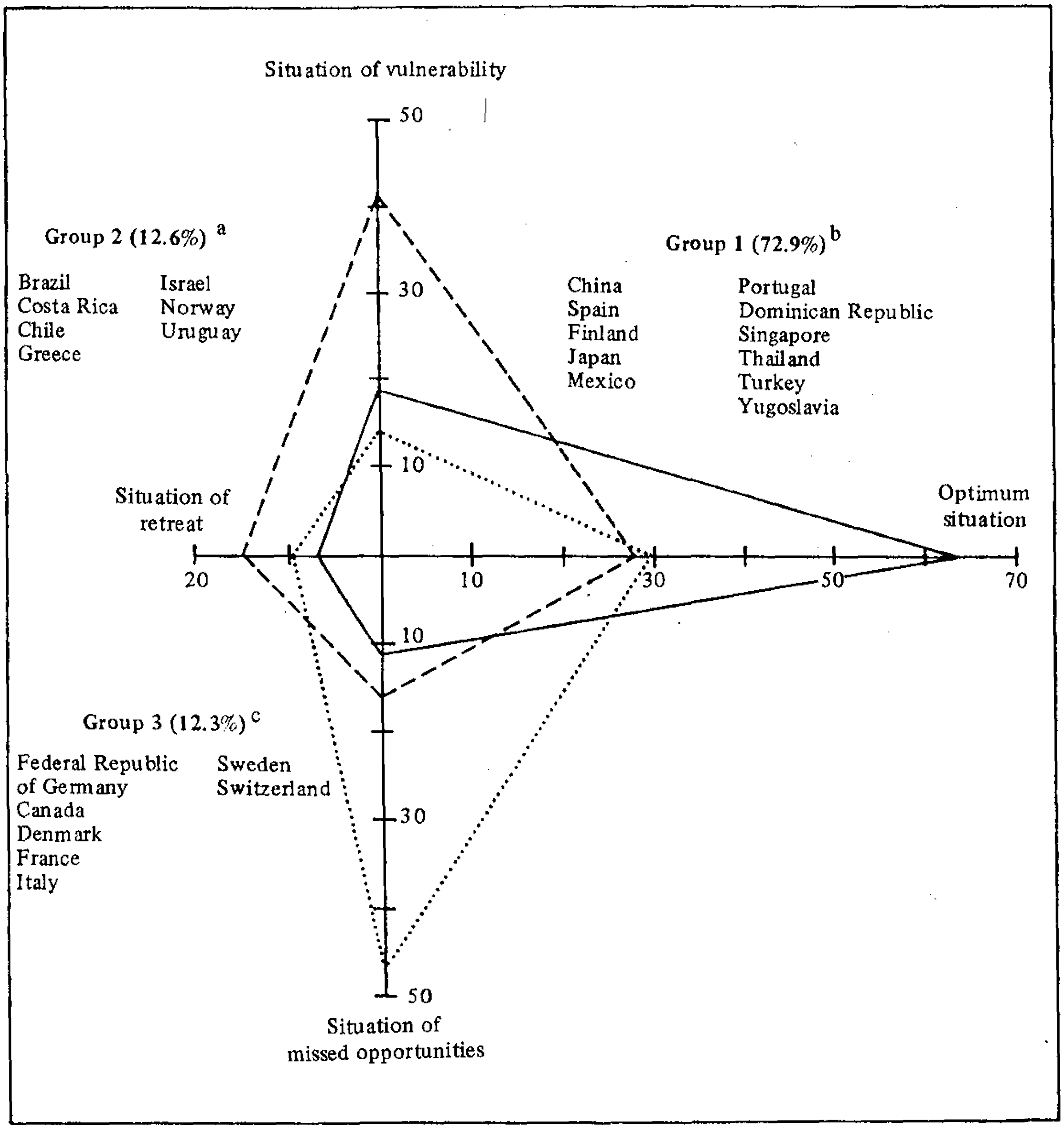
[2] This group is made up of the following countries: China, the Dominican Republic, Finland, Japan, Mexico, Portugal, the Republic of Korea, Singapore, Spain, Thailand, Turkey and Yugoslavia. In the case of China, it is interesting to note that its export coefficient went from 4% in 1978 to 19% in 1990.

[3] For details on Mexico, see Wilson Peres, 1990. For details on the Dominican Republic, see Joint ECLAC/UNIDO Industry and Technology Division, 1991a and 1991b. In 1988, the proportion of assembly activities in Mexico's exports to the United States came to 46%, while in 1990 in the Dominican Republic the proportion was estimated at two-thirds of the total.

[4] This group of countries consists of Brazil, Chile, Costa Rica, Greece, Israel, Norway and Uruguay.

Figure 4

"WINNING" COUNTRIES: VARIATION IN SHARE OF OECD IMPORTS, 1979-1988



Source: Joint ECLAC/UNIDO Industry and Technology Division.

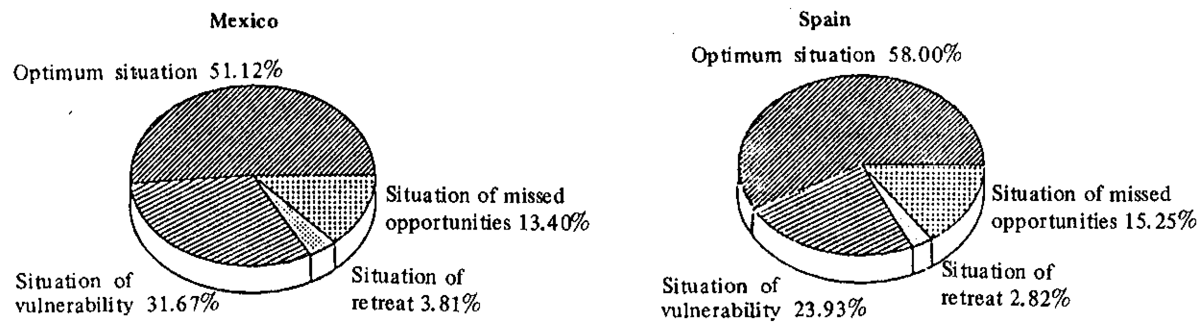
[a]This group is strongly marked by a situation of vulnerability: unfavourable competitive position and high country efficiency.

[b]In this group the optimum situation predominates: favourable competitive positition and high efficiency.

[c]This group is strongly marked by a situation of missed opportunities: favourable competitive position but low efficiency.

Figure 5

MEXICO AND SPAIN: GLOBAL BREAKDOWN OF COMPETITIVENESS



Situations and main products in 1989[a]

	Mexico	**Spain**
Global share, 1987-1989	1.48%	1.58%
Variation compared with 1978-1980	+43.07%	+44.39%
Optimum situation	Internal combustion engines (713) Electrical distribution equipment (773) Motor vehicles (781)	Motor vehicles (781) Motor vehicle parts (784) Fresh vegetables (054)
Situation of vulnerability	Crude petroleum (333) Coffee (071) Petroleum products (334)	Fresh fruit (057) Petroleum products (334) Iron bars (673)
Situation of missed opportunities	Telecommunications equipment (764) Fresh vegetables (054) Fresh shellfish (036)	Footwear (851) Alcoholic beverages (112) Canned fruit (058)
Situation of retreat	Silver (681) Other unworked minerals (278) Natural gas (341)	Iron pipes (678) Copper (682) Basic metal industries (697)

Source: Joint ECLAC/UNIDO Industry and Technology Division.

[a]The three digits in parentheses indicate the corresponding group of the Standard International Trade Classification (SITC), Rev. 2.

of them are in Latin America (Brazil, Chile, Costa Rica and Uruguay). The greater share in international trade attained by these countries in the 1980s is due fundamentally to the fact that they have improved their efficiency in the production of mainly non-dynamic lines of goods. With the exception of Brazil, they are small countries in the process of greater economic openness, with high educational coverage, and in them the demands of systemic competitiveness can be met to a relatively high degree. Their small size permits them to improve their relative position in the export of non-dynamic products and to gain a global share in the market. Their situation is vulnerable, however, both because of the low dynamism of the products they export and the price fluctuations affecting a number of these lines of goods.

It is interesting to compare the situations of Brazil and the Republic of Korea, which, in spite of obvious differences with regard to natural resource endowment, international trade insertion strategy, and presence of foreign firms (which is notably greater in Brazil), have in common a diversified production and export base and a substantial national business presence (although this is not as strong in Brazil as in the Republic of Korea). It may be seen from figure 6 that although the relative share of the latter country is double that of Brazil (2% and 1%, respectively) and the increase in its market share in the 1980s was markedly higher (128% as against 20%), both countries share a similar structure of manufactured exports, including lines that make intensive use of labour (clothing and footwear), partly processed natural resources (wood and iron ore), and capital-intensive goods (motor vehicles, iron and steel products). If we look at the total range of products in which these two countries have increased their relative share (products in an optimum situation, plus those in a situation of vulnerability), we see that in Brazil the proportion of these products comes to 87% and in the Republic of Korea to 93%, although it should be noted that 83% of the latter country's exports are made up of products which, as well as increasing their relative share, display greater dynamism than the international market as a whole (this proportion is even slightly higher than that for Japan).

The third and last group of "winning" countries is made up of nations whose exports are predominantly of dynamic lines of goods (47%) but which are losing their relative position in them to a substantial extent (a situation of missed opportunities) (figure 4 and table 2).[5] Their products are of high technological content, but their efficiency in production and marketing appears to be lagging compared with their competitors.

The members of this group are developed countries with a good competitive position, but they are losing their market share in dynamic goods to the kind of countries which make up the first of the groups mentioned above. They have increased their share of the OECD market because of their good competitive position, but they have lost market shares in products where they were formerly leaders (a typical example is that of the motor industry). Their export structure, in which non-natural resource based manufactures predominate, is very similar to that of the first group of "winning" countries, but the fundamental difference lies in the fact that whereas in the latter countries the good competitive position of the products coincides with the efficiency of the country, in this third group this good position is accompanied by loss of market shares (figure 4 and table 2). This puts them in a situation of vulnerability, because if this trend continues, the good position of the products exported may eventually be insufficient to offset the lower efficiency of the country, as we shall see below in the case of some developed countries which are among the "losers".

In short, the "winning" countries include many of the countries of Western Europe and East Asia, together with Mediterranean and Latin American developing countries which are tending to gain an insertion into the market partly through the processes of globalization of the enterprises of the developed countries. In recent decades, in spite of many differences in their characteristics, the countries leading the group of "winners" –Japan and the Western European nations– have shared a form of economic and social functioning which favours agreements and negotiations rather than confrontation (in the law courts or on the battlefield). It may well be that this preference of theirs is due to the traumas of the past and a continued awareness of some degree of vulnerability.

c) *The "losers"*

Depending on the relative importance of a poor emplacement or of lower efficiency in explaining their loss of market share, here too it is possible to distinguish three groups with different characteristics (figure 7). The first group is made up of countries whose products have a good competitive position, but are losing market shares through low efficiency.[6] (This situation illustrates what could happen to the third group of "winning" countries –mainly from Western Europe– if they do not react to the need for greater efficiency). The market share of this first group of "losing" countries fell by a little over 2% in the 1980s (from 22% to 21.5%).

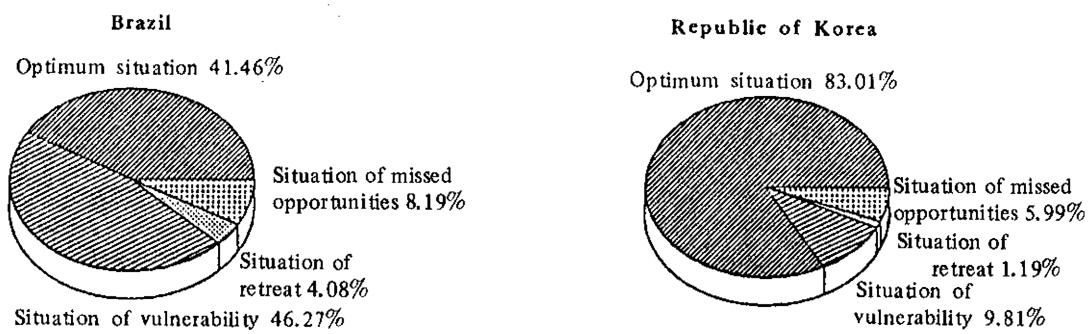
This group consists, on the one hand, of the three countries which have successively been

[5] This group is made up of Canada, Denmark, the Federal Republic of Germany, France, Italy, Sweden and Switzerland.

[6] This group of countries consists of the former German Democratic Republic, Bulgaria, Czechoslovakia, the United States, the Philippines, Hungary, Malaysia, the Netherlands, the United Kingdom and Romania.

Figure 6

BRAZIL AND THE REPUBLIC OF KOREA: GLOBAL BREAKDOWN OF COMPETITIVENESS



Situations and main products in 1989[a]

	Brazil	Republic of Korea
Global share 1987-1989	1.18%	2.10%
Increase over 1978-1980	20.14%	127.79%
Optimum situation	Canned fruit (058) Footwear (851) Aluminium (684)	Footwear (851) Motor vehicles (781) Clothing (848)
Situation of vulnerability	Coffee (071) Iron ore (281) Animal feedstuffs (081)	Universal milling machines (674) Textiles of artificial fibres (653) Iron pipes (678)
Situation of missed opportunities	Internal combustion engines (713) Textile yarns and fibres (651) Fresh shellfish (036)	Fresh fish (034) Underwear (844) Textiles yarns and fibres (651)
Situation of retreat	Cocoa (072) Worked wood (248) Sugar (061)	Fabrics of textile fibres (654) Raw tobacco (121) Worked wood (248)

Source: Joint ECLAC/UNIDO Industry and Technology Division.

[a]The three digits in parentheses indicate the corresponding group of the Standard International Trade Classification (SITC), Rev. 2.

leaders of the world economy (the Netherlands, the United Kingdom and the United States), plus most of the socialist countries and two Asian countries with a strong natural resource endowment: the Philippines and Malaysia. In contrast with all the other members of the group, the last two countries display a change in the structure of their exports, which increasingly include non-natural resource based manufactures, particularly in Malaysia. If this trend continues, the latter country could soon move over into the category of the "winners". Strangely enough, this group includes the most distinguished exponents of both the "laissez-faire" and centrally planned economic models. The predominant features of this group are the situation of lost opportunities (figure 7) and the importance of non-natural resource based manufactures (table 2). In both types of economies ("laissez-faire" and centrally planned), the lack of consensual operation has made it more difficult to achieve the adaptability demanded by the international market. As a result of the end of the Cold War and the collapse of the centrally planned economies, however, there could be significant changes in the 1990s from the situation described. There are those who think, for example, that in the new context the United States will have to make innovations in its policies in order to face up to the growing deterioration of its share in the world market (Kuttner, 1991).

The second group of "losers" is made up of those whose weakness lies in the poor competitive position of many of their products, which is not offset by the relatively high efficiency of the countries concerned.[7] These are countries where the predominant feature is a situation of vulnerability (56%) (figure 7) and reliance on exports of natural resources, including petroleum (75%); in three of the four countries making up this group, exports in the energy category (petroleum and coal) are of significant importance (figure 2). This group's share of the market has fallen by 26% (from 2.7% to 2%). Australia, which is the only developed country in the group, is to some extent an illustration of what can happen to a country exporting natural resources which, although having a high level of per capita income, lags behind in adapting its structure of production to demand trends.

The third group, in which there is both poor emplacement of their products and low efficiency of production[8], displays a predominant situation of withdrawal (46%). It is made up of many of the Latin American countries, New Zealand, Poland and the Soviet Union. This group lost 34% of its market share (which went down from 4.3% to 2.9%). In its exports, there is a marked predominance of natural resources (63%), with a low proportion of non-natural resource based manufactures. The only exception is Poland, where the latter type of goods came to 42% of its exports, but which even so lost some of its market share.

[7] This group consists of Australia, Ecuador, Indonesia and Paraguay.

[8] This group consists of Argentina, Bolivia, Colombia, El Salvador, Guatemala, Honduras, New Zealand, Peru, Poland, the Soviet Union and Venezuela.

In New Zealand –the only developed country in this group– the same phenomenon as in Australia is observed. All the Latin American countries in this group share the feature of having a low proportion of non-natural resource based manufactures (less than 20% of total exports), even though the group comprises not only small nations with a low level of income and insufficient development but also countries such as Argentina and Venezuela which have relatively high levels of income and development.

To sum up, the "losing" countries include nations which have successively been leaders of the world economy (the Netherlands, the United Kingdom and the United States); the centrally planned economies; most of the countries of Latin America; some Asian countries with a strong natural resource endowment (Indonesia which is rapidly expanding its exports of manufactures, the Philippines and Malaysia), and finally two developed countries (Australia and New Zealand) whose market share is based predominantly on natural resources and which have failed to follow international market trends sufficiently.

4. *Methodological limitations*

In analysing and interpreting the results obtained, it necessary to bear in mind, *inter alia*, the following limitations of the methodology used:

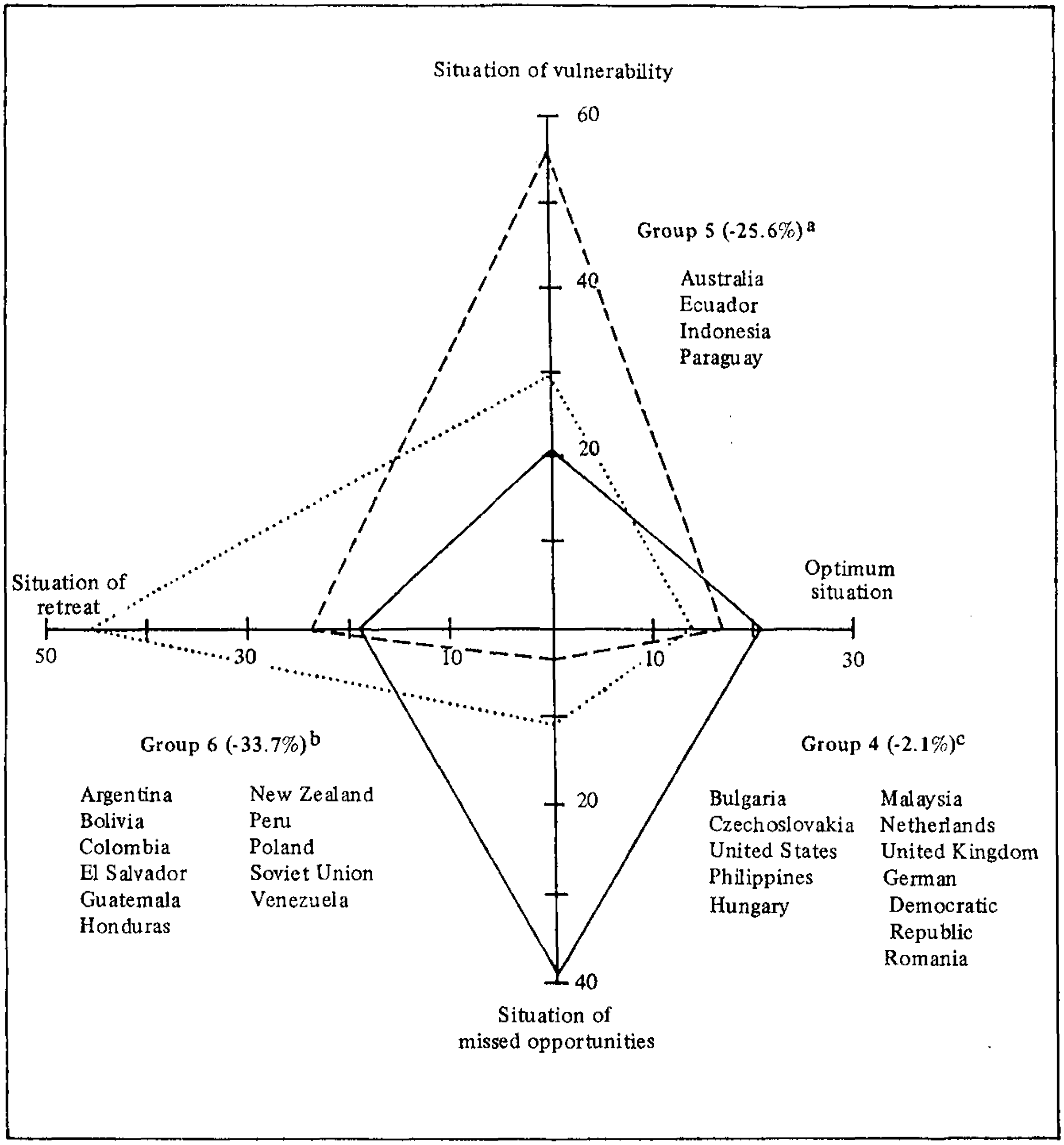
i) In order to help design strategies and policies, the trend analysis must be supplemented with a prospective exercise, particularly in a period of transition between two different technological patterns. The present exercise is based exclusively on analysis of what happened in the 1980s.

ii) The competitive position of products is associated with the relative growth of sales of such goods compared with the growth of the international market. In the case of products where rapid technical change and increased productivity lead to a drop in relative prices, the physical expansion of the sector in question is underestimated. The opposite occurs with products whose relative prices increase. In the case of natural resources, cyclical price variations may cause products which had a favourable position in the 1980s to pass into another category in the 1990s.

Figure 7

"LOSING" COUNTRIES: SHARE IN OECD IMPORTS

(Variation over the period 1979-1988)



Source: Joint ECLAC/UNIDO Industry and Technology Division.

[a]The predominant situation in this group is one of vulnerability: unfavourable competitive position and high country efficiency.

[b]This group displays a predominant situation of retreat: unfavourable competitive position and low efficiency.

[c]This group is strongly marked by a situation of missed opportunities: favourable competitive position but low efficiency.

iii) A country's efficiency in the production of a certain item is conditioned by the variation in that item's share in the world market. Consequently, this exercise makes no distinction between those cases where this variation derives from a genuine improvement in efficiency (technical progress or higher productivity) and other cases due to "spurious factors" (decline in real wages, plundering of natural resources). If the apparently high efficiency of a country in a particular line of goods is based on the latter factors, then technical progress incorporated by its competitors may do away with its advantages in a few years' time.

iv) The analysis of competitiveness is based exclusively on information on exports. Consequently, it takes no account of the imported content of the latter or of their incidence on domestic production. Thus, two countries with identical export data but radically different export coefficients, in one of which exports are based on assembly activities but in the other involve a high content of domestic production, will appear to have a similar competitive position (an extreme example is that of the Dominican Republic, which, because of its exports of assembly goods, is classed among the countries exporting a high proportion of dynamic products with a high degree of efficiency).

v) As the analysis is based on the 1980s, this introduces limitations deriving from the special characteristics of that period. If the 1970s and the 1980s are analysed separately, changes are observed in the dynamism of products and the relative position of countries, as a result of changes in oil prices.

vi) The level of aggregation selected (three digits) also conditions the results. Items defined in this manner cover a wide range of products which differ from each other both in their dynamism and in the efficiency with which each particular country produces and exports them. This consideration is of particular importance in the present period of transition between technological patterns, in which items of production appear and disappear within sectors which were previously considered "mature".

II

Technical progress, competitiveness and sustainability

The main aim of this section is to propose an analytical framework linking competitiveness with technical progress and environmental sustainability. In order to achieve this objective, the following procedure is followed: first of all, Latin America's insertion in international trade is analysed, with particular attention to the role of natural resources and this sector's links with technical progress and the industrial sector. Next, a linkage is established between entrepreneurial leadership and participation in international trade based particularly on natural resources. An effort is then made to determine Latin America's relative weight in the OECD market, compared with other regions supplying that market. Finally, the causal relations linking competitiveness with technical progress, environmental sustainability and the objectives of growth and equity are identified.

1. *International insertion and natural resources*

After several decades of industrialization (in some countries, almost a century), the insertion in world trade of the countries of the region is based on their surpluses in the natural resources sectors and their deficit in the trade in manufactures (the only exception is Brazil, which since 1982 has had a surplus in manufactures). The oil-exporting countries (except for Ecuador) also have surpluses in the mining sector and, in the case of Mexico and Peru, deficits in the agricultural sector (table 3). The non-oil exporting countries all have agricultural surpluses, and two of them (Brazil and Chile) have a substantial surplus in the mining sector. Apart from the well-known special features of individual countries, the countries of the region share the basic and fundamental fact that their industrialization process, as well as having been primarily oriented towards the domestic market, was carried out without appropriate strengthening of the natural resource base, and in some cases even at the expense of it. Among the many factors which can help explain this particular feature of Latin American development, there is one which it is worth stressing because it has a direct relationship with the issue of environmental sustainability. The conception of industrialization which prevailed for a long time contrasted urban modernization with the backwardness of traditional society identified with the natural resource base. Furthermore, as also occurred in the rest of the world up to the end of the 1960s, the dominant economic ideas were based on the implicit assumption that the availability of natural resources and of the environment as a whole were practically unlimited, so that the whole issue of sustainability was pointless. Natural resources were seen as a frontier to be conquered.

It was the oil crisis of the early 1970s, among other factors, which brought home the need to take the fullest account of the availability and efficiency of use of natural resources.

The form of economic insertion in which a surplus of natural resources exists side by side with a deficit in the manufacturing sector is not confined to Latin America. A considerable number of the member countries of the OECD are currently in the same situation. All of them, with the exception of the United Kingdom, have surpluses in the agricultural sector, and some of them also have surpluses in the energy and mining sector (table 4). As was made clear in the first part of this article, except for two Scandinavian countries (Norway and Denmark) and Canada, the countries in question suffered a decline in their share in the OECD market in the 1980s. Canada has an agricultural and mining surplus and a manufacturing deficit fully comparable with those of Latin America as a whole (ALADI), together with an energy surplus which is a good deal less than that of Latin America. This fact reflects an aspect which will be dealt with further on in this article and which affects the links between technical progress and environmental sustainability. Even though natural resources are very important for Latin America's insertion in international trade, this region is only a modest component in the overall group of countries responsible for satisfying the world's natural resource needs.

Furthermore, the American continent (Canada, the United States and Latin America) has two fundamental features: an abundance of natural resources and a heavy manufacturing deficit. Consequently, the question of international competitiveness is a continent-wide challenge, despite the obvious national differences.

The fundamental difference between Latin America and some of the OECD countries which are well endowed with natural resources lies in the fact that in the latter industrialization is heavily based on the processing of such resources.[9]

This fact is vividly illustrated by the capacity displayed by some of the OECD countries to develop technologies for the integral use of their natural resources. This form of industrialization which takes full account of the potential of natural resources (in marked contrast with the Latin American experience) has direct effects on the capacity of those countries not only to promote a new economic concept which integrates technical progress, natural resources and the environment but also, and even more importantly, to give rise to a wide range of vital technological innovations for this purpose.

In Latin America, the 1980s –the decade of "painful learning"– marked the beginning of a new-found awareness of the need to move towards a new phase in the industrialization process which leaves behind sectoral divisions, favours the linking up of production, and improves international competitiveness, understood as a challenge of a systemic nature which calls for a combined and co-ordinated approach to industry, natural resources, services and the environment (ECLAC, 1990 and 1991).

2. *Entrepreneurial leadership, international insertion and environmental sustainability*

The international insertion based on natural resources is directly reflected in the nature of the entrepreneurial leadership found in the countries of Latin America. This latter aspect is relevant both to the question of the incorporation and dissemina-

[9] For more details on the United States case, see Wright, 1990. With regard to the Scandinavian countries, see Fajnzylber, 1990 (chapter V) and Blomström and Meller, 1990.

Table 3

LATIN AMERICAN INTEGRATION ASSOCIATION (ALADI): TRADE BALANCE BY SECTORS OF ECONOMIC ACTIVITY, 1988

(Millions of dollars)

	All sectors	Agriculture	Manufacturing: Total	Manufacturing: Capital goods	Energy	Mining	Other sectors
Total ALADI	**23 916**	**22 216**	**-14 522**	**-10 455**	**11 611**	**7 891**	**370**
Oil-exporting countries	**-52**	**2 448**	**-16 006**	**-6 004**	**15 642**	**1 489**	**25**
Bolivia	6	11	-485	-231	213	268	-1
Ecuador	479	980	-397	-591	-62	-39	-3
Mexico[a]	1 755	-294	-5 925	...	7 840	240	-106
Peru	-569	-74	-1 133	-588	-93	731	...
Venezuela	-1 723	1 825	-8 066	-4 594	7 744	289	135
Non-oil exporting countries	**23 968**	**19 768**	**1 484**	**-4 451**	**-4 031**	**6 402**	**345**
Argentina	3 813	5 488	-1 225	-1 133	-345	-105	...
Brazil	17 704	9 683	8 766	153	-3 941	2 924	272
Colombia	21	1 830	-2 708	-1 462	1 113	-172	-42
Chile	2 223	1 851	-2 964	-1 652	-568	3 792	112
Paraguay	-64	401	-326	-132	-135	-6	...
Uruguay	271	515	-59	-225	-157	-31	3

Source: Joint ECLAC/UNIDO Industry and Technology Division, on the basis of information from the Latin American and Caribbean External Trade Data Bank (BADECEL).

[a] Preliminary figures taken from ALADI, *Estructura y evolución del comercio regional, 1985-1990*, Montevideo.

Table 4

OECD COUNTRIES WITH PREDOMINANTLY NATURAL RESOURCE BASED PARTICIPATION IN WORLD TRADE: TRADE BALANCE BY SECTORS OF ECONOMIC ACTIVITY, 1988

(Millions of dollars)

	All sectors	Agriculture	Manufacturing	Energy	Mining	Other sectors
Energy-exporting countries						
Australia	-1 373	8 513	-22 945	3 634	4 202	5 223
Canada	6 368	14 103	-21 850	5 975	6 432	1 708
Norway	-710	535	-10 242	7 377	1 659	-39
United Kingdom	-44 389	-14 507	-29 165	1 378	-2 936	841
Non-energy exporting countries						
Denmark	1 353	4 649	-2 508	-1 068	-247	527
United States	-150 660	15 017	-140 185	-35 898	-5 910	16 316
New Zealand	1 242	5 285	-4 072	-280	194	115
Netherlands	3 757	7 894	-6 723	-493	-15	3 095

Source: Joint ECLAC/UNIDO Industry and Technology Division, on the basis of information from the International Commodity Trade Data Base (COMTRADE), New York, United Nations Statistical Office.

tion of technical progress and to that of environmental sustainability, because both these issues can only be tackled with the active, direct and pre-eminent participation of the leading enterprises of the various countries: both those enterprises which operate in the field of natural resources proper and those which participate in the sectors that give them technological support. In every one of the countries of the region, the biggest enterprises are to be found above all in the area of processed or unprocessed natural resources. This fact may to some extent have marked their entrepreneurial strategy: they have been exposed to a form of competition which is less intense and undoubtedly different from that faced by leading enterprises operating at the international level in the manufacturing sector; the demands for technological innovation, sectoral diversification and internationalization of production have consequently been less marked; they have enjoyed an easier position with regard to the availability of foreign exchange and compliance with national integration rules than the rest of the enterprises in their respective countries, and consequently there has been less incentive in them to substitute imports and develop local suppliers. This description cannot be applied in the same terms to the large private groups made up of a wide range of enterprises producing goods and services, which, if global information were available, would also appear among the largest entrepreneurial units in each country.

In the case of the publicly owned enterprises, their function as collection agencies gives rise to restrictions on their autonomy and reduces the incentive for the design of diversification and internationalization strategies. Foreign-owned enterprises adopt their decisions in line with the global strategies of their head offices, which in some cases include the manufacture of goods in the home country or in third countries. Nevertheless, some public enterprises do carry out relatively extensive technological efforts, especially in comparison with the rest of the domestic enterprises, for which the high and indiscriminate protection of the domestic market greatly reduces the incentive to make innovations or even incorporate technical progress.

It may be observed that in countries such as Argentina, Chile or Venezuela, the ten biggest enterprises, with sales representing approximately 30% of the respective gross domestic product, correspond in 75% or more of the cases to sectors using natural resources (table 5). In the biggest countries of the region (Brazil and Mexico), the ten biggest enterprises have sales equivalent to 15% of the gross domestic product, and approximately 60% of their sales are in sectors connected with natural resources.

Some additional pointers may be obtained by identifying the biggest enterprises in Latin America and comparing them with the equivalent leading enterprises of a small country with abundant natural resources such as Sweden (table 6). The volume of sales of the ten biggest enterprises together is somewhat greater in Latin America, but in both cases the enterprises are of closely comparable size. Nevertheless, there are at least the following main differences: i) whereas in Latin America the great majority of the leading enterprises are connected with the natural resources sector, in Sweden, enterprises processing natural resources exist side by side with others of high technical content which are leaders in their field at the world level; ii) in Latin America, only two of the biggest enterprises belong to the manufacturing sector, and even then they are branches of foreign firms, whereas in Sweden only one of the biggest enterprises does *not* belong to the manufacturing sector, and all of them are Swedish-owned; iii) in Latin America, unlike Sweden, several of the ten biggest enterprises are public, possibly reflecting the weakness of private enterprise in the region in the initial phase of development; iv) whereas the main Swedish enterprises operate in a wide range of sectors, the leading Latin American enterprises have very little sectoral diversification, and v) several of the leading Swedish enterprises show a high degree of internationalization, whereas the Latin American enterprises have only a very modest or incipient level of such international projection.

3. *Competitiveness and natural resources in the OECD market*

As well as being the biggest and fastest-growing in the world, the OECD market is also that which applies the strictest environmental regulations and, what is even more important, compliance with such regulations may soon become an essential requirement for entering it.

In the 1980s, there was an intensification of long-term trends and a significant change in the

Table 5

SELECTED LATIN AMERICAN COUNTRIES: TOTAL SALES OF THE TEN BIGGEST FIRMS, BY COUNTRIES

(Percentage breakdown, 1989)

	Latin America	Argentina	Brazil	Mexico	Chile	Colombia	Peru	Venezuela
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Natural resources (excluding oil)	13.0	5.4	13.0	...	59.6	...	44.8	14.3
Oil	65.9	57.9	39.3	56.3	24.8	50.8	36.5	71.5
Manufactures								
- Natural resource based	4.9	12.4	14.6	3.5	11.9	21.2	5.1	4.5
- Non-natural resource based	11.3	5.4	18.5	26.5	...	6.0	...	1.6
- Motor industry	4.4	5.4	7.2	26.5	...	6.0	...	...
- Capital goods	...	...	11.3	...	...	...	...	...
Other sectors	4.9	19.2	14.6	13.7	3.7	22.0	13.6	8.1
Sales of the ten biggest firms, as a percentage of GDP	10.7	31.4	14.6	14.7	38.2	14.9	20.9	29.5

Source: Joint ECLAC/UNIDO Industry and Technology Division, on the basis of *América Economía*, No. 44, October 1990.

Table 6

LATIN AMERICA AND SWEDEN: TEN LARGEST COMPANIES, BY SALES

Latin America 1989				Sweden 1988		
Company	Country	Sales (millions of dollars)	Sector	Company	Sales (millions of dollars)	Sector
PETROBRAS and dist.	Brazil	15 737	Petroleum	Volvo	15 476	Motor vehicles
PEMEX	Mexico	15 074	Petroleum	Electrolux	11 277	Home appliances
PDVSA	Venezuela	12 484	Petroleum	Asea	8 750	Electr. and electronics
YPF	Argentina	9 454	Petroleum	Saab-Scania	6 927	Machinery and engineering
ELECTROBRAS	Brazil	6 357	Electricity	LM Ericson	5 421	Electr. and electronics
IBM Brazil	Brazil	5 542	Electronics	Stora Koprar Bergs B.	3 426	Lumber and paper
CODELCO	Chile	4 030	Mining	Skanska	3 284	Construction
A. Gutiérrez	Brazil	3 939	Construction	Svenska Pulp	2 622	Lumber and paper
M. Dias Branco	Brazil	3 917	Food	Sandvik	2 215	Metals
General Motors	Brazil	3 504	Motor vehicles	Aga	1 772	Chemicals
10 largest companies		80 038		10 largest companies	61 323	
Capital goods		...		Capital goods	21 098	

Source: Joint ECLAC/UNIDO Industry and Technology Division, on the basis of *América Economía*, No. 44, October 1990 and *Business Week*, 11 July 1989.

structure of the OECD's imports. Thus, there was a decline in the market shares of natural resources, fuels and natural resource based manufactures (the decline in the share of the latter goods being much slighter than that of the first two types of commodities), whereas non-natural resource based manufactures rose from 47% of total imports in 1978-1979-1980 to 64% in 1987-1988-1989. Natural resource based manufactures, in contrast, which in 1978 were equivalent to one-third of imports of non-natural resource based manufactures, went down to the equivalent of only a quarter of the latter in 1989. This reflects and confirms the downward trend in the use of natural resources (especially energy) in the economic activity of the developed countries. It does not mean, however, that all natural resources suffered a decline in their share and that all non-natural resource based manufactures increased their relative presence. In each category there are dynamic and non-dynamic products, although the respective proportions vary in each case: whereas in natural resources only a minority of the lines of products grew faster than the international market, the opposite was the case with non-natural resource based manufactures (this situation was illustrated in part I on this article).

The relative share of Latin American exports in the OECD market has remained practically constant over the last decade, standing at approximately 5% of total exports in 1989 (it amounted to 5.6% in 1985, which was the most favourable year). More specifically, the proportion stood at 10% in the case of natural resources, which suffered a slight decline in the course of the decade; 9% for fuels, which registered a substantial increase over the period; rather more than 5% for natural resource based manufactures, which showed little or no change in the decade, and almost 3% for the most dynamic types of goods (non-natural resource based manufactures) whose share was double that registered at the beginning of the period. This increase was due mainly to the bigger exports of manufactures by Mexico and Brazil, as briefly analysed in part I of this article.

With regard to Latin America's relative position as a supplier of the different lines of goods in comparison with other groups supplying the OECD market, it may be observed that total Latin American exports to the OECD are similar to those of the South-East Asian and the Scandinavian countries; rather less than twice those of the Mediterranean countries of Europe; and rather more than twice those of the Eastern European countries.

In the case of natural resources, Latin America is only a modest supplier compared with the biggest OECD countries (the Group of Seven): whereas in 1989 Latin America's share was 10%, the OECD countries themselves (those of the Group of Seven plus the Scandinavian and Mediterranean countries) provided 40% of their own needs. This situation is further accentuated in the case of natural resource based manufactures: whereas Latin America's share in the OECD's imports was 5%, that of the OECD countries was 61%.

The foregoing confirms something which is not new but which is often forgotten in the region: namely, that the production and technological pattern linked with natural resources is determined basically by the industrial situation of the developed countries. The first important implication of this (there are already some indications in this direction) is the possible erection of protectionist barriers associated with failure to comply with environmental standards for products, manufacturing processes and raw materials. As natural resource based exports are very important for Latin America, this issue may assume decisive importance.

This does not mean, however, that all exports of these products will be subject to such regulations. It may be assumed that part of them will continue to be exempt from environmental requirements, especially when these exports do not compete with national products (and there is therefore less protectionist pressure), or when they are aimed at lower-income consumers (who are not in such a good position to absorb the increase in costs deriving from environmental protection). Even so, the important point to note is that the environmental dimension has come to be a significant variable in any export strategy aimed at the industrial countries. First of all, because it is already an established requirement for a substantial and potentially growing proportion of the demand from those countries; secondly, because the requirements vary considerably from one country to another and are subject to frequent changes, so that careful attention to their evolution is a necessary condition for gaining lasting access to the OECD market; and finally, because the growing social value attached to these requirements, even when they are not explicitly imposed by the importing country, means that they can become a useful instrument for product differentiation: a particularly valuable resource even in markets with not very dynamic demand.

The second implication of this situation is connected with the significant place occupied in the Latin American economy by industrial activities (goods and services) connected with the processing of natural resources and, more specifically, activities directly affecting environmental sustainability. In this area, too, there have been promising advances in Latin America, even though the region still displays an indisputable lag in this respect (ECLAC, 1991, chapter VI).

4. *Causal relations*

It is clear from the foregoing that in Latin America international competitiveness will be indissolubly linked in the future to environmental sustainability, and that the determining factor for reconciling these two objectives (competitiveness and sustainability) is the incorporation and dissemination of technical progress. This explains the central position occupied by these three elements in the system of causal relations described in figure 8.

The impact of competitiveness on growth, which is compounded by the support that the latter provides for the incorporation of technical progress, has been extensively analysed and illustrated in a recent ECLAC document (ECLAC, 1990, chapter IV).

That same document highlights the positive effect that competitiveness can have in certain circumstances on equity, emphasizing, however, that the achievement of the latter calls for a significant effort to apply social policies designed with this objective. Emphasis is also placed on the favourable influence, in certain circumstances, that trade liberalization can have both on competitiveness and on the incorporation of technical progress, which is a determining factor in the long-term stability of the form of insertion in international trade.

The links between sustainability and competitiveness, the influence of progress on the latter, and also the negative effects that the absence of equity can have on sustainability were likewise analysed and illustrated in another recent work by ECLAC (ECLAC, 1991, chapters V and VI).

The three elements shown in the top left hand part of figure 8 *–trade openness, competitiveness and growth–* form the core of the neoliberal proposal, in a simplified version. On the other hand, the three elements shown in the top right hand part of the diagram *–environmental sustainability, equity and social policy–* correspond to the central lines of the ecological proposal, likewise expressed in a very simple form. Although radically different, both proposals have a basic feature in common: they do not include technical progress as a leading factor. This explains why, from the neoliberal standpoint, priority is given to growth and competitiveness at the expense of equity and environmental sustainability. The same occurs in the case of the ecological standpoint, where growth and competitiveness must be "sacrificed" in the interests of equity and environmental sustainability.

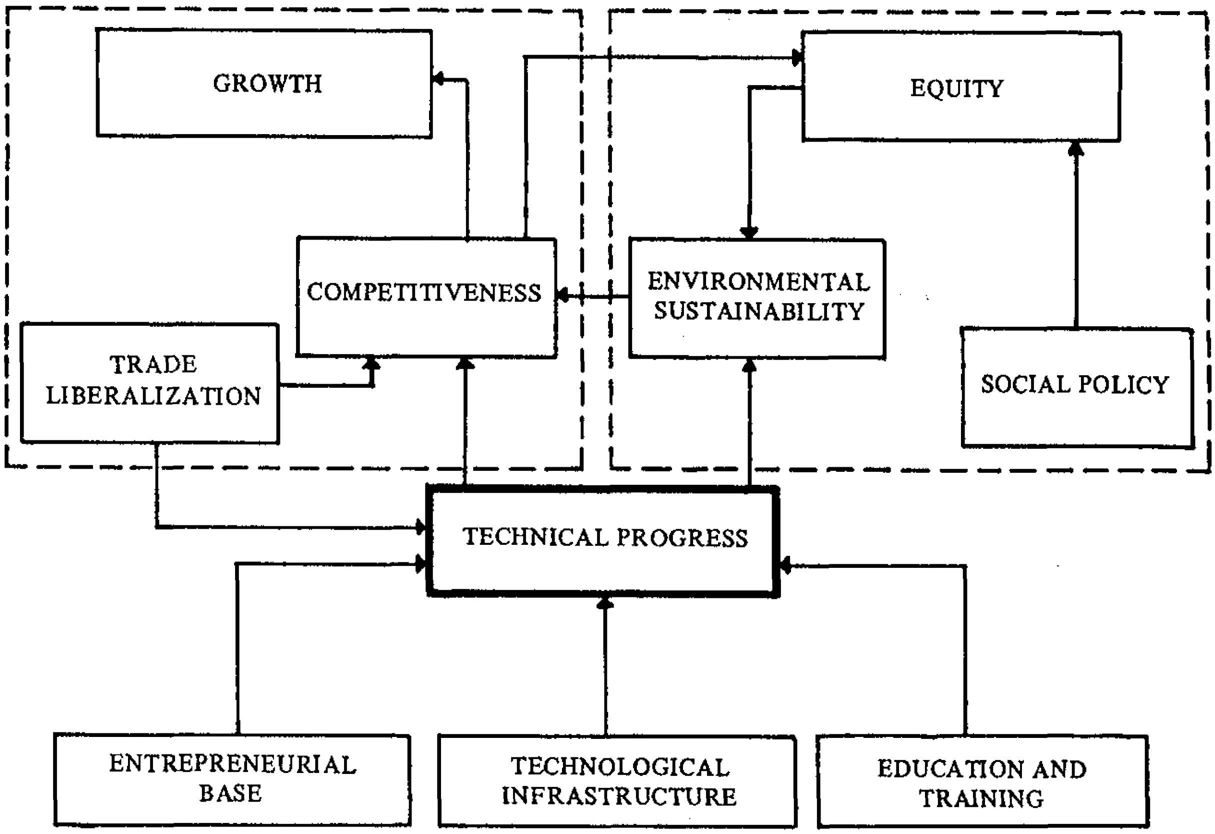
Without technical progress, competitiveness and sustainability are hard to reconcile, as it is not possible in these circumstances to simultaneously achieve increased production and reduced environmental damage. The incorporation of technical progress, however, does make it possible to reconcile increased production with environmental sustainability.

The pressing need to reconcile competitiveness and equity explains the importance and prominence given to technical progress in the ECLAC proposal and, hence, the special attention given to the factors that further the incorporation and dissemination of such progress. Outstanding among these factors are the educational and training system, the entrepreneurial base, and the technological and communications infrastructure of the countries (figure 8). In a situation where these factors which serve as a support for the process of incorporation and dissemination of technical progress are extremely weak, it is very likely that trade liberalization –even though it may have a short-term positive effect on resource allocation (static efficiency)– will not be able to help spark off the process of incorporation and dissemination of technical progress which determines the strength of a country's insertion in international trade.[10]

[10] For an analysis of policies to support competitiveness which make specific mention of trade openness, education and training, technological policies and the expansion of the entrepreneurial base, see ECLAC, 1990, chapter IV. In recent years, motivated at least partly by the uneven economic relations between the United States and Japan, various authors have made important contributions that seek to show how vital it is to incorporate technological innovation and the accumulation of know-how in growth models. For a recent review of these contributions, see Mujica, 1990.

Figure 8

CAUSAL RELATIONS



The institutional needs associated with the application of a scheme of high, indiscriminate and permanent protection are obviously quantitatively less and qualitatively different from those demanded by a sectorally and temporally selective scheme aimed at furthering technological learning and international competitiveness.

Promotion of industry in a protected market can be compatible with passive public agencies, whereas the strengthening of international competitiveness calls for public institutions with initiative and leadership capacity for bringing together the different production, educational, research, financing and marketing agents. In the preceding phase, there was strong stimulation of investment, with little attention to its international competitiveness, but the latter consideration is now acquiring clear importance.

Previously, industry had few links with the natural resources sectors and required only limited support from specialized entrepreneurial management support services, while its needs with regard to the ongoing development of its human resources were viewed in a largely rhetorical fashion. The situation has radically changed on these three levels, however. Co-operation of enterprises with each other and with specialized public agencies is now an essential requisite for survival, and this presupposes ongoing communication and mutual trust, which were ingredients that were absent in the previous phase. The effects of inefficiency in industrial plants or in the transport, marketing and communications infrastructure were previously simply passed on to the captive consumers. Now, however, overcoming these shortcomings has become a shared duty. Consistently conflictive relations between labour and management are incompatible with increased productivity and a sound insertion in international trade, but they can easily survive in captive markets where they are reflected in high prices, interruptions in supply and lower quality. In short, the spirit of renewal demanded of the State and of the latter's form of relationship with the business and labour sectors is something that goes beyond the necessary, but not of itself sufficient, maintenance of the macroeconomic balances.

The need for large-scale institutional renewal, due to the opening-up to international trade and the transition to a new technological pattern, also exists within the enterprise, too. The former markedly hierarchical entrepreneurial structure, split up into separate compartments determined by the functions involved, is tending to evolve into a coordinated network of units with greater autonomy. This raises demands with regard to staff training, the need to take an overall view, and the willingness to work as a team. The operation of enterprises, which was previously inspired by trends towards standardization and optimization, is now moving towards forms that favour a rapid response to the demands of segmented and changing markets and the continual assimilation of technical change (Pérez, 1991).

The foregoing gives some idea of the importance of institutional renewal within the educational system itself, where the strategic objectives include the simultaneous quest for a better insertion in international trade, the strengthening of the capacities of the population in general, decentralization as the guiding criterion for a new institutional structure in education, and the strengthening of national integration. On the policy level, it is clearly desirable to replace quantitative criteria based on the expansion of supply, with little attempt to evaluate the results, by new forms which evaluate performance and at the same time look after equity.

With the aim of helping to formulate policies to strengthen the capacity for the absorption and dissemination of technical progress in the countries of Latin America, ECLAC is currently carrying out research projects on some aspects of these three pivotal points on which the incorporation and dissemination of technical progress are based: i) "Educational strategy for changing production patterns with equity" (jointly with UNESCO); ii) "Technical progress and international competitiveness: national strategies, sectoral policies and internationalization of the enterprise" and iii) "Information technologies and their impact on competitiveness and equity".

The relevance of the analytical scheme adopted for this purpose will obviously vary according to the national characteristics in terms of natural resource endowment; the level of educational, entrepreneurial and technological development; the size of the country and its shortcomings with regard to equity; the presence or absence of a tradition of dynamic growth, and the form and extent of insertion in international trade. For this reason, each of the three research projects mentioned analyses both the different national situations and the general trends observable in the region.[11]

Although figure 8 does not directly link growth with equity, it is worth repeating that, in view of the systemic nature of international competitiveness, it is not feasible to try to attain a sound insertion in international trade without a reasonable degree of social cohesion (equity). At the same time, in view of the transparency and increasingly homogeneous nature of the aspirations of the people at large, trying to consolidate equity without a sustained effort in the area of competitiveness is not a feasible task either.

[11] The results of the three studies in question will be available in 1991.

III

Final reflections

The foregoing gives rise to some reflections which are of importance for the design of strategies and policies to support an improved insertion in the international economy.

1. *Openness and institutional change*

Openness to the exterior poses demands for institutional change which go further than an appraisal from the strictly commercial point of view would suggest. Economies and societies which concentrate on the domestic market develop an approach which to some extent ignores what is going on abroad and the signals generated there, except for those concerning demand for basic export commodities to which the country in question adapts through its level of domestic activity. The transition towards an open economy, however, automatically involves –in addition to the well-known political requirements –the need to regulate and subordinate domestic conflicts (social and political) in order to comply with the requirements for stability and credibility imposed by the international market. It is also necessary to incorporate in the public and private decision-making process, on a systematic and permanent basis, the various economic, financial, cultural and technological signals that condition a country's insertion in international trade. The issues already mentioned pose a third requirement, which is to create the capacity for institutional renewal that is essential in order, on the one hand, to regulate domestic conflicts and, on the other, to adapt to the economic, financial and technological stimuli from the exterior. The need for this institutional renewal, which applies at both the government and private level, is particularly strong in such varied areas as those of environmental sustainability and the educational system, and it may even extend to the political form of government.

In short, openness to the exterior goes far beyond the mere suppression of import licenses, the lowering of tariffs and the promotion of exports. It means progressing towards a new framework of institutions and harmonious social and political relations. Since a reasonable degree of social cohesion is needed for a good insertion in international trade and this cannot be attained without sustained growth, the biggest challenge in the renewal of institutions is to reconcile both objectives within a context of representative democracy.

2. *The Structural Impediments Initiative*

Perhaps the clearest illustration of the magnitude of the institutional challenges posed by insertion in international trade is provided by the debate between the United States and Japan over the structural changes required in those two countries in order to reverse their growing trade and financial imbalances. Between September 1989 and July 1990, a group of top-level government officials of the two countries worked out a project termed the "Structural Impediments Initiative". The final report of the group was released on 28 June 1990 (the day after the announcement by the President of the United States of the "Enterprise for the Americas").[12]

The central aim of this exercise was to identify and solve structural problems in both countries which represented impediments to their trade and to the adjustment of the balance of payments, in order to help reduce imbalances in the latter.

Specifically, at the request of the United States, Japan dealt with the following issues: Japanese saving and investment behaviour; policy on land use and value; the distribution system; regulations restricting the market; methods of operation of the economic groups, and price-fixing

[12] The United States participants were: Richard T. McCormack, Under-Secretary of State; Charles H. Dallara, Assistant Secretary of the Treasury; S. Linn Williams, Assistant Trade Representative; J. Michael Farren, Under-Secretary of Commerce; John B. Taylor, Member of the President's Council of Economic Advisors; and James F. Rill, Deputy Attorney-General. Those representing Japan were: Koji Watanabe, Vice-Minister of External Affairs; Makoto Utsumi, Vice-Minister of International Affairs in the Ministry of Finance; Naomichi Suzuki, Vice-Minister of International Affairs in the Ministry of International Trade and Industry, and Tsuneo Unno, Vice-Minister for External Affairs of the Economic Planning Agency (see *Joint Report of the US-Japan Working Group on the Structural Impediments Initiative*, 28 June 1990, Report to the President of the United States and the Prime Minister of Japan).

mechanisms. For its part, Japan requested the United States delegation to put forward reflections, proposals and possible undertakings on institutional changes in the following fields: public and private saving and investment behaviour; factors influencing the improvement of the competitiveness of United States enterprises; government regulations on exports and imports; government research and development efforts, and finally, education and labour training.

In each of these areas, the parties undertook to introduce innovations in institutions and behaviour aimed at overcoming what they termed the "structural imbalances" affecting trade between the two countries.

Regardless of the degree to which these undertakings actually materialize, the important thing is the conviction of both governments, firstly, that there are structural impediments preventing the achievement of balanced trade, and secondly, that the action of the market and the co-ordination of macroeconomic policies is not sufficient to overcome these. In short, a successful insertion in international trade poses demands that "right prices" alone cannot solve.

3. *The Enterprise for the Americas*

The trade relations between the United States and Latin America –which reflect big differences in levels of development, similarities in the natural resource base, and geographical unity– differ radically in these respects from the trade relations between the United States and Japan. Together with the European experience and the Canada-United States relationship, however, they share a basic need: they call for institutional innovations in areas which go beyond the field of trade if beneficial results are to be achieved.

The Enterprise for the Americas covers the areas of trade, investment and the external debt. On the whole, the response of the Latin American governments has been positive, reflecting to some extent the widespread aspiration to gain access to the availability of modern goods and services. What was said earlier suggests that it would be desirable to include within the long negotiating process on this issue some joint reflection by Latin America, the United States and Canada on questions of common interest which will undoubtedly influence not only the course of the negotiations but also their possible results. Among the questions which could be subjected to systematic analysis are education, the environment, energy, research and development, and international competitiveness. Although the nature and solutions of the respective problems are different, they are issues on which both the Latin American countries and the United States are designing institutions and formulating policies that are innovations compared with the past, and in this sense the exchange of views could be valuable. Moreover, leaving aside the deadlines and subsequent results, such a joint exercise of reflection on the similarities and differences in the responses to the respective structural challenges could have positive effects by leading to a greater awareness, firstly, of the varying needs for institutional renewal and secondly, of the need to base the international insertion on the incorporation and spread of technical progress (authentic competitiveness) and not –as happened in the past– on the lowering of real wages and plundering of the environment (spurious competitiveness). The development, at both the government and business level, of the technical capacity to embark on negotiations of this kind with the United States would be a valuable asset for exploring new forms of relations with Europe and Asia. In short, making serious preparations to tackle this exercise is a worthy task in itself.

4. *Competitiveness, environmental sustainability, and the incorporation of technical progress*

A general perception has grown up in the developed countries that industrialization is one of the main factors in the deterioration of the environment. In Latin America, subject of course to the differences between countries, the industrialization process has followed the same trends (with exceptions and variations) as in the developed countries. In the 1990s it is proposed that industrialization should be the hub of changes in production patterns, mainly because it furthers the incorporation and spread of technical progress, but also because in the new circumstances it must go beyond the narrow sectoral framework in which it has previously been approached and must link up with primary sector activities and the services sector in order to integrate the system of production and reduce the differences between levels of productivity. Overcoming sectoral compartmentization is one of the keys to changing production patterns and to the new phase of industrialization. The region is lagging behind in gaining the environmental awareness that is general in the developed countries. In Latin America –in view of its natural resource endowment and its form of insertion in international trade, which is based primarily on such resources– environmental sustainability not only affects the quality of life but also the standard of living of the population.

Proposals based on strictly economic considerations give priority to the objectives of growth and international competitiveness, placing environmental sustainability and equity in a subsidiary position. On the other hand, proposals centered around ecological concerns give priority to equity and environmental sustainability, relegating growth and international competitiveness to the background. From what has been said earlier in this article, it is clear that the incorporation and spread of technical progress help to reconcile international competitiveness with environmental sustainability. In this sense, they favour a closer identity between the objectives of growth and equity. In order for this desirable situation to take shape, however, institutional innovations in business and government and in the relations between the two are called for.

5. *The sectoral context*

The 1980s were dominated by the imperative need to protect the macroeconomic balances. Many countries of the region witnessed the collapse of many of their public institutions, which helped to justify the neglect of sectoral policies. The efforts to attain a sounder insertion in the international economy, the heightening of international competition, protectionist reactions, and regional and global international negotiations, however, have made it clear that the sectoral dimension is of extraordinary importance. The differences in dynamism, technological content, market structure, business strategies, social and regional effects, and political impact all point to the need to promote the establishment of sectoral teams, in both the government and private areas, with capacity to explore both potential and weaknesses and to tackle the increasingly arduous international negotiations. What was said in the preceding sections shows the importance of gaining a favourable competitive position and, accordingly, of the sectoral policies designed to achieve that objective.

In the 1990s, the countries of Latin America will have to supplement the efforts made in the macroeconomic field with comparable efforts to establish top-quality sectoral groups made up of representatives of the government, business, educational and scientific and technological sectors.The developed countries, and the most successful developing countries in other regions, seem to have always understood that one of the purposes of protecting the macroeconomic balances is precisely to be able to carry out the sectoral policies which are indispensable in order to face the challenges of technological change, international competition and the social impact of changing production patterns in the region.

6. *Strategies for an improved international insertion*

The foregoing empirical exercise on competitiveness, despite its simplicity and limitations, offers some useful suggestions with regard to strategies for improving the form of insertion in international trade:

i) The incorporation of technical progress is important both with regard to the features of the different lines of goods and the efficiency with which they are produced and marketed. Just as important as the acknowledged link between market standing and technical progress is the combination of technical progress and organizational efficiency required for international competitiveness.

ii) Nobody has a guarantee of success on the international market, and the ways in which such success can be attained are many and varied. Systemic support for the incorporation and spread of technical progress, along with selectivity in promotion efforts, seem to be the only constants found in all successful experiences.

iii) Although generally speaking natural resources are characterized by lower dynamism, they offer significant potential in terms of generation of foreign exchange, learning improved business practices, producing surpluses that are available for investment in other areas of the economy, furthering technological innovation in related activities and, in some cases, achieving high and sustained growth rates. In the future, natural resources and environmental sustainability will be closely linked.

iv) Non-natural-resource-based manufactures, which of course include the equipment and inputs used to process natural resources, form a major and growing part of international trade. Improving the competitive position of these items is a clear priority.

v) The items which combine rapid growth with high efficiency (optimum situations) form a potential nucleus for spreading technological progress to the rest of the productive sector. The challenge with regard to institutional renewal is that of designing mechanisms and incentives to promote this dissemination process.

vi) The items in which countries increase their market share even though they are not characterized by rapid growth (items in a situation of vulnerability) can and should become a platform for sectoral diversification. In the case of small countries, the diversification phase may be postponed, but under no circumstances altogether forgotten. The aim of such diversification should be to attain a position of specialization in other product lines, and not simply to embrace a wider and wider range of activities.

vii) The case of fast-growing product lines where a country is losing its share of the market (situation of missed opportunities) calls for sectoral restructuring programmes to regain the positions previously reached.

viii) Withdrawal from declining markets (situation of retreat) may seem a wise choice. However, there are sectors which, despite their low growth rates, could still offer a source of income and employment for several years to come. This situation is to be observed in several countries of the region in traditional export lines. It should be noted that, where possible, situations of vulnerability are preferable to those of retreat.

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Recent ECLAC publications

Economic Survey of Latin America and the Caribbean, 1989 (LC/G.1635-P), Santiago, Chile (in the press).

This publication constitutes the complete and definitive version of the *Economic Survey* for 1989 (portions of the *Survey* were published as individual fascicles in the course of 1990).

The book is divided into three parts. The first section provides an overview of the main trends in the regional economy and then goes on to offer a more detailed analysis of the international economic environment, the level of economic activity, total supply and demand, inflation, employment and wages, the external sector and the external debt. It concludes with an analysis of economic trends in the Caribbean.

Part Two of the *Survey* deals with the postwar transfer of resources abroad by Latin America and the constraints which this transfer places on the region's future growth.

Part Three contains detailed analyses of the economic situation in each of the countries of the region in 1989.

Statistical Yearbook for Latin America and the Caribbean, 1990 (LC/G.1651-P) (bilingual publication in Spanish and English), Santiago, Chile, March 1991, 722 pages.

This publication has two parts. The first, entitled "Indicators of economic and social development in Latin America and the Caribbean", contains updated statistical series on social development and welfare, economic growth, capital formation and financing, external trade and external financing. Part Two, "Statistical series for Latin America and the Caribbean", includes series on population, national accounts, domestic prices, balance of payments, external financing, external indebtedness, external trade, natural resources and production of goods, infrastructure services, employment and social conditions.

Structural Changes in Ports and the Competitiveness of Latin American and Caribbean Foreign Trade (LC/G.1633-P), "Cuadernos de la CEPAL" series, No. 65, Santiago, Chile, October 1990, 126 pages.

Port users are no longer willing to see port management and workforces remain tied to institutions and technologies which are geared to bygone economic policies and financial crises and which are responsive to the pressure brought to bear by certain interest groups. Traditionally, port institutions and infrastructures have been organized to achieve certain commercial, political, social and strategic objectives. However, in view of the changes now taking place in port services, markets, technologies and the legal environment, their utilization to fulfil those objectives needs to be reappraised.

The evaluation of these changes, which constitutes the basis of this study, is presented in three parts: first, a conceptual framework; second, analyses of the changes occurring in port services, markets and technologies, as well as the modifications being made in relevant legal provisions; and third, conclusions and recommendations. The conceptual framework includes a brief overview of the evolving role of ports since the sixteenth century and a presentation of a composite Latin American and Caribbean port. This hypothetical port is described and discussed in such a way as to allow the reader to understand the principal challenges facing the region's ports –such as the need for competitive labour regimes, carrier access, specialized terminals and electronic information systems– and to see them as contemporary expressions of long-standing trends. The conceptual framework is followed by individual analyses of the changes taking place in port services, markets, technologies and relevant laws with a view to identifying the directions in which the industry is moving. For example, in today's rapidly changing, interdependent world, a passive attitude on the part of port administrators towards factors such as inland transport, customs, labour costs and productivity may lead to a decline in the competitiveness of a nation's exports in world markets, a decrease in foreign-exchange receipts and a higher rate of domestic unemployment. The final section of the study presents conclusions and recommendations concerning port policies and plans for the Latin American and Caribbean countries.

Impacto ambiental de la contaminación hídrica producida por la refinería estatal Esmeraldas: Análisis técnico-económico (A technical and economic analysis of the environmental impact of the water pollution produced by the State-owned Esmeraldas refinery) (LC/G.1637-P), "Estudios e Informes de la CEPAL" series, No. 80, Santiago, Chile, December 1990, 189 pages.

An economic evaluation of the environmental impact of oil production and of the refining of petroleum products is highly relevant for Ecuador owing to the very important economic, social and environmental role which this production activity plays in the country. The study analyses the impacts of the Balao oil refinery and terminal on the relatively fragile ecosystem formed by the

Esmeraldas and Teaone rivers and the outlet of the Esmeraldas to the sea. The vulnerability of this ecosystem stems from the fact that these rivers and the adjacent sea make up a series of subsystems within a humid tropical zone in which the pollution from the refinery is compounded by a form of urban and economic development that lacks both firm political guidance and any type of spatial, social or environmental regulation whatsoever.

Consequently, the problems posed by the pollution of the above-mentioned rivers affect other areas as well and can therefore not be addressed solely in terms of the refinery or of loading operations at the terminal.

The main body of the study, which is supplemented by a number of annexes, contains three essays. The first, by Fabián Sandoval, concerns the problems relating to the development of the Esmeraldas region; the second, by Jorge Jurado, analyses the refinery's production process and the causes of the pollution of this area; the last, by Hernán Durán, presents the study's economic assessment of the environmental impact as such.

The five annexes to the study cover all those aspects which are more directly linked to the refining process and the pollution of the surrounding area.

Sustainable Development: Changing Production Patterns, Social Equity and the Environment (LC/G.1648/Rev.2-P), Santiago, Chile, May 1991, 146 pages.

This document is based on six central ideas which provide the unifying themes of its different chapters. The first idea is founded on the assumption that we have now left behind us the controversy of years past concerning an alleged conflict between concern for the environment and the goal of development. Although such conflicts often do arise, especially at the microeconomic level, there can no longer be any doubt that concern for the environment is perfectly legitimate as well as fully justified in both developed and developing societies. This is particularly true in the case of Latin America and the Caribbean, whose economies primarily rely on the exploitation of natural resources, many of which are prone to irreversible degradation. Thus, economic policy makers in the region must incorporate the element of environmental sustainability as one of their key policy variables, not only in order to meet the needs of coming generations, but also as a vital means of ensuring sustained growth for the benefit of present generations.

The second main idea is that the causes and effects of environmental problems in developing countries (where they are often associated with a lack of resources) differ from those encountered in developed societies, where they are frequently associated with consumerism or even an outright squandering of resources as a consequence of their very abundance. Thus, ecological and environmental problems take different forms in these two types of societies.

The third postulate is that man's relationship with nature begins at the level of the individual and then proceeds on to the levels of the community, the district, the region, the country, the ecological systems of common interest to more than one country, the continent and the world. Noting that there can be no clear-cut distinction between local, national and global phenomena because they all influence each other, this document therefore deals with both domestic efforts to incorporate the environmental variable into the development process and the international effort to solve common problems through co-operation.

The fourth idea is that, given the many links that exist between development and the environment, it is vital that the need for a sustainable form of development be understood within a broad context which goes beyond mere concern for the world's natural capital. In this connection, the study contends that the achievement of sustainable development helps to secure a dynamic balance between all the forms of capital or resources that are involved in national and regional efforts, be they human, natural, physical, financial, institutional or cultural.

The fifth proposition is that in order for a concern for the environment to be incorporated into the development process, a system-wide effort will have to be mounted which will, among other elements, encompass economic policy, natural resource management, technological innovation, broad-based participation by the population, education, institutional consolidation, investment and research.

Finally, it is maintained that the focus of international co-operation must not be limited to tackling environmental problems on a piecemeal basis. Since the development effort cannot be separated from environmental protection and since many environmental problems are caused by phenomena that are linked to underdevelopment, international co-operation must seek to promote development and environmental protection in an integrated manner; in other words, it must seek environmentally sustainable development.

Transition and the Crisis: Their Impact on Women in Latin America and the Caribbean (LC/G.1592-P), Santiago, Chile (in the press).

Concern about the integration of women into development constitutes part of a larger process of consciousness-raising in the contemporary world which, although its beginnings date back several generations, did not really start to come into its own until after the Second World War. This process encompasses economic, technological, social and cultural changes and has grown in both scope and depth in recent decades.

The promotion by the United Nations of activities relating to the advancement of women, through its proclamation of an International Women's Year and, later, of the International Decade for Women, gave rise to a wealth of widely disseminated studies, research projects and activities which traced the links between the advancement of women and virtually every issue of concern to the contemporary world; in so doing, these initiatives opened up a immense range of perspectives, points of view, approaches and aims.

Some of these links emerged quite easily and naturally; others still pose a problem even today. The sense of perspective afforded by the conclusion of the Decade for Women has prompted the authors of this study to reflect upon the progress that has been made thus far, to attempt to systematize the knowledge that has been gained, and to urge that a greater and clearer commitment should be made within the framework of the actions and strategies in this field.

Nearly two decades of work in respect of women's issues has led to a more comprehensive understanding of the subject and to the formation of a clearer picture of the situation in certain areas which have been less fully explored. ECLAC, for its part, has been unswerving in its efforts to promote full participation by women in society as an important element in its quest for an integral, equitable form of development which requires the involvement of all members of society.

The first essay in this volume begins with a brief overview of the main objectives and ideals which have inspired the United Nations' efforts in this sphere and which will give direction to its work in the future. It then outlines some of the aspects of the situation in Latin America as of the end of the Decade and discusses the effects of the sweeping changes that have taken place in recent decades and the ramifications of the crisis of the 1980s, whose impact was even greater than expected. The directions and significance of the changes experienced during a period of roughly 30 years are examined very briefly, and the crisis is analysed from the standpoint of its effects on specific areas and groups and of its major implications in terms of the status of women. In this connection, the most important changes regarding the status of women that have taken place in the region are reviewed and some of the areas relevant to an analysis of the sector –both within the public sphere (employment, education, legislation, political participation) and the private sphere (the family)– are explored, with special emphasis on the situations of particularly vulnerable groups of women. The study's examination of achievements and obstacles in terms of the major approaches and mandates relating to this topic leads to the conclusion that, firstly, this process has been an extremely multi-faceted and contradictory one and, secondly, that the formal aspects of the issue and its recognition at the national and international levels have been the areas in which the greatest progress has been made.

Finally, a number of observations are made concerning means of designing policies in this field which will prevent the crisis from nullifying the progress that has been achieved thus far. From this vantage point, special attention is devoted to specific groups whose concrete needs demand a differential response so that true social equality may be achieved: i.e., low-income urban women, rural women, young women, women heads of household, and others.

After reaffirming the continuing importance of the topic, the study's conclusions focus attention on the special needs that have arisen in this regard as a consequence of the crisis and underscore the importance of marshalling the political will to achieve the objectives and targets of the Nairobi Forward-Looking Strategies for the Advancement of Women. As the United Nations Decade for Women draws to a close and a new, more uncertain and considerably less optimistic period begins, greater realism and creativity are called for in order to devise programmes that will lead to the resumption of development coupled with greater participation by women.

Factores sociales de riesgo de muerte en la infancia (Social factors relating to child mortality) (LC/DEM.G.88), Santiago, Chile, October 1990, 116 pages.

The general objectives of this study are to document infant mortality trends in various underdeveloped countries on a systematic basis and to attempt to determine how closely these trends are related to indicators of social and economic development and to health policies in each country.

As one of the study's more specific objectives, a multiple regression model is used to analyse how closely risks of death during childhood are associated with a series of characteristics which may be exhibited by the mother and the household (the data on these characteristics have been taken from censuses and surveys) and how these characteristics may influence mortality rates during the early years of life. In an effort to provide more direct inputs for the implementation of health programmes, the study identifies the population subgroups which are the most exposed to the risk of death during childhood and which therefore require priority attention. This type of information is highly useful to planners because it permits them to determine the most efficient and rational way of using the resources allocated to the health sector.

In order to achieve the proposed objectives of this research effort, a similar analytical methodology was applied in the three countries (Costa Rica, Honduras and Paraguay) covered by the study. Child mortality was analysed on the basis of information concerning the total number of live-born children and of surviving or deceased children as reported by women in recent censuses and surveys. Mortality risk factors during this stage of life were studied using the data on socioeconomic and geographic characteristics provided by these information sources.

The first chapter of the study presents a frame of reference for the analysis of determinants of child survival which serves as a guide for the research on each of the countries included in the study. The second chapter gives a detailed account of the methodology used in the case studies on child mortality and on its relationship to the social and economic factors taken into consideration. The three country studies are presented in the chapters that follow.

A number of conclusions are drawn for each of the countries studied regarding the findings of the study and their implications in terms of health policy.

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