

# CEPAL

## Review

*Executive Secretary of ECLAC*  
Gert Rosenthal

*Deputy Executive Secretary*  
Carlos Massad

*Director of the Review*  
Aníbal Pinto

*Technical Secretary*  
Eugenio Lahera



UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
SANTIAGO, CHILE, APRIL 1992

*CEPAL Review* is prepared by the Secretariat of the Economic Commission for Latin America and the Caribbean. The views expressed in the signed articles, including the contributions of Secretariat staff members, however, represent the personal opinion of the authors and do not necessarily reflect the views of the Organization. The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat concerning the legal status of any country, territory, city or area or its authorities, or concerning the delimitation of its frontiers or boundaries.

#### Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

References to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables do not necessarily add up to the corresponding totals, because of rounding.

|             |
|-------------|
| LC/G.1717-P |
| April 1992  |

|                            |
|----------------------------|
| UNITED NATIONS PUBLICATION |
| ISSN 0251-2920             |
| ISBN 92-1-121180-8         |

Applications for the right to reproduce this work or parts thereof are welcomed and should be sent to the Secretary of the Publications Board, United Nations Headquarters, New York, N.Y. 10017, U.S.A. Member States and their governmental institutions may reproduce this work without application, but are requested to mention the source and inform the United Nations of such reproduction.

Copyright © United Nations 1992  
All rights reserved  
Printed in Chile

# CEPAL

## Review

Santiago, Chile

April 1992

Number 46

## CONTENTS

|   |     |
|---|-----|
| In memory of Fernando Fajnzylber.<br><i>Gert Rosenthal</i> , Executive Secretary, ECLAC                           | 7   |
| Latin America and the internationalization of the world economy. <i>Mikio Kuwayama</i> .                          | 9   |
| Privatizing and rolling back the Latin American State. <i>David Félix</i> .                                       | 31  |
| State-owned enterprise reform in Latin America. <i>Antonio Martín del Campo</i> and<br><i>Donald R. Winkler</i> . | 47  |
| The Central American entrepreneur as economic and social actor. <i>Andrés Pérez</i> .                             | 69  |
| Why are men so irresponsible?. <i>Rubén Kaztman</i> .   | 79  |
| Erroneous theses on youth in the 1990s. <i>John Durston</i> .   | 89  |
| Decentralization and equity. <i>Sergio Boisier</i> .  | 105 |
| Reorientation of Central American integration. <i>Rómulo Caballeros</i> .   | 125 |
| MERCOSUR and the new circumstances for its integration. <i>Mónica Hirst</i> .                                     | 139 |
| International industrial linkages and export development: the case of Chile.<br><i>Alejandra Mizala</i> .         | 151 |
| The ideas of Prebisch. <i>Ronald Sprout</i> .   | 177 |
| Guidelines for contributors to <i>CEPAL Review</i> .  | 193 |
| Recent ECLAC publications   | 195 |

WORLD BANK





## **In memory of Fernando Fajnzylber**

*A few days before this issue of CEPAL Review went to press, our institution was shaken by an unexpected and tragic event: a fulminating heart attack had taken away from us one of the leading figures in the Secretariat. For those of us who had the privilege of knowing Fernando Fajnzylber personally and working with him, the sense of personal loss was overwhelming, while for the institution the loss was beyond measure.*

*It is often said that no-one is irreplaceable. In the case of Fernando, however, that statement is clearly not true: because of his rare combination of personal qualities, he really is irreplaceable or very nearly so. With his insatiable curiosity, admirable creativity and outstanding intelligence, he irradiated enthusiasm and vigour. Ideas surged from his mind in boundless profusion and variety.*

*He was a brilliant speaker, a prolific writer, and with his orderly and enlightening mind he was capable of arousing the interest and enthusiasm of even the most stolid listener or reader. He thought in a big way, in terms of major strategies, yet at the same time he had a gift for detail and for making practical proposals. In this respect, he combined a macroeconomic with a microeconomic outlook, and his idealism was tempered with realism. He was a first-rate social scientist, and at the same time he was highly perceptive politically.*

*His range of interests –perhaps it would be better to speak of passions– knew no limits. He was fascinated by international economic relations, industrialization, scientific and technological capacity, development of human resources, and transnational corporations. He had extremely novel ways of approaching research, especially in the field of comparing experiences. He also had a special talent for coining often striking phrases which put across a central idea with particular force: in this respect, we may recall the “black box” contrasted with the “empty box”, and his term “spurious competitiveness”.*

*Born in Chile, but a citizen of the world, he had a profound sense of being a Latin American. Brazil and Mexico in particular, in both of which countries he had lived, aroused special enthusiasm in him. His intense feeling of commitment to the whole region explains why he remained linked with ECLAC despite the many opportunities he had for placing his talent at the exclusive service of the country where he was born.*

*His human qualities were also out of the ordinary, and this was obvious to all who knew him, regardless of whether they were occasional contacts or old friends. Affable, modest, dynamic, but always respectful, he had a great sense of humour (he used to chuckle over the problems people had in spelling his name) and he was an outstanding conversationalist, unfailingly stimulating in conversation and debate. Beyond any doubt, he was a born leader with a charismatic personality. At the same time, he greatly prized family life and valued his friends.*

*In the Secretariat, he became one of the leading figures in the updating of ECLAC thinking, as well as an outstanding communicator of its content. He was Director of the Industry and Technology Division, but his influence was felt throughout the institution. He also taught in many universities in Latin America, Europe and the United States. Wherever he went, he left behind him a trail of admirers and friends.*

*The combination of so many personal and professional qualities in one man made Fernando Fajnzylber a person quite out of the ordinary. Because of this, I repeat, he is irreplaceable; because of this, his untimely departure when he was at the height of his creativity and vitality as a human being has left us downcast, full of pain and sadness. Yet at the same time, the lessons he left behind him and the contagious enthusiasm he inspired in all those around him will be a constant inspiration in the future work of the Secretariat. In this sense, at least, Fernando lives on among us.*

**Gert Rosenthal**  
Executive Secretary, ECLAC



## Latin America and the internationalization of the world economy

*Mikio Kuwayama\**

This article questions the generally accepted theory that the international economy is being polarized into three regional nuclei: the United States, the European Economic Community, and Japan. In the light of trade and financial trends in the 1980s, it is maintained that there is no evidence of the formation of three trade blocs. Economic interdependence, as measured by the relation between intra-regional trade and the gross domestic product, shows that the EEC is the only one of the three centres which could conceivably fulfil the conditions for assuming the creation of a bloc. In global terms, the growth in trade in goods in each one of these groups during the 1980s favoured trade with the rest of the world more than intra-regional trade. In financial terms, the world economy has also been characterized by growing interdependence and internationalization, mainly involving the three centres in question.

Within the overall scheme of internationalization of the world economy, a slight process of marginalization of Latin America is to be observed. For this reason, there is increasing awareness in the region of the importance of establishing a free trade area for the whole of the Americas which could lead to creation and diversification of trade. In view of the relatively incipient stage of implementation of the Enterprise for the Americas, the Latin American countries should explore ways of strengthening their economic links with each of the centres in question. In the light of this, the article examines the relations between Latin America and those centres and proposes some lines of action.

\*Economic Affairs Officer in the ECLAC International Trade and Development Division.

## Introduction

There is currently a general belief that the world economy is being polarized into regional nuclei or blocs: a belief borne out by the various agreements strengthening the privileged links between States which share a given economic, geographical, historical or cultural background. Thus, the United States, the European Economic Community (EEC) and Japan are considered to form three poles, each of which tends to exercise a certain degree of domination in its own region. This article seeks to determine whether this theory of regionalization really does correctly interpret the economic events of the 1980s, in the light of the evolution of trade and financial flows.

In the period in question, the growth rate of world trade registered a notable recovery, especially in respect of trade in goods of high technological content and in the case of the countries capable of participating to an increasing extent at the world level in their production and marketing. These countries were mainly the traditionally industrialized countries, together with some Asian countries –both recently industrialized Asian countries and those belonging to the Association of South East Asian Nations (ASEAN)– whose growth model is based on the export of sophisticated manufactures<sup>1</sup>. For the most part, the Latin American and African countries have been increasingly marginalized from this process.

In view of this situation, Latin America has been becoming increasingly aware of the importance of establishing a free trade area in the Americas in order to create and diversify mutual trade. At the same time, the United States wants to recover the economic space it has lost worldwide and to strengthen its links with Latin America, where it has more promising possibilities of progress in trade. At least during the 1980s, however, the only trade bloc which was seen to be established was that of the EEC, and the world economy became increasingly complex and interdependent. Since there are as yet no specific plans regarding the implementation of the Enterprise for the Americas, it does not seem desirable that Latin America should view this instrument as its only

<sup>1</sup> The recently industrialized Asian countries are Taiwan, South Korea, Hong Kong and Singapore, while ASEAN is made up of four main countries (Malaysia, Indonesia, Thailand and Philippines), plus Brunei/Darussalam and Singapore. In this article the latter two have been excluded from the group.

trade policy option. On the contrary, it would be both feasible and desirable for the region to increase its trade links with each of the three centres. With this in

mind, this article briefly analyses the relations between Latin America and those regions and proposes some policy guidelines for the future.

## I

### Trends in international trade

#### 1. General remarks

Between 1983 and 1989, world trade grew relatively quickly (at an average rate of 6% per year).<sup>2</sup> This growth rate exceeded that of world production, which grew by 4% per year. Thus, trade continued to be the motive force of world growth, although not all countries benefited equally from it. The most dynamic growth of exports was concentrated in the developed countries and in a relatively small group of recently industrialized Asian countries and ASEAN nations. In the period 1983-1989, the average growth rate of exports, by main country groups, shows that both the developed countries as a whole and the developing countries increased their exports by nearly 6%. However, this overall average conceals the fact that the increase was much smaller in Latin America, Africa and the Middle East, where it only amounted to 2.4%, 2.1% and 3.2%, respectively. As noted in GATT, 1990, in the 1980s none of these less advanced regions increased their share of world exports in one or more of the six main categories of goods and services (agricultural products, mining, manufacturing, transport, travel and other services).<sup>3</sup>

An important change in the composition of international trade was the sharp drop in the relative share of primary commodities. In 1983-1989, the average annual growth rate of exports of agricultural products and of minerals and metals, including fuels,

was 7.5% and -1.5%, respectively. In contrast, there was an appreciable increase in the share of manufactures in total world exports (from 54.2% in 1980 to 70.0% in 1988). It may be noted that the exports of manufactures of the recently industrialized Asian countries and the ASEAN nations registered an average growth rate of nearly 20% per year. Thanks to this extraordinary dynamism, Asia (including Japan) was the only region which increased its share of world exports of manufactures. Over the period 1980-1988, the contribution of North America went down from 16% to 14%, and that of Western Europe from 54% to 49%, while Latin America maintained its low share of 2%.

Within the manufacturing sector, the most active sub-categories were those connected with various types of capital goods, office and communications equipment—especially high technology equipment such as personal computers and peripherals—, semiconductors, and electronic consumer goods. Such products not only place technological innovations within the reach of enterprises and consumers in general, but also provide support for various services sectors such as communications, insurance, banking, etc. (GATT, 1991). At present, capital goods represent around 30% of total world exports of goods.<sup>4</sup>

The evolution of the main trade flows (exports plus imports) during the period 1980-1989, by regions and growth rates, indicates that the most intensive trade was between North America (the United States and Canada) and Asia, followed by

<sup>2</sup> This rate was lower than that for 1960-1973 (8.7%), but higher than that for the 1970-1980 decade (5%). In 1990, world exports of goods amounted to US\$3 470 billion. In recent years, despite the slackening of trade in terms of volume, its value in dollar terms grew by 75%. This was due to the rapid increase in the value of the goods traded as a result of the depreciation of the dollar *vis-à-vis* the main European currencies.

<sup>3</sup> According to preliminary figures (GATT, 1991), in 1990 the value of transactions in the field of commercial services—a category covering transport, tourism, telecommunications, insurance, banking and other professional services—came to US\$770 billion dollars, equal to approximately 22% of world exports of goods.

<sup>4</sup> Despite the undoubted contribution of the United States to the expansion of trade in capital goods, the most noteworthy feature is the extraordinary performance of the Asian region as both exporter and importer of these products. Thus, exports of capital goods by six Asian developing countries (the recently industrialized countries, plus Malaysia and Thailand) amounted to US\$47 billion in 1987, equivalent to some 18% of the total corresponding exports of the developed countries. At the same time, total imports of capital goods by those six countries amounted in 1987 to US\$57 billion, that is to say, nearly half the value of imports of such goods by the United States and almost four times the total amount of such imports by Japan.

trade between Western Europe and Asia and by that within Asia itself. Although trade within North America and within Europe was significant, it did not exceed the above-mentioned flows, and neither did that between North America and Europe. GATT states that the six regional trade flows between Western Europe, North America and Asia and those inside each of these regions were the largest, and within these favourable trading results, this dynamic growth of trade in goods in the three regions during the 1980s favoured interregional (extra-regional) trade rather than intra-regional (GATT, 1990, p. 34). These data confirm beyond any doubt that in the cases of both Western Europe and North America, it was trade with the Asian region which grew most rapidly. Trade between Asia and North America increased more rapidly than that within Asia, and in terms of dollar values, trade between North America and Asia and between North America and Western Europe greatly exceeded trade within North America itself, while trade between Asia and North America exceeded that within Asia. At the same time, in each of the three centres the joint relative share of the developing countries in exports and imports went down markedly, except in the case of the Asian developing countries, where it increased (ECLAC, 1991d).

In the 1980s, each of the three regions increased its intra-regional trade more rapidly than its extra-regional transactions. GATT points out, however, that this conclusion might no longer be valid if the Middle East and Africa are excluded, since the sharp drop in the value of trade that this would cause would automatically increase the share of intra-regional trade within the overall trade of each of the three groups. In view of the foregoing, GATT has concluded that it is not correct to say that we are witnessing the formation of trade blocs, with the inward-looking connotation of the word "bloc", but rather the formation of some evolving trade centres with world trade interests.<sup>5</sup>

<sup>5</sup> If we look at the structure of intra-regional trade by products in each of the centres during the period 1980-1987, we clearly see that in North America such trade includes a high percentage of iron and steel and motor vehicles, whereas in Western Europe a leading place is occupied by such goods as office and communications equipment, electrical machinery and apparatus, motor industry products, and textiles and clothing. In Asia, for its part, high proportions are accounted for by primary commodities, iron and steel, chemical products, other semi-manufactured goods, and textile products (GATT, 1989). If we take account of what has happened since that period—especially the increase in intra-industry trade among the developed countries, which has also been promoted by direct investments of a horizontal intra-industry nature—it may be concluded that these figures must have changed substantially in recent years.

## 2. Intra-industry trade

The complexity and interdependence of world trade is seen, on the one hand, in the growing intra-industry trade, and on the other, in the importance of transnational corporations in the total value of world trade in goods. The developed countries frequently export and import different varieties of a particular product (horizontal intra-industry trade), whereas the relationship established between the advanced countries and developing countries is that the former export parts and components which are assembled in the latter countries and then reexported to their countries of origin (vertical intra-industry trade). It is estimated that in 1985 the intra-industry trade of the developed countries amounted to 57% of their total trade in manufactures, while in the developing countries for which information is available, the proportion came to almost 30% (De Castro, 1989). The coefficient of intra-industry trade was particularly high in Western Europe, not only in internal trade but also in that with countries from other regions, such as the United States, Japan and some other Asian countries. This type of trade has also become increasingly important for Latin America. The Latin American region registered a higher coefficient with the United States, but in the latter country the proportion of intra-industry trade was higher with the Asian countries than with those of Latin America (Baumann, 1991).

Likewise, it has been calculated that the transnational corporations accounted for between 30% and 40% of the trade of the developed countries (CTC, 1989, chapter VI). It is considered that the advantages derived from internationalization through intra-enterprise trade are particularly significant in industries with intensive research and development activities and a highly skilled labour force (Siddharthan and Kumar, 1990). It has also been shown not only that transnational corporations have played an increasingly important role in leading the developing countries to international markets for manufactures, but also that even enterprises in which there is no equity participation by transnational corporations have high possibilities of expanding their exports, for example through the practice of subcontracting local enterprises (Blamström, Kraviz and Lipsey, 1990; CTC, 1989).

The foregoing means that trade policies aimed at those sectors which have a high coefficient of intra-industry trade must be different from those aimed at sectors where inter-industry trade predominates

(semiconductors, for example). Trade in capital and intermediate goods incorporating advanced technology is generally not subject to significant protectionist measures. Such trade is usually of an intra-industry nature and has a high component of intra-firm trade (De Castro, 1989). Likewise, a substantial part of textile production for export is subcontracted by big firms in the importing countries, which use developing countries for the final assembly operations; such trade is usually subject to fewer non-tariff restrictions than trade between totally independent parties.

### 3. *Economic integration and the degree of openness*

The economic interdependence of markets is reflected mainly in an increase in trade in line with the level of production of the participating countries. This would mean that, if there were a growing tendency towards trade specialization and integration, trade should grow more than the gross domestic product (GDP). If we assume that trade flows tend to react more markedly to variations in relative prices in integrated markets, as a result of the single price law, it may be inferred that the positive relationship between the degree of integration and interdependence would be manifested in an increase in the price elasticity of trade. Likewise, the integration process should lead to an increase in the income elasticity of trade as a result of greater specialization in production by the participants (ECLAC, 1991a). Finally, at the national level the degree of interdependence of a country is measured by the ratio of the value of its intra-regional trade to its GDP, or at the regional level, by the ratio of total intra-regional trade to the total GDP of the participating countries.

In this article, two types of GDP have been used, one denominated in current dollars and another adjusted by the purchasing power parity (PPP). Because of the difference in price levels, when the figures for expenditure or production of countries are converted into a common currency, such as the United States dollar, at the official exchange rate, it is possible that the disparities will reflect both differences of price and differences of amount. The values of GDP converted in this way will not measure real differences, so that it is preferable to use prices adjusted according to the PPP in calculating constant prices for comparing the levels of productivity and standards of

living of countries.<sup>6</sup> The price series used in this article are based on those from *The Penn World Table* (Summers and Heston, 1991), and the period analysed extends from 1965 to 1988.

#### a) *United States, Canada and Mexico*

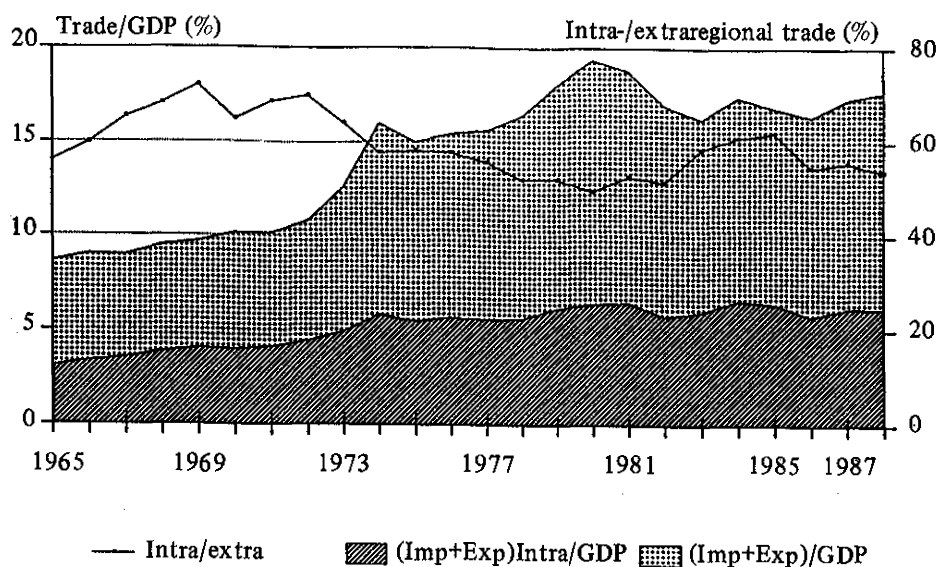
As may be seen from figures 1-A and 1-B, in the hypothetical bloc made up of the United States, Canada and Mexico, the ratio of intra-regional trade to the combined GDP has not risen, whereas the share of trade in the GDP has increased substantially. As a result, the ratio of intra-regional to extra-regional trade has gone down considerably since the early 1970s. The importance of intra-regional trade has gone down, regardless of whether petroleum is included in it or not. This overall performance is considerably influenced by the decreasing share corresponding to intra-regional transactions in the trade of the United States, whose trade with countries from outside the region is constantly growing. For this country, the share of intra-regional trade in its GDP is only between 3% and 4% (ECLAC, 1991d).

In contrast, the contribution of intra-regional trade to the GDP of Canada has risen over the last three decades, reaching a level of nearly 30%, although there has been a slight decline in recent years. The ratio of intra-regional to extra-regional trade comes to over 250%. If we use the GDP adjusted according to the PPP, Canada's degree of openness increases slightly because domestic prices in the country are relatively high compared with those of its neighbour (figures 2-A and 2-B). At all events, its degree of openness already stands at a very high level (40% to 50%) and is still rising.

With regard to Mexico, over the last 25 years it has increased its trade openness: the ratios of both total trade and intra-regional trade to GDP show a clear upward trend over this period. At the same time, the variations registered by the values of intra-regional and extra-regional trade have remained in

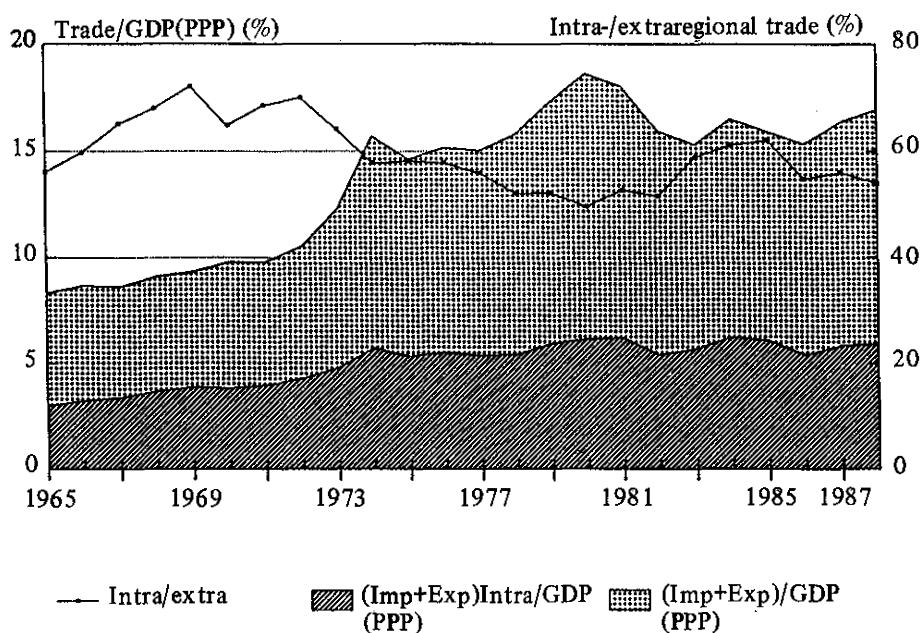
<sup>6</sup> In other words, the PPP is the conversion rate which eliminates the differences in price levels: a given sum, converted into different currencies in line with this rate, purchases the same amount of goods and services in all countries. The PPP is expressed in national currency units, generally United States dollars. It should be noted that a PPP of over 100 (taking the United States as base 100) means that the purchasing power of the GDP in the domestic market of the country is less than it would be outside it, while the opposite situation occurs when this index is below 100. Thus, the degree of trade openness of a country increases with a rise in the PPP and goes down with a fall in it.

Figure 1-A  
UNITED STATES, CANADA AND MEXICO:  
TRADE AS A PERCENTAGE OF GDP



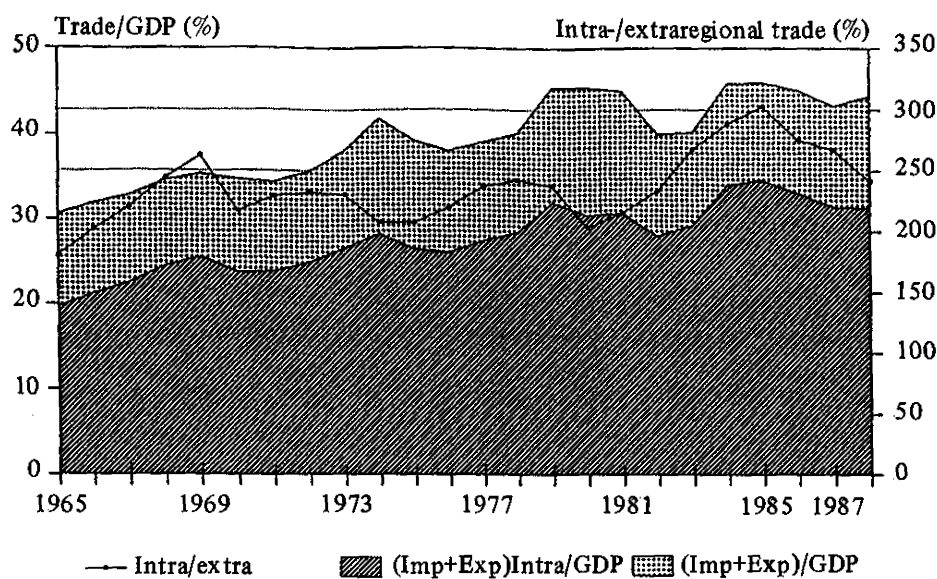
Source: International Commodity Trade Data Base (COMTRADE), New York, 1991;  
Summers and Heston, 1991.

Figure 1-B  
UNITED STATES, CANADA AND MEXICO:  
TRADE AS A PERCENTAGE OF GDP ADJUSTED  
ACCORDING TO PURCHASING POWER PARITY (PPP)



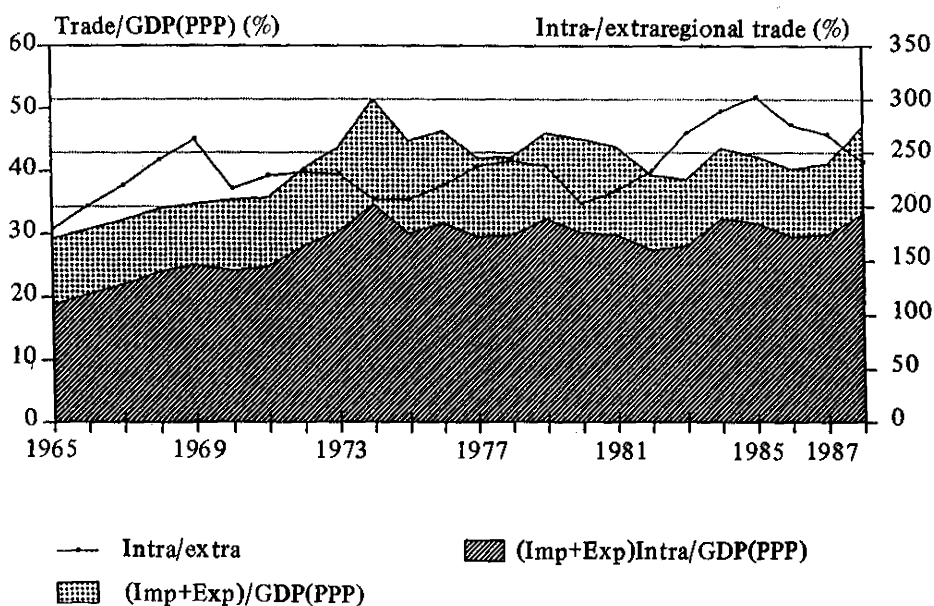
Source: COMTRADE; Summers and Heston, 1991.

Figure 2-A  
CANADA: TRADE AS A PERCENTAGE OF GDP



Source: COMTRADE; Summers and Heston, 1991.

Figure 2-B  
CANADA: TRADE AS A PERCENTAGE OF GDP ADJUSTED  
ACCORDING TO PURCHASING POWER PARITY (PPP)



Source: COMTRADE; Summers and Heston, 1991.



the same proportions, so that the ratio between them has remained relatively stable. Because of the weight of the United States market, the importance of intra-regional trade in GDP has increased in spite of the fluctuations, although it still does not amount to 15%. If we use the PPP, however, Mexico's degree of openness goes down markedly, because of its low domestic prices (figures 3-A and 3-B). The foregoing gives rise to doubts about the theory that a real trade bloc is being formed in North America, for except in the case of Canada, there is no clear evidence of much trade interdependence. The Enterprise for the Americas aims to strengthen the situation which already exists in the case of Canada and to reverse the current process with regard to the United States and, to a lesser extent, Mexico.

If we extend the foregoing to the Latin American Integration Association (ALADI), we see that in the case of this association there have not been substantial changes in the ratio of intra-regional to extra-regional trade or in the degree of openness. The ratio of intra-regional trade to the combined GDP stands at a very low level (2% to 3%). Moreover, if the GDP is calculated using the PPP, this causes the degree of openness to go down during the 1980s (ECLAC, 1991d). The Latin American case will be considered in detail later in this article.

#### b) *Asia and Oceania*<sup>7</sup>

The Asian countries and Oceania show a slight increase in the relative importance of intra-regional trade, but in terms of volume it is still only equal to 60% of extra-regional trade. The share of intra-regional trade in the combined GDP does not exceed 10% and does not show any clear upward trend, although its contribution is higher than in North America. If we use the PPP to calculate GDP, the degree of openness goes down markedly, reflecting the low domestic prices of most of the countries making up this group (figures 4-A and 4-B).

In the case of Japan, although the share of intra-regional trade is increasing, more than half its trade is still carried on with countries outside the region. Over the last 15 years, the share of intra-regional trade in GDP has not changed, remaining at its low

value of around 5%. The ratio between trade and current GDP has increased its gap with the ratio between trade and adjusted GDP, because of the marked increase in domestic prices during the period. In the 1980s, there was a slight reduction in openness in terms of current GDP, whereas the opposite occurred in the case of GDP calculated on the basis of PPP. There was also a decline in the share of trade in GDP in recent years, because of economic expansion based on the domestic market (ECLAC, 1991d).<sup>8</sup>

It may be noted that in 1989 Japan's imports from the recently industrialized Asian countries and the ASEAN countries were equivalent to only 36% of the combined imports of the EEC and the United States from those countries.<sup>9</sup> This means that it is still premature to assume the existence of an autonomous trade bloc in that region. In its analysis of the changes in the share of those countries in external trade with the EEC and the United States together, UNCTAD (1990) noted that the trade performance of the Asian countries seems to be very similar in the main markets of the advanced countries, bearing in mind that the export penetration of those countries in the Japanese market reflects their growing specialization in manufactures with high technological content and their level of competitiveness, rather than any special bias towards the Japanese market.

#### c) *Western Europe*

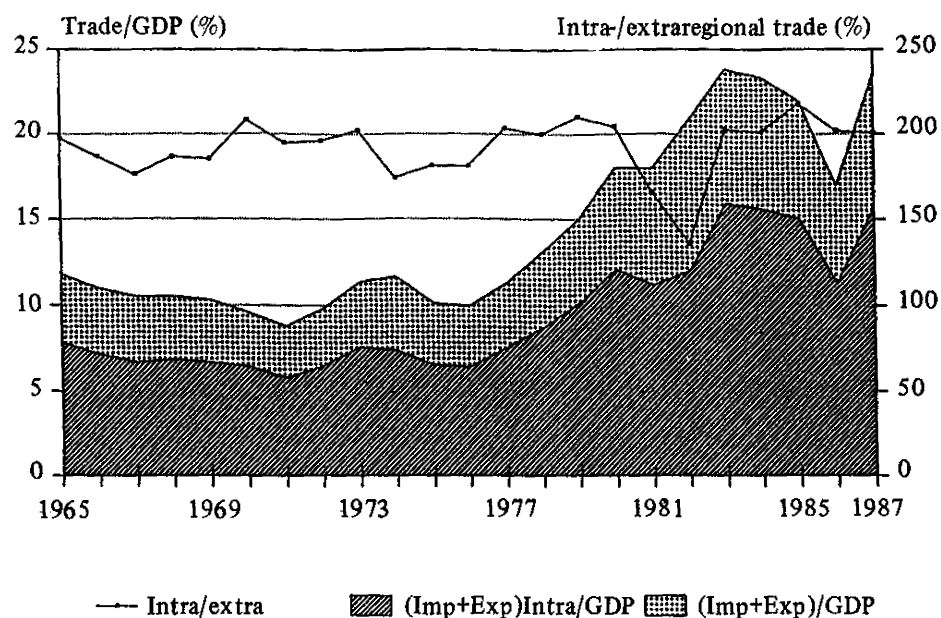
Although intra-regional trade has had a high share ever since the 1960s, it has increased still further, especially in the 1980s. Thus, in 1988 intra-regional trade was equivalent to 140% of extra-regional trade. Since this is a region which is a net importer of petroleum, the share of intra-regional trade is even greater if this commodity is not included in the figures. At the same time, the EEC has tended towards a gradual increase in the share of total trade and intra-regional trade in GDP, with the

<sup>8</sup> With regard to Asia, other economies which are important in world trade, such as South Korea and Taiwan, do not seem to be inclined to form an economic bloc in the region either. On the contrary, in line with the general trend up to the mid-1980s, in both countries intra-regional trade rose less than extra-regional trade, and the respective ratios of intra-regional trade to GDP appear to be stagnating. A similar situation exists in Thailand, which is one of the most dynamic exporters in the world, but where the ratio between intra-regional and extra-regional trade has remained unchanged, at least during the 1980s.

<sup>9</sup> In that year, the United States imported US\$74 billion of goods from the first-named and US\$15 billion from the latter, while the EEC imported US\$34 billion and US\$11 billion respectively. These values were well above those of Japan (US\$31 billion and US\$18 billion, respectively).

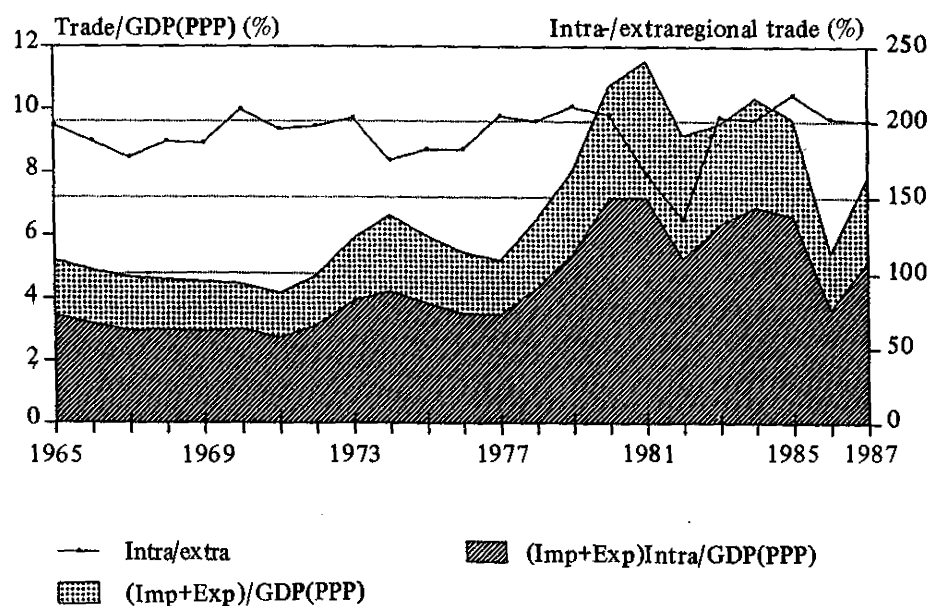
<sup>7</sup> For the purposes of this article, this region is taken to comprise the recently industrialized Asian countries, the four major member countries of ASEAN, Australia, New Zealand and Japan. China is not taken into account because of the lack of sufficient information.

Figure 3-A  
MEXICO: TRADE AS A PERCENTAGE OF GDP



Source: COMTRADE; Summers and Heston, 1991.

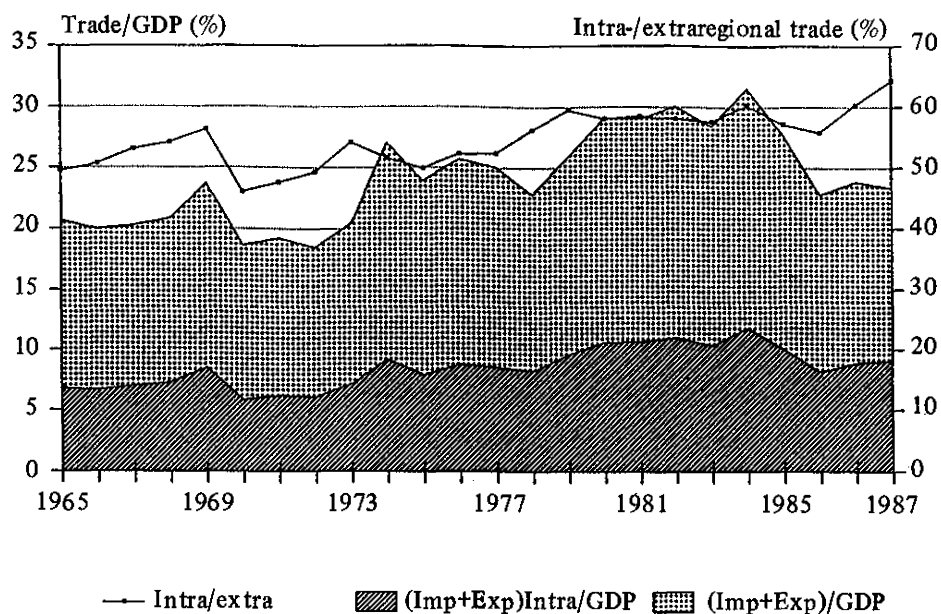
Figure 3-B  
MEXICO: TRADE AS A PERCENTAGE OF GDP ADJUSTED  
ACCORDING TO PURCHASING POWER PARITY (PPP)



Source: COMTRADE; Summers and Heston, 1991.

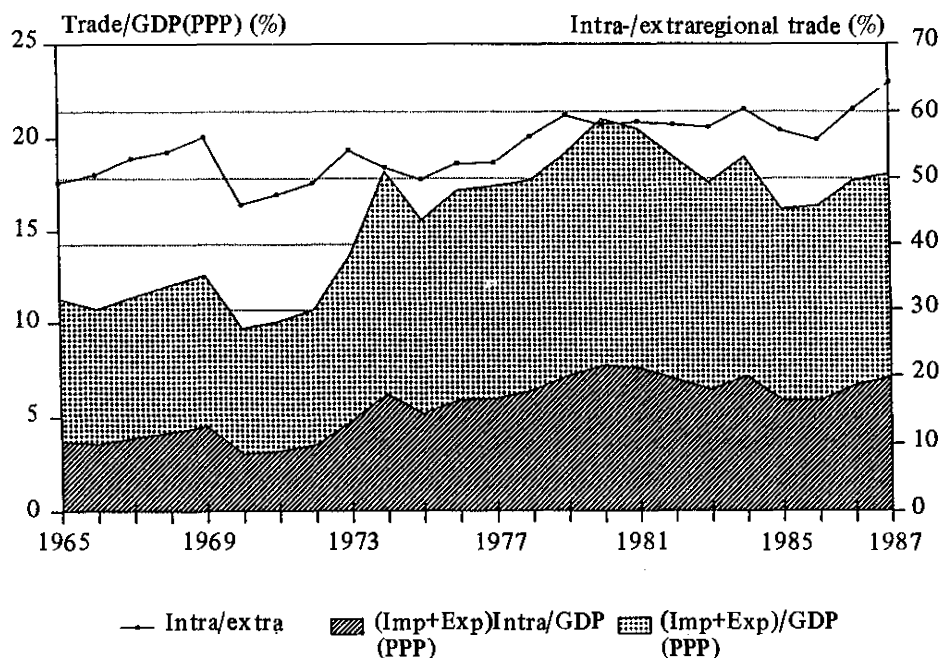
Figure 4-A

## ASIA AND OCEANIA: TRADE AS A PERCENTAGE OF GDP



Source: COMTRADE; Summers and Heston, 1991.

Figure 4-B

ASIA AND OCEANIA: TRADE AS A PERCENTAGE OF GDP ADJUSTED  
ACCORDING TO PURCHASING POWER PARITY (PPP)

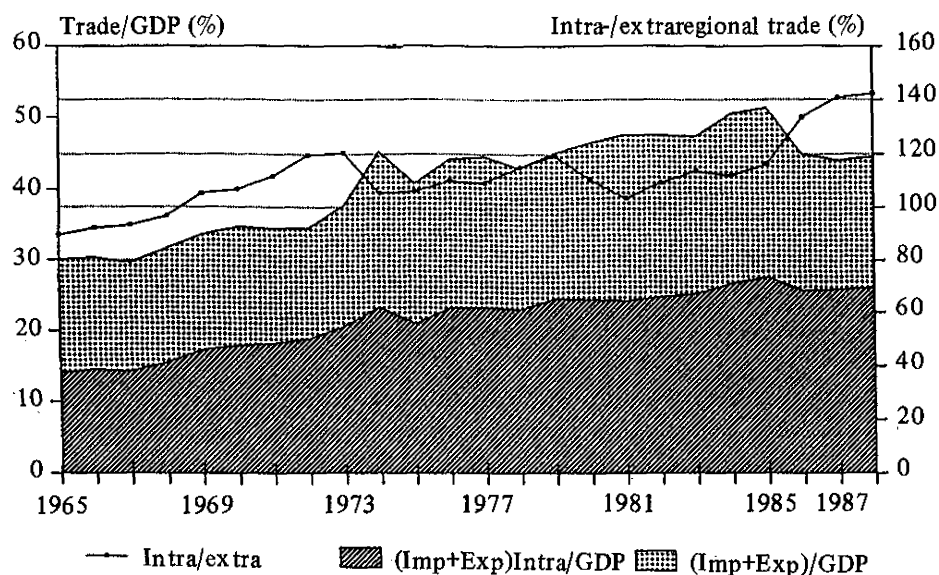
Source: COMTRADE; Summers and Heston, 1991.

figures already standing at 44% and 26%, respectively. When GDP is calculated on the basis of the PPP, the share of intra-regional trade rises, reflecting the

effects of oil prices in 1973 and 1980, on the one hand, and a significant increase in the ratio of trade to GDP in recent years on the other (figures 5-A and 5-B).

Figure 5-A

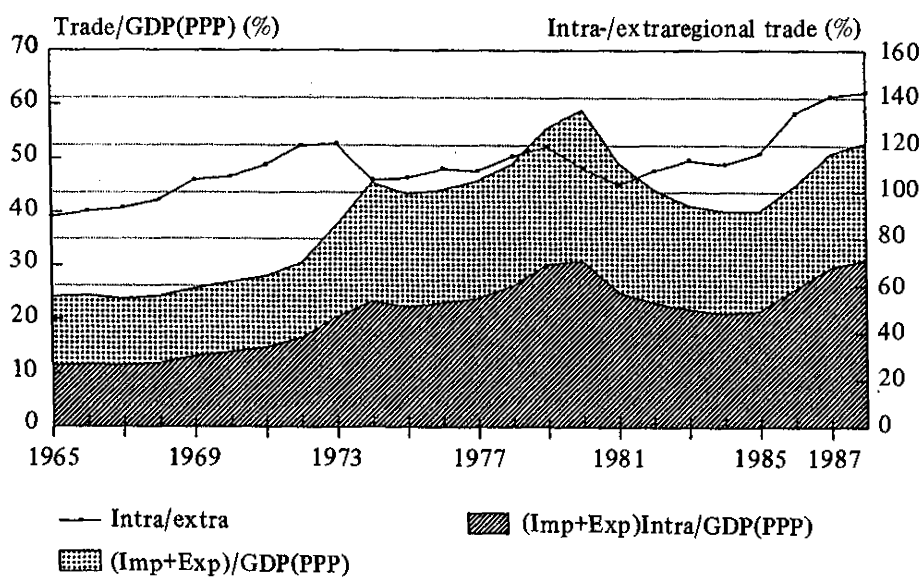
## EEC: TRADE AS A PERCENTAGE OF GDP



Source: COMTRADE; Summers and Heston, 1991.

Figure 5-B

## EEC: TRADE AS A PERCENTAGE OF GDP ADJUSTED ACCORDING TO PURCHASING POWER PARITY (PPP)



Source: COMTRADE; Summers and Heston, 1991.

As in Asia, there are differences among the European countries with regard to their degree of regional interdependence. In spite of the high share of intra-regional trade in its GDP (around 25%), Germany has significantly increased its extra-regional trade, so that basically the ratio between the two types of trade has not varied. In the case of the United Kingdom, for its part, this ratio shows a steady trend towards an increase in intra-regional trade. In other important economies such as France and Italy, there was a decline in the share of this trade in the period 1973-1980, followed by recovery and further strengthening in subsequent years. In Spain and Portugal, the figures for the ratio between intra-regional and extra-regional trade show that intra-regional trade doubled in three years (1985-1988). This process of integration has been accompanied by an increasingly marked degree of openness. The same is true, although to a lesser extent, in the case of Greece, which has made effective use since the early 1980s of the expanded markets opened up to it by its entry into regional trade (ECLAC, 1991d). When we consider that in all the EEC countries the share of intra-regional trade in GDP (regardless of the way GDP is calculated) increased in the 1980s, and that the countries which only recently entered the Community also achieved this result with ease, it may be concluded that the EEC is the only one of the three regions where the theory of the formation of a trade bloc is borne out.<sup>10</sup>

European integration was favoured from the very beginning by the relatively high degree of interdependence of the countries involved: thus, the degree of trade openness among the EEC countries was already high when the Community was set up in 1958. It is also necessary to highlight, among other factors of the greatest importance for facilitating intra-European trade, the sustained economic growth of the region, its high rate of intra-industry investment, the effective use made of complementarity of production and economies of scale, the full bilateral convertibility of the member countries' currencies since 1950 (the European Payments Union), the European Customs Union, and the coordination of macroeconomic policies.

It should be noted, however, that even though intra-regional trade has exceeded extra-regional trade for the EEC, the latter type of trade is still of significant importance, and its share in GDP exceeds that registered in North America. This means that, for any assumed bloc, extra-regional trade would be too important to be sacrificed with the aim of establishing new regional trade agreements or strengthening the existing ones. Likewise, the relatively low share of intra-regional trade in the GDP of the central country does not contradict the key function carried out by the trade absorption capacity of that country within the region for the successful opening up of the "satellite" economies.

## II

### Changes in financial flows

#### 1. Main features

The 1980s witnessed a structural change in the circulation of international capital. This may be illustrated

<sup>10</sup> The European Free Trade Association (EFTA), which has seven member countries, recently completed two years of negotiations with the EEC by agreeing on its integration into the Single Market. Because of EFTA's greater trade links with the Community, the ratio of intra-regional to extra-regional trade has been less favourable for it, and since 1975 this ratio has gone down to only 16%. The share of intra-regional trade in GDP (less than 10%) has not changed significantly in recent decades.

by the fact that there was almost a three-fold increase in the total current account deficits of certain industrialized countries (notably the United States, France, the United Kingdom, Italy and Denmark), which rose from US\$350 billion in the first half of the decade to US\$950 billion in the second half. Canada went from a position of equilibrium to a deficit of US\$50 billion. At the same time, the joint surplus of the industrialized countries registering trade surpluses – mainly Japan, Germany, the Netherlands, Belgium, Luxembourg and the Scandinavian

countries— rose from US\$180 billion to US\$670 billion over the same period. For the member countries of the Organization of Petroleum Exporting Countries (OPEC), the situation deteriorated, with their surplus of US\$15 billion being turned into a deficit of US\$38 billion. The developing countries as a whole reduced their deficit from US\$273 billion to US\$45 billion (*Deutsche Bundesbank*, April 1991). As a result, according to a publication of the Japanese Ministry of International Trade and Industry (Japan, 1991, p. 38), the United States absorbed over the period 1983-1988 an annual average of US\$45.8 billion from the EEC and US\$39.9 billion from Japan. In the preceding period (1978-1982), it had received an annual average of US\$1.5 billion from Japan, while it transferred US\$4.9 billion to the EEC.

These changes were reflected in a boom in portfolio and direct investments. It may be noted that the first-named were due almost entirely to transactions among the industrialized countries. In the period 1988-1990, bond issues by the developed countries reached an annual average of over US\$200 billion, while those issued by the developing countries (by the countries themselves and by international agencies) totalled only US\$20 billion. Within this latter group, almost half the bonds issued corresponded to seven Asian countries (the recently industrialized countries, Indonesia, Malaysia and Thailand). In most of the developing countries, stock markets are small or almost non-existent, so that the total joint capitalization of these countries came to only 6% of that for the developed countries (Turner, 1991).

In contrast with what occurred in the 1970s, when the global imbalances were financed by the international banking system, in the 1980s it was non-bank financial bodies such as pension funds, insurance companies and investment funds which financed the deficits, although they were now greater than before. In the first half of the 1980s, there was a notable increase in the participation of these companies in ownership of foreign stocks and bonds, through the channeling of family savings to institutional investors instead of bank accounts. This was due to the enormous expansion in the wealth of the private sector, brought about largely by the rise in value of stocks, real estate and other assets, and the massive diversification of institutional investments towards foreign assets,

except in the case of United States institutions. In the 1980s, portfolio investment flows were concentrated more on bond transactions than in shares, although the bigger role played by bonds giving the right to purchase stock made the difference between the two types of transactions less perceptible.

Flows of foreign direct investment grew rapidly in the latter years of the 1980s: in 1989, they amounted to US\$185 billion after having averaged around US\$50 billion per year in the first half of the decade. At the end of 1989, total cumulative world foreign direct investment came to US\$1.5 million million. This increase was due almost entirely to movements towards the industrialized countries, since flows to the developing countries as a whole hardly changed, even in nominal terms. With regard to the industrialized countries, there was a big increase in the flows towards the United States, which received approximately half of the total amount invested in those countries, compared with one-third in the 1970s and one-tenth in the 1960s. There was also a notable increase in flows of foreign direct investment towards the EEC, both from countries forming part of the Community and from others. In the case of Australia and Canada, however, which were relatively important importers of capital in the 1950s and 1960s, foreign direct investment went down considerably. At the end of the 1980s, such investment in the developing countries as a whole was less than one-eighth of that channeled towards the developed countries. As a reflection of general economic performance, the flows to the seven Asian countries mentioned earlier exceeded those to the indebted countries (Turner, 1991).

There were three main factors behind the boom in foreign direct investment directed towards the industrialized countries: i) in the 1980s, such investment had a strongly procyclical nature which caused it to vary disproportionately in relation to economic activity; this phenomenon explains why it was oriented more towards the United States and European markets, where domestic demand grew sharply; ii) the total amount of foreign direct investment in respect of mergers and trans-border acquisitions came to US\$120 billion in 1989, compared with only US\$40 billion in 1986, and iii) considerations of the cost of labour compared with productivity, exchange rates, or protectionism encouraged the relocation of production abroad.

## 2. The United States

Since 1981, the current account deficit of the United States has been offset by a net inflow of external financing which has steadily eroded that country's position as a net international investor. Thus, after having been the world's leading creditor, with positive net international investments of US\$140 billion in 1981, this country declined to a negative position in 1985, and since 1986 it has been the world's biggest international debtor, with a net negative international investment position of over US\$400 billion at the end of 1989 (United States, Department of Commerce).

The attraction of portfolio investments has been impressive, stimulated mainly by the higher interest rates on dollar-denominated assets. If we look at the United States capital account in the 1980s in terms of the origin of capital flows (Japan, 1991), we see that the net inflow of capital into that country rose from US\$35.5 billion in 1983 to a record level of US\$155.5 billion in 1987, during which period the EEC countries contributed by far the largest amount of these assets. Japan's contribution was considerable, but it never exceeded that of the EEC except in 1988, when it provided 34% of the net inflow (although even then it was exceeded by the contribution of Latin America). During the first three quarters of 1990, portfolio investments by Japan and the EEC in the United States went down markedly. Thanks largely to the vigorous recovery of the economy, the inflow of foreign direct investment increased sharply. Thus, as from 1985 it grew at an annual rate of 34%, until in 1989 it represented 32% of the gross capital inflow. It is interesting to note that in the period 1983-1989 the inflow of funds into the United States in respect of foreign direct investment grew at an annual average rate twice that of United States foreign direct investment abroad.<sup>11</sup>

If we look in detail at United States foreign direct investment abroad, we immediately see the importance of the European countries both in terms of flows abroad and reinvested profits and in terms of income (ECLAC, 1991d, table 9), even though there is a certain degree of geographical diversification of

the market. In the second half of the 1980s, Europe accounted for over 50% of the reinvested profits and total income, and it increased its relative share in these categories compared with the period 1982-1985. In this context, it is worth noting the modest position occupied by Germany and the dominant weight of the United Kingdom.

In order to understand the structure and balance of United States trade, it is important to analyse the links between foreign direct investment and the trade carried on within transnational corporations (intra-enterprise trade).<sup>12</sup> According to data supplied by the Department of Commerce, in 1988 intra-enterprise trade accounted for over 47% of the exports and more than 50% of the imports of that country. An important feature of this trade was that the United States enterprises contributed a small surplus to the trade balance, while the operations of the foreign firms registered a significant deficit. Thus, between 1980 and 1988, the total deficit of the foreign firms operating in the United States rose from US\$24.1 billion to US\$89.9 billion, giving rise to approximately 70% of the total trade deficit of the country. A large part of the deficit generated by foreign firms corresponded to those from Japan and Germany (JETRO, 1991).

If we take into account the gigantic scale of the activities of United States firms abroad and their foreign counterparts operating in the United States, it could be maintained that if they were not taken into account the country's trade deficit would go down substantially. By way of illustration, in 1988 the local sales of United States transnational corporations abroad came to US\$607 billion and their sales to third countries totalled US\$220 billion. In the same year, foreign firms operating in the United States made local sales and purchases of US\$794 billion and US\$558 billion, respectively. If these and other domestic and external trade flows generated by transnational corporations are subtracted, the country's deficit goes down from US\$127 billion to US\$51 billion (United States, June 1990, table 12, p. 43; Japan, 1991, pages 318-319). These observations bring out the importance of the process of internationalization of the trade of the United States and other industrialized countries, which reduces the validity of the traditional approach based on consideration of national territories.

<sup>11</sup> It is estimated that in 1987 some 4.3% of the United States GDP was generated by the activities of non-United States enterprises operating in the country, while over 10.5% of the manufacturing sector GDP corresponded to foreign transnational corporations. Europe's share in the GDP generated by foreign enterprises operating in the United States was the largest, amounting to nearly 60% of the total (United States, Department of Commerce, *Survey of Current Business*, June 1990, pp. 45-53).

<sup>12</sup> The term "intra-enterprise trade" is understood here as a transaction between a United States firm and a foreign firm in which it holds 10% or more of the voting stock.

### 3. The European Economic Community (EEC)

In the 1980s, the United States attracted a substantial proportion of the flows of portfolio investment in stocks, especially up to 1987. Between 1985 and 1987, the inflow of funds into that country under this heading came to US\$37 billion, while the United Kingdom absorbed US\$15 billion and the continental European member countries of the EEC together a total of US\$17 billion. Since 1988, however, the importance of the EEC has increased and it has accounted for half of the capital flows of this type. The British have been the main investors, with net purchases of these financial instruments amounting to over US\$32 billion in 1989 alone (Turner, 1991, pp. 55-56). In the bonds market, although the EEC was less active than Japan it improved its position both as a recipient and an originating region (Turner, 1991, table 21, p. 59).

Exports of portfolio capital by Germany became a dominant element in long-term capital movements: in 1986-1990, this category registered a net outflow of DM193 billion, equivalent to approximately half the entire outflow of long-term capital. The significant increase in German exports of long-term capital meant that this country increased its share in total exports of portfolio capital by the industrialized countries from 3% to 11.5%. At the same time, German imports of portfolio capital continued to be substantial, amounting in 1986-1990 to a value of DM145 billion, compared with DM120 billion in the preceding five years. In the same period, over half these investments took the form of purchases of foreign bonds. Portfolio capital transactions were increasingly concentrated in the European markets, unlike the preceding five-year period, when investments in the United States predominated. Bonds also accounted for a growing share of the inflow of capital, and as in the case of exports, investors from the EEC played an outstanding role (*Deutsche Bundesbank*, January and April 1991).

During the period in question, the Community took the place of the United States as the biggest direct investor in the world: in 1988, the EEC registered total cumulative investments outside the Community amounting to over US\$330 billion; that is to say, 34% of total cumulative world investment, compared with 35% for the United States. If intra-Community foreign direct investment is included, then the EEC becomes by far the biggest investor, with a total of almost US\$500 billion in 1988.

Towards the end of the decade, the United Kingdom became the biggest supplier of foreign direct investment in the world through mergers and acquisitions, especially in the United States.

The process of integration of the EEC has caused intra-Community foreign direct investment to have greater weight in total foreign direct investment in that region: in 1980, its share of total investment was only 25%, but in 1988 it amounted to 40%, totalling US\$160 billion. The EEC is currently the biggest investor in six countries of the Community—in 1980 it occupied this position in only one of them—and it has generated more than 50% of the cumulative foreign direct investment in the region. Proof of this rapid process is the fact that intra-Community investment grew at an average annual rate of 38% between 1980 and 1987, while EEC investment in the rest of the world increased at the substantial but much lower rate of 17% (CTC, 1991). It should be noted, however, that the substantial increase in intra-Community foreign direct investment has been no bar to rapid penetration by European investors in the United States market.<sup>13</sup>

### 4. Japan

In 1983-1989, Japan built up a current account surplus of US\$415 billion and became the biggest capital creditor in the world. Over the same period, it registered a net outflow of long-term capital of US\$620 billion: that is to say, US\$205 billion more than the total current account surplus, this amount being financed with inflows of short-term capital. This intermediation function of Japan is reflected in the fact that at the end of 1989, some 60% of its foreign assets were of a long-term nature, while a larger proportion of foreign liabilities were short-term (Tavlas and Ozeki, 1991). In contrast with what occurred in the United Kingdom and the United States, which carried out a similar intermediation function in their own currencies, the Japanese

<sup>13</sup> The notable growth of intra-Community foreign direct investment is reflected in the rapid increase in mergers, acquisitions and joint operations by European firms: in the period 1988-1989, there were 651 mergers and acquisitions in EEC countries, and of these 234 involved companies of different nationalities within the Community, while 355 involved firms of the same nationality. This tendency bears witness to the efforts of European businessmen to raise their international competitiveness and take more advantage of economies of scale in production, marketing, and research and development activities (Japan, 1991, pp. 240-241).



financial institutions obtained and made loans in foreign currency, especially dollars. In 1988, for example, 73% of loans by Japanese banks to foreign countries (US\$375.2 billion) were in foreign currency.

The outflow of long-term capital has been concentrated in stocks and bonds. In 1985-1989, nearly 85% of total purchases of these financial instruments consisted of bonds. The enormous demand for foreign bonds by the Japanese is reflected in the size of the cumulative net purchases of such instruments during the second half of the decade, which came to no less than US\$220 billion, whereas in the case of Germany they only amounted to US\$80 billion (Turner 1991, p. 59). Demand continued to be very high until the end of the decade, in spite of changed expectations regarding exchange rates and interest rates. Moreover, although its share varied considerably from year to year, at the end of the decade foreign direct investment was the second most important component of total long-term capital flows (23%).

Analysis by country of destination reveals that long-term Japanese capital has been increasingly centered on the member countries of the Organization for Economic Cooperation and Development (OECD). In 1980, for example, the OECD absorbed nearly half the total. At the end of the decade, however, the OECD was receiving over 84%, while less than 10% went to the developing countries; 40% of Japanese long-term capital went to the United States, while a growing proportion (37% in 1988) was absorbed by the EEC. Purchases of stocks and bonds, which made up the majority of the transactions, showed some diversification of markets, since they went not only to the United States but also to the EEC (Tavlas and Ozeki, 1991).<sup>14</sup>

In contradiction of the belief that a trade bloc is being set up in the Eastern Pacific region, promoted by Japan's foreign direct investment in neighbouring Asian countries, in the 1980s the relative importance of this region in Japan's total foreign direct investment not only did not increase but actually tended to decline, going down from 25% in 1980 to 12% in 1989. This was due to the completion of the big

investment projects in the area of natural resources carried out in the late 1970s and early 1980s, as well as the significant increase in foreign direct investment in industrialized countries, encouraged by the increase in the value of the yen and the growing protectionism of those economies. In addition, there is the expansion of the Japanese financial sector, which further increased foreign direct investment in corresponding sectors of the industrialized countries and "tax havens". More specifically, the geographical distribution of foreign direct investment in the manufacturing sector shows that in 1985-1988 Asia received only 19% of the total flows (compared with 33.8% in the period 1975-1979), while North America and Europe received 63% and 11%, respectively (Takeuchi, 1990). All this shows that other poles, such as the United States and Europe, are assuming greater importance in the manufacturing sector, where it is generally assumed that there are strong trade links between Japan and other Asian countries through foreign direct investment.<sup>15</sup>

Japan's position as the biggest supplier of capital in the world gives rise to speculation about the possible creation of a tripolar international monetary system based on the US dollar, the German mark and the Japanese yen. In the same connection, there is also speculation about the formation of a yen zone in the Asian region where, because of its growing use in trade and financial transactions, the yen would act as an anchor currency. In this respect, Tavlas and Ozeki (1991) point out that although the percentage of Japanese imports invoiced in yen has markedly increased (from less than 1% in 1975 to 2.4% in 1980 and 14.1% in 1988), it is still far below the percentages invoiced in their own currencies by the United States and Germany (85.0% and 52.6% of their respective imports in 1988). With regard to exports, the proportion denominated in yen went down from 40.5% in 1983 to 34.7% in 1989: that is to say, to a level below that of the other industrialized countries,

<sup>14</sup> It may be noted that the capital account deficit tended to go down from 1988 onwards: in 1990, it stood at US\$43.6 billion, after having reached a peak of US\$325 billion in 1987; this was due to the sharp reduction in purchases of stocks and bonds, which went down from US\$101.4 billion in 1986 to US\$5 billion in 1990.

<sup>15</sup> There are indications that Japanese transnational corporations are trying to set up regionally integrated and self-sustaining foreign direct investment systems with various strategic objectives: i) facilitating access to each one of three regions, two of which are the largest markets in the world (the EEC and the United States), while the third is the most dynamic one (Asia); ii) guarding against the (real or imaginary) threat of protectionist measures against Japanese exports to the United States and European markets, and iii) establishing local bases in each of the regions for increasing trade with the others, so as to reduce Japan's trade surplus. The Japanese strategy is to get inside or infiltrate the region in respect of each of the three poles.

for in 1988, 96% of United States exports and between 40% and 80% of those of the main European economies were denominated in their own currencies (Germany registered the highest percentage in this latter group). If we look at the specific case of Asia, the proportion of Japanese exports to South East Asia invoiced in yen went down from 48.0% in 1983 to 43.5% in 1989, whereas the percentage for imports rose considerably (from 2.0% to 19.5%). However, it

cannot be concluded from this percentage, which is still relatively low, that the yen is playing a key role in trade transactions in the Asian region. Furthermore, its share is far below those of the currencies of other industrialized countries in international bank loans, bond issues, Eurocurrency deposits and official reserves (Tavlas and Ozeki, 1991). To sum up, it does not seem that a trade bloc based on the yen is being formed.

### III

## Effects of internationalization on Latin America

### 1. *With regard to the United States*

The economic indicators for the United States available at the beginning of 1991 showed that that country's fiscal deficit was likely to amount to US\$300 billion, instead of the US\$64 billion estimated in line with the Gramm-Rudman Act. The increased fiscal deficit, which could amount to 5% of GDP in 1991, represents a warning of the complexity of the United States structural imbalances. The adjustment of these imbalances would have serious repercussions on Latin American exports and on variations in domestic interest and inflation rates (Rosales, 1991, pp. 126-127).

A fundamental feature of the trade relations between Latin America and the United States in the 1980s was their unevenness: the weight of the United States in the region's trade continued to increase, but Latin America's relative importance for that country went down slightly.<sup>16</sup> The United States trade balance with the region registered a deficit, and although this was not very high in 1990 compared with the country's total trade deficit, it was nevertheless significant (over 10%).

A second feature of this trade was its geographical concentration: at the end of the decade, three Latin American countries – Mexico, Venezuela and Brazil – accounted for over 70% of the total

<sup>16</sup> During the decade, Latin American and Caribbean exports to the United States grew faster than those to the rest of the world, from 34.0% in 1980 to 40.4% in 1990. The region's imports from the United States, for their part, increased from 31.3% to 40.6% over the same period. Latin America's share in total United States imports, however, went down from 17.1% to 13.7%, while the importance of the region as a destination for United States exports also went down, from 15.1% to 13.0%.

transactions of the region (in 1980, the figure was 64%). Indeed, one of those countries (Mexico) increased its share so much that at the beginning of the 1990s it was accounting for over half the total trade between the United States and Latin America.

A third feature was the marked increase in the share of manufactures within that trade. In 1980, energy products, manufactures, and agricultural products represented 50%, 23% and 20% respectively of total Latin American exports to the United States. At the end of that decade, however, manufactures represented approximately 55% of total trade, with agricultural products accounting for 14% and energy products for 25%. As a result of this concentration, the United States market now absorbs nearly 50% of Latin America's exports in this category. Although the increased share of manufactures in export supply stimulates the procurement of investments and promotes trade, the competitiveness of the region in this sector may aggravate trade conflicts and lead to protectionist pressures in the United States Congress.<sup>17</sup>

<sup>17</sup> In the 1980s, the trade balance in respect of manufactures between Latin America and the United States was positive for the latter country, whose exports of manufactures to the region increased in the second half of the decade. In 1990, the deficit of the member countries of ALADI in the category of manufactures came to almost US\$5.8 billion. On the other hand, most of the United States negative trade balance with ALADI corresponds to its enormous deficit in respect of energy products, which amounted to over US\$16 billion in 1990. As a result of the political instability in the Persian Gulf, the United States could give preference to the importation of energy products from Latin America. If this occurs, its deficit with the region would increase still further, and if this imbalance is kept within manageable proportions, United States exports of manufactures could increase appreciably.

In the 1980s, the United States significantly modified its external trade policy by markedly orienting it towards a strategy of bilateral agreements to protect its domestic interests. Since the beginning of the 1990s, however, with the Enterprise for the Americas, a new instrument seems to be emerging for negotiations between that country and the Latin American region, which could be an alternative to the use of the reprisal machinery provided for in the United States trade legislation (Section 301 and Super 301) and to the application of trade relief acts (safeguard clauses, anti-dumping regulations and countervailing measures).<sup>18</sup> However, these instruments will continue to be available, and it is possible that during the 1990s the region may have to face up to a vigorous United States policy of promoting its own trade interests, supported by active government intervention in policies for opening up external markets to that country's products.

The weighted average tariff applied by the United States to imports from Latin America is low, amounting to only about 2%. Moreover, over half Mexico's exports already enter the United States under preferential regimes such as the scheme for assembly industries or the Generalized System of Preferences (OAS, 1991). In 1988, for example, out of a total of US\$23.5 billion of imports by the United States from Mexico, US\$10.8 billion entered under the scheme for assembly industries and US\$2.2 billion more came in under the Generalized System of Preferences. In view of this, the countries now enjoying privileged access to the United States market under, for example, the Generalized System of

Preferences or the Caribbean Basin Initiative<sup>19</sup> should take a careful look at the magnitude of the increase in trade expected by the United States Government. At all events, it is essential to secure the greatest possible tariff reductions for those products which are subject to tariff scaling.

Moreover, it must be borne in mind that it is difficult for the United States to settle certain problems of access to its market at the bilateral level, especially in the case of non-tariff barriers, without first achieving broader arrangements at the multilateral level, such as the Uruguay Round. It is unlikely, for example, that the system of import quotas applied to sugar, textiles and clothing, steel, dairy products, cotton, etc., will be eliminated for any country of the region unless the negotiations on agriculture in that Round are successful.

If some countries sign free trade agreements with the United States before others, this could produce inequalities in the distribution of benefits. In order to avoid distortions of this type, it would be desirable –if a decision is adopted in favour of a process of hemispheric integration– that the countries of the region should enter the future free trade zone in a coordinated manner.<sup>20</sup> Moreover, over-hasty efforts to set up a free trade zone could lead to the unlimited entry of United States products into the region, with consequent weakening of national industries.

In view of the big differences between the levels of production and efficiency of the two regions, it is necessary to keep in mind the principle of reciprocity. The present situation of the United States economy makes it difficult to envisage any economic

<sup>18</sup> This situation is the result of various factors, including: i) the efforts made by various countries in the region to reform their economic policies, including those on trade, investment and intellectual property; ii) the recent incorporation of various Latin American countries into GATT, which means that more countries of the region are now subject to the discipline of the General Agreement and its conflict-solving system; iii) the favourable reaction of the United States to the constructive position adopted by the Latin American countries at the Uruguay Round, especially with regard to agriculture, and iv) the delay in completing the Round, the absence of a global trade agreement, and the intensification of trade conflicts between economic blocs, which causes more use to be made of bilateral policies and unilateral actions. As a result of the foregoing, protectionist measures have been applied less frequently than in previous years.

<sup>19</sup> The Economic Recovery Act for the Caribbean, enacted in 1984, offers access to the United States market free of customs duties to most of the signatory countries, which currently number 23 (a further country, Nicaragua, was recently also declared eligible). With regard to the Caribbean Basin Initiative, its results have been very limited. In 1983, the member countries registered a trade surplus of US\$3.7 billion with the United States, but in 1989 it was the latter country which registered a surplus (of US\$2.3 billion). Over the period 1983-1989, the United States increased its exports to the member countries of the Caribbean Basin Initiative by over 70%, whereas the latter countries' exports to the United States went down from US\$9.1 billion to US\$7.1 billion, due largely to the decline in fuel prices and the exclusion from the system of some important products such as textiles, footwear, travel goods, tuna fish, and petroleum and petroleum products.

<sup>20</sup> In this connection, all the countries of the continent have signed a framework agreement with the United States except Cuba, Haiti, Suriname and the Dominican Republic.

cooperation scheme not based on that principle. Consequently, it is necessary to identify in an intelligent manner, through a process of negotiation, the terms and conditions on which it would be possible to obtain concessions for the region which involve "relative" reciprocity.

The amount of foreign direct investment received by Latin America in the 1980s was very limited. Between 1984 and 1989, the region secured a net amount of such investment equivalent to less than 1% of GDP, with an annual growth rate of 0.7%. As a result, the relative importance of the region as a recipient of net inflows of foreign direct investment at the world level went down from 12.3% in 1980-1984 to 7.6% in 1985-1989. This low percentage was particularly serious in view of the sharp reduction in financial flows of other types, which made the region even more dependent on foreign direct investment (Institute of International Finance, 1990). The net inflow of investments of this type was equivalent to only 20% of the average annual payments by the region to the international financial centres in respect of debt principal and interest.

Traditionally, the United States has been the most important source of foreign direct investment for Latin America. Consequently, a broader hemispheric market and greater competitiveness thanks to economies of scale could act as an incentive for investments, guarantee access to the United States market, and partly dispel the uncertainty with regard to new protectionist measures. Although greater trade openness with respect to foreign direct investment could have positive effects, however, it will be necessary to look closely at the regional distribution of the increase in such capital, since it is possible that it may be concentrated in a few countries where industrialization is at a relatively advanced stage. If the machinery proposed in the Enterprise for the Americas is used to incentivate the economic policy reforms already underway, access to the resources available in the future will depend on the reforms made by each country in its investments policy (SELA, 1991).

There can be no doubt that the Enterprise for the Americas is the only hemispheric-level proposal produced under the United States' new external policy. However, it does not propose a strategy for the development of the region but rather a means for speeding up the economic reforms already underway, the main elements of which have been promoted by

the international financial agencies with the support of the United States Government. It is also true that the proposal is formulated in general terms and is at a relatively incipient stage of implementation. Consequently, it would still be possible for the Latin American States to improve it in order to bring it in line with the aspirations and particular interests of the region. This also represents an opportunity for Latin America to show its negotiating capacity at the international and regional level.

## 2. *With regard to the European Economic Community (EEC)* <sup>21</sup>

In the area of trade, between 1971 and 1989 the value of Latin America's imports of goods from the Community trebled, while the region's exports to the Community market increased fivefold. This gave rise to favourable trade surpluses for Latin America –generally quite large– throughout the period, except in 1975. In 1989, the surplus came to some US\$12 billion, equivalent to almost 70% of the value of the Community's exports to Latin America.

Despite the rapid growth in the value of trade in goods, the relative importance of the Community as a trading partner of Latin America has not increased in terms of imports or exports. Thus, during the 1980s the Community received nearly 23% of Latin America's exports and provided nearly 20% of that region's imports. For its part, in 1980 Latin America received 3.4% of the EEC's exports and provided the Community with 3.1% of its imports, but by 1990 those shares had gone down to only 2.4% and 1.8%, respectively, so that the Latin American region was almost completely excluded from European trade in goods.

With regard to the Single European Market, according to a study (known as the Cecchini Report) prepared for the Commission of the European Communities, the elimination of internal barriers in the market of the Twelve will generate positive economic effects for that integration scheme, including an increase in gross domestic product of the order of 4.5% to 7%, the creation of 1.8 to 5 million new jobs, and a reduction in the level of consumer prices by between 4.5% and 6.1%. It is estimated that these benefits will be obtained, on a once-only basis, around 1997.

<sup>21</sup>For details of the possible repercussions of the Single European Market on Latin America, see ECLAC, 1990.

If the projections of the growth in employment prove to be correct, and if Europe 1992 does not become an economic fortress but rather a trading company, favourable economic repercussions may be expected for the rest of the world. The most important of these would undoubtedly be the activation of international trade flows. The economic growth of the Community would be reflected in an increase in its imports and in the creation of new jobs, together with more efficient performance by European companies through better use of economies of scale in a market of over 320 million people, and all this could lead to a reduction of protectionist pressures in the Community, which would help to build up a broader and more multilateral international trade system.

The net effect in terms of creation and diversion of trade that the Single European Market will have on the developing countries will depend mainly on the structure of their exports and the income-elasticity of the latter. The income-elasticity of the EEC's imports is estimated at around 3.5, with high variation between sectors, ranging from a very high coefficient of 13.5 for office and data processing equipment to the minimum level of 2.5 for ready-made clothing and textiles. In this sense, the Asian countries and some Latin American countries which have been the biggest suppliers of the EEC from the developing world, both of labour-intensive manufactures and of high-technology goods, would be the main beneficiaries of the expanded market. For the countries exporting commodities, petroleum would be the most promising product (Alizadeh and Griffith-Jones, 1991).

In the financial area, the estimated reduction in consumer prices could lead to a drop in interest rates if the inflationary expectations of the economic agents go down too. However, this effect could be neutralized if the adjustment leads to critical problems of unemployment and gives rise to strong social and political pressures for governments to shoulder the costs of the liberalization process. In this case, the public sector would have to finance its needs through indebtedness with the private sector, which would generate forces tending to drive up interest rates. With regard to investments, it is necessary to highlight the possibility of a serious phenomenon: namely, that foreign direct investment from the Community or other industrialized countries will be diverted from the developing regions towards the European market. This process would be stimulated by the wage advantages existing in some areas of the integrated market, fear of protectionism, and the

competition among member countries of the Community to attract direct investment.

Latin America could benefit from the increase in the Community's imports if its export structure meets the real needs of that market and if its exports can compete in terms of price and quality both with the rest of the world and with more efficient European production. It is also possible, however, that the intra-Community restrictions eliminated in the Single Market will simply be transferred to the Community's external trade. This could happen if the adjustment process of European firms turns out to be more costly than expected, since this would give rise to strong social and political pressure for the raising, or at least maintenance, of the existing levels of protection. In this event, the possible growth in the Community product would not be reflected in an increase in Community imports from the rest of the world. If this took place, it would be necessary to pay particular attention to non-tariff barriers, and especially the rules and requirements that could be applied with regard to imports, above all in sectors of key economic importance for the Community.

In this connection, it is worth mentioning some effects of the intensification of competition within the Community. This would greatly influence the fixing of rules on imports of agricultural products, textiles and steel, which would prejudice a large part of the developing countries. The Community would also have more power to perfect its arsenal of restrictive measures that could be applied to imports, such as reciprocity agreements and anti-dumping mechanisms, which have been heavily criticized by the rest of the world because of their lack of transparency. Successful completion of the Uruguay Round would make it possible to bring this debate onto a multilateral level within GATT. It should be noted that a possible increase in Community restrictions on imports would affect above all the countries of Latin America, since they are not of priority importance to the Community from the economic point of view.

### 3. *With regard to Japan and East Asia*<sup>22</sup>

The economic relations between Latin America and Japan are characterized mainly by low levels of trade and official development assistance but very high flows of foreign direct investment and private bank loans. It is estimated that the Latin American region

<sup>22</sup> For more details on the matters dealt with in this section, see ECLAC, 1991c.

has absorbed 17% of Japan's cumulative foreign direct investment,<sup>23</sup> and 18% of the total private bank debt and 10% of the public debt of that country. Japan's official aid to non-Asian countries is shared out almost equally between Africa, the Middle East and Latin America, although the share of the latter region has gone down in recent years. Up to 1988, Latin America had received only between 6% and 9% of that assistance each year (Horisaka, 1990; Stalling, 1991).

The level of trade between Japan and Latin America has been very low, and there are indications of some marginalization of Latin America in the internationalization scheme of the Japanese economy. Japanese government statistics show that in 1989 Japan's exports to the region represented 3.2% of total Japanese exports, with a value of US\$8.8 billion, while Japan's imports amounted to 4.1% of the total, equivalent to US\$8.5 billion. Likewise, in 1989 Japan received 5.0% of Latin America's total exports and provided the region with 5.5% of its total imports (GATT, 1990). Although Latin America has tried to diversify its export markets, and the Japanese market has been an important objective of the trade policies applied, for most of the countries these efforts have not been successful.

In Japanese trade, a striking phenomenon has been the boom in imports, as export promotion has been accompanied by rapid expansion of domestic demand. The volume of imports of this country increased by 50% between 1985 and 1989, and in that period the value of imports of manufactures rose even more spectacularly: from US\$31 billion to US\$116 billion. The reduction in Japan's competitiveness in various industries has permitted an increase in exports of manufactures from developing countries to that market, especially from the newly industrialized Asian countries and the ASEAN countries. However, the penetration of manufactures from Latin America into the Japanese market has been very limited, compared with the entry of such products into the United States and European markets. Bearing in mind the high growth rate of the recently industrialized Asian countries and the ASEAN nations, Latin America's low share represents a vitally important challenge to the strategy of securing a greater presence in the Japanese market.

<sup>23</sup>In recent years, Japanese foreign direct investment has gone almost entirely to the non-manufacturing sectors of Latin America. Among these, finance, insurance and transport account for some 90% of the total invested.

In this process, Japan's growing capacity to absorb more imports of manufactures from other Asian Pacific countries fulfills a certain function but still does not permit the replacement of the United States in this respect. At the same time, the newly industrialized Asian countries have begun to play a role of their own, opening their markets to imports from South East Asia and China and increasing direct investment<sup>24</sup> and the transfer of technology to those areas. It may be noted that in 1990, the recently industrialized Asian countries, plus Malaysia and Thailand, registered exports and imports of US\$320 billion and US\$330 billion, equivalent to 9.2% of world exports and imports of goods. Latin America should pay close attention to the new trends being registered in Japan and the Asian Pacific countries, in order to determine the best way of entering these dynamic markets.

Although the estimated growth rates for Japan are lower than those achieved in earlier periods, they are still quite high compared with those of other developed countries. Moreover, as the gross national product of Japan is equal to 16% of the world product and its external trade is equivalent to nearly 8% of total world trade, the Japanese market will probably continue to be one of the most dynamic ones. In view of its low ratio of imports with respect to the gross domestic product and the significant increase in its imports in recent years, Japan will probably increase its consumption of manufactures and of some products with a high content of raw materials. It should be noted that in Japan the index of per capita imports has increased significantly in the case of some products of great interest to Latin America. Although the latter region has gained an important position as a supplier of most of the products imported by Japan, it will be necessary to intensify promotion activities and raise the quality of the supply, with possible increases in added value. It would also be beneficial if Japan promoted structural adjustment policies which made it possible to increase the degree of local processing in the Latin American

<sup>24</sup>The number of Japanese companies investing in other Asian countries more than doubled in 1985-1989. In 1989, Japan was the biggest direct investor in Korea, Thailand, Indonesia, Taiwan and Malaysia, while it occupied second place in the Philippines and Hong Kong. By the end of the 1980s, other Asian countries had also emerged as important direct investors in ASEAN countries, so that now the annual flows of direct investment by recently industrialized Asian countries in the ASEAN nations are exceeding those of Japan and the United States.

countries. In this connection, it would be necessary to promote direct investment by Japan or other technical cooperation schemes (granting of licenses, sub-contracting, etc.) which could help to introduce a new division of labour by providing capital and/or technology.

Although some tariff and non-tariff restrictions still exist in Japan, they are no greater than those in other industrialized countries (Sinha, 1990); suffice it to recall in this respect the Common Agricultural Policy of the EEC and the various restrictions imposed on Latin American products by the United States authorities. The average level of customs tariffs in Japan is lower than in the EEC and the United States, except for some tariff scaling applicable to more highly processed goods. At all events, the Latin American countries must do their utmost to carry on successful negotiations within GATT.

Possibly the biggest barrier is the marketing system of Japan. Consequently, at least until Latin American businessmen gain a better knowledge of the Japanese market, it would be advisable to make use of the services of the *sogo-shosha*,<sup>25</sup> which are perfectly familiar with the environment and have internal marketing channels. They are also important co-financiers of joint operations or big projects, in conjunction with other investment firms in the recipient market and in Japan. However, this does not

<sup>25</sup> In fiscal year 1988, the nine biggest *sogo-shosha* handled over 41% of Japan's exports and 74% of its imports. It is estimated that the total external transactions of these nine companies represent around 9% of world trade in goods.

mean that exporters should abandon their efforts to establish their own marketing system. In order to progress in this direction, it would be useful to contact the Japan External Trade Organization (JETRO), which is represented in most Latin American countries, in order to obtain information on the Japanese market in general and its special features and requirements. In this same connection, in view of the distance between the two regions, Latin America should continue with the formulation of concrete projects for the construction of port and other infrastructure, in order to facilitate the loading, storage and transport of Latin American exports to Japan and other Asian countries.

Finally, so far Japan's basic tactic with regard to Latin America has been to seek ways of supporting the United States. Japan is well aware of its economic interests in the region, but this is not sufficient to lead Japanese politicians to challenge the United States or become its opponents. By applying such a policy, however, they are running the risk of encouraging and even subsidizing the formation of a trade bloc in the Americas, headed by the United States. It would be perfectly feasible for Latin America to turn to its own benefit Japan's ambiguous and makeshift attitude to the Enterprise for the Americas. In order to work out a Latin American strategy for improving the region's place in world trade it is vitally important to determine whether Japan's current appraisal of the importance of the United States as the leading actor in the region will remain valid or will change, and if so, how.

### Bibliography

- Alizadeh, Parvin and Stephany Griffith-Jones (1991): "European integration and its implications for LDCs: some proposals for LDCs' strategic response", paper presented at the seminar on international market dynamics and trade policies for development, El Escorial, Spain, ICI/UNCTAD/ECLAC, 8 to 12 July.
- Baumann, Renato (1991): "Intraindustry trade: a comparison between Latin America and some industrial countries", *mimeo*.
- Blamström, Magnus, Irving B. Kravitz and Robert E. Lipsey (1990): *Empresas transnacionales y exportaciones industriales de los países en desarrollo*, *Ciencias económicas*, vol. 10, No. 2, San José, Costa Rica, Editorial de la Universidad de Costa Rica, December.
- CTC (United Nations Centre on Transnational Corporations) (1988): *Transnational Corporations in World Development. Trends and Prospects*, New York, June. United Nations publication, Sales No. E.88.II.A.7.
- (1991): *World Investment Report 1991. The Triad in Foreign Direct Investment*, New York, July. United Nations publication, Sales No. E.91.II.A.
- De Castro, Juan A. (1989): Determinants of protection and evolving forms of North-South Trade, *UNCTAD Review*, vol. 1, No. 2, Geneva. United Nations publication, Sales No. E.89.II.D.20.
- Deutsche Bundesbank (1991): *Monthly Report of the Deutsche Bundesbank*, Frankfurt, various issues.

- ECLAC (Economic Commission for Latin America and the Caribbean) (1990): *Europa 1992 y sus consecuencias económicas sobre América Latina* (LC/R. 918 (Sem. 59/3)), Santiago, Chile, 13 September.
- (1991a): *La coordinación de las políticas macroeconómicas en el contexto de la integración latinoamericana. Una primera aproximación para el caso de la integración entre Argentina y Brasil* (LC/L. 630), Santiago, Chile, 4 June.
- (1991b): *La Ronda Uruguay de Negociaciones Comerciales Multilaterales y los países de América Latina y el Caribe* (LC/R. 1003), Santiago, Chile, 4 June.
- (1991c): *Relaciones comerciales entre Japón y América Latina: desafíos y oportunidades* (LC/L. 632), Santiago, Chile, 30 June.
- (1991d): *Internacionalización y regionalización de la economía mundial: sus consecuencias para América Latina* (LC/L. 644), Santiago, Chile, 23 September.
- Emmerij, Louis J. (1990): Europe 1992 and the developing countries: conclusions, *Journal of Common Market Studies*, vol. 29, No. 2, Oxford, Basil Blackwell, December.
- GATT (General Agreement on Tariffs and Trade) (1989): *El comercio internacional 88-89*, Geneva.
- (1990): *El comercio internacional 89-90*, Geneva.
- (1991): *Press Release*, Geneva, 19 March.
- Horisaka, Kotaro (1990): La nueva situación económica japonesa y América Latina y el Caribe, *Integración latinoamericana*, No. 153, Buenos Aires, Institute for Latin American Integration (INTAL), January-February.
- IIF (Institute for International Finance) (1990): *Fostering Foreign Direct Investment in Latin America*, Washington, D.C., June.
- Japan, Ministry of International Trade and Industry (1991): *Tsusho hakusho 1990* (White Book on international trade), Tokyo.
- JETRO (Japan External Trade Organization) (1991): *Sekai to nihon no kaigai chokusetsu toshi* (World and Japanese foreign direct investment), Tokyo.
- Lorenz, Detlef (1990): Tendencias hacia el regionalismo en la economía mundial: ¿contribución a un nuevo orden económico internacional?, *Boletín*, vol. 36, No. 2, Mexico City, Centre for Latin American Monetary Studies (CEMLA), March-April.
- OAS (Organization of American States) (1991): *Boletín comercial*, vol. 16, No. 5, Washington, D. C., May.
- Rosales, Osvaldo (1991): "El ajuste estructural en la economía norteamericana: escenarios e impactos sobre América Latina", *mimeo*.
- SELA (Latin American Economic System), Permanent Secretariat (1991): La iniciativa para las Américas en el contexto de las relaciones de América Latina y el Caribe con los Estados Unidos, *Capítulos del SELA*, No. 28, Caracas, January-March.
- Siddharthan, Natteri S. and Negesh Kumar (1990): The determinants of inter-industry variations in the proportion of intra-firm trade: the behaviour of US multinationals, *Weltwirtschaftliches Archiv*, Band 126, Heft 3, Kiel, Federal Republic of Germany, Institut für Weltwirtschaft.
- Sinha, Radha (1990): Are EC-Japan-US trade relations at the crossroads?, *Intereconomics*, vol. 25, No. 5, Hamburg, Federal Republic of Germany, Institut für Wirtschaftsforschung, September-October.
- Stalling, Barbara (1991): "Latin American trade relations with Japan: new opportunities in the 1990s?", document presented at the seminar on The Changing Hemisphere Trade Environment: Opportunities and Obstacles, Latin American Caribbean Center, Florida International University, 19 January.
- Summers, Robert and Alan Heston (1991): The Penn World Table (Mark 5): an expanded set of international comparisons, 1950-1988, *The Quarterly Journal of Economics*, vol. 106, No. 2, Cambridge, Mass., MIT Press, May.
- Takeuchi, Kenji (1990): *Does Japanese Direct Foreign Investment Promote Japanese Imports from Developing Countries?*, Policy, Research and External Affairs Working Papers, No. 458, Washington, D.C., World Bank, June.
- Tavlas, George and Yuzuru Ozeki (1991): *The Japanese Yen as an International Currency*, IMF Working Paper (WP/91/2), Washington, D. C., International Monetary Fund (IMF), January.
- Turner, Philip (1991): *Capital Flows in the 1980s: Survey of Major Trends*, BIS Paper No. 30, Bank for International Settlements (BIS), April.
- UNCTAD (United Nations Conference on Trade and Development) (1990): *Trade and Development Report, 1990*, New York, United Nations publication, Sales No. E.90.II.D.6.
- United States, Department of Commerce: *Survey of Current Business*, Washington, D. C., Bureau of Economic Analysis, various issues.



## Privatizing and rolling back the Latin American State

David Félix\*

The author holds that the economic benefits from rolling back the State are likely to be disappointing – partly because of adverse conjunctural factors – while the rolling back will be impermanent. For economic and political reasons, the centre of gravity of economic policy will remain a mixed economy with a large interventionist public sector.

There are various reasons for this hypothesis. Firstly, in contrast with Eastern Europe, disaffection with the economic scope of the State among the various social groups and economic agents is only partial. Moreover, maintaining the current policies of rolling back the State depends on the achievement of successful and stable economic results, and the author feels this is unlikely for three reasons: the failure of macroeconomic stabilization programmes; the prolonged decline in public investment, which will endanger the efforts to restructure production, and the mistiming of this effort by the region with respect to the behaviour of foreign investment and external financing at the world level.

The last section of the article analyses the relevance of a small open economy model and indicates its shortcomings as a guide for designing development policies. The section also examines some policies which have been used to offset asymmetries in the region's markets. It is concluded that dirigisme rather than laissez-faire will be the pole of attraction in economic policy in the coming period, although this does not rule out other simultaneous or successive combinations of these two types of policies.

\*Professor, Washington University in St. Louis. This article is based on a paper presented at the symposium "Toward the next century: the global restructuring of public and private life", Michigan State University, 16-18 January 1991.

## Introduction

The push in Latin America to privatize public assets is a recent addition to more general efforts over the past decade to restructure the debt-ridden economies of the region into outward-oriented free market economies. Motivating these efforts has been the hope that the restructuring would enable the countries to resume normal servicing of their foreign debts and regain access to foreign capital markets for sustaining a revival of economic growth. In the early 1980s the time needed for the turnaround was usually estimated in IMF, World Bank and U.S. Treasury documents at 3 to 4 years. More recent documents tend to leave the time frame unspecified. This retreat to vagueness is a response to the poor results to date. Most of the debt-ridden economies are by most socioeconomic yardsticks worse off today than when they began the restructuring. The current stress on privatization relates to this failure.

Privatization was not stressed in the initial IMF-guided restructuring programmes. These focussed rather on achieving macroeconomic stability through slowing the rate of monetary emission and reducing the fiscal deficit, and on improving resource allocation by "getting prices right," i.e., by freeing financial, product and factor markets from controls and subsidies. The import substituting industrialization (ISI) strategies that Latin American economies had been pursuing with varying intensity since the 1930s were fingered as the fundamental source of the price "distortions" and macroeconomic disorders. When successive restructuring programmes failed to produce the expected turnaround, the failures were explained away for a time by further enlarging the indictment of ISI. In an interesting transformation, many of the criticisms of ISI from Latin American economists on the Left – that it had fostered an excessively rent-seeking, technologically dependent, low job-generating industrial sector, and had worsened already highly concentrated distributions of income and wealth – were adopted by free market economists of the Right. To the latter a redoubling of the restructuring effort was called for because ISI had left the economies in even worse shape than originally estimated.

But as macroeconomic disorders deepened, output stagnated, and debt servicing arrears spread through the region, the adequacy of the *leyenda negra* – the "black legend" of the alleged ill-effects of ISI – weakened as a cover story for the failures.

A supporting villain was therefore added –the State itself, which was accused of being oversized, over-staffed and overextended in areas better done privately, while its deficit financing was said to be fuelling inflation and crowding out private investment. From around 1987 on, rolling back the State by selling off public firms and turning over various infrastructural and social services to private firms, outright or by contracting, became more prominent components of the restructuring programmes.

This new improved cover story fitted in with Washington's broader goal of eliminating national barriers against the free international movement of goods, services, capital, enterprise and everything else except, of course, labour, subversive ideas and unfair trading practices by foreigners. Flushed with the triumphs of Reaganomics, the White House turned the Department of State, the Agency for International Development (AID) and sympathetic foundations and think tanks loose on Latin America in an ideological full-court press to promote privatization, the liberating of markets and the unleashing of entrepreneurs.

This ideological campaign has also been backed by more tangible inducements and pressures. Eligibility for Baker Plan loans and Brady Plan debt writedowns has been restricted to the heavily indebted countries willing to undertake free market restructuring and to privatize. Pliant international financial institutions (IFIs), like the IMF, World Bank and Inter-American Development Bank, lend more readily to recipients on Washington's approved list.

The desire of foreign creditor banks to liquidate their Latin American loan portfolios has added to the pressures to privatize. Latin American lending, a honey-pot to foreign banks in the 1970s, had become in the 1980s a nightmare of interminable negotiations, reschedulings and involuntary new loans to stave off open defaults. Despite these alleviants, interest arrears have been rapidly accumulating since the mid-1980s, plunging the market prices of Latin American loan paper to levels that are driving the banks towards debt-equity swaps as a way to stem losses from liquidating their loan portfolios.

Within this trend, swapping for public assets has the greater potential. By the mid-1980s, few private assets remained available at distress prices, most large Latin American firms and their owners having been reliquified by governmental bailouts and "international portfolio diversification," i.e., capital flight. Swapping foreign debt for private

assets also required monetary emissions to purchase the foreign debt, which undermined efforts of debtor governments to slow inflation by curbing the expansion of "high-powered money." Their initial enthusiasm for debt-equity swaps flagged, therefore, and many closed their swap facilities, causing the creditor banks to redirect their pitch for such facilities to swapping for public assets, since such swaps can reduce the foreign debt without requiring monetary emission.

The campaign to privatize is having special resonance in economies teetering on the brink of hyper-inflation, such as Argentina, Brazil and Peru. With their tax base and real tax revenue diminished by capital flight, the Tanzi-Olivera effect,<sup>1</sup> and the diversion of economic activity to the untaxable "informal" sector; and with dollarization eroding the "inflation tax",<sup>2</sup> one-off revenue injections from the sale of public assets have become –especially to the current Argentine and Peruvian governments– a desperate way of fending off the withering away of the State.

My general thesis is, however, that the economic benefits from rolling back the Latin American State are likely –in part because of adverse conjunctural factors– to be disappointing, while the rolling back will be impermanent. For political and economic reasons, the centre of gravity of economic policy will over the long term remain a mixed economy with a large interventionist public sector, rather than the small open competitive economy norm that rationalizes the current push to roll back the State. I will now elaborate on the main reasons for this conclusion, beginning with the political-ideological ones.

<sup>1</sup> This refers to the fact that the real tax on firms and households diminishes as the lag between assessment and payment and/or the rate of inflation increases. Obviously, if the nominal tax and the penalty interest rate are fully indexed, the Tanzi-Olivera effect is zero. Neither condition, however, has prevailed in Latin American countries.

<sup>2</sup> The decline in purchasing power of existing private domestic money holdings resulting from inflationary emissions of new money to finance fiscal deficits serves as a "tax" on the money holders. Shifting one's domestic money holdings to foreign currency, e.g., dollars, is a way of evading the "inflation tax". Complete evasion requires the foreign currency exchange rate to rise at least *pari passu* with domestic price levels.

## I

**The fragile political backing for privatization**

In contrast with Eastern Europe, where disaffected intelligentsia, initially with broad popular backing, have been pressing for wholesale privatizing and market liberalization in order to dismantle command economies and the Communist Party's monopoly of power, disaffection among leading power groups in Latin America with the economic scope of the State is merely partial. The collapse of East European illusions that market liberalization and capital inflows would quickly elevate consumption to West European levels may well reorient the policy dynamics of that region toward the mixed economy—whether under the aegis of fascism or social democracy is unclear—but it is unlikely to bring back the command economy. The *status quo* in most Latin American economies, on the other hand, has been for many decades the mixed economy. Until the 1980s, business, the salariat and a large segment of the urban working class prospered as the public sector expanded. Public investment “crowded-in” private investment, sparking the sustained growth of GDP and formal sector employment, while accompanying public subsidies and protective barriers sheltered private gain. Because of these ties, political support for efforts to extricate from the current crisis by market liberalization and privatizing is fragile, with none of the major power groups unequivocal ideological converts. The business elites and intelligentsia are split on privatization and free trade, while unions and the public sector salariat are generally hostile.

The business split is mainly between locally owned firms which had developed and prospered under ISI by supplying the domestic market, and those with more cosmopolitan economic links. The former have generally been hostile to free trade and the wholesale selling-off of public firms, since import protection and privileged transactions with the public sector and its para-State bodies had nurtured their past growth and current survival. During the heyday of ISI, the establishment of para-State bodies and the strengthening of lucrative public-private linkages was accepted in the mainstream development literature as the growth pole approach to economic development: a way

of exploiting external economies and of focussing entrepreneurial efforts in technologically backward economies. Today, such relationships are dismissed by many development economists as mere “rent-seeking.” This revisionism derives, however, more from changing ideological fashion than from warranted fact or theory, neither of which, as is argued further on, justify such categorical dismissal.

The “cosmopolites” are the industrial exporters: export-import trading firms, large financial and service firms with international ties, agribusinesses, and transnational subsidiaries. The latter have been in all the functional categories of the economy, but became especially prominent in manufacturing during the expansionary decades of ISI, when Brazil and Mexico, for example, were the first and second highest recipients of private foreign investment of all the newly industrializing countries (NICs). Today some U.S. transnationals support President Bush's Hemispheric Free Trade Initiative because it would allow them to close some of their Latin American production lines and service the depressed local markets by direct imports,<sup>3</sup> while others have joined privatizing consortia where the managing partner of the privatized enterprise is a European State-owned corporation, thus manifesting a pragmatic perspective on free trade and private vs. public ownership. The locally owned “cosmopolites” have generally survived the “Lost Decade” more comfortably than the locally owned ISI firms, in part because they were the main beneficiaries of the government bailouts

<sup>3</sup> See the statements by spokesmen for Goodyear Tire & Rubber and Procter & Gamble before the Joint Economic Committee, United States Congress, at its May 22, 1990 hearings on the Hemispheric Free Trade Initiative.

earlier in the decade. Rolling back the State does not include for them rolling up such generous safety nets.<sup>4</sup>

Organized labour and the salariat have especially strong reasons to oppose free market restructuring, since the economic burden has fallen most heavily on real wages, salaries and employment in the public and private formal sectors, and on public social and educational services built up during the ISI era. Privatizing threatens to further increase income inequality by tearing up social contracts protecting labour and other social advances achieved in the ISI era that still survive the restructuring programmes.

Income inequality in Latin America has been increasing as long as anyone can remember, but until the 1980s it did so with pauses and occasional reversals. Inequality rose during prosperity, when there were more gains to trickle down, and levelled off or declined in depressions, when rents and profits tended to be hit relatively harder (Felix, 1983). The "Lost Decade" breaks with this pro-cyclical pattern: it is the first extended depression in which income inequality has continued to worsen. Between 1980 and 1987 average real income of wage/salary earners fell 15% in the Latin American private formal sector and 30% in the public sector, while the combined

employment of the two sectors rose a bare 3%. Concurrently, in the urban informal sector the number of economically active persons rose 55%, while average real income fell 42% (PREALC, 1990a and b). Such prolonged deterioration of income and employment of the organized working and salaried middle classes, accompanied by downward mobility, would seem to be an especially explosive political mixture. Indeed, the fact that the explosions have been muted thus far is a puzzle.

Some of the answers may lie in the demoralization of the Latin American intelligentsia. Themselves heavy economic losers in this process, and generally critical of the liberal restructuring efforts, they have not been able as yet to produce a persuasive alternative paradigm around which to unite the discontented: one that gives political pizzazz and convincing coherence to an alternative revival strategy, as the Prebisch Doctrine had once given to ISI. Víctor Urquidí, a long time doyen of the Latin American development theory class, sums up the malaise in his plaintive observation that "no one in Latin America thinks anymore about development, but only in a limited way about how to recover some growth" (Williamson, 1990, p. 337).

Others see it differently. The Inter-American Development Bank in its 1990 report, *Economic and Social Progress in Latin America*, purports to see underway "a silent revolution" involving a "fundamental and critical reassessment of the role of the State." But since the report's statistics mainly record economic and social regression rather than progress, the observation may be more in the nature of PR hype designed to counter the gloom. And the reference to the silence of the policy revolution may be merely putting a rosy face on the fact that many of the political leaders currently trying to implement the "revolution" – e.g., Fujimori in Peru, Pérez in Venezuela, and Menem in Argentina – had been either silent about their chosen policy direction or had even fulminated against it when campaigning for the presidency. This doesn't suggest deep groundswells of support from silent majorities for the policies.

In any event, a policy revolution that depends on extending the already prolonged silence of the discontented is unlikely to carry through unless positive and sustainable results begin to show up rather quickly. This brings us to three conjunctural reasons why that is unlikely.

<sup>4</sup> A prime illustration is the opposition of Chile's free marketers to a proposal that requires five major Chilean banks, bailed out in 1983, to start servicing their debts with the Central Bank. The bailout terms had set the interest rate on the debt well below the market rate and did not penalize delinquency, so there has been little incentive for the rescued banks to service their debt. A recent audit of the Central Bank by Cooper Lybrand warns that the accumulating debt, already 10% of GDP, will continue expanding faster than GDP, eroding Central Bank solvency. Since the rescued banks are judged incapable of fully servicing their debt from current earnings, the *Partido Por la Democracia*, a member party in the governing coalition, has proposed requiring that the banks regain solvency through additional injections of equity capital or be liquidated.

Leading the attack on this proposal has been the *Instituto Libertad y Desarrollo*, an institute which is a stronghold of Hayekian libertarianism and the major think tank of the Pinochetist wing of the Chilean elite. According to Carlos Cáceres, its president, the proposal undermines the rights of the current shareholders and amounts to renationalizing the five banks. Cáceres was the Treasury Minister who in January 1983 advised foreign banks that the Government was taking over responsibility for servicing their loans to private Chilean firms. *Laissez-faire*, anyone? For details see *El Diario* (Santiago, April 30 and May 7 and 8, 1991) and *El Mercurio* (Santiago, May 9, 1991). The Cooper Lybrand report is published in the *Diario Oficial* of Chile, January 24, 1991.

### 1. *The failure of macroeconomic stabilization programmes*

The first is that macroeconomic stabilization, now generally agreed to be a *sine qua non* for economic revival, continues to elude the IMF's orthodox monetary-fiscal approach as well as more recent heterodox approaches based on wage/price freezes. The immediate reason for both failures is the inability to cut back fiscal deficits sufficiently. The more basic reason is that most debtor governments fatally overloaded their fiscal possibilities when, in the early 1980s, they undertook too generous bailouts of their ailing private banks and large firms and, acceding to creditor bank pressure, also guaranteed *ex post* the servicing of foreign bank debts of their private sector. The IMF not only failed to protest against such overloading at the time, but also compounded the damage by discouraging the use of capital controls to halt the concurrent capital flight. The private sector's foreign liabilities became "socialized" as a fiscal responsibility, while the lack of capital controls hamstrung the governments from taxing the beneficiaries to garner the foreign exchange needed for the increased debt servicing. This reduced their alternatives to monetizing the enlarged fiscal deficits with Central Bank credit, financing them by selling bonds in local financial markets, or holding down the deficits by cutting back non-financial current and capital expenditures. The IMF objected to the first and favoured the last two alternatives, but in doing so tended to overlook critical boundary conditions.

One is that combining financial market liberalization with a sharply augmented fiscal deficit can make for explosive interactions between the domestic interest rate and domestic debt accumulation. In the event, the private buyers of bonds have exacted high risk premiums, since they have the option of fleeing to safer foreign securities. Deficit financing with "bonds" has thus consisted of open market sales of very short-term treasury bills yielding annualized real interest rates of up to 40%. With such terms fiscal interest payments zoomed, setting off self-generating debt/deficit spirals. The very high real rates also crowded out private productive investment, while the rising fiscal debt servicing crowded out public investment. To bring down real interest rates, the governments therefore shifted to monetizing the deficits. This usually meant exceeding monetary targets agreed to with the IMF, which tended to

react by suspending its lending: a signal for the rest of the creditor consortium also to suspend lending. Higher inflation and capital flight would then typically force the governments back to the IMF to negotiate another short-lived agreement. The heterodox stabilization programmes, such as the Austral and Cruzado Plans, have sought to escape this futile whipsawing by resorting to direct wage/price controls, but their success has been short-lived: they too have been defeated by ongoing fiscal deficits.

A second constraint is the hyperinflation boundary. The frequent resort to monetization has tended to fuel inflation and wage/price spiralling and to democratize currency substitution, with the less affluent households joining the wealthy in dollarizing cash balances and liquid savings. As dollarization spreads, the elasticity of the inflation tax with respect to the inflation rate declines, monetization loses its ability to lower real interest rates, and the government, which cannot print dollars, faces bankruptcy. In recent years, Argentina and Brazil have tried to pull back from hyperinflation by freezing private treasury bill holdings and time deposits and by forcing their suppliers to accept payment in long-term bonds. The immediate side effect has been falling output and employment. A longer-run side effect of such Samsonian acts is to raise still further the private risk premiums for holding treasury paper and maintaining local deposits. Sapping domestic capital markets hardly advances the "silent revolution."

### 2. *Restructuring vs. decapitalization*

Another conjunctural reason is that the prolonged situation of public and private underinvestment and deteriorating stocks of physical and human capital thwarts the effort to restructure productive capacity. Instead, aging plants, rising transport and communications costs, the loss of human skills from prolonged idleness, emigration, and deteriorating educational and health facilities, feed on each other, putting productive capacity on a downward slide and reinforcing supply-side bottlenecks hindering a sustained recovery.

Table 1 summarizes post-war trends of capital accumulation relative to labour force growth in six Latin American countries. All six suffered a major decline in the 1980s from the respectable accumulation rates of the preceding three decades. Argentina

Table 1

**GROWTH OF THE STOCK OF NON-RESIDENTIAL FIXED CAPITAL RELATIVE TO  
THE LABOUR FORCE, 1950-1989<sup>a</sup>**  
(Percentage change over each decade)

|           | 1950-1960 |       | 1960-1970 |      | 1970-1980 |       | 1980-1989 |       |
|-----------|-----------|-------|-----------|------|-----------|-------|-----------|-------|
|           | Ke/L      | K/L   | Ke/L      | K/L  | Ke/L      | K/L   | Ke/L      | K/L   |
| Argentina | 43.9      | 30.7  | 81.6      | 42.2 | 47.8      | 46.0  | -32.1     | -16.3 |
| Brazil    | 56.4      | 137.1 | 26.0      | 57.9 | 114.1     | 108.3 | -31.0     | -0.8  |
| Colombia  | 73.2      | 6.8   | 1.8       | 8.2  | 65.0      | 27.1  | 13.6      | 15.4  |
| Chile     | 70.8      | 20.3  | 28.0      | 33.6 | -3.3      | -1.1  | -7.3      | -8.9  |
| Mexico    | 58.1      | 48.7  | 216.2     | 26.2 | 60.1      | 28.3  | -10.9     | 0.6   |
| Venezuela | 185.7     | 130.0 | -26.2     | -6.0 | 67.5      | 38.8  | -33.5     | -27.5 |

Source: Series compiled by the ECLAC Economic Development Division as part of its project on capital accounts and growth.

<sup>a</sup> Ke/L is the net stock of machinery and equipment, divided by the labour force, while K/L is the net stock of all non-residential fixed capital divided by the labour force.

and Venezuela have clearly been decapitalizing, and undoubtedly Peru has also, although direct estimates are not yet available. An especially severe decline of the stock of machinery and equipment per worker also characterizes Brazil, such declines being reflected in aging and obsolescent installations. The declines in Mexico and Chile fall short of decapitalization, but began much earlier in Chile than in the other five. Only in Colombia has the decline been less than critical.

Table 2 shows that a slackening of productivity growth in the 1970s preceded the fall-off of accumulation in the 1980s, this slackening being mirrored in the decline of the "residual" in all six countries after 1973 (the residual is the percentage of GDP growth unaccounted for in a statistical sense by the growth of land, labour and capital inputs and the quality improvements embodied in each). The particular values adopted for the augmentative factors and distributional coefficients are rather arbitrary, so not much can be inferred, in the absence of additional information, from the inter-country differences in residual levels. But the application of a single set of coefficient values to all countries and periods means that large declines of the residual, such as those that show up for all but Colombia after 1973, are probably correlates of declines of productivity growth. In other words, more of the measurable inputs were needed to produce the same aggregate output growth in 1973-80 than in the preceding post-war decades.

Was this because of the accumulating rigidities and distortions of ISI, as the "black legend" explanation of the Lost Decade asserts? Table 2 doesn't

support such reductionism. Chile during 1973-80 was liberalizing *à outrance*, and Argentina followed Chile's lead in the last half of the 1970s. Yet it is Colombia, which stayed on its ISI course, that shows the smallest percentage decline of the residual. To the extent that the residual reflects disembodied technical progress, its general decline as shown in table 2 does fit in with the dependency accusations levelled at Latin American ISI, which assert that, unlike the Asian NICs, industrial growth in Latin America was not weaning industry from heavy dependence on imported products and processes.<sup>5</sup> But that's small comfort for "black legend" devotees: their indictment is levelled not so much against dependency on imported technology as such, but rather against policies that intervene in technology markets in order to improve the licensing terms and encourage indigenous innovation.

Another shared element that might also help account for the general decline of the residual is the borrowing binge of the 1970s. The ready availability of foreign bank loans during 1973-80 and the financial liberalization that eased access to the loans may have also encouraged a loosening of financial discipline and a decline of X-efficiency in the private and public sectors of the six countries. The fact that Colombia, which restricted private access to foreign credit suppliers much more than the other five, had the least decline of its residual supports this inference. So also does the fact that Chile's public firms survived the country's severe 1982-83 financial

<sup>5</sup> See, for example, Dietz (1990).

Table 2

**ANNUAL GROWTH OF REAL GDP, AUGMENTED FACTOR INPUTS AND  
FACTOR PRODUCTIVITY, 1950-1980<sup>a</sup>**  
(Percentages)

|           | 1950-1973 |        |          | 1973-1980 |        |          |
|-----------|-----------|--------|----------|-----------|--------|----------|
|           | GDP       | Inputs | Residual | GDP       | Inputs | Residual |
| Argentina | 3.6       | 3.3    | 8.3      | 2.3       | 3.0    | -23.3    |
| Brazil    | 6.9       | 6.3    | 8.7      | 7.0       | 6.7    | 4.3      |
| Chile     | 3.4       | 2.1    | 38.2     | 3.4       | 2.8    | 17.6     |
| Colombia  | 5.1       | 3.1    | 39.2     | 5.0       | 3.6    | 28.0     |
| Mexico    | 6.5       | 5.3    | 18.5     | 6.4       | 5.8    | 9.4      |
| Venezuela | 6.6       | 5.1    | 22.7     | 4.1       | 6.7    | -38.8    |

**Source:** Series compiled by the ECLAC Economic Development Division as part of its project on capital accounts and growth.

<sup>a</sup>The inputs are increases of the labour force augmented by years of education, increases in the stock of non-residential fixed capital augmented by technical improvement per annual vintage, and increases of land in use. For labour, the assumption is that a 1% increase of years of education embodied in the labour force raises unit labour productivity by 0.5%. For capital, the annual vintage improvement is assumed to be 2% for machinery and equipment and 1% for non-residential structures. The land input growth is a weighted average of acreage expansion in crops, pasture and forests, with the highest weight given to cropland. The weights for aggregating the augmented inputs are 0.6 for labour, 0.3 for capital and 0.1 for land.

crisis in good shape because the Pinochet régime, in its determination to shrink the public sector, had denied its State-owned enterprises access to outside credit during the borrowing frenzy. But an explanation that fingers private lending and financial market liberalization is not comforting to "black legend" devotees either.

### *3. The global debt deflation cycle and the Cargo Cult*

A third conjunctural element working against the success of the "silent revolution" is its mistiming. A major motive for taking the privatization and market liberalization path has been faith that commitment to the path would induce enough foreign investment and foreign loans to jump-start and then sustain economic recovery. In the most desperate of the debt-ridden economies, such as Argentina and Peru, this faith is taking on the dimensions of a Cargo Cult.<sup>6</sup> Fervent obeisances to the Bush Administration's "New World Order" and incantations about

<sup>6</sup>Cargo Cult is the term anthropologists apply to religious cults that have sprung up in Melanesian islands that had housed World War II American bases. The goods discarded by the bases, which had materially enriched the islanders during the war, ceased to exist when the war ended and the foreigners departed with their ships and materiel. Since then, the cultists dance and chant before red crosses, battle helmets and other symbols of the lost bonanza in the hope of inducing the return of the ships.

"rejoining the First World" waft northward to induce the return of foreign capital inflows. The reality, however, is that Latin American countries are not merely encountering competition for such flows from an East Europe also avid for foreign loans and investment, but are also running up against a global asset and debt deflation cycle that is shrinking international flows of loanable funds and direct investment. Associated with this contraction, moreover, is a "flight to quality": riskier loans and investments are being cut back the most, which bodes ill for Latin America and probably for most of the East European countries as well.

The falling real prices of capital assets are the downside of the puncturing of the prolonged post-war boom of capital values that peaked toward the end of the 1980s. Thus, the real value of household wealth, which between 1982 and 1989 rose 37% in the U.S. and 83% in the U.K., fell in 1990 by 8% and 15%, respectively (The AMEX Bank Review, 1991). Comparable declines are well underway in other English-speaking countries, have begun registering in Japan, and may soon encompass other parts of the First World. Asset price deflation is producing widespread financial stress and rising bankruptcies because it uncovers the substantial debt-leveraging that firms and households had resorted to in purchasing and building up their capital assets. For example, the liabilities of U.S. and British households during

1982-89 grew nearly twice as fast as their assets (The AMEX Bank Review, 1991). Falling values of loan collateral and debt defaults are in turn putting at risk banks and other financial intermediaries, which react by restricting their lending. This increases the financial trauma of highly leveraged firms, forcing them to sell off more assets in declining markets and to curb investment, current production and employment, thus depressing each others' sales and further reducing cash flows for debt servicing. A comparable debt/income interaction involving households is depressing consumption.

How far the asset/debt deflation spiral descends depends in part on whether the United States, Germany and Japan can coordinate their fiscal and monetary actions to halt it. Currently, the prospects look dim, since the monetary and fiscal policies of the U.S., preoccupied with its recession and the Gulf War, and of Germany, preoccupied with the heavy economic cost of unification, are working at

cross purposes. But even aside from this, tables 3 and 4 (reproduced from UNCTAD, 1990, tables 27 and 28), suggest that asset/debt deflation could go on for at least a few years more.

Table 3 shows the impressive extent and duration of the global lending boom. International bank loans, exclusive of inter-bank transfers, rose from negligible percentages of the nominal values of world trade and world gross fixed investment in 1964 to about 75% of each by 1987. They also rose over 20 times faster than the current dollar value of world output. Yet table 4 shows that during 1982-88 the growth of international bank and bond lending was exceeded by the expansion in the values of domestic bank assets and equities. It is easy to understand why Latin American and East European governments strapped for hard currency should mistake this prolonged financial bubble for a permanent situation on which they could safely base their restructuring strategy. But bubble it is turning out to be, and of a

Table 3

**INTERNATIONAL FINANCIAL OPENNESS: THE INTERNATIONAL BANKING  
SYSTEM COMPARED WITH WORLD PRODUCT,  
TRADE AND INVESTMENT<sup>a</sup>**

|  | 1964 | 1972 | 1980 | 1983  | 1985  | 1987  |
|--|------|------|------|-------|-------|-------|
| <i>As a percentage of the world product<sup>b</sup></i>                      |      |      |      |       |       |       |
| Net loans by international banking system <sup>c</sup>                       | 0.7  | 3.7  | 8.0  | 12.0  | 13.2  | 14.8  |
| Gross size of international banking market <sup>d</sup>                      | 1.2  | 6.3  | 15.5 | 21.8  | 25.3  | 27.9  |
| <i>As a percentage of world trade<sup>b</sup></i>                            |      |      |      |       |       |       |
| Net loans by international banking system <sup>c</sup>                       | 6.4  | 25.7 | 35.2 | 57.3  | 63.9  | 72.9  |
| Gross size of international banking market <sup>d</sup>                      | 10.6 | 43.8 | 67.8 | 104.0 | 122.2 | 137.2 |
| <i>As a percentage of gross world investment in fixed assets<sup>b</sup></i> |      |      |      |       |       |       |
| Net loans by international banking system <sup>c</sup>                       | 4.0  | 18.2 | 39.2 | 66.3  | 72.42 | 78.2  |
| Gross size of international banking market <sup>d</sup>                      | 6.7  | 30.6 | 75.4 | 120.5 | 138.7 | 147.3 |

Source: Estimates by UNCTAD Secretariat; BIS (Bank for International Settlements), *Annual Report* (various issues), Basle; and J. P. Morgan, *World Financial Markets* (various issues), New York, Morgan Guaranty Trust Company.

<sup>a</sup> This table relates total outstanding bank loans at year-end with world product, trade and gross investment in fixed assets during the year, in current dollars.

<sup>b</sup> Excluding Eastern European countries.

<sup>c</sup> Outstanding claims of banks reporting to BIS, excluding interbank redeposits.

<sup>d</sup> Outstanding claims of banks in almost all the European countries, Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore and United States, including interbank redeposits.



Table 4

## SIZE AND STRUCTURE OF WORLD FINANCIAL MARKETS, 1982 AND 1988

|   | 1982  |                                  | 1988  |                                  |
|---|---|----------------------------------|---|----------------------------------|
|   | Value of assets<br>(billions of<br>dollars) | Percentage<br>of total<br>assets | Value of assets<br>(billions of<br>dollars) | Percentage<br>of total<br>assets |
| Bank assets <sup>a</sup>                | 8 887                                       | 64.1                             | 17 005                                      | 46.6                             |
| National                                | 6 218                                       | 44.8                             | 11 500                                      | 31.5                             |
| International                           | 2 669                                       | 19.3                             | 5 505                                       | 15.1                             |
| Capital markets                         | 4 977                                       | 35.9                             | 19 507                                      | 53.4                             |
| Eurocapital                             | -   | -                                | 40  | 0.1                              |
| International bond markets <sup>b</sup> | 259   | 1.9                              | 1 085                                       | 3.0                              |
| Securities markets                      | 1 591                                       | 11.5                             | 9 563                                       | 26.2                             |
| Bond markets                            | 3 127                                       | 22.5                             | 8 819                                       | 24.1                             |
| <b>Total</b>                            | <b>13 864</b>                               | <b>100.0</b>                     | <b>36 512</b>                               | <b>100.0</b>                     |

Source: See table 3; the data on capital markets are from Salomon Brothers International. All data are end-year.

<sup>a</sup> Gross total bank balances.

<sup>b</sup> Eurobonds and foreign bonds.

size that suggests that, even with policy coordination, the slackening of international loans and investment is likely to persist for at least a few more years. This credit squeeze is likely to slow the growth of world output and trade and dampen the exporting prospects on which the restructuring had also been premised.

The initial reaction of Latin American governments to the darkening international scene has been to redouble their liberalization efforts. Thus President Salinas of Mexico, who had repeatedly stated that Mexico's economy was not ready for anything more than selective preferential trade agreements with the United States, abruptly changed his tune when his May 1990 European trip to promote lending and investment commitments drew blanks. On his return, he requested negotiations with the United States and Canada for a full-scale trilateral free trade compact, his main motive, according to press reports, being to reassure foreign capital that Mexico's free market restructuring was irreversible. The Bush administration has responded favourably to Salinas' request, preliminary negotiations are underway, and IFI lending has been stepped up to help Salinas win Mexican hearts and minds for free trade. But the response of private foreign capital remains more tentative, reflecting the U.S. recession and global financial tightening (Moffett, 1991). Foreign direct investment rose in 1990, but nearly three-fifths of it went to tourism (Banamex, 1991, pp. 291-292).

Argentina, which started out from a more desperate situation, has been trying to speed up sale of its State assets, but is encountering increasing difficulty in attracting serious bids. After many delays and contretemps the Menem government managed to sell ENTEL, the State telephone monopoly, in two geographic blocks. But in each case the operating company of the purchasing consortium is a foreign para-State enterprise: Telefónica of Spain for the southern block and STET of Italy for the northern block. Similarly, the recently privatized government airline, Aerolíneas Argentinas, is now operated by Iberia, the Spanish government airline.

The front-end contributions to Argentine State revenues have been minor, as most of the consortia payments are in bank debt paper, on which Argentina had built up sizeable interest arrears. The paper had been selling at less than one-fifth of face value in the secondary market, but the Argentine government accepted it at full value in the debt-equity swaps, awarding the entire discount to the buyers. Moreover, foreign exchange gains from the front-end receipts will be exceeded by foreign exchange outflows, especially as the privatizations are enhancing monopoly profits. The privatized telephone firms have been given substantial rate-setting freedom, and the privatized airline has been allowed to buy out its main domestic competitor.

Considerations of human capital and x-efficiency do not apply to these privatizations. Competition is

not increased, and management is merely transferred from Argentine to Spanish and Italian bureaucrats. Since Argentines are mostly descendants of Spanish and Italian immigrants and themselves have an excellent level of culture, the reason for turning management of the country's demoralized public sector over to public firms of these two respective motherlands cannot be innate human capital shortfalls or the inherent inefficiency of public management. One cause of the disarray in the Argentine public sector – an economic elite with a deficient sense of national commitment<sup>7</sup> – will not be cured by this privatization, and indeed will tend to further intensify the accusations of unethical behaviour and corruption that have enveloped these aspects of the Menem government's asset sales (*The Economist*, 1991, p. 38 and *Latin American Weekly Report*, 1991, p. 2).

Chile's major programme of privatization during 1985-88 was less patently a case of selling public possessions in order to procure short-term resources. Alleviating the fiscal squeeze resulting from the 1982-84 bank and other bailouts was an important motive, but more compelling was the desire of the Pinochet regime to put its free market strategy back on track after the embarrassment of having to renationalize much of the private sector as part of the bailouts. Nevertheless, Mario Marcel (1989) foresees in his analysis of the privatization projects that net fiscal losses will set in after 1989 because the firms were sold well below their present value and half the receipts from their sale were allocated to non-revenue generating uses such as tax reduction.<sup>8</sup> He also concludes that on balance the privatization crowded out rather than augmented private investment, since the privatized companies were acquired primarily through indebtedness and they have been channeling most of their profits to cash dividends.

Brazil's ambitious national privatization programme includes safeguards against repeating the flawed Argentine and Chilean experience. It was introduced by the Collor de Melo government in March 1990 as part of the more comprehensive Plan Collor, which also included a macro-stabilization programme centered on a freeze of private financial

assets as well as tax and tariff reforms. The subsequent collapse of the stabilization programme and the stalemating of the reforms slowed implementation of the privatization programme, but it is still moving forward, with the first of the State enterprises on the privatization list scheduled to be sold in Autumn, 1991.<sup>9</sup>

The safeguards include valuation and bidding procedures intended to maximize transparency and minimize corruption, favouritism and monopolization. By law, the receipts can be used only for debt reduction and social programmes. There is also a more nationalist tinge to the programme than in the case of the Argentine and Chilean privatization. Foreign capital may purchase 100% of the non-voting shares, but only 40% of the voting shares.<sup>10</sup>

The privatization in Brazil has been surrounded by less of an ideological brouhaha than in Argentina and Chile. Its supporters include "neo-structuralists," economists of the Left who now contend that since the State is bankrupt it should sell its industrial assets and focus on rebuilding the physical and social infrastructure. Backing also comes from managers of State enterprises, which had been drained financially by the central government over the past 12 years. In the late 1970s they had been forced to borrow abroad beyond their internal requirements to ease national foreign exchange shortages, while in the 1980s the central government made them hold down their prices in order to dampen inflation, and diverted their shrunken investible surpluses to the general fiscal budget. Many frustrated managers therefore hope that privatizing their enterprises will free them to raise prices and attract private capital to finance investments.<sup>11</sup> Many private Brazilian industrialists, on the other hand, while opposed to the expansion of the State industrial sector, also oppose rolling it back.<sup>12</sup> The belief that the privatization programme will

<sup>9</sup> A description of the programme and the State enterprises on the privatization list can be found in BNDES, 1991. BNDES (Banco Nacional de Desenvolvimento Econômico e Social) is the government development bank in charge of the privatization.

<sup>10</sup> These safeguards are embodied in Congressional Law 8031 of April 1990 which authorizes the privatization programme.

<sup>11</sup> An implicit assumption is that the new private owners will retain the former State managers.

<sup>12</sup> This is the position that Antonio Ermirio de Morais, a highly influential São Paulo industrialist, has been publicly promoting. My assessment of Brazilian opinion relies heavily on Schneider (1990) and Castelar Pinheiro and Oliveira Filho (1991).

<sup>7</sup> "People are not involved", the ambassador's wife says. "And you must remember that anybody who has money is not an Argentine. Only people who don't have money are Argentines" (Naipaul, 1980, p. 108).

<sup>8</sup> Mario Marcel, 1989, pp. 5-60. This is the most thorough *ex post* study to date of the 1985-88 privatization programme.

raise aggregate savings and investment is expressed more fervently by the politicians and financial journalists who support it than by its advocates among economists.

There is obviously no track record yet by which to test the validity of these views, but there are inconsistencies which suggest that caution, if not outright scepticism, is in order concerning the expected gains from the Programme. Many of the State enterprises are oligopolistic or monopolistic firms which dominate the supply of key primary and intermediate industrial materials and services, such as steel, petrochemicals, fertilizers, non-ferrous metals, fuels, electric power and telecommunications. If, when privatized, they are allowed to raise price margins freely, costs and prices would be pushed up throughout the economy. In the original Collor Plan, this danger was to be averted by the stabilization programme, import liberalization and tax reforms. Since these accompaniments have fallen by the wayside, it is not clear what instruments other than a severe monetary squeeze and/or price-wage controls remain to prevent privatization from injecting additional inflationary shocks into an economy that is already teetering on the brink of hyper-inflation. In Brazil, these two instruments have been associated with recessions and resurging inflation rather than surging savings and investment, and there is little reason to think that privatization will enable the two instruments, shop-worn from overuse, to produce

better results. At a more general level, the notion that privatization raises aggregate savings and crowds-in private investment has a very thin basis in macro-economic theory: it is possible, but unlikely.<sup>13</sup>

The track record on educational expenditure in Brazil also suggests that the notion that the revenues from privatization will flow strongly to social programmes should be taken with a grain of salt. Deteriorating primary and secondary schools notwithstanding, over 80% of the central government's shrinking educational budget has been going to higher education. Virtually all university entrants come from private schools, as the quality of the public schools has fallen too low for them to be able to prepare their graduates adequately for the stiff university entrance exams. Since public universities are tuition-free, the central government has thus been using most of its educational outlays to provide free university education for the children of the wealthiest 10% of Brazilian families. It need not wait, therefore, for privatization revenues to augment its education budget. By charging tuition at its universities, it could increase the funds available for schools serving the lower 90% and for the award of university scholarships based on real need. Although such a move is widely recognized as sensible and long-overdue, it is also widely judged to be too hot to handle politically. What, then, would protect the privatization revenues from also falling victim to this lack of political commitment to serving the poor?

## II

### The dubious case for minimizing the public sector on developmental grounds

Latin America is a heterogeneous economic region, and conjunctural factors are having a varying impact on the region's economies. From an economic development perspective, however, the economies share various structural shortcomings that have kept their productivity and material welfare levels well below those of the economically advanced economies. These factors have been extensively analysed in the literature on late development, and overcoming them has been the objective of the dirigiste industrialization policies –including import substitution

industrialization– pursued by all the late industrializers in this century, albeit in different combinations and with varying success.<sup>14</sup> If the free market and privatization drive in the region really represents a permanent “revolution” in development strategy and is a basic rejection of the dirigiste path rather than a

<sup>13</sup>For a comprehensive assessment pointing to this conclusion, see Werneck, 1989, pp. 277-308.

<sup>14</sup>For a more detailed treatment of many of the points briefly touched on in this section, see Félix, 1989, pp. 1455-1469.

limited crisis-driven deviation from that path, it should have a convincingly superior theoretical paradigm for guiding such strategy.

The closest to such a normative paradigm is probably the small competitive open economy model, which purports to demonstrate that the most effective way to offset developmental shortcomings is to give domestic markets full freedom to integrate with world markets, since this would allow the forces of competition to "get prices right," i.e., unify the internal with the world relative prices of all internationally traded goods and factors, so that domestic effective demand is fully met, regardless of shortfalls, by foreign and domestic sourcing in proportions determined by comparative costs and profitability.

The defects of the model as a comprehensive paradigm are well recognized in the literature on economic theory. Even the formulators of free market policy in the international financial institutions and Latin American economic ministries use it more as a promotional tool to sell policy to the public than as a serious guide to designing policy. Nevertheless, since dirigiste policies play up the defects of the model, it is useful to identify the major faults that dirigisme is intended to offset.

One is that the model is merely an exercise in comparative statics. Having no time dimension, it can offer no insights on processes, policy priorities, speed of change and other essential policy questions having to do with dynamic relationships. This flaw belatedly caught the attention of economists enthused by the Argentine, Chilean and Uruguayan free market programmes of the 1970s, when those economies crashed in the early 1980s. The crashes spawned a *post mortem* debate on the correct sequencing of liberalization measures, but although the debate showed a new awareness among free market economists that the path to a stable, free market outcome is narrow and slippery, no consensus was reached on which sequences of liberalizing reforms can make it through successfully and which are likely to crash. The debate is on again today, with the main focus shifted to Eastern Europe. Once again, the outcome is inconclusive, though a further analytic advance has emerged in that some participants concede that initial conditions in the East European economies may preclude more than a mixed economy outcome. This belated recognition of a commonplace of the exact sciences—that initial conditions affect final outcomes as well as transitional paths—is

also a rejection of the claim that the small competitive open economy model is a relevant normative paradigm for all Third World economies, regardless of their heterogeneity.

This model's incompleteness is further manifested by the exclusion of international labour market integration from its optimal arrangements or, for that matter, from its analytic purview. Although advanced economies closely regulate immigration from low wage countries, the proponents of free market restructuring, while vigorously attacking policies that restrict domestic labour mobility, are singularly silent about policies that restrict international mobility of this resource. This reticence is probably because free international migration opens up a can of worms with regard to considerations of welfare and of the limits political stability imposes on the speed and level of migration in both emigrating and receiving regions.<sup>15</sup>

Price formation is another shaky feature of the open economy model. Free markets are assumed to act as pure auction markets, in which trades are made only at market clearing prices, these "right" prices appearing to each market agent as parameters that he is powerless to manipulate in order to improve his position. This view is at odds with the main thrust of modern market analysis, in which auction markets are a relative rarity and firms in the more typical markets, rather than being passive "price-takers," manipulate prices as part of their market strategy. Prices as a strategic variable mean not merely that individual firms have some price-setting power, but also that announced prices typically have fringes of side terms—publicized as well as unannounced quantity discounts, rebates, bonuses and penalties—that may vary between rival firms and discriminate between classes of clients, thus blurring the operational meaning of "right prices." Strategy also implies that market competition is a bargaining game in which asymmetries of information and bargaining power between rival firms and between sellers and buyers shape the bargaining outcomes.

<sup>15</sup> The factor price equalization theorem of static international trade theory has been used to make the case that free trade is an adequate substitute for international labour migrations. President Salinas is currently trying to persuade U.S. unions and other opponents of mass immigration from low-wage regions that a free trade pact with Mexico would curb the flow of Mexican migrants across the border. For Mexico, however, this theorem as a welfare justification for free trade is no more than a tattered fig leaf. Even the static conditions required for equalization of relative factor prices have been shown to be too onerous for the theorem to be taken seriously as a policy guide.

Collective action by Latin American economies to offset some of these asymmetries dates well back into the *laissez-faire* era, taking three main forms. One was price-fixing agreements between domestic primary goods producers, with the government brought in as enforcer during depressed periods when free riding tended to get out of hand. The inter-governmental commodity agreements of more recent vintage are extensions that seek to overcome international free riding by primary producing countries.

The second form was action to tilt toward the host country the Ricardian rents associated with foreign-owned production of primary commodities for export. Differentially heavier taxation of such rents dates well back in Latin America: to the taxing of Peruvian guano in mid-19th century, and that of Chilean nitrates later in the century. The motivation was not necessarily developmental. In the Chilean case the landed oligarchy, then in full control of the State, substituted nitrate taxes for land taxes, and spent the tax relief windfall primarily on consumption. Later, the developmental motive for nationalizing Ricardian rents—to expand the nation's investible surplus, elevate skills by requiring foreign firms to employ and train nationals for technical and managerial positions, etc.—became more prominent. The consumption motive also persisted, but with some democratizing of the gains, usually stemming from political democratization that helped employees of the foreign firms to induce the State to display neutrality or even support with regard to their efforts to exact higher wages and fringe benefits. Nationalizing the foreign firms was often the final stage of a prolonged struggle over Ricardian rents. It is not clear why reselling to foreign investors should remove these rents as a future bone of contention between investors and the host country.

Ricardian rents, which derive from the disparate quality and accessibility of natural resources between countries, also have a dark side with regard to natural resource-based production inputs: the "Dutch Disease" to which resource-rich primary exporters are prone. This term was coined to describe the adverse effects on the competitiveness of Dutch industry brought on by the Netherlands' natural gas export bonanza in the 1970s. By pushing up the exchange rate, the gas exports cheapened competitive industrial imports and squeezed industrial exports. In this case, the "disease" was mild and short-lived, as Dutch industry was able to draw on its ample technological and managerial prowess to adjust and

recover. In primary exporters lacking such prowess, however, the "Dutch Disease" is more chronic and virulent. It limits the ability of market forces to diversify the economy during export bonanzas, contributing to the "Growth but not much Development" outcome characterizing many such export bonanzas. The potential cures for the "disease" are all interventionist.<sup>16</sup>

A third form of intervention—the establishment of government banks in order to lower the cost and increase the availability of credit to private borrowers—also dates back in Latin America to the 19th century. Initially these were State mortgage banks, established at the behest of the landowning elite to tap the lower-cost London bond market and relend on generous terms against land as collateral. In the past half century the gamut of State banking has been enlarged to provide easier credit for industry, construction, peasant agriculture, etc. Though usually a response to particularistic demands, there is a broader theoretical legitimacy to using State banking as a development tool, although this does not extend to many of the ways it has actually been used. For reasons inherent in loan contracts, international financial markets tilt against less-developed economies, thereby creating opportunities for collective action to reduce capital costs.

Such opportunities exist because financial markets are inherently non-clearing markets, loan contracts being inter-temporal and the future uncertain. Lenders use various criteria, based ultimately on subjective judgment, to reduce default risk. They screen borrowers, quantity-ration credit to those that pass the screening, collateralize loans, appraise spending and cash flow projections of borrowers, and incorporate default risk premia in their lending terms. Conservative lenders rely more on screening and credit rationing; risk-taking lenders screen more loosely but raise the risk premia. The lending terms also incorporate liquidity premia to protect against inflation, interest rate changes and other market risks that raise the opportunity cost of being locked into long-term loans. Liquidity premia are therefore lower in financial centers that are rich in specialized institutions and instruments and have well-developed resale markets for spreading the liquidity risk in long-term lending. The greater availability of long-

<sup>16</sup>See Marcelo Diamand, 1972. His special empirical focus has been the "Dutch Disease" as a deterrent to Argentine industrialization. See, for example, his "Argentina's Pendulum: Until When?", in Diamand, 1986.

term credit and the lower liquidity premia in such markets relative to those in less developed financial markets provide the economic rationale for using the greater visibility of the LDC State in foreign financial markets in order to overcome informational barriers that exclude private applicants from less-developed countries.

Liberating the feeble financial markets of less-developed countries does not eliminate the tilt. Local firms continue to incur a higher cost of capital than their advanced country competitors, because high risk premia still need to be paid in order to keep local financial capital from draining to the more diversified and liquid financial centres and to attract loans from these centres. The motive for using the State as financial intermediary therefore persists. And in Latin American countries, where financial asset holdings are especially highly concentrated,<sup>17</sup> this motive is reinforced by equity concerns. A policy that strengthens the power of financial capital to keep domestic interest and tax rates hostage to capital flight, would augment the already highly concentrated wealth and income distribution of the region and exacerbate its endemic instability.

The acquisition and production of new technology, so central to the economic development process, also offers important opportunities for collective action to offset market biases. The international market for technology is inherently monopolistic and two-tiered. In the top tier are the leading innovators of each industry: large firms that also have ample reverse engineering capacity and skills for replicating the innovations of rival firms. Such firms have a mutual incentive to share technologies in order to minimize duplicative technological research, preemptive patenting and other costly stratagems of technological competition. They typically join in cross-licensing agreements, and organize joint R & D ventures for sharing costs and risks of major technology projects. The lower tier consists of the remaining firms of each industry who, lacking the innovative threat capability needed to break into the top tier, have more circumscribed access to innovations of the top tier firms, for which they have to pay monopoly prices.

<sup>17</sup> For example, the 1977 Banco de México survey of household income and expenditure showed that around nine-tenths of private financial assets were held by the top 10% of Mexican households. See Martínez Hernández, 1989.

Since Third World firms are generally in this lower tier, from the development perspective there are sound reasons why their governments should try to improve their terms of access by limiting licensing fees, untying technology packages, etc. The effectiveness of such efforts has varied greatly. South Korea has had considerable success (Amsden, 1989), but the Latin American countries, with the partial exception of Brazil, have had much less. Indeed, in their current anxiety to entice foreign investors, Latin American governments have suspended virtually all such efforts.

However, the central importance of technological progress for sustaining economic development is unlikely to allow the current submissiveness to the dictates of the technology producing countries to be permanent, because heavy dependence on foreign sourcing of domestic technology retards the ability of domestic producers to adjust their production processes and output mixes flexibly and denies them and the economy earnings from technological rents. Using the State to overcome various technology market shortcomings that impede the development of indigenous innovative capacity has been a prominent part of the economic history of today's developed economies, which has given it grudging intellectual respectability among free market economists. They accept the theoretical case for State financing of research: i.e., that market forces alone will encourage only bankable projects (those whose contribution can be privatized and marketed profitably by the innovating agent). They also accept the two main theoretical justifications for protecting and subsidizing new ventures: that learning curves lower production costs and learning-by-doing stimulates technological innovation. Their argument against interventionist policies to promote technology is, rather, that for various political economy reasons governments are likely to do this badly. The small open economy model boils down to a second-best development model, but to them it remains the best in town.

Setting aside political economy complications, the aforementioned flaws in the small competitive open economy model imply that, in the language of complex systems analysis, dirigisme rather than laissez faire is the pole of attraction toward which late-developing economies will gravitate if their policy dynamics are governed primarily by economic efficiency and a reasonable consensus on growth and distribution. Dirigisme and mixed economy are, of course, vague concepts used also to describe the

policy stance of advanced capitalist economies. However, the key market biases that work against late-developing economies mean that the economic logic rationalizing their dirigisme goes well beyond the public goods arguments used to support State intervention in advanced economies, and this impels less developed economies toward a more comprehensive economic role for the State than in advanced economies.

Two political economy complications emphasized by free market economists do, however, roil the policy dynamics involved in this approach. The first is that the human capital shortcomings that keep labour productivity in less developed economies relatively low may also be expected to depress the efficiency of the public bureaucracy. Assigning that bureaucracy even more comprehensive economic responsibilities than are required of their advanced country counterparts is therefore an inconsistent strategy that is likely to overload the public sector's administrative capacity and retard rather than advance economic development. The second complication is that interventionist policies tend to be diverted from their developmental functions and to become merely protected sources of income for rent-seeking groups with economic and political influence. To free market economists, these two forms of government shortcomings suffice to offset the market failures, leaving the small competitive open economy model with its minimalist State as the guiding star for developing economies.

The evidence, however, supports only the existence, and not the sufficiency, of the government shortcomings. The differences between Asian and Latin American NICS as regards the scope of their

dirigisme are much too small to account for the greater macroeconomic stability and accumulation rates, and lesser technological dependency and income concentration of the Asians (Bianchi, Kagami and Muñoz, 1989). The inference is that development is to an important degree path-dependent, with institutional and cultural differences in initial conditions between countries accounting for some of the differences in effectiveness with which similar development strategies are being implemented.<sup>18</sup>

What does this imply for the long term? One possibility is a paradigmatic stand-off, with the Latin American elites remaining narrow rent-seekers and the masses prone to salve their discontent at the worsening inequalities with unfeasible populist quick fixes, in which case neither the potential of dirigiste development nor the market efficiency of the free market strategy would be attainable. The other is that as the Lost Decade drags on, desperation will generate a deeper sense of commitment to the larger society. In a sort of symbolic Bonfire of the Vanities, the elites will temper their rent-seeking and tax avoidance and the masses their quick-fix populism in order to regain some developmental momentum. Such ennoblement would greatly improve the implementation of either of the strategies. But since the dirigiste development approach has much the greater potential, why should we expect the ennobled Latin American NICS to settle for the second-best small competitive open economy alternative?

<sup>18</sup> A path-dependent explanation of the superior performance of Asian over Latin American NICS is given in Félix, 1989.

## Bibliography

- Amsden, Alice H. (1989): *Asia's Next Giant: South Korea and Late Industrialization*, New York, Oxford University Press.
- BANAMEX (Banco Nacional de México) (1991): *Review of the Economic Situation in Mexico*, vol. 67, No. 738, Mexico City, July.
- Bianchi, Andrés, Mitsuhiro Kagami and Oscar Muñoz (1989): *The Role of Government in Economic Development. A Comparison of Asia and Latin America*, Joint Research Programme Series No. 77, Tokyo, Institute of Developing Economies.
- BIS (Bank for International Settlements) (n/d): *Annual Report*, Basle, various issues.
- BNDES (National Economic and Social Development Bank) (1991): *The Brazilian Privatization Program*, Brasilia, January.
- Castelar Pinheiro, Armando and Luiz Chrysostomo de Oliveira Filho (1991): "Brazilian Privatization: a Decade of Experience", Rio de Janeiro, Instituto de Pesquisas Econômicas Aplicadas, June, *mimeo*.
- Diamand, Marcelo (1972): *La estructura productiva desequilibrada argentina y el tipo de cambio*,

- Desarrollo económico*, vol. 12, No. 45, Buenos Aires, Instituto de Desarrollo Económico y Social (IDES), April-June.
- (1986): Overcoming Argentina's stop-and-go economic cycles, Jonathan Hartlyn and Samuel A. Morley (eds.), *Latin American Political Economy. Financial Crisis and Political Change*, Boulder, Colorado, Westview Press, Inc.
- Diario Oficial de la República de Chile (1991): "The Cooper Lybrand report", Santiago, Chile, 24 January.
- Dietz, James (1990): Technological autonomy, linkages and development, James Dietz and Dilmus James (eds.), *Progress Toward Development in Latin America*, Boulder, Colorado, Lynn Rienner.
- El Diario* (1991): Santiago, Chile, 3 April and 7 and 8 May.
- El Mercurio* (1991): Santiago, Chile, 9 May.
- Félix, David (1983): Income distribution and the quality of life in Latin America: patterns, trends, and policy implications, *Latin American Research Review*, vol. 18, No. 2, Austin, Texas, Latin American Research Review Board.
- (1989): Import substitution and late industrialization: Latin America and Asia compared, *World Development*, vol. 17, No. 9, special issue, New York, Pergamon Press Inc., September.
- Latin American Weekly Report (1991): U.S. takes action on corruption, London, Latin American Newsletter Ltd., 24 January.
- Marcel, Mario (1989): Privatización y finanzas públicas: el caso de Chile, 1985-88, *Colección Estudios CIEPLAN*, No. 26, Santiago, Chile, Economic Research Corporation for Latin America (CIEPLAN), June.
- Martínez Hernández, Ifigenia (1989): *Algunos efectos de la crisis en la distribución del ingreso en México*, Mexico City, Institute of Economic Research/ National Autonomous University of Mexico.
- Moffett, Matt (1991): Feeling the chill: along its U. S. border Mexico experiences north's economic ills, *The Wall Street Journal*, New York, Dow Jones & Company, Inc., 14 January.
- Morgan, J. P. (n/d): *World Financial Markets*, New York, Morgan Guaranty Trust Company, various issues.
- Naipaul, V. S. (1980): *The Return of Eva Perón*, New York, Alfred A. Knopf, Inc.
- PREALC (Regional Employment Programme for Latin America and the Caribbean) (1990a): *Informal Sector*, PREALC, Working Papers, No. 349, Santiago, Chile, International Labour Organisation (ILO), August.
- (1990b): *Employment and Equity: the Challenge of the 1990s*, Working Papers, No. 354, Santiago, Chile, ILO, October.
- Schneider, Ben Ross (1990): "Privatization in the Collor government: triumph of liberalism or collapse of the developmental state?", São Paulo, Instituto de Economia do Setor Público/Fundação do Desenvolvimento Administrativo (FUNDAP), September, *mimeo*.
- The AMEX Bank Review* (1991): vol. 18, No. 1, January.
- The Economist* (1991): "Now even freer enterprise", London, 15-21 January.
- UNCTAD (United Nations Conference on Trade and Development) (1990): *Trade and Development Report, 1990*, New York, United Nations. United Nations publication, Sales No. E.90.II.D.6.
- Werneck, Rogério L. F. (1989): Aspectos macroeconômicos da privatização no Brasil, *Pesquisas e planejamento econômico*, vol. 19, No. 2, Rio de Janeiro, Institute of Economic and Social Planning (IPEA), August.
- Williamson, John (ed.) (1990): *Latin American Adjustment: How Much Has Happened?*, Washington, D.C., Institute for International Economics (IIE).



## State-owned enterprise reform in Latin America

*Antonio Martín del Campo*  
*Donald R. Winkler\**

The purpose of this study is to analyse the major characteristics and consequences of State-owned enterprise (SOE) reforms in Latin America so as to derive conclusions useful for guiding future reform programmes. Three countries at different stages of the reform process were identified for in-depth study: Chile, Mexico and Argentina. The underlying rationale for SOE reforms in Latin America has been both economic and political. In most countries the need to reduce the public sector deficit was a primary motive for initiating reforms. In Chile, Mexico and Argentina public sector deficits hit historic highs in the year prior to the initiation of reforms. Chile initiated the first major reform of SOEs in the region in 1974. A decade later, in 1983, Mexico began its reforms and has now embarked on a very large-scale reform programme. Argentina first initiated reforms in 1976, and in 1989 it announced comprehensive reforms that are now being implemented.

Section I sets the scene for analysing SOE reform by describing the historical evolution and importance of the SOE sector in these three countries. Section II analyses the content and impact of SOE reforms by focusing on five areas: i) SOE sector strategy and policy, ii) supervisory and managerial framework, iii) economic policy environment, iv) restructuring and rehabilitation of individual SOEs, and v) modifications in ownership scheme. Section III analyses the impact of reforms on the financial and economic performance of SOEs and on the budget of the non-financial public sector and the macroeconomy.

\*Staff members of the Public Sector Management Division of the World Bank.

## Introduction

The size of the SOE<sup>1</sup> sector in Latin America approximates that found in industrialized countries and developing countries in general. As of 1988, SOE value added and investment as a share of GDP was 14.3% in Chile, 12.8% in Mexico and 10.0% in Argentina. Chile and Mexico traditionally have had larger than average SOE sectors, although, in each case, one enterprise accounts for more than half of the total value-added for the sector.

As a result of the SOE reform process, Chile has achieved a dramatic reversal in the size and scope of the SOE sector. This sector's share of GDP decreased from almost 40% in 1973 to 14% in 1989. Since the adoption of reforms in 1974, the government has reduced the number of SOEs from 202 in 1973 to only 35 in 1989. Despite the considerable paring down of the size of the SOE sector in Chile, the sector is still of vital importance to the economy. CODELCO-CHILE, the large State copper enterprise, alone produced over 9% of GDP in 1988.

In Mexico, the SOE sector continuously expanded from the 1920s until the adoption of reforms in 1983, which reduced the number of SOEs from 1,155 to only 280 in 1990. Like Chile, SOE output is concentrated in relatively few enterprises. The "directly controlled" SOEs represented an average of about 75% of SOE output in 1983-1987.<sup>2</sup> Furthermore, three economic sectors (petroleum, commerce and transportation) accounted for 82% of SOE output during 1983-1987, with PEMEX, the State petroleum enterprise, alone accounting for 66%.

In Argentina the SOE sector's share of GDP has been relatively lower than in either Mexico or Chile, but it grew from an average of about 7% during the 1970s to 8.5% during the 1980s, despite the government's explicit privatization policy. State-owned enterprises in Argentina have been concentrated in

<sup>1</sup> For the purpose of this study, an SOE is defined as an enterprise that is majority owned by the government or a government agency and whose primary function is the production and sale of goods and/or services from which it earns the bulk of its revenue. Financial, educational, and health sector public enterprises are excluded from this analysis.

<sup>2</sup> The "directly controlled" SOEs include about 20 of the largest enterprises operating in the most important economic sectors, whose revenues and expenditures appear directly in the budget of the federal government. "Indirectly controlled" SOEs are controlled via the sectoral ministries and only appear in the federal budget under transfers.

three major sectors: hydrocarbons and energy, transport and communications, and industry (primarily steel and petrochemicals). The 13 largest SOEs contribute over 75% of SOE value-added; and one of these, the State petroleum enterprise Yacimientos

Petrolíferos Fiscales (YPF) produces about 25% of the sector's value-added.<sup>3</sup> Employment is concentrated in the railway company Ferrocarriles Argentinos (FA), which accounts for approximately one-third of all SOE employees.

## I

### The process of SOE reform in Latin America

The focus of this section is the identification and analytical characterization of the measures that have been adopted as part of the SOE reform process. Five key areas of reform are identified and analysed, drawing on the experiences in Chile, Mexico and Argentina.

First, this process initially requires changes in the SOE sector *strategy and policy*. This implies a redefinition of the coverage and role of the SOE sector and modifications in the objectives of individual State enterprises. In Latin America legal reforms have generally been necessary for the implementation of a comprehensive SOE reform programme, especially when reforms imply major redefinition of the scope of the SOE sector. Political consensus is therefore essential for approval and implementation of reforms, and lack of consensus can be a major impediment to the programme's success.

Second, SOE reform should include changes in the *institutional and managerial framework*. Reforms should be designed to increase the degree of managerial and financial autonomy and improve the system of accountability, so that the responsibilities and control of supervisory agencies and SOE management are clearly defined. Latin American governments, in general, have retained tight control over SOE management and have been slow in implementing improvements in performance evaluation and monitoring systems, which are necessary for expanding the autonomy of these enterprises. This has resulted partly from the need to keep SOEs under tight budgetary control, but it has also been due to the government's desire to maintain the existing power structure so that it can continue to use SOEs to meet its own political objectives. Furthermore, the development of a performance-based incentive system requires complex legal and institutional changes, whereas increasing the effectiveness of controls is far

less demanding in terms of managerial and institutional capacity.

Third, changes in the *economic policy environment* are necessary not only for providing a stable macroeconomy, but also for improving competition, particularly in markets with SOE participation. In Latin America macroeconomic instability, especially inflation, has created severe obstacles to the SOE reform process. In contrast, persistent macroeconomic crises have been a source of generalized cultural and political change that has favoured reform. While measures to expand competition, such as trade liberalization, are not a necessary condition for SOE reform, the extent of the improvements in enterprise financial performance and efficiency has critically depended on the impact of such reforms.

Fourth, SOE reform involves *restructuring and rehabilitation of individual SOEs* to improve operational efficiency and financial performance. Such reforms have both facilitated privatization and yielded significant improvements in performance of enterprises that remained in the public sector. Latin America experience, however, emphasizes the need for greater linkage between the benefits from restructuring (reduced debt and improved financial position) and SOE performance targets in order to establish the appropriate incentives.

Finally, the reform may include *modifications in ownership scheme*. A smaller SOE sector implies concentration on activities in which direct public sector intervention is required, together with increased efficiency of those firms which remain in the SOE sector. Privatized enterprises are also expected both to become more efficient and increase tax payments. During the initial stages of reform in Latin America,

<sup>3</sup> Two of Argentina's largest SOEs, the National Telecommunications Company (ENTEL) and Aerolíneas Argentinas, were privatized in 1990.

it was primarily small enterprises with little economic justification for public ownership which were privatized. Later, privatization programmes were expanded to include larger enterprises, many of which had been previously defined as strategic.

### 1. SOE sector strategy and policy

SOE sector strategy is dependent on the country's broad view of the appropriate role of the State in the economy. Until the 1970s Latin American governments took an increasingly active role in the productive sectors. Accordingly, State enterprises were seen as a natural mechanism for promoting economic growth and stability and achieving social objectives. In pursuit of these broader economic and social goals, however, SOEs have often been required to follow multiple and competing objectives: increase profits, generate employment, promote regional development, distribute subsidies, maximize purchases in domestic markets, among others. These competing objectives typically reduced SOE profits, thus requiring governments to finance the resulting deficits, and fostered economic inefficiency by making it difficult to evaluate the performance of SOEs and hold their management accountable. In such a setting, changes in SOE sector strategy and policy as part of the reform process require first, a redefinition of the size and coverage of the SOE sector, and second, modifications in the objectives of individual SOEs and of the overall sector.

The reform programme should establish a set of transparent, economically efficient objectives for individual SOEs, which explicitly define commercial and noncommercial goals. If an SOE is considered to be part of a social programme, this objective should be clearly defined, the costs carefully estimated, and financing provided directly via the budget. To the extent that some social objectives are not best pursued through SOEs, alternative instruments should be designed and implemented.

In Mexico, constitutional changes adopted in 1983 established a legal basis for the SOE reform programme by redefining the areas of government participation in economic activities. The modified articles of the Constitution clearly define and limit the "strategic" areas<sup>4</sup> in which the government

<sup>4</sup> The strategic sectors include minting of coins, mail service, telegraphs, radio and satellite communications, money emission, oil extraction, basic petrochemicals, radioactive materials, nuclear energy generation, electricity generation, and railways.

can operate exclusively, as well as the "priority" areas in which the government, together with the social (e.g., unions, cooperatives) or private sectors, is expected to participate. The articles leave open the option for the government to modify the definition of "priority" sectors in the future, but define specific criteria necessary for State participation and make it clear that the government is to play a subsidiary role in the future promotion of economic development. Subsequently, in 1986, the Federal Law on Public Enterprises (FLPE) was adopted, establishing a new legal framework governing the relationship between SOEs and regulatory agencies. The regulations and by-laws for the FLPE define the precise methods and procedures for operating, managing, controlling and privatizing the SOEs. Overall, this new framework allows for greater SOE management autonomy and clarifies the principles to be followed in setting enterprise performance objectives and proceeding with divestitures.

The flexibility afforded the Mexican government to reclassify "priority" sectors and the lack of an explicit timetable of actions has worked to the advantage of the reform process. As the necessary legal framework had been established by the constitutional reform and the new law, the government was able to start the process of divestiture by a simple administrative decision –by reclassifying an enterprise from priority to nonpriority. The government therefore avoided the political and legal infighting which can impede the reform process. The government also enjoyed an important degree of freedom in determining the number and types of SOEs to be privatized and the mechanisms for divestiture.

In the case of Chile, military rule dismantled the existing legal order and completely changed the government's definition of the appropriate role of the State. Soon after taking power in September 1973 the military government adopted an SOE reform programme which reflected its support for the restoration of the role of the private sector and reduction in government intervention in economic activities. The new government's SOE sector policy was that the State should own only the "strategic" enterprises –those of "vital importance" to the country. All other State-owned enterprises were to be returned to their previous owners, in the case of confiscated businesses,<sup>5</sup> or privatized.

<sup>5</sup> During the Allende administration, the government took control of 259 enterprises, without formal transfer of ownership.

In Chile, as in Mexico, some degree of latitude in classifying SOEs and setting a timetable for action has facilitated the reform process. The notion of "strategic" or "vitally important" SOEs gradually changed over the 16 years of military rule, thus allowing the country's SOE sector strategy to evolve with the country's changing economic position. In 1978 a list of 19 "filiales fundamentales" (key subsidiaries) of the government development corporation (CORFO) was approved, which along with the enterprises created by law were to remain under State control. In the mid-1980s the government changed its position and decided to sell many of the core enterprises that had earlier been defined as "strategic". These included some of Chile's large, traditional SOEs including national monopolies such as the electricity (ENDESA and others) and telephone (CTC, ENTEL) companies.

In Argentina the government adopted two new laws in 1989: the Law on Reform of the State and the Economic Emergency Law. This legislation empowered the government to reorganize, privatize or liquidate SOEs; eliminated most SOE subsidies; and suspended the "Buy Argentina" law ("Compre Argentino") that had imposed costly restrictions on SOE procurement. Unlike the cases of Chile and Mexico, the new legislation in Argentina did not explicitly define strategic sectors for government intervention: indeed, those sectors which in Chile and Mexico were defined as strategic became the primary candidates for privatization or concession in Argentina. The need to demonstrate the government's commitment to change through rapid implementation of SOE reform and privatization overcame the need to retain some strategic sectors under government authority.

In each of the three country experiences reviewed above, the SOE reform process has implied a narrowing of the scope and coverage of the SOE sector. In Mexico, the sectors defined as strategic by the Constitution were narrowed and the priority areas limited. Although the military government in Chile did not formally or legally redefine the scope of the SOE sector, some enterprises were implicitly defined as vital to the country and excluded from the privatization programme. Quite differently, however, the Argentine government left open the possibility of privatization in practically all of the sectors in which SOEs predominate.

The rationale that prevailed in Chile and Mexico, where enterprises like CODELCO (copper) and PEMEX (petroleum) continued to be viewed as vital or strategic SOEs, does not appear to have acted as a constraint in defining Argentina's recent restructuring and privatization programme.

In conclusion, the SOE reform experience in Latin America has shown that the following factors are important in determining which enterprises should remain within the public sector: i) the question of whether the enterprise controls or exploits a non-renewable natural resource whose rent is an important revenue source for the government; ii) the scale, indivisibility and risk associated with the investment programme of the economic sector in which the SOE operates (e.g., electric power, or water and sewerage) and the particular social objectives of the enterprise; iii) the specific historical or political circumstances of the enterprise; and iv) whether or not the management and coordination of productive activities in the economic sector require the direct participation of the State.

In all three countries SOE reform has aimed at creating an institutional and economic environment in which the central objectives guiding SOE operations are profitability and efficiency. The extent to which each country has achieved these goals depends on the importance given to objectives—social, political, or macroeconomic—which may be mutually contradictory.

The Chilean government maintained that SOEs should operate efficiently and be a minimum burden on fiscal resources. These objectives were to be achieved by requiring SOEs to: i) cover current expenditures and debt service with sales revenues, ii) finance investments without relying on government transfers, iii) eliminate redundant labour, and iv) sell all goods and services at market value. While Chile was successful in eliminating the use of SOEs to achieve social objectives, the government's emphasis on reducing the fiscal burden of SOEs and its goal of limiting SOE expansion may have prevented some SOEs from fully achieving potential gains in efficiency. The government increasingly required that SOEs transfer profits to the State. All SOEs created by law, including CODELCO, in addition to royalties, must pay a 40% tax (compared with the 10% paid by

private companies) on retained profits, and the rest of their profits (excluding depreciation and debt amortization) must be transferred to the Central Government as dividends. The government also imposed strict limitations on SOE investment in order to avoid crowding out the private sector. These restrictions hindered some SOEs from taking advantage of business opportunities even in areas where no private initiative existed. For example, in the sugar industry SOEs were hindered from investing in order to make full use of by-products. In the telecommunications industry, investments to improve quality and expand services were also constrained.

In the case of Mexico, the government took a pragmatic approach toward defining SOE objectives: specific enterprise objectives were determined and performance targets set based on the situation of the particular sector and enterprise. Some SOEs are still used as instruments for achieving noncommercial objectives. For example, the National Staple Food Company (CONASUPO) responsible for staple food and grain marketing must meet the social policy objective of providing basic foodstuffs at "accessible prices" and distributing them directly to inaccessible areas. The Federal Electricity Commission (CFE), which is responsible for generating and distributing electricity, is required to provide power at below-market prices as a form of implicit subsidy to private and public enterprises. These subsidies are then financed through direct government transfers. Most enterprises, however, including the largest one—the State oil company PEMEX—have moved toward following efficiency objectives.

While the Argentine government has tried to establish efficiency objectives for SOE operations in the past, including during the 1976-1982 reforms, it has frequently needed to retreat from these objectives in order to meet short-term fiscal and macroeconomic targets in the face of temporary economic instability. For example, the government has often levied additional surcharges and excise taxes on consumer goods (gasoline, electricity, telephone services) produced by SOEs as short-term measures to enhance Treasury revenues or to finance expenditures unrelated to SOEs. Likewise, real SOE output price increases have been temporarily restricted to achieve anti-inflationary objectives. In addition, during 1978-1982 SOEs were strongly encouraged to increase their external borrowing, both to reduce the need for transfers from the Central Government to finance their

deficits and as a means of obtaining foreign exchange necessary for defending the domestic currency. Furthermore, the Argentine government had long required SOEs to increase employment in order to meet social policy objectives. The elimination of redundant labour was a key objective of the 1976 SOE reform programme.

## *2. Institutional and managerial framework*

Reform of the institutional and managerial framework of public enterprises should be made with the ultimate objectives of increasing the autonomy of managers to allow them to respond to market pressures and changing the system of accountability so that managers are responsible for SOE performance. The areas of reform needed to achieve these objectives will generally include: i) improving the organizational and institutional capacity of supervisory agencies; ii) establishing adequate rules for the appointment and responsibilities of boards of directors and SOE managers, iii) instituting efficient procedures in areas subject to government control (i.e., budgeting, investment, pricing), and iv) improving mechanisms for monitoring and evaluating performance.<sup>6</sup>

The SOE supervisory framework in Chile was not significantly altered as a result of the reform process. The government, however, tightened control over management and financing, which it thought necessary in order to achieve a rapid reduction in the SOE fiscal burden. In terms of direct supervisory control, Chile has three groups of SOEs: i) enterprises belonging to CORFO, ii) the two large mining enterprises (CODELCO and ENAMI) which report to the Ministry of Mining, and iii) other public enterprises reporting to various sectoral ministries. The sectoral ministries are responsible for the policy formulation and planning of their respective branches and influence the strategy of the SOEs on technical issues, whereas CORFO exercises greater control over the enterprises' financial and investment policies. The boards of directors include a mixture of technical professionals and political appointees. The general managers are appointed by the supervisory agencies or, in the case of the largest enterprises, the President of the Republic.

<sup>6</sup> A comprehensive examination of the institutional and managerial framework of SOEs is given in Shirley, 1989c.

Although management develops the business strategy and plans for the enterprises, annual budgets and personnel, investment, and financial plans must be presented for approval to the Ministry of Finance. The Ministry then relies on the advice of the supervisory agency and the Ministry of Planning and Cooperation (MIDEPLAN) for budget evaluation, especially in the area of investment. MIDEPLAN oversees the financial and economic justification of all investment proposals and checks whether they conform with the socio-economic programme of the government. The Chilean government's predominant objective of reducing the fiscal burden generated by SOEs overwhelmed all other reform objectives and led to the formation of this tight system of supervisory control over SOE budgeting, investment and finance. While these strict controls may have been needed in the first turbulent years of the reform period, they later became an obstacle to flexible and efficient management.

In Mexico the Federal Law on Public Enterprises established a legal basis for reform of the supervisory and managerial framework of SOEs. In comparison with Chile, Mexico's system of SOE governance consists of a more direct link between supervisory agencies and management. Since 1976 public enterprises have been under the control of the Sectoral Secretariats, of which the Secretariats of Energy, Mines and Public Industry (SEMIP), Telecommunications and Transport (SCT), and Agriculture and Water Resources (SARH) control the largest number of SOEs. In accordance with the new law the relevant sectoral secretary automatically serves as the chairman of the board of the SOE or has the power to appoint another person in his place. The board can vary in size from 5 to 15 members and must contain representatives from the Secretariats of Finance and Public Credit (SHCP) and Programming and Budgeting (SPP), plus a "commissar" from the Office of the Comptroller-General (SCGF), who has no vote. All other board members are appointed by the sectoral secretary.

The specific provisions of the new law empower the board of directors to: i) establish general policy in accordance with sectoral programmes, ii) approve initial budgets, iii) set and adjust prices (except those determined by the Secretariat of Finance and Public Credit), iv) approve investments and loans, v) approve salaries of the two management levels below the board of directors, and vi) approve procurement rules, among others. The responsibilities of the general managers are also quite broad. They are

empowered to formulate corporate plans and annual budgets, propose to the board appointments of direct subordinates, set quality and performance evaluation controls, and establish agreements with labour.

Although in comparison with the former law considerable power has been given at the level of the firm, overall autonomy of SOE management is still quite limited. The Secretariat of Programming and Budgeting must review and approve the operating and investment budgets of SOEs which rely on fiscal resources. Further authority is exercised by the Secretariat of Finance and Public Credit, which approves foreign loans, sets bank credit ceilings, and, in consultation with the sectoral secretariats, sets prices. The Office of the Comptroller-General defines accounting and auditing procedures, monitors procurement, and appoints "commissars" to evaluate SOE financial performance. The Intersecretariat Committee on Expenditure and Financing (ICEF) was created in 1985 to resolve issues of public expenditure and financing and coordinate actions of the Secretariats of Programming and Budgeting, Finance and Public Credit, and Office of the Comptroller-General on SOE issues relevant to the budget and macroeconomic stabilization programmes. The Federal Law on Public Enterprises states that the board of directors is not allowed to hire or fire workers below second-level officials, and managers cannot set salaries. These restrictions deny SOEs the autonomy to compete with firms in the market to hire more qualified workers.

The supervisory framework for SOEs in Argentina has been constantly evolving, leaving no clearly defined institutional and procedural responsibilities among the various government agencies and the management of the enterprises. Prior to the Menem Government, the most important SOEs were under the control of the Ministry of Public Works and Services (MOSP), which controlled about 90% of revenues, and the Ministry of Defence. In 1988 the MOSP created a "holding company" under the Directorate of Public Enterprises (DEP) to manage the SOEs under its control. Doubting its effectiveness, however, the government soon dissolved the DEP. In addition to the direct control of the supervisory agencies, annual SOE budgets had to be approved by the Ministry of the Economy and the Legal and Technical Secretariat of the Presidency. The multiplicity of government agencies created duplication of effort, lack of effective control, and unclear designation of responsibilities.

As a first step in its reform programme, the Menem Government centralized the financial and economic management of the SOEs by placing them under the direct control of the Sub-Secretariat of Public Enterprises within the Ministry of the Economy. This Sub-Secretariat assumed responsibilities for overseeing budget allocation and monitoring performance and was involved in the planning of the privatizations. Recently, as part of the administrative reform of the public sector, the MOSP was merged into the Ministry of the Economy and several sectoral Sub-Secretariats are carrying out the functions previously performed by the Sub-Secretariat of Public Enterprises.

To assist the ministries in achieving their objectives, the government temporarily suspended the role of the boards of directors and replaced them with a single "Interventor", responsible for managing the transition of key strategic enterprises prior to their restructuring or privatization. This temporary increase in direct government control in the initial stage of reform is similar to the case of Chile, where one of the first measures of the military government was to appoint special representatives to temporarily assume the function of CEO of the public firms.

Increased management autonomy must be balanced with an effective system of performance accountability to ensure that greater power is not misused. Ideally, supervisory agencies should establish clear objectives and performance targets for SOE management, an efficient system for collecting and reporting the financial statistics of the enterprises, and a consistent method for evaluating performance.<sup>7</sup>

The SOE reform programme in Chile has lacked an effective incentive system for SOE management and mechanisms for evaluating performance. The institutional capacity of the supervisory agencies, the quality of the management, and the SOE governance mechanisms created conditions for enabling performance evaluation to become a key aspect of the SOE reform process. The fact that this did not happen can be explained by the emphasis given to privatization, the tight financial controls imposed by restrictive adjustment policies, and the political motivation of the government to keep strict control over SOE actions.

Improvement of the procedures for monitoring and evaluating SOE performance is a key objective of the reform programme in Mexico. Under the proposed programme, a Performance Agreement Unit, attached to the Inter-Secretariat Committee on Expenditure and Financing, has been established to monitor SOE performance. The Unit's primary task is to coordinate negotiations with the SOEs on *ex ante* annual performance targets, monitor the attainment of goals, and establish a system for providing rewards and penalties linked to performance. It also advises the Intersecretariat Committee on recommendations to the sector secretariats on board appointments and dismissals based on performance evaluations.

Argentina does not yet have an effective system for monitoring and evaluating SOE performance. The primary government performance target has been that SOE budgets must be kept in line with the Federal Budget, with economic and financial performance objectives receiving secondary consideration. The SOE reform in Argentina during the 1970s made an effort to increase the *ex-post* monitoring effort of SOE finances by establishing the Sindicatura General de Empresas Públicas (SIGEP), which continues to be responsible for financial control and audit of SOEs.

### 3. Economic policy environment

Reform of the economic policy environment affecting SOEs must generally occur at three levels: macroeconomic and structural adjustment policies; SOE sectoral policies; and policies regarding specific SOEs or economic activities.

#### a) Macroeconomic and structural adjustment policies

Chile, Mexico and Argentina have all experienced highly unstable macroeconomic environments—characterized by high and variable inflation, recession, and large external transfers—over the course of the reform process. Consequently, each government also implemented an austere programme of fiscal adjustment, demanding increased financial discipline from the SOEs.

In Mexico and Chile fiscal adjustment policies led to a sharp fall in SOE investment expenditure. In Mexico, during the reform period, SOE investment as a share of GDP was half the level it had been during 1979-1982. In Chile the new military government

<sup>7</sup> For an analysis of successful performance evaluation systems developed in Pakistan and Korea, see Shirley, 1989a and 1989b, respectively.

eliminated all transfers from the central government to SOEs and imposed tight controls on SOE domestic borrowing. In Argentina, however, despite attempts at fiscal adjustment, until 1988 the government continued to support public enterprise investment by providing SOEs with preferential access to credit from domestic public banks and international lending agencies. As a result, during the period 1971-1988 SOE investment declined relatively moderately compared with the rest of the economy. The resulting dramatic rise in SOE external debt, however, contributed to the financial deterioration of the SOEs and of the public sector as a whole.

With regard to exchange rate policy, for most of the SOE reform period the Chilean government followed a "realistic" exchange rate policy—one that reflected market conditions—except for the 1979-1982 period, when priority was given to anti-inflationary objectives. This policy benefited SOEs producing tradeables, such as the steel, petroleum, and mining enterprises. In Mexico exchange rate realignments during the reform period meant an increase in SOE interest costs and higher costs of imported inputs, thus hurting the financial position of some SOEs. SOEs oriented towards the export market, however, gained.

All three countries adopted a policy of trade liberalization during the SOE reform period. In Chile the opening of the economy created initial challenges for SOEs producing tradeables. Public enterprises such as the Compañía de Acero del Pacífico (CAP), the State steel-producing enterprise, were particularly hurt by the increased competition. After a period of adjustment, however, most enterprises, especially the export-oriented ones such as CODELCO and ENAMI, benefited from the improved access to international markets.

Mexico underwent dramatic trade reform during the period 1985-1988 which transformed the economy from one of the most tightly closed in the region to one of the most open economies. The tariff range was reduced from 0-100% to 0-20%; official prices were practically eliminated by December 1987; and import license requirements were drastically reduced, falling from 83% of total imports in mid-1985 to 20% in 1988. Liberalization of activities dominated by SOEs has been carried out more recently, however, and in some areas restrictions are still in place. Furthermore, a number of SOE monopolies still effectively avoid foreign competition through their pricing policies (domestic prices below import parity).

Since mid-1987 the Argentine government has conducted an extensive trade reform programme, despite a succession of periods of runaway inflation and disinflation programmes. Prior to this reform the trade regime was highly restrictive, including a wide band of import tariffs (0-115%) and export duties (0-70%), as well as strong product-by-product discrimination through quantitative restrictions (covering about 50% of domestic production). The reform was sequenced so as to allow an early export supply response followed by reductions in import restrictions, in order to counter possible adverse balance of payments implications. After October 1988 the quantitative restrictions were reduced, and the *ad valorem* tariff band was narrowed with an average rate of 18%, while the production coverage of industrial export taxes was reduced to 30%.

#### b) SOE sectoral policy

Prior to the implementation of reforms, public enterprises in each of the three countries benefited from several kinds of preferential treatment, including tax exemptions and rebates, access to credit, customs duty exemptions, procurement subsidies, and monopoly and quasi-monopoly rights. These policies hampered the growth of private firms and protected SOEs from competitive pressures.

In 1987 the Mexican government adopted a new income tax law (*Ley del Impuesto Sobre la Renta*) that eliminated SOE tax exemptions, except for enterprises engaged in social activities. A new procurement and assets administration law (*Ley de Adquisiciones y Prestación de Servicios Relacionados con Bienes Inmuebles*), approved in 1988, eliminated legal preference for local producers, permitting SOEs and the public sector to procure and import goods under competitive procedures, subject only to the payment of customs duties. The coverage of price controls has also been substantially reduced, although a significant number of price controls on goods and services produced by large SOEs remain.

Beginning in 1974, Chile's broad system of preferential treatment for SOEs was gradually eliminated. A major step in this process was the tax reform of 1974 which introduced the value-added tax and other new taxes collected from both private and public firms. By the end of the decade the tax and customs regimes were equalized for public and private firms. Soon after 1974 most of the monopoly rights of State-owned companies were abolished, although some of them (e.g., in power generation and distribution) were removed only in the early 1980s.



Argentina has also taken steps to improve the competitive environment for the SOE sector. In September 1989 the "Buy Argentina" law that had required enterprises to favour the purchase of domestically produced inputs through a high preference margin and a complex approval system was replaced by a straight preference margin for domestic suppliers of 5% above the nationalized value of imported goods.

*c) Policies with regard to specific SOEs or economic activities: pricing and deregulation*

From the beginning of its rule the military government in Chile supported a market-based pricing system that was crucial for reversing the massive deficits of the State-owned enterprises. Prices for tradeables and non-monopolistically produced goods were to be determined by the market. As the opening of the economy progressed the government relied more and more on broader competition. For example, in air traffic the government introduced an open sky policy in 1978 permitting free entry, free competition, and free tariff setting for both public and private airlines.

In the 1980s separate decree-laws were adopted defining the basic principles of tariff setting in each of the areas of monopolistic services: electricity, water and telephones. The pricing systems defined by the decree-laws not only make the utility companies profitable, provided they operate with reasonable efficiency, but they also provide the appropriate signals for consumers, create the potential for transparent subsidization if the government finds it necessary, and offer possibilities for private participation.

Mexico has adopted a less comprehensive public sector price control reform than Chile, due to a desire to meet macroeconomic and other objectives through pricing policy. Pricing policy during the SOE reform process can be divided into two phases: the first, from 1983 to early 1988, consisted of raising public sector prices faster than the inflation rate, while the second phase consisted of near zero growth in public prices as part of a partial price freeze, in line with an anti-inflationary policy implemented in 1988-1989.

Mexico, however, has implemented some price reforms and is expected to accelerate the process in the future. For example, the State-owned electric power company, CFE, has changed its tariff structure

to include price differentials for peak and off-peak service and geographical differences in demand, and the State telephone company, TELMEX, is also undertaking a series of reforms in its pricing policy. In Argentina, SOE price reforms aim at the deregulation of petroleum and gas, rail freight, and telecommunications prices. Crude oil and liquid petroleum product prices were raised to international levels in 1991. In the telecommunications sector tariffs are to be tied to inflation. The new rail freight and inter-urban passenger transport operators are to set prices independently, in competition with the trucking and bus industries, according to their franchise contracts.

In Mexico several deregulation measures affecting specific SOEs have had important effects on increasing domestic competition. For example, in the hydrocarbon industry, the reclassification of a number of products from basic petrochemicals (constitutionally reserved for PEMEX) to secondary petrochemicals has opened the industry for private Mexican and foreign competition. Adjustments in domestic oil product prices to more closely approximate international prices have also reduced distortions and implicit income loss. Finally, a number of PEMEX subsidiaries, primarily in distribution, have been sold.

In Argentina, comprehensive deregulation of the hydrocarbon sector aims to create equal competition for private and public companies in all aspects of production, sales, and distribution of energy resources. The specific reforms include i) liberalization of nearly all hydrocarbon prices; ii) deregulation of crude oil purchases and sales, including imports and exports; iii) enhanced opportunities for private sector operations in exploitation and production areas held by the State-owned oil company (YPF); iv) reduction in royalties and the replacement of excise taxes with a single ad valorem tax; and v) restructuring/privatization of YPF and the State natural gas company GDE.

#### *4. Restructuring and rehabilitation of individual SOEs*

Inadequate investment, technological obsolescence, and management deficiencies are some of the problems encountered at the level of the enterprise. In Chile, restructuring of individual SOEs has largely occurred as a step prior to privatization. For example, in the early 1980s the government decided to break up ENDESA and CHILECTRA, the country's

largest electric power companies, in order to increase competition among power generating plants and make possible the future privatization of the sector. As part of this process, in 1981 CHILECTRA was restructured into three enterprises that were later privatized, while 10 subsidiaries were separated from ENDESA. Following a financial crisis between 1985 and mid-1987, ENDESA underwent a financial restructuring in which it was capitalized by CORFO, leading to improved financial performance and paving the way for successful privatization.

In Mexico, the government has implemented reorganizations of individual SOEs largely through a generalized system of financial restructuring. Since 1985 the government has carried out such restructuring of 12 SOEs through financial restructuring agreements (CRFs), signed between the government and individual SOEs. In accordance with these agreements the government absorbed a substantial proportion of the enterprise's long-term debt and the SOE agreed to a major reorganization, including the streamlining of management and activities, as well as a series of quantified targets on financial and economic performance. Although in principle the objective of linking government incentives to the performance of the enterprises is sound, the results have been mixed. The problem has been that the government absorption of debt has occurred all at once, at the outset of the exercise, while the targeted results are placed at the end of the period. As a result, there is no incentive for the SOEs to make a special effort to accomplish the goals, since debt is absorbed or the resources transferred regardless of performance.

The State electric power company (CFE), for example, signed a CRF agreement with the government in 1985. The government agreed to absorb 81% (US\$8.6 billion) of CFE's foreign and domestic debt, while CFE agreed to a series of structural and organizational changes, including specific quantified productivity and financial targets as well as expenditure and inventory rationalization measures. The success of the agreement has been mixed. The productivity targets were not in general met, although the gap between the performance target and outcome had narrowed by 1988. Operating expenditures per kilowatt hour have remained relatively constant, and the price/cost ratio fell far short of the targets due to the lack of tariff adjustments. Since 1990, CFE has undertaken additional reform measures, including tariff reforms and action to allow private firms to participate in the construction of new power plants.

In Argentina, the government adopted a programme to reorganize the State oil company YPF, the largest SOE, into a commercially viable enterprise in which the government acts as a shareholder (e.g., election of directors and monitoring of results). The board of directors is responsible for strategic planning of the business group, allocation of financial resources to individual business units, and monitoring of the group's economic and financial performance. YPF's previous regulatory role in monitoring the activities of private companies is discontinued.

The Argentine government's programme for restructuring the railway enterprise (FA) aims at dividing the enterprise into potentially profitable business sectors to be awarded as long-term concessions to the private sector. The elimination of nonessential interurban services and the renegotiation of labour contracts and staff reductions are primary goals of the reform. When reforms are completed FA would cease to have any major direct operating responsibility.

### *5. Modifications in the ownership scheme*

Modifications in the ownership scheme, mainly through privatization, represent the most effective way to rationalize the size of the SOE sector and concentrate its activities in areas in which direct State intervention is required. A well-designed and implemented privatization programme is expected to increase the efficiency of the privatized companies, by increasing the autonomy and flexibility of enterprise management; to enhance public sector revenue, both through sales proceeds and reduced transfers to the SOEs; and to improve the capacity of supervisory agencies by reducing the size of the SOE sector.

Privatization may be achieved through direct sale of enterprise assets, sale of shares through public offer or to a single private party or group, management/employee buy-out, break-up of an enterprise to be sold as individual units, or a combination of these methods.<sup>8</sup> The choice of privatization method is generally a function of the government's reform objectives, the financial condition of the enterprise and of the sector of activity, and the specific characteristics of the country. For example, lack of sufficiently developed financial markets or poor financial performance of the SOE may limit

<sup>8</sup> See Vuylsteke (1988) for a description of methods and procedures for privatization, and Nankani (1988) for a case study on privatization in Chile.

opportunities for sale through public offer of shares. Direct sales of assets which lead to large reductions in employment, however, may be politically unpopular. Management/employee buy-out may be preferred when reducing concentration of wealth is a government reform objective.

#### *a) The evolution of privatization policy*

The sequencing of privatizations has been similar in the three countries. Each country broadened the scope of privatization goals as reforms progressed, beginning with the sale of small enterprises in non-strategic sectors, followed by larger, more important SOEs.

Since the initiation of SOE reforms in Chile in 1974, the government has consistently followed the objective of reducing the size and scope of the SOE sector through privatization. The initial focus of privatization was on returning to the private sector SOEs nationalized by the Allende government. Between 1974 and 1975, 241 enterprises were returned to their original owners and 50 enterprises were liquidated by the State development corporation, CORFO. This period did not involve any actual process of privatization, as the enterprises were simply returned to their legal owners, without any formal estimation of sale value. During the late 1970s and early 1980s, the objective was to privatize all enterprises except those in the "strategic sectors". During 1975-1982 more than 100 firms were privatized, primarily involving the sale of commercial and industrial enterprises and banks and other financial institutions, most of which were CORFO subsidiaries. As a result of the deep economic recession of 1982-1983, the government was forced to renationalize about 50 bankrupt firms. This action, however, did not represent a change in government policy toward State ownership, but rather a pragmatic response to a crucial situation, and was followed by reprivatization of these firms under improved privatization procedures. After 1986 the scope of the privatization programme was significantly expanded, both in terms of the value of transactions and the importance of the enterprises sold. Recent privatizations include many public utilities (telecommunications, electric power, water) and other "core" enterprises. The decision to privatize some of the "core" enterprises which had previously been defined as "vital" to the country represented a major shift in the government's SOE policy.

Since 1982 Mexico has engaged in a major programme to reduce the size and scope of the SOE sector. Since the programme's initiation, 706 companies have been liquidated, sold, merged, or transferred to local governments. As in Chile, the privatization programme in Mexico initially focused on small and medium-sized SOEs, but has recently moved toward privatization of the larger enterprises, including public utilities. During the first stage, 1983-1989, the government privatized those SOEs which had been created or nationalized during the 1970s and had little economic or social justification for government ownership. More recently the government has privatized some of the largest SOEs.

Although previous SOE reform efforts in Argentina included plans for divestiture, a comprehensive privatization programme was first undertaken in 1989 by the Menem administration. The 1976-1982 SOE reform programme included the privatization of approximately 150 small enterprises, most of which had been acquired in the early 1970s to avoid liquidation and subsequent loss of employment. Few large SOEs were privatized during this period, however, due to the belief that some enterprises, especially those connected with the armed forces, were strategic, and therefore not eligible for privatization, and the fear that their sale prices would be low due to their weak financial position. The government's new SOE reform programme has significantly broadened the scope for privatization to include public utilities (telecommunications, electricity), railways, and the hydrocarbon sector, among others. The 1989 Law on Reform of the State explicitly states which SOEs are subject to privatization or concession. Rapid implementation of privatizations has been motivated by the need to raise public confidence by demonstrating the government's commitment to reform and change, since instilling public confidence is crucial for expanding private investment and growth in Argentina. Furthermore, after the failure of past partial reform measures, and given the power of vested interests, radical change (including privatization) is seen as the only means of effecting reforms in the country.

#### *b) Methods and procedures for privatization*

In each of the three countries methods and procedures for privatization evolved over the course of the reform process. The governments have adapted privatization methods to meet the changing economic conditions, the financial performance of the

SOEs being sold, and reform objectives. They have also learned from their past experience, thus enabling them to establish more uniform procedures and employ privatization techniques which yield higher returns and more evenly distribute the gains.

During the first privatization phase in Chile, most enterprises were privatized through direct sale of majority participation in the enterprise. Enterprises were generally sold with a 10-20% down payment, the rest being financed by a direct loan from CORFO. Although in principle the prospective buyers were supposed to present solid evidence of financial solvency, in practice qualifications for participation in the auctions were fairly easy to satisfy. Furthermore, the simultaneous privatization of enterprises in the industrial, commercial and financial sectors and the lack of sufficiently developed domestic capital markets led to a concentration of ownership of the newly divested firms in a few financial and commercial conglomerates with high debt/equity ratios. These factors contributed to the vulnerability of the newly privatized enterprises to the forthcoming recession.<sup>9</sup>

Following the economic crisis and subsequent renationalizations, the renewed privatization effort had two ancillary goals: diffusion of ownership and increased capitalization of the enterprises sold. To diffuse ownership, CORFO gave small investors loans with a maturity of 15 years and a zero real interest rate, and required only a 5% down payment. Limits were placed on the maximum stock ownership of individual shareholders, while a more selective pre-qualification process was established for sales to individual private investors. Specific privatization methods were developed to ensure widespread stock ownership, including the sale of shares to private pension funds and the introduction of public employee equity schemes which provide incentives to workers in the privatized enterprises to become stockholders. In addition, two enterprises – ECOM (computing services) and EMEL (electricity generation) – were privatized through 100% employee buy-outs. Although these employee-targeted programmes have been important in raising public support for privatization, however, they represent a relatively small portion of the total number of privatizations.

The privatization method most frequently used in Chile has been the sale of shares on the stock exchange. Shares have been sold both through the auctioning of large groups of shares and the gradual sale of minor share packages. The latter has the advantage that it facilitates the use of market information in determining the sale price. For example, the privatization of ENDESA was effected through the transfer of its foreign liabilities to CORFO in exchange for the subscription of a new share issue. This operation implied a considerable transfer of capital from CORFO to ENDESA, thus drastically reducing the enterprise's debt/equity ratio and making the shares more attractive to potential private buyers.

In Mexico the enterprises privatized during the first phase, 1983-1989, were mostly small companies, including hotels, sugar mills, textile factories, and auto parts manufacturers, among others. The primary privatization method was direct sale to private Mexican companies or, in some cases, to trade unions. For example, the hotel industry was almost completely divested in 1985 through the sale of the Nacional Hotelera chain to the TURNAL S.A. group. In the textile industry, 90% of the factories were sold to unions and factory workers. Almost 30 sugar mills have been either sold or liquidated since 1987, thus reducing the large financial burden that this highly subsidized sector represented for the government.

The larger size of the recent privatizations in Mexico has required the development of new mechanisms for privatization. The sale of SOEs has been opened to foreign buyers, both due to a lack of sufficient domestic financial resources and as a means of promoting direct foreign investment. In 1990 the government reopened foreign debt swap operations for both domestic and foreign buyers. These operations have been limited to US\$1 billion and a maximum of 50% of the sale price. For enterprises such as TELMEX, the government has employed the method of sales through the stock market. Furthermore, enterprises in the fisheries, sugar and capital goods industries are potential candidates for sale of groups of SOEs through the stock market.

As the Mexican Government moves towards the privatization of larger enterprises and monopolies, additional problems and constraints must be

<sup>9</sup> See Hachette (1988) for more on the privatization process and the impact of privatizations in Chile during 1974-1985.

addressed. First, as many of the enterprises are public sector monopolies or companies operating in non-competitive markets, price adjustments and sectoral deregulations must be effected before transactions are completed in order to ensure that the privatized enterprises will operate in a competitive environment. For example, in the cases of TELMEX, SIDERMEX and CONASUPO, price adjustments have resulted in the elimination of cross-subsidization, with gains in efficiency. Second, large SOEs are likely to require extensive organizational, financial and legal restructuring prior to privatization in order to make them more attractive to potential buyers and thus increase the financial return to the government. Third, in the privatization of SOEs with a large work force, potential conflict with labour unions and employees of the enterprises must be addressed by the government.

In Argentina during 1976-1982 about 120 small enterprises were sold or liquidated. In addition to direct government sale of SOEs, two large government financial organizations, Banco Nacional de Desarrollo and Caja Nacional de Ahorro y Seguro, sold shares in enterprises acquired as a result of loan guarantees and equity subscriptions in order to provide support for loans to particularly important investment projects. The two financial institutions divested themselves of about 200 firms and reduced their shares in others through the periodic sale of small share packages on the stock exchange and invitations for bids on large share packages. Since the new privatization programme was announced in September 1989, the government has concentrated its actions in four areas: telecommunications, airlines, railways and highways.

#### 6. Sequencing of SOE reforms

During the first stage of SOE reform, priority is given to reducing government transfers to SOEs, establishing the framework for sustainable reform, and eliminating small and marketable SOEs. Reduction of transfers to SOEs is required to support the new macroeconomic policy framework, which in turn will permit sustained SOE reform. Sharp reductions in transfers require stringent controls along the lines

adopted by Chile and Argentina in the first phases of their reforms.

Sustainable SOE reform includes, at a minimum, a consistent and coherent government strategy to improve SOE efficiency and reduce the government's role in directly providing goods and services which could be supplied by the private market: Chile, Mexico and Argentina all adopted such strategies early in their comprehensive reform efforts. In a democratic setting, this strategy requires sufficient public support, reflected in legal or constitutional changes, to ensure continuity of policies through a difficult adjustment period.

Finally, effective government financial control of SOEs requires that the SOE sector be of manageable size. Hence, this first stage of reform includes the divestiture of smaller SOEs which can be easily sold and which appropriately belong in the private sector in any case. All three countries reviewed here reduced the number of SOEs early in their reform processes.

A second stage of reform replaces the stringent ad hoc SOE expenditure controls with mechanisms to monitor financial performance and more flexible procedures to control SOE expenditures, investment and debt. The most important reform in this second stage concerns the sectoral policy environment and includes the elimination of all SOE subsidies, reform of SOE pricing practices, and deregulation of markets to increase domestic competition; Chile adopted such reforms in the late 1970s and early 1980s, and Mexico has made substantial progress in this direction. In addition, a number of important SOEs must be restructured, including transfer of debt to the government, both to improve operational efficiency and to prepare them for privatization. Meanwhile, privatization continues, especially for SOEs which operate in the newly competitive markets.

The final stage of reform entails the replacement of SOE expenditure controls by institutional changes to ensure autonomy and accountability on the part of managers and boards of directors, including performance contracts, culminating in completion of the privatization programme. Chile can be viewed as still being in this third stage of SOE reform.

## II

### State-owned enterprise performance

The primary objectives of the reform of State-owned enterprises are to improve the enterprises' financial and economic performance and increase their net fiscal contribution to the government budget. The attainment of one objective does not necessarily imply the attainment of the other. Efficiency of the enterprise, for example, can be increased at the same time that its net fiscal contribution declines due to the imposition of output price controls. Similarly, strict controls on government transfers to SOEs can increase the net fiscal gain, but may be at the expense of investment required for efficient production. In this section we analyse the effects of the reform of State-owned enterprises on each of these objectives.

Time series data are analysed below for the three countries for the periods prior to and after the adoption of SOE reform measures. The study attempts, where possible, to isolate the effects of reform and non-reform changes, especially changes in market prices of inputs and outputs. Non-availability of data, unreliable data resulting from high inflation rates, definitional differences in the performance indicators for the three countries, and differences in the competitive environment and time periods in which reforms were adopted allow for only limited comparison of efficiency and profitability levels across countries. We therefore focus our analysis on the comparison of performance and budgetary trends in the course of the reform process, with the aim of drawing conclusions on the impact of SOE reform on enterprise performance that reflect broad differences in the reform approaches employed in each country.

For each of the three countries, the economic and financial performance of SOEs and their macroeconomic impact were measured using data for a sample of SOEs and for the consolidated sector made up of such enterprises. In the case of Chile, two data sources were employed to measure economic and financial performance: a large sample, which includes 30 SOEs, excluding CODELCO-CHILE, and a small sample, which includes the six largest SOEs.<sup>10</sup> For Mexico, labour productivity indicators for a sample of 20 "directly controlled" SOEs were used.

<sup>10</sup> The large sample was obtained by selecting 30 SOEs that remained under government control during 1970-1988.

The Argentine performance indicators are based on data for the 13 largest SOEs presented by the Syndicate-General of Public Enterprises (SIGEP). The budgetary, debt, and investment indicators for Chile and Argentina are based on data for the consolidated SOE sector. For Mexico, macroeconomic indicators are based on data for both the "directly controlled" State enterprises and the consolidated SOE sector. In the cases of Chile and Mexico—where a single large SOE predominates—some indicators are presented with and without this enterprise.<sup>11</sup>

#### 1. Economic and financial performance

SOE reform policies to eliminate redundant labour have resulted in substantial increases in labour productivity in each of the countries, despite reduced capital investment. Gains in labour productivity occurred whether reforms were piecemeal or comprehensive and whether they emphasized efficiency improvements or financial performance. Labour productivity indices for Chile, Mexico and Argentina are presented in table 1 and figure 1.

In Chile, output per worker rose steadily in all the enterprises in the small sample, at an average rate across firms of 7% per annum during 1975-1988.<sup>12</sup> For Chile's large sample, the ratio of operating revenues to labour costs (a somewhat weaker measure of labour productivity) also increased over the reform period.

In Mexico, as in Chile, there is evidence of increased SOE labour productivity during the reform period. After a period of falling labour productivity between 1979 and 1982, it rose sharply as from 1983. By 1988 average value-added per worker in the "directly controlled" enterprises (excluding PEMEX) was 48% higher than before the initiation of

<sup>11</sup> Chile's mining enterprise, CODELCO-CHILE, and Mexico's petroleum enterprise, PEMEX, account for more than 50% of the SOE sector's value added in some years, but their performance fluctuates greatly with changes in output prices.

<sup>12</sup> Labour productivity estimates for the small sample in Chile are based on physical units of output and the number of employees and are therefore quite reliable, as they do not require adjustments for inflation and are not affected by changes in relative prices.

Table 1

PERFORMANCE INDICATORS OF STATE-OWNED ENTERPRISES<sup>a</sup>

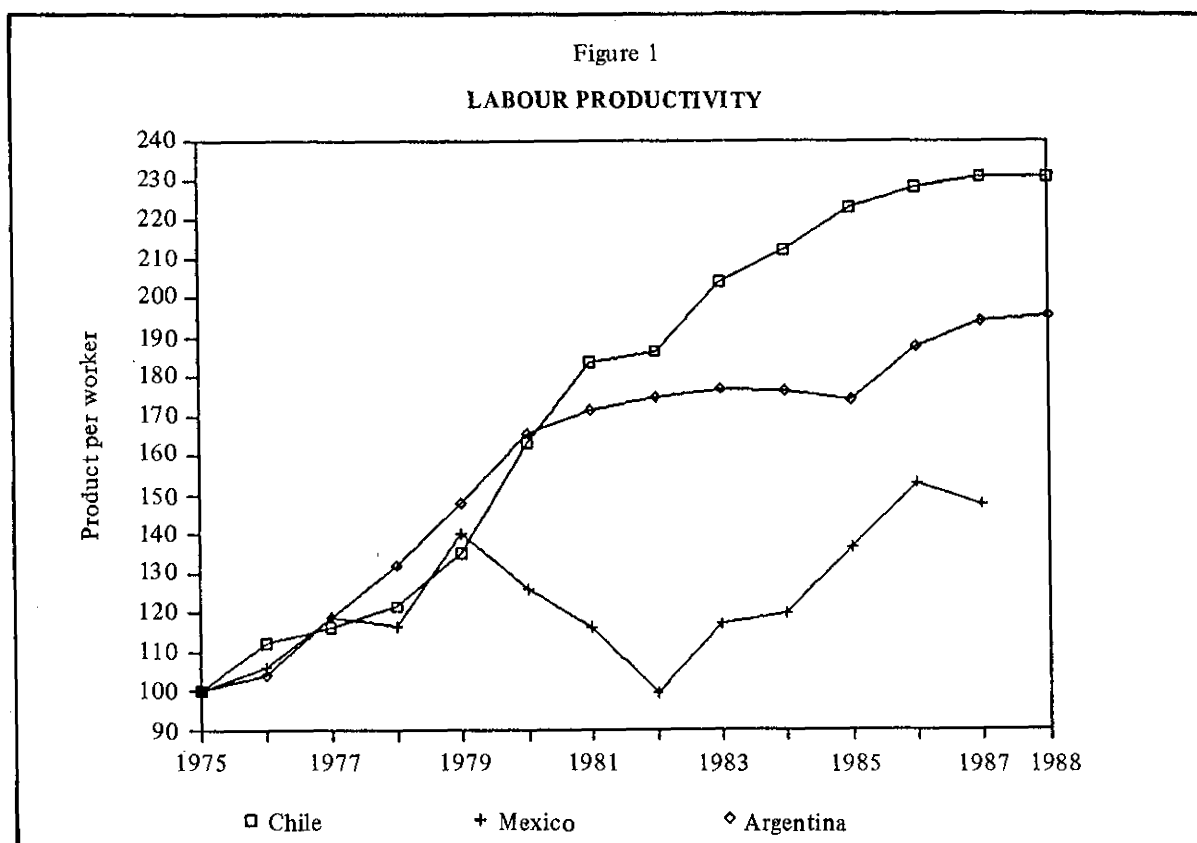
|   | Chile            |                  |                  | Mexico           |                  | Argentina |           |
|---|------------------|------------------|------------------|------------------|------------------|-----------|-----------|
|   | 1976-1980        | 1981-1982        | 1983-1988        | 1979-1982        | 1983-1988        | 1979-1982 | 1983-1988 |
| Index of labour productivity <sup>b</sup> | 129.4<br>(128.5) | 184.7<br>(190.2) | 221.0<br>(227.3) | 226.1<br>(120.4) | 285.5<br>(134.8) | 145.0     | 184.2     |
| Financial performance (%):                |                  |                  |                  |                  |                  |           |           |
| Operating revenue/<br>operating costs     | 107.5<br>(97.8)  | 112.1<br>(107.9) | 139.7<br>(134.0) | 121.9<br>(92.8)  | 132.7<br>(99.9)  | 119.0     | 103.0     |
| Net revenue/fixed<br>assets <sup>c</sup>  | 4.2<br>(1.1)     | -1.1<br>(-3.0)   | 4.3<br>(3.7)     | ...<br>(-6.0)    | ...<br>(-3.5)    | ...       | ...       |
| Interest payments/<br>operating revenue   | 8.1<br>(10.0)    | 16.8<br>(20.5)   | 12.8<br>(14.5)   | 16.2<br>(13.2)   | 21.0<br>(19.6)   | 9.1       | 20.0      |

Sources: The data for Chile were taken from the annual reports of the companies in the small sample; data are not available for some firms in some years. The data for Mexico were obtained from the National Institute of Statistics, Geography and Informatics (INEGI) and the Secretariat of Programming and Budgeting (SPB); data on labour productivity correspond to the State enterprises under "direct control", while the rest of the data for Mexico refer to the consolidated SOE sector. The data for Argentina were obtained from the Syndicate-General for Public Enterprises (SIGEP).

<sup>a</sup> The data in parentheses exclude PEMEX in the case of Mexico and CODELCO in the case of Chile.

<sup>b</sup> The index of labour productivity (1975=100) was calculated on the basis of physical units of production per worker in Chile; units of production at 1970 prices per worker in Argentina, and value-added per worker in Mexico.

<sup>c</sup> As noted in the text, the figures for the net revenue of consolidated SOEs in Mexico are misleading because of the heavy special taxes paid by PEMEX to the Central Government, which mean that PEMEX's profits must equal zero each year.



reforms.<sup>13</sup> The sharp decline in our estimated measure of labour productivity during 1980-1982 may have resulted from social policies to maintain or increase employment, but the measure also may be distorted due to the relative deterioration in SOE output prices relative to wages during the period.

Eliminating redundant employment and increasing the contracting out of goods and services were primary objectives of the early SOE reforms initiated in Argentina in 1976. During 1976-1982 employment decreased by 31% and real output increased, resulting in a 68% increase in output per worker for the 11 largest SOEs. The government's inability to sustain labour rationalization policies, especially during the 1981-1982 recession, caused the growth rate of labour productivity to slow between 1982 and 1985, but it again picked up after 1985. Furthermore, productivity growth occurred despite reductions in capital investment. From 1975 to 1982 output grew more rapidly than investment, leading to a decrease in ICOR from 3.2 to 2.2.<sup>14</sup> This increase in labour productivity suggests that targeted objectives, as part of a piecemeal reform programme, can increase economic efficiency.

Improved profitability is an almost universal goal of public enterprise reform, yet specific reform measures have ambiguous effects on operating costs and net income. On the one hand, productivity gains, simplified procurement procedures and output price reforms tend to raise SOE profits. On the other hand, removal of input subsidies, including inputs provided and subsidized by other SOEs, and the elimination of preferential access to foreign exchange and trade protection can reduce profits. Furthermore, increased profitability need not imply similar changes in SOE efficiency if input and output price controls are in place. SOE financial performance, therefore, must be analysed separately from efficiency.

<sup>13</sup> Productivity estimates are much less reliable in the case of Mexico than in Chile, as they are obtained by deflating the nominal value-added of the SOE by the economy-wide GDP deflator. Problems resulting from relative price changes are particularly important for PEMEX, which has therefore been excluded from this indicator.

<sup>14</sup> The incremental capital/output ratio (ICOR) is measured as cumulative investment divided by the cumulative change in output. Reductions in ICOR over time can indicate improved capital productivity, especially if other inputs are stable or decreasing over the same period.

The experiences with SOE reform in the three countries are consistent with the above characterization. Productivity gains, output price reforms, and other policies which eliminated discriminatory treatment of SOEs contributed to overall improvements in financial performance during the reform period. Improvements in profitability were, however, not as marked as improvements in labour productivity or reductions in the fiscal burden, due to the effects of reform policies which forced SOEs to operate in a more competitive environment. Table 2 presents financial performance indicators for Chile, Mexico and Argentina.

In Chile, SOEs experienced moderate growth in profitability up to 1980, a sharp decline in 1981-1982, and relatively steady growth thereafter. For the large sample, net income increased by 56% in real terms from 1974 to 1979.<sup>15</sup> The profitability ratio, defined as the ratio of net income to fixed assets, which adjusts for changes in capital stock, also indicates improvements in financial performance between 1974 and 1979. For the small sample, the profitability ratio increased by 90% between 1976 and 1980, or by almost 70% if CODELCO-CHILE is excluded.

Beginning in 1981, the financial performance of the SOEs declined markedly, largely as a result of the severe economic crisis and the resulting stabilization policies. The government's anti-inflationary policy, which fixed the nominal exchange rate and allowed for a substantial overvaluation of the peso, contributed to higher input and interest costs during this period. This policy was especially costly to enterprises requiring imported inputs, such as CODELCO. Reforms in the economic policy environment which increased competition faced by SOEs may also have contributed to the temporary decline in SOE performance.

Since 1983 the average profitability of Chile's six largest SOEs has increased significantly. Improved financial performance resulted not only from better operating results, but also from lower interest costs, relative to the 1981-1982 period. Overall, excepting the 1981-1982 recession, there have been consistent improvements in SOE profitability during the public enterprise reform period.

<sup>15</sup> Net income is defined as total (operating and non-operating) revenues minus total costs, including interest payments and exchange rate adjustments measured in constant prices.



Table 2

**BUDGETARY INDICATORS OF STATE-OWNED ENTERPRISES<sup>a</sup>**  
(Percentages)

|   | Chile        |                |                | Mexico       |               | Argentina |           |
|---|--------------|----------------|----------------|--------------|---------------|-----------|-----------|
|   | 1976-1980    | 1981-1982      | 1983-1988      | 1979-1982    | 1983-1988     | 1979-1982 | 1983-1988 |
| SOEs deficit/GDP <sup>b</sup>                   | 6.7<br>(6.3) | -5.1<br>(-1.0) | -8.3<br>(-4.6) | 1.0<br>(2.9) | -1.7<br>(2.3) | 4.7       | 4.5       |
| SOEs deficit/public sector deficit <sup>c</sup> | 36.3         | ...            | ...            | 11.2         | -18.2         | 56.1      | 56.2      |
| Government transfers to SOEs/GDP                | 1.4          | 0.6            | -              | 2.5          | 2.8           | 1.8       | 3.8       |
| Taxes paid by SOEs/GDP                          | 1.0<br>(0.5) | 6.0<br>(2.4)   | 8.7<br>(4.8)   | 4.4<br>(0.8) | 5.9<br>(0.7)  | ...       | ...       |
| Investments of SOEs/GDP                         | 3.0          | 3.0            | 3.4            | 7.0          | 4.1           | 4.0       | 2.9       |
| External debt of SOEs/GDP <sup>d</sup>          | ...          | 11.3           | 16.0           | 20.4         | 21.0          | 20.7      | 13.3      |

Sources: The data for Chile were obtained from Larraín (1988) and from the Department of the Budget of the Ministry of Finance. The data for Mexico were taken from the information on public sector finances and public sector production prepared by the National Institute of Statistics, Geography and Informatics (INEGI), and the data on the public finances prepared by the Secretariat of Programming and Budgeting (SPP); the data for Argentina were obtained from the Ministry of the Economy.

<sup>a</sup> The data for Mexico on the deficit, taxes and transfers correspond to the group of SOEs under direct control; the other data refer to the consolidated SOE sector, unless otherwise indicated. The data in parentheses exclude PEMEX in the case of Mexico and the copper companies in the case of Chile.

<sup>b</sup> Excluding taxes and transfers.

<sup>c</sup> This ratio is not significant in the later periods in Chile, since the SOEs, and the SOE sector as a whole, fluctuated between deficits and surpluses, all of them of minor importance.

<sup>d</sup> End-of-period figures. The data for Mexico and Chile correspond to the consolidated SOE sector; those for Argentina refer to the 13 biggest SOEs.

In Mexico the average financial performance of SOEs has improved since the initiation of reforms in 1983. Comparing the reform period with 1979-1982, for the consolidated SOE sector excluding PEMEX, operating revenues increased more rapidly than operating costs.<sup>16</sup> Despite improvements, however, the operating results for the consolidated SOE sector excluding PEMEX remained negative during the reform period, largely as a result of price controls that kept output prices below unit costs, reflecting the government's commitment to maintaining non-commercial objectives for some enterprises (e.g., CONASUPO). The ratio of net income to fixed assets was also higher during the reform period than during 1979-1982, but was still negative. A primary source of increased non-operating costs has been higher interest payments. PEMEX, however, had a large operating surplus averaging 3.5% of GDP during 1983-1988. As PEMEX, in addition to regular taxes, is required to transfer all after-tax revenues to the Central Government in the form of special taxes, profit figures for

the consolidated SOE sector including PEMEX are misleading. If these special tax payments are excluded, then PEMEX profits more than cover the net losses of the rest of the consolidated SOE sector during the reform period.

In Argentina, SOEs achieved a substantial improvement in financial performance during 1976-1982 following the adoption of reforms. The average SOE operating surplus, net income, and the ability to self-finance investment were all higher during 1976-1982 relative to 1971-1975. The improved operating surplus is largely attributable to the government's policy of eliminating redundant labour and to the decline in real wages, as average personnel expenditures per unit of output declined by nearly one-third in 1976-1982 compared with 1971-1975. Financial performance, however, deteriorated during 1983-1988. Higher real wages and other input prices and lags in real output price adjustments, as a result of anti-inflationary policies, reduced the ratio of operating revenues to operating costs. Furthermore, SOE interest payments as a share of operating revenues more than doubled.

<sup>16</sup> Higher operating costs resulted primarily from increased non-labour costs, as average personnel expenditures declined by about 15% between 1979-1982 and 1983-1988.

## 2. Macroeconomic effects of SOE performance

State-owned enterprise performance plays a critical role in determining the magnitude of the overall public sector deficit, the external debt burden, and the levels of investment and overall economic activity in the country. SOE reform which focuses on controlling costs, eliminating price distortions, and reducing net government transfers in general may be expected to reduce the SOE deficit, its share of the total public sector deficit, and the level of financing through external borrowing.

Chile, Mexico and Argentina have all been successful in reducing enterprise deficits and net transfers from the central government. The extent of reduction in each country, however, depended on the government's ability to sustain tight controls over SOE expenditures and financing, the degree of real output price adjustments, and the impact of macroeconomic instability and external shocks (table 2 and figure 2).

Throughout the reform process in Chile, SOEs achieved clear and consistent reductions in SOE deficits and improvements in net government-SOE transfers. From an average annual SOE deficit (excluding taxes and transfers) of 6.7% of GDP during 1970-1973, SOEs achieved a 3.8% surplus during 1974-1975, the early years of the SOE reform. The size of the surplus continued to grow, even during the 1982-1983 recession, and reached an average of 9.6% of GDP during 1983-1988. The net contribution (taxes minus transfers) of the consolidated SOE sector to the central government improved considerably during the reform period, as shown in figure 2. This improved contribution from the SOEs to the overall public sector was the direct result of the government's policy that SOEs must transfer a large share of profits to the government and finance investment through new loans.

In Mexico during the reform period SOE deficits fell both relative to GDP and as a share of the overall public sector deficit. The overall deficit for the directly controlled SOEs reached a peak of 6% of GDP in 1981, but as a consequence of government policy changes it fell to less than 0.5% of GDP in 1983 and has since been in surplus.

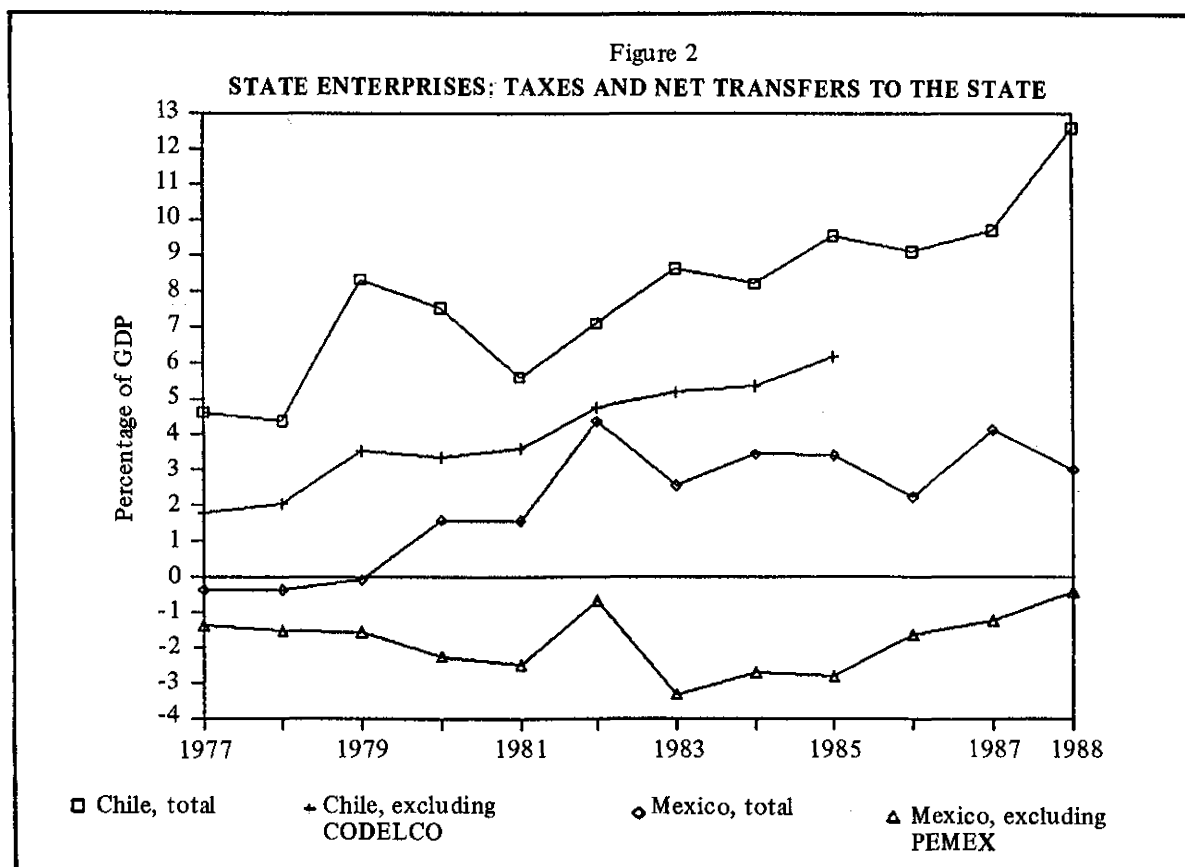
Given Mexico's complex system of government transfers and tax exemptions for SOEs engaged in social activities, and special taxes on

enterprises such as PEMEX, which amount to a direct transfer of profits, the fiscal burden of the SOEs is best analysed by considering net transfers from the SOEs to the central government (see figure 2). Excluding the high levels of debt absorption during 1986-1988, the contribution of the consolidated SOE sector to the central government has been positive in every year since 1980. If PEMEX is excluded, however, the SOE contribution was negative. Furthermore, the importance of PEMEX transfers, which are 80% of all tax revenues received from SOEs, creates the additional problem that the net fiscal burden of the SOEs fluctuates greatly with changes in petroleum export prices. For example, due to the fall in international oil prices, tax revenues from PEMEX declined during the reform period from a peak of 6.3% of GDP in 1985 to 3.4% in 1988.

SOE investment in Mexico increased greatly during the public expenditure boom of the late 1970s, particularly in the petroleum sector. Investment of the consolidated SOE sector increased from an average of 4.5% of GDP during 1970-1978 to 7% during 1979-1982 (from 3.2% to 3.8%, if PEMEX is excluded). Deficit reductions during the reform period have been achieved largely through cuts in investment, as capital expenditures fell to 4.1% of GDP (2.6% excluding PEMEX) during 1983-1988.

In Argentina since 1976, programmes to reduce fiscal deficits, including deficits of SOEs, have included measures to eliminate redundant labour and adjust SOE output prices to better reflect costs. While SOEs have achieved gains in labour productivity through employment reductions, output price adjustments have generally not been sustainable due to the highly unstable macroeconomic environment and the resulting government stabilization measures. As a result, although the consolidated SOE deficit (excluding transfers from the central government) was reduced to 2.8% of GDP in 1977, it rose again to 5.2% of GDP in 1979 and reached a peak of 6.9% in 1982, largely as a result of falling real output prices. In recent years the SOE deficit has gradually declined due to some cost reductions, but more importantly, due to cuts in investment. Thus, the SOE deficit fell to 4.3% of GDP in 1985 and 2.7% in 1987.<sup>17</sup>

<sup>17</sup> The petroleum (YPF) and gas (GDE) enterprises have been mainly responsible for reductions in the SOE deficit. Since 1986 they have reduced their combined deficit to less than 0.4% of GDP, compared with more than 2% in 1984.



### III

## Conclusions and summary

The comprehensive reform process entails five distinct areas: i) SOE sector strategy and policy, ii) the institutional and managerial framework, iii) the economic policy environment, iv) rehabilitation of SOEs, and v) modifications in SOE ownership. The experiences of the three countries examined in this study differ in the timing and emphasis assigned to these five areas. In Chile the new military government in 1973 immediately adopted policies to reduce the size of the State and promote private development, tightly control SOE expenditures and emphasize profits, initiate macroeconomic reforms and trade liberalization, and return expropriated properties. Subsequently, the government transferred most SOEs to a holding company responsible for their supervision, deregulated markets to stimulate domestic

competition, legislated transparent pricing policies, and restructured companies to prepare them for privatization.

The reform process in Mexico was slower, partly because of the need to develop political consensus in favour of it. The reform began in 1983 with constitutional changes redefining the role of the State, followed by legislative changes in 1986 and implementing regulations in 1990. The Mexican process was similar to Chile's in its early emphasis on macroeconomic reform, trade liberalization and privatization of small companies and a more gradual introduction of sectoral reforms. However, it differed significantly from Chile's by continuing to emphasize the social objectives of SOEs and adopting institutional and management reforms to increase SOE autonomy,

introduce performance contracts, and institute close government supervision of SOE performance. Mexico also followed a policy of SOE restructuring and rehabilitation more oriented towards improving SOE operational efficiency than preparing for divestiture.

Argentina's SOE reform process went through two phases: a piecemeal approach from 1976 to 1982, which emphasized reductions in employment; and a comprehensive approach, initiated in 1989, which is still not completely defined. This latter process is similar to that of Mexico in its legislative redefinition of the role of the State and SOEs, similar to Chile in its attempts to tightly control SOE expenditures in order to sharply reduce SOE deficits, and similar to both countries in its early emphasis on macroeconomic reform and trade liberalization. Argentina differs from Chile and Mexico in its efforts early in the reform process to privatize the most important SOEs, perhaps because the credibility of the process depended on demonstrated efforts to make the most politically difficult decisions.

The experience of these three countries suggests a model sequencing of SOE reform policies, which may vary depending on country circumstances. In the first stage, the emphasis is on setting the overall SOE strategy; initiating macroeconomic stabilization and trade liberalization; adopting ad hoc controls to ensure significant reductions in SOE deficits; and selling off those SOEs which can be easily disposed of. In the second stage, these ad hoc measures are replaced by performance monitoring and control procedures; trade liberalization continues and sectoral policies are reformed, including pricing policies and market deregulation to increase domestic competition with SOEs; and larger SOEs are restructured and divested. In the final stage, strict government controls over remaining SOEs are replaced by institutional changes to ensure autonomy and accountability on the part of managers and boards of directors, and the privatization programme is completed.

While data limitations do not permit formal testing of the effects of specific SOE reforms on enterprise performance, the three cases examined in this study permit conclusions about the broader effects of reform. In all three cases, SOE reform resulted in big improvements in economic performance as measured in labour productivity, sometimes even in spite of recession and reduced capital investment. Gains in labour productivity occurred whether reforms were piecemeal or comprehensive and whether reforms emphasized improvements in efficiency or in financial performance.

The evidence from Chile and Mexico shows a positive relationship between SOE economic and financial performance. Chile provides evidence that sustained, comprehensive SOE reform improves financial as well as economic performance and can generate positive rates of return on fixed assets. Mexico demonstrates that improvements in labour productivity and financial performance will not necessarily generate positive net revenues (excluding PEMEX, the State oil company) if SOE reform fails to establish market pricing. Argentina shows that unsustained reform efforts (1976-1982) can result in backsliding to worsened financial performance.

For a variety of reasons, improved SOE economic performance is not necessarily reflected in reduced deficits for the consolidated SOE sector. The tight fiscal controls imposed early on in the Chilean reform process dramatically converted SOE deficits into surpluses exceeding 8% of GDP (5% if CODELCO, the State copper company, is excluded). A similar transformation occurred in Mexico, although net of PEMEX the consolidated SOE deficit remained negative during the reform period. The Argentine piecemeal reform had little effect on SOE deficits, which averaged almost 5% of GDP throughout the reform period.

### Bibliography

- Hachette, Dominique (1988): "Aspects of privatization: the case of Chile, 1974-85", March, *mimeo*.
- Larraín B., Felipe (1988): "Public sector behavior in a highly indebted country: the contrasting Chilean experience, 1970-1985", *mimeo*.
- Larrañaga, Osvaldo (consultant) (1990): *El déficit del sector público y la política fiscal en Chile, 1978-1987* (LC/L. 563), Política fiscal, No. 4, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), July.

- Marcel, Mario (1989): *La privatización de empresas públicas en Chile 1985-88*, Notas técnicas CIEPLAN, No. 125, Santiago, Chile, Economic Research Corporation for Latin America (CIEPLAN), January.
- Martínez, J. (1985): "La trayectoria empresarial del Estado en Chile en el período 1970-1983", Master Thesis, Santiago, Chile, Universidad de Chile.
- Nankani, Helen (1988): *Techniques of Privatization of State-Owned Enterprises. Selected Country Case Studies*, World Bank Technical Paper No. 89, vol. II, Washington, D. C., World Bank.
- Shirley, Mary M. (1989a): *Evaluating the Performance of Public Enterprises in Pakistan*, Working Paper, WPS 160, Washington, D. C., World Bank, Country Economics Department, March.
- (1989b): *Improving Public Enterprises Performance: Lessons from South Korea*, Working Paper, WPS 312, Washington, D. C., World Bank, Country Economics Department, October.
- (1989c): *The Reform of State-Owned Enterprises: Lessons from World Bank Lending*, Policy and Research Series, No. 4, Washington, D. C., World Bank.
- Vuylsteke, Charles (1988): *Techniques of Privatization of State-Owned Enterprises. Methods and Implementation*, World Bank Technical Paper, No. 88, Washington, D. C., World Bank.



## **The Central American entrepreneur as economic and social actor**

*Andrés Pérez\**

At the present time, Central American society is faced with the task of simultaneously furthering a process of market liberalization and the development and consolidation of political systems of a liberal-democratic nature. Reconciling the market economic project with the democratic political project in the conditions of social polarization prevailing in the region is of course a colossal task. In it, Central American entrepreneurs will have a vitally important role to play, not only as economic but also as political actors. For them to be able to contribute to the quest for a just and effective balance between the market and democracy, profound changes must take place in the thinking which guides the actions of entrepreneurs in Central America, and hence also in the content and orientation of management training programmes in the region. The challenge facing the entrepreneur is to raise the level of competitiveness of his enterprise in a changing international economic context while at the same time participating in the process of building national consensus. Building this consensus involves redefining the participation of private enterprise, governments, and the various national political and social actors, within an institutional framework which fairly reflects the obligations and rights of each of these. Without this consensus, neither economic order nor democracy can be possible in Central America today.

\*Assistant Professor of Political Science in the University of Western Ontario.

## **Introduction**

The utter failure of the socialist experiments in Eastern Europe and the Soviet Union strengthened neo-conservative political convictions in the developed capitalist countries. The Cold War had come to an end and, said some observers, that marked the end of history too (Fukuyama, 1991). Liberal democracy had routed socialism, and the market forces had shown their superiority over the centrally planned State. The new international order which President Reagan had promoted during his two terms in the 1980s was beginning to take shape. This new order received its baptism of fire in the Gulf War, in which Iraq paid the price not so much of its disrespect for international law as for the inability of its leaders to understand that the world had changed. Saddam Hussein's tanks crossed the frontier into Kuwait at the very moment in history in which the rules of international relations and the definitions of good and evil were being completely revised. What had previously been perfectly possible was now intolerable.

For Latin America in general and Central America in particular, the new international order meant profound changes in the definition of what was politically possible and impossible, economically rational and irrational, and socially acceptable and unacceptable. This does not mean that the changes in Central American society are merely a reflection of international conditions. The international context does, however, substantially condition the formulation of political responses to the internal tensions and contradictions of these societies.<sup>1</sup> Thus, what is possible, rational and acceptable in Central America today is liberal democracy and the market economy, even though, in the conditions of political, economic and social polarization prevailing in the countries of the region, the all-inclusive nature of the political proposal is in open contradiction with the exclusive nature of the economic proposal.<sup>2</sup> The democracy/market proposal bases its logic on the thinking behind the new international order rather than on the internal conditions of Central American society.

<sup>1</sup> For an analysis of the influence of the international context on the political capacity of Latin American States in the stage of "post-national capitalism", see Faletto, 1989, pp. 69-73. See also Sunkel, 1991, and Tomassini, 1991.

<sup>2</sup> For an examination of this contradiction in Latin America, see Calderón and Dos Santos, 1991, pp. 19-22, and Faletto, 1989.

Reconciling the market economic project with the democratic political project in the midst of the social polarization displayed by the region is undoubtedly a colossal task. In it, Central American entrepreneurs will have a vitally important role to play not only as economic but also as political actors. In this article it is maintained that the contribution of Central American entrepreneurs to the quest for a fair and effective balance between the needs of the market and those of democracy can only be made if there are profound changes in the thinking behind the entrepreneurial function in Central America and hence also in the content and orientation of management training programmes in the region.<sup>3</sup>

The challenge facing Central American entrepreneurs is basically that of developing the levels of competitiveness of their enterprises in a changing international economic context, while participating in the process of building a minimum social consensus on the organization of economic and political life in their countries. Building this consensus involves redefining the participation of governments and of the various political and social actors within an institutional framework which fairly reflects the obligations and rights of each of them. Without building up this consensus, neither economic order nor democracy are possible in Central America today.

## I

### The new political role of Central American entrepreneurs

To say that the dominant economic groups of the region have participated throughout the course of history in the definition of the social, political and economic systems of the Central American countries is a statement of the obvious. What is worth pointing out is that the way in which these groups participate has changed with time. The pioneering study on the organization of business associations in Central America carried out by the Latin American Faculty of Social Sciences (FLACSO) under the direction of Edelberto Torres-Rivas notes that it was merchants who were the first to form organizations for the

defence and promotion of their interests.<sup>4</sup> The first of these organizations arose in Guatemala in 1884. National associations of merchants were followed by associations of industrialists and later of agricultural and stock-raising entrepreneurs. From the 1950s onwards, the organizational development of the Central American private sector registered advances of great political importance, since mechanisms began to be established within each country of the region for co-ordinating the action of the different organizations in that sector. The first of these coordination mechanisms was the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations of Guatemala (CACIF), which was set up in Guatemala in 1957. It was followed by the Honduran Council of Private Enterprise (COHEP) in Honduras; the National Private Enterprise Association (ANEP) in El Salvador; the Supreme Council of Private Enterprise (COSEP) in Nicaragua, and the Costa Rican Union of Chambers of Private Enterprise (UCCAEP) in Costa Rica (FLACSO, 1989, pp. 13-20). These

<sup>3</sup> For a symposium held in November 1989, the Central American Institute of Business Administration (INCAE) invited academics from Latin America and North America to present papers exploring the necessary features of a management model for Latin America in the twenty-first century. Most of the papers presented at the symposium coincided in pointing to the need to promote the political training of entrepreneurs in the region; among them, special mention may be made of "Management rationale and practice in Latin America: the challenges of the coming century", presented by Andrés Pérez; "The economic and management structure in Latin America: past, present and future challenges", presented by Marvin Taylor; "A management model for Latin America in the twenty-first century", presented by Blasco Peñaherrera Padilla; "The future of Latin America and management training", presented by Fernando Bravo Herrera and Luis Peñafiel Millán, and "The concept of administration in management training", presented by Oscar Johansen Bertoglio.

<sup>4</sup> Those working in the field of Central American social sciences have not yet studied in depth the role of private sector organizations in the formulation of public policies or the running of national policy. There is a lack of studies such as those carried out in Argentina by Nun and Lattuada (1991) which analyse the role of the big agricultural corporations in the Alfonsín administration, or the studies on the role of business organizations during the process of transition to democracy in that country included in Nun and Portantiero (editors), 1987.



organizations attained active but indirect participation in national political processes until the crisis in the region in the 1970s led them to assume more openly political roles.

As Gabriel Gaspar Tapia (1989, pp. 22-33) points out, the situations of domination which existed in most of the Central American countries before the crisis were based on the "harmonious relationship which the various sectors of the dominant classes established with the armed forces": relationships which "involved a virtual handover of the running of the State apparatus by the former to the latter". The inability of this domination pact to contain popular demands and the social mobilization which took place in the countries of the region permitted the emergence of centrist political positions and projects which offered moderate solutions to the crisis in the social order. The various United States governments, from Carter to Bush, saw in these centrist political positions a possible solution to the advance of revolutionary movements in Central America and a way of neutralizing the triumph of the Sandinista revolution in Nicaragua. In these circumstances, the parallel promotion of market economies and political systems of a liberal-democratic nature rapidly became the line of action favoured by Washington in the region. The effect of this double strategy on the position of the Central American economic elites was tremendous. Accustomed as they were to rely on the armed forces

of the region, entrepreneurial circles unexpectedly found themselves in the midst of a political game marked by a high degree of uncertainty, while they also found themselves "lacking effective means of representation". Their response to this situation was to abandon the supposedly apolitical positions which they had maintained before and to begin to play an active role in the political life of their countries. This change has been expressed, *inter alia*, in the participation of leaders of private-enterprise organizations in the formation and development of political parties such as the Nationalist Republican Alliance (ARDE) in El Salvador; in participation in national politics by academic and research centres linked with private sector organizations, such as the Salvadorian Foundation for Development and the Central American Institute of Business Administration (INCAE), and in open participation by private sector organizations in areas of discussion which were previously the exclusive reserve of the State, such as foreign policy.

The new political role of the Central American private sector organizations makes it necessary to reflect on the thinking behind entrepreneurial action in the region and, above all, on the capacity of entrepreneurs to understand and help to solve the problems raised by the simultaneous promotion of political regimes of a liberal-democratic nature and free market economies in countries with high degrees of social polarization, such as those of Central America.

## II

### The historical context and entrepreneurial theory and practice

The historical context in which enterprises have to function has conditioned entrepreneurial theory and practice in the United States, as well as the rational foundations guiding the content and orientation of management training programmes in that country. There are two dimensions in this context. The first is the existence of an objective social reality which can be measured and even quantified through such indicators as coefficients of income distribution, mortality rates, indexes of illiteracy, etc. The second is the existence of a framework of social values through which this objective reality is interpreted. It is this framework of values which allows us to define

and differentiate good from evil, justice from injustice, important matters from those of secondary interest, rational from irrational ideas, efficiency from inefficiency, and acceptable from unacceptable situations.<sup>5</sup>

Maintaining social order depends greatly on the legitimacy of the rules organizing the political and economic life of a society. In this respect, legitimacy, as pointed out by Peter L. Berger and Thomas Luckman (1973, p. 86), is a condition which justifies

<sup>5</sup> For an in-depth analysis of the role of such frameworks of values in the definition of objective reality, see Berger and Luckman, 1973.

the institutional order by providing it with normative dignity. It is worth noting that speaking of frameworks of values as determining elements of order does not mean ignoring the role played by coercion and violence in the task of establishing and maintaining social stability. If we stress the role of values it is because, as Jean-Jacques Rousseau (1947, p. 244), argued two centuries ago, the social order is not consolidated "until force is transformed into law and obedience into duty". That is to say, until the establishment of a framework of collective values justifies, dignifies and legitimizes the objective reality of a society.

In the United States, both the objective and subjective context of the enterprise have conditioned entrepreneurial and management thinking in that country. Something similar is taking place in the field of social sciences, where the production of knowledge, and the definition of the role of the social sciences, have been conditioned by the influence of the environment in which social scientists carry out their work. In this respect, it could be said that knowledge in the field of social sciences is the historical sum of the responses given by social thinkers to the challenges and crises of their time.<sup>6</sup> Understanding the relationship between the historical context, thinking and social practice enables us to understand how management and entrepreneurial theory and practice in the United States have been conditioned by the historical development in that country of a capitalist economic system and a democratic-liberal political system. Capitalist economic principles and values, together with democratic-liberal political principles and values, constitute the framework of values which is used in entrepreneurial and management theory and practice in the United States and other developed Western countries in order to appreciate and interpret the actual conditions in which the enterprise operates.

The legitimacy attained by these principles and values helps to explain the level and durability of the social order in those societies. It is precisely this legitimacy and social order which have permitted the development in those countries of forms of

entrepreneurial and management theory and practice aimed fundamentally at articulating operational techniques and seeking efficiency. Thus, since they arose in the latter part of the eighteenth century, management training programmes in the United States and other developed capitalist countries have been able to concentrate on the development and dissemination of applied management skills, thereby assuming the existence of a solid framework of values which legitimizes the function of the enterprise and guarantees the social order.<sup>7</sup> For this reason, the analysis of the political dimension of the enterprise in management training programmes is limited to the study of the relations between the private sector and the government or to the study of the power structures within organizations. Within this tradition, the concept of conflict has an organizational rather than a social connotation. That is to say, conflicts as studied in administrative theory and management analysis are fundamentally conflicts within the organization, since the existence of stable contextual conditions is taken for granted.<sup>8</sup> This also explains why sociological, political and philosophical analysis, which is more oriented towards the understanding of social change, is not included in most management training programmes:<sup>9</sup> this type of analysis is considered to be of a speculative nature and divorced from the "reality" which such programmes take for granted.

It is interesting to note that something similar occurs in the field of natural sciences. In his classic work on the structure of scientific revolutions, Thomas Kuhn (1970) shows how the establishment of a paradigm, that is to say, the legitimation of a theoretical view of reality, leads scientists to concentrate their efforts on developing "normal science", that is to say, a type of knowledge which is valid within the parameters established by the dominant paradigm. When a new theoretical view of this reality calls into question the validity of the existing paradigm, the scientific community is obliged to redefine or confirm the fundamental theoretical framework within which it is to carry on its normal scientific work.

<sup>6</sup> The work of Auguste Comte, for example, can only be understood as a response to the social crisis brought about by the French Revolution. Likewise, the work of Karl Marx also has as its most immediate reference point the social conditions produced by the Industrial Revolution in Europe in the nineteenth century. More recently, the work of the French philosopher Michel Foucault was influenced by what took place in France in 1968.

<sup>7</sup> For a review of the development of management thinking, see George Jr., 1968.

<sup>8</sup> See, for example, Stephenson, 1985 and Wilson, 1985.

<sup>9</sup> The absence of these subjects is noteworthy, reflecting a view which still persists even in the midst of the profound process of change through which the world is currently passing. See, for example, Alexander, 1991; Scriven, 1991, and Aranda, Golen and Brennenstuhl, 1991.

To sum up, we can state three things. Firstly, that entrepreneurial and management theory and practice in the developed capitalist countries are the product of the historical conditions in which the enterprise operates. Secondly, that entrepreneurial and management theory and practice in those countries are the product and expression of the capitalist and liberal-democratic development of their societies. Thirdly, that capitalist and liberal-democratic principles form the framework of values which permeates and nourishes the production of management know-how and defines the attitudes and skills called for in entrepreneurs and managers. Consequently, it is this same framework of values which inspires the orientation and content of management training programmes in the developed democratic capitalist world. We will now proceed to analyse management and entrepreneurial thinking and practice in Central America.

Using the thinking of Unamuno, Juan Marichal (1978, p. 24), draws a distinction between "countries of opiners" and "countries of opinions". If we apply this form of thinking, we can say that Latin America has been a consumer of the political and management thinking of Europe and North America.

Central America, like the rest of Latin America, imported European liberal-democratic thinking in order to justify its independence and consolidate its first forms of government. Unlike Europe and North America, however, it established democratic legal and institutional structures—at least formally—before consolidating a capitalist economic structure. It was only at the end of the nineteenth century that the export of some products for which there was a demand on international markets made it possible to initiate economic structures of a capitalist nature in the region. From that moment on, capitalism and liberal democracy became, at least formally, the frameworks of values within which the social, political and economic development of the Central American countries took place. Unlike what happened in Europe and North America, however, this framework never succeeded in becoming institutionalized and ensuring the social order. The historical development of Central America, then, does not correspond to the "optimistic equation" which associated economic development with democracy in the history of the developed capitalist countries (Portantiero, 1982, p. 97). The political and economic systems of Central America, like those of the rest of Latin America, have been fundamentally of an exclusive nature, which explains why the precarious social

order of those countries has often been achieved through the use of force.

The precarious nature of capitalism and democracy in Central America as frameworks of values capable of articulating the social order has been noted and studied on many occasions by social scientists. This precariousness, however, is virtually ignored in the management thinking and entrepreneurial practice of the region. It is also ignored in the programmes of management training at the graduate and post-graduate level in the region, which take it for granted that Central America has the same capitalist and liberal-democratic framework of values which forms the basis for the production and dissemination of entrepreneurial and management thinking in Europe and North America. These programmes continue to be carried on with an ahistorical and reductionist approach which ignores the political and social dimension of the crisis through which the region is passing.<sup>10</sup>

In the social sciences, the concept of ahistoricism means studying social phenomena without taking the time variable into account.<sup>11</sup> Functionalist anthropology and static economic analysis are other examples of ahistorical approaches to reality. The ahistorical approach which prevails in management training programmes in Central America has prevented a critical study of the evolution of management and entrepreneurial thinking in the region. In an ahistorical approach, management thinking and techniques are presented as suprahistorical and divorced from their time context.

Reductionism, for its part, refers to theoretical approaches which isolate the study of parts of the overall social reality from the whole to which they belong (Cashmore and Mullan, 1983, p. 49). In the reductionist approach adopted in management training programmes, the study of management principles and techniques is isolated from the political and social reality in which they must be applied and used.<sup>12</sup> Thus, it is considered possible and even desirable to

<sup>10</sup> See, for example, a research project carried out under the Master's degree programme in business administration of the Central American Institute of Business Administration (INCAE), which emphasizes the need to incorporate political analysis into management training programmes (De Franco and Pereira, 1989).

<sup>11</sup> For an in-depth study of this topic, see De Saussure, 1986.

<sup>12</sup> This reductionist approach assumes the universality of management theory and techniques. For a critique of this approach, see Yg, 1989a, pp. 3-26.

study the functioning of the enterprise while ignoring the analyses and knowledge generated by sociology and the political sciences. It may be noted that this attitude of rejection of sociological and political knowledge is observed not only with regard to marxist political science and sociology, but also with regard to the weberian tradition. It is not a particular ideological position which is being rejected, but sociological and political analysis in general.

The reductionist and ahistorical orientation of management training programmes in Central America results in the training of entrepreneurs and managers who are technically and administratively capable but are social and political illiterates. In other words, they are entrepreneurs and managers who participate in politics without the theoretical and analytical capacity needed to understand the social dynamics within which the enterprise operates; who are not in a position to adopt a mature critical position with regard to the framework of values which has traditionally guided management thinking and practice; who do not possess the necessary training for linking up forms of entrepreneurial thinking and practice which are adapted to the needs of the region; and who take it for granted that traditional capitalist entrepreneurial thinking must be at all times the independent variable in the equation of social forces operating in the countries of the region, so that all the other factors – political regime, social justice, unemployment and income distribution – are dependent variables which must be adjusted to the entrepreneurial logic. The important thing for this type of manager or entrepreneur who is administratively and technically capable but socially and politically illiterate is to have clear rules that allow enterprises to operate in accordance with traditional capitalist thinking. The political and social effects that may result from the establishment of these rules are not among their central concerns; nor is the analysis of such effects part of their professional training. This helps to explain why, in the historical development of Latin America in general and Central America in particular, the political position of entrepreneurs and managers swings from support for military regimes to support for democratic regimes and vice versa. The logic behind these changes is not political, but fundamentally economic.<sup>13</sup> This malleability of the

political position of Latin American entrepreneurs and managers represents one of the great perils looming over the processes aimed at creating juster and more democratic economic and political orders in the region.

At present, Central America is experiencing a climate of democratization. With a greater or lesser degree of conviction, the entrepreneurial sector in the Central American countries has expressed its support for democracy, while at the same time demanding clear “rules of the game” (De Franco and Pereira, 1989, p. 12; Castillo, 1988, p. 115). This sector hopes that democracy, superficially understood as a mere electoral process, can produce the desired clarity and that the law will create an order which is favourable for entrepreneurial activity. They thus reject the idea that the cause of the crisis in Central America is not the breakdown of the law, but something deeper: the collapse of the previous brand of legitimacy, that is to say, the collapse of the framework of values which in the past permitted the development of exclusive economic and political systems. What Central American entrepreneurs and managers do not seem to understand is that the definition of “clear rules” will require the reconstitution of a new legitimacy. In other words, what the current crisis demands is the establishment of a social consensus which will serve as a framework for entrepreneurs and managers.

In order to grasp the foregoing better, it must be understood that the concept of democracy includes two dimensions. Democracy is a mechanism for solving social conflicts, and at the same time it is a social compact on the functioning and orientation of a nation-State (Dahl, 1956, pp. 132-133; Rustow, 1970, pp. 350-361; Karl, 1986, p. 10; Sartori, 1987, pp. 89-92). The effectiveness of democracy as a mechanism for solving conflicts depends on the prior existence of a minimum social consensus on the orientation and functioning of the political and economic structures of the country. In the developed West, this social consensus is made up of capitalist economic principles and liberal-democratic political principles.

It should be noted that the existence of a social consensus does not mean total absence of conflict. Real or potential conflict is always present in every social formation. In those societies which have succeeded in building up a minimum social consensus regarding the functioning of their political and

<sup>13</sup> With regard to the case of Argentina, see Schvarzer y Sidicaro, 1988, and with regard to the Chilean case see Campero, 1988.

economic systems, however, the conflicts which exist are only marginal. Moreover, such marginal or residual conflict is organized and handled within an institutional and legal framework which facilitates its control.

In this respect, it is important to bear in mind the distinction drawn by Maurice Duverger (1978, p. 155) between "conflict within the regime" and "conflict over the regime". The first of these situations refers to the type of conflict which occurs within a legitimately pre-established legal and institutional framework. The electoral processes and competition between the parties in North America and Western Europe, for example, are conflicts "within the regime". What is at stake in these types of competition is not the basic nature of the political and economic regime of these societies, but the best way of preserving and developing this regime.

Conflict "over the regime", however, is that which tries to answer the question: what regime? Generally speaking, this type of conflict breaks with the existing institutional and legal framework, since it seeks to remodel it (Duverger, 1978, p. 155). It is important to differentiate between these two types of conflict in order to evaluate the effectiveness of the democratic system as a mechanism for solving conflicts. In this respect, it is important to understand that electoral processes do not lead to the solution of conflicts "over the regime". Consequently, expecting electoral exercises to define the rules and provide the social stability demanded by entrepreneurs means ignoring the history of the Western world which gave

rise to democracy and universal suffrage. In this respect, the history of the West clearly shows that the building of a social consensus has always preceded the application of democratic political technology (Macpherson, 1980; Girvetz, 1973; Di Palma, 1986; Nun, 1986).

The point which it is desired to get across through this brief analysis of the nature of democracy is that the definition of the social order which the Central American entrepreneurial sector demands when it calls for clarity in the "rules of the game" will not result automatically from the application of democratic electoral technology nor other formal democratic instruments. The definition of a clear and durable social order must be the result of the building of a social consensus. From this viewpoint, democracy must be understood as "the consensual political system which is capable of settling in a civilized manner the social and political conflicts which the dynamics of democracy itself are creating" (Torres-Rivas, 1990, p. 128). The possibility of building up this consensual political system will depend greatly on the capacity of entrepreneurs and managers to understand the social dynamics affecting the enterprise in the unstable Central America of today, and to adjust and respond to these dynamics. Insisting on the establishment of "rules of the game" and taking it for granted that traditional entrepreneurial thinking is the independent variable in the conflict and crisis of these countries is to ignore the high levels of expectations, politicization and mobilization of the popular sectors in the region.

### III

#### Management training programmes and the challenges of the 1990s

In the 1990s, Central American private enterprise will be facing unprecedented challenges. These will include the redefinition of the rules of international trade and the emergence of entrepreneurial forces in Eastern Europe and the former Soviet Union which will compete with Latin American private enterprise for transnational capital. Without any doubt, these new conditions will be a challenge to the creativity and inventiveness of the leaders of the region's enterprises. The most important challenge to

Central American entrepreneurs in the 1990s, however, will be that of facing up to evolving international economic and political realities and at the same time coping with a crisis of a political nature in their own society. As Celso Garrido (1988, p. 12) notes, the situation of Latin American enterprises "is deeply marked by the weight of transnationalizing economic phenomena and forces", although "it must be remembered that those tensions must necessarily be synthesized and solved in the national political dimension".

The Central American entrepreneur of the 1990s will have to raise the level of competitiveness of his enterprise in a changing international economic context, while participating in the process of building national consensus. Arguments could be put forward in the opposite sense, holding that the role of the entrepreneur is only to raise the level of competitiveness of his enterprise, and that it is the government's job to guarantee the social order, promote the liberalization of the economy, and stave off the social demands of the popular sectors. Indeed, this does seem to be the prevailing attitude in the most backward sectors of Central American entrepreneurs, and it is without a doubt the easiest yet most dangerous response to a problem which has deep and complex roots. It amounts to taking it for granted that the market forces will save us from the abyss: that this time they really will prove capable of rescuing us from the crisis. Believing this, however, is like wagering on the occurrence of a historical miracle. It means jumping out into the future with one's eyes blindfolded and one's fingers crossed, for there is absolutely nothing to suggest that traditional capitalist entrepreneurial thinking, which was not capable of giving this result even in times of relative prosperity, can attain it at a time when the external debt, population growth and the reorganization of the international economic and political system make us weaker than ever.

In this sense, the economicistic type of calculation which is behind this management attitude involves a tremendous error: it assumes the passivity of the human element and the existence of national economies which are mere abstractions, where such considerations as hunger and desperation simply do not count as valid variables. If we accept that the challenge to Central American managers in this decade is to develop the international competitiveness of their enterprises while at the same time helping to build a national consensus, we must also accept the urgent need to form a new type of manager and a new type of entrepreneurial thinking. The skills and attitudes of these new entrepreneurs and managers must include, *inter alia*, sensitiveness and capacity to understand the dynamics of the social, political and economic forces of the environment in which they operate. In order to develop these attitudes and skills it will be essential to abandon the instrumental and operational criteria on the basis of which Central

American entrepreneurs and managers have operated so far, and to redefine the thinking which guides their activities in order to adapt it to the needs and characteristics of the crisis through which the region is passing. In this process, education and management training programmes are called upon to play an extremely important role. The complete remodelling of management and entrepreneurial theory and practice in Central America, which we have emphasized as indispensable in this article, will make it necessary to review the conceptual bases of the objectives and content of such training programmes. The basic principle in this review will be the need to orient such training towards the development of a type of entrepreneurial thinking which will make it possible to respond to the crisis of the region. In other words, the Latin American manager of the twenty-first century must be a social scientist with management gifts and skills.

The reorientation of the objectives of management training programmes must be accompanied by a profound revision of the content of such programmes, the aim being not to do away with the technical and practical orientation of management training, but to locate it within a suitable theoretical framework. It is precisely this kind of combined practical and theoretical training which can give rise to the bases and principles for a new type of Latin American entrepreneurial and management thinking.

The incorporation of such a theoretical component in management training programmes can be achieved in two ways. The first is the inclusion in such programmes of the systematic study and exploration of social, political and philosophical issues. The second is the inclusion of a critical perspective in some of the courses which normally form part of such programmes.

In order to advance using the first of these ways, it is necessary to identify issues and problems which can act as nuclei around which courses and research activities can be organized. In this respect, two items immediately come to mind. The first of them is the subject of the State, on which it is possible to identify a set of issues which are important for understanding the crisis in the social order in Central America and which would make it possible to tackle such aspects as globalization, social formation, the State apparatus and the enterprise; legality, legitimacy and the social

order; institutionalization and social change, etc. The second item is the evolution of political and economic thinking in the advanced capitalist countries and in Latin America, the study of which can help to create a critical mentality *vis-à-vis* the conditions and forces that explain social development in the region. It is important that the items referred to above should be explored taking a broad approach: that is to say, from the standpoint of the three great paradigms that form the basis for modern social sciences. We refer, of course, to the critical use of the pluralistic, elitist, and class paradigms, together with their various derivations and combinations.

In order to make use of the second way, it is necessary to bring a historical and social perspective into the study of management thinking and technique. Thus, for example, the evolution of the theory of organization, together with the development and application of techniques for formulating, executing and evaluating policies and programmes, should be studied as phenomena which are conditioned by concrete social and historical

situations. Studying them in this way would make it possible to develop in the management students the necessary capacity to transfer, adapt or reject those elements of management and entrepreneurial thinking and practice which are not in keeping with the real situation in the region.

In the 1990s, Central American entrepreneurs and managers will have two possible roads before them: to place an enormous dose of faith in the inevitability of the traditional thinking which has guided management and entrepreneurial practice in Central America so far, or to assume with full awareness and responsibility the task of participating in the solution of the crisis connected with the legitimacy of the political order in the region. In order to take the first of these roads, what is needed is boundless confidence, luck and, in the worst event, the collaboration of brute force in order to control all the growing social demands. In order to take the second road, what is needed is sensitivity and the capacity to develop a new type of management and entrepreneurial thinking which will facilitate the building of just and free societies.

### Bibliography

- Alexander, Wilma Jean (1991): The challenge created by change, *Business Education Forum*, vol. 45, No. 7, April.
- Aranda, Luis, Steven Golen and Daniel C. Brennenstuhl (1991): Internationalizing the business curriculum: an assessment of commitment, *Journal of Education for Business*, vol. 66, No. 6.
- Berger, Peter and Thomas Luckman (1973): *The Social Construction of Reality*, New York, John Wiley and Sons.
- Calderón, Fernando and Mario R. Dos Santos (1991): *Hacia un nuevo orden estatal en América Latina: veinte tesis sociopolíticas y un corolario*, Santiago, Chile, Latin American Faculty of Social Sciences (FLACSO)/Fondo de Cultura Económica.
- Campero, Guillermo (1988): Los empresarios ante la alternativa democrática: el caso de Chile, Celso Garrido, *Empresarios y Estado en América Latina*, Mexico City, Economic Research and Teaching Centre (CIDE)/Friedrich Ebert Foundation/National Autonomous University of Mexico (UNAM)/Universidad Autónoma Metropolitana.
- Cashmore, Ellis and Bob Mullan (1983): *Approaching Social Theory*, London, Heinemann Educational Books.
- Castillo Aramburu, Melba (1988): El papel de los empresarios industriales en la economía nicaragüense, Celso Garrido, *Empresarios y Estado en América Latina*, Mexico City, CIDE/Friedrich Ebert Foundation/National Autonomous University of Mexico/Universidad Autónoma Metropolitana.
- Dahl, Robert (1956): *A Preface to Democratic Theory*, Chicago, The University of Chicago Press.
- De Franco, Silvio and Emilio Pereira (1989): *Managers' perception of Central America's environment: an exploratory examination of the sources of uncertainty*, San José, Costa Rica, Central American Institute of Business Management (INCAE).
- De Saussure, Ferdinand (1986): *Course in General Linguistics*, La Salle, Illinois, Open Court.
- Di Palma, Giuseppe (1986): The European and the Central American experience, Giuseppe Di Palma and Laurence Whitehead, *The Central American Impasse*, London, Croom Helm.
- Di Palma, Giuseppe and Laurence Whitehead (eds.) (1986): *The Central American Impasse*, London, Croom Helm.
- Duverger, Maurice (1978): *The Idea of Politics*, London, Methuen.

- Faletto, Enzo (1989): The specificity of the Latin American State, *CEPAL Review*, No. 38 (LC/G. 1570-P), Santiago, Chile, August.
- FLACSO (1989): *Estudio sobre la organización gremial del sector privado en Centroamérica*, San José, Costa Rica, mimeo.
- Fukuyama, Francis (1989): The end of history?, *The National Interest*, Summer.
- Garrido, Celso (1988): *Empresarios y Estado en América Latina*, Mexico City, CIDE/Friedrich Ebert Foundation/National Autonomous University of Mexico/Universidad Autónoma Metropolitana.
- Gaspar Tapia, Gabriel (1989): "Crisis y politización empresarial en Centroamérica", No. 8, pp. 24-34.
- George Jr., Claude S. (1968): *The History of Management Thought*, Englewood Cliffs, N. J., Prentice-Hall Inc.
- Girvetz, Harry K. (1963): *The Evolution of Liberalism*, Toronto, Canada, The Macmillan Company.
- Gouldner, Alvin (1970): *The Coming Crisis of Western Sociology*, New York, Basic Books.
- Karl, Terry (1986): Democracy by design: the Christian Democratic Party in El Salvador, Giuseppe Di Palma and Laurence Whitehead (eds.), *The Central American Impasse*, London, Croom Helm.
- Kuhn, Thomas S. (1970): *The Structures of Scientific Revolutions*, Chicago, The University of Chicago Press.
- Macpherson, C. B. (1980): *The Life and Times of Liberal Democracy*, London, Bedminster Press.
- Marichal, Juan (1978): *Cuatro fases de la historia intelectual latinoamericana: 1810-1870*, Madrid, Fundación Juan March.
- Marín, Raúl (1990): La nueva derecha en Centroamérica, *Pensamiento propio*, año VII, No. 71, June.
- Nun, José (1986): The middle-class military coup revisited, Abraham F. Lowenthal and J. Samuel Fitch (eds.), *Armies and Politics in Latin America*, New York, Holmes & Meier.
- Nun, José and Mario Lattuada (1991): *El gobierno de Alfonsín y las corporaciones agrarias*, Buenos Aires, Manantial.
- Nun, José and Juan Carlos Portantiero (eds.) (1987): *Ensayos sobre la transición democrática en Argentina*, Buenos Aires, Puntosur.
- Perry, Charles (1972): *Complex Organizations: a Critical Essay*, Glenview, Scotland, Foresman and Company.
- Portantiero, Juan Carlos (1982): Algunos problemas para la construcción de un orden político democrático, Susana Bruna and others, *América Latina: desarrollo y perspectivas democráticas*, San José, Costa Rica, FLACSO.
- Rousseau, Jean-Jacques (1974): The social contract, Sir Ernest Baker (ed.), *Social Contract: Essays by Locke, Hume and Rousseau*, Oxford and New York, Oxford University Press.
- Rustow, Dankwart A. (1970): Transitions to democracy: toward a dynamic model, *Comparative Politics*, vol. 2, No. 3.
- Sartori, Giovanni (1987): *The Theory of Democracy Revisited*, New Jersey, Chatham House Publishers.
- Schvarzer y Sidicaro, Ricardo (1988): Empresarios y Estado en la reconstrucción de la democracia en Argentina, Celso Garrido, *Empresarios y Estado en América Latina*, Mexico City, CIDE/Friedrich Ebert Foundation/National Autonomous University of Mexico/Universidad Autónoma Metropolitana.
- Scriven, Jolene D. (1991): Needed research in business education, *Business Education Forum*, vol. 45, No. 5, February.
- Stephenson, Ted (1985): *Management: a Political Activity*, Illinois, MacMillan Pub., Inc.
- Sunkel, Osvaldo (1991): Auge, crisis y renovación del Estado, Matías Tagle (ed.), *Los desafíos del Estado en los años 90*, Santiago, Chile, Corporación de Promoción Universitaria (CPU)/Economic Research Corporation for Latin America (CIEPLAN)/Corporación de Investigaciones para el Desarrollo (CINDE)/FLACSO/Instituto de Ciencia Política, Pontificia Universidad Católica de Chile.
- Tagle, Matías (ed.) (1991): *Los desafíos del Estado en los años 90*, Santiago, Chile, CPU/CIEPLAN/CINDE/FLACSO/Instituto de Ciencia Política, Pontificia Universidad Católica de Chile.
- Tomassini, Luciano (1991): Estado, sistema internacional e interdependencia, Matías Tagle, *Los desafíos del Estado en los años 90*, Santiago, Chile, CPU/CIEPLAN/CINDE/FLACSO/Instituto de Ciencia Política, Pontificia Universidad Católica de Chile.
- Torres-Rivas, Edelberto (1990): Un ejercicio de optimismo: la democracia en Centroamérica, E. Torres-Rivas and G. Martner (eds.), *América Central hacia el 2000: desafíos y opciones*, San José, Costa Rica, UNITAR/PROFAL/FLACSO.
- Torres-Rivas, Edelberto and Gonzalo Martner (eds.) (1990): *América Central hacia el 2000: desafíos y opciones*, San José, Costa Rica, UNITAR/PROFAL/FLACSO.
- Wilson, Graham K. (1985): *Business and Politics*, Chatham, New Jersey, Chatham House Publishers.
- Yg, Chimezie A. B. Osigweh (1989a): The myth of universality in transnational organizational theory, Chimezie A. B. Osigweh Yg, *Organizational Science Abroad*, New York, Plenum Press.
- (1989b): *Organizational Science Abroad*, New York, Plenum Press.



## Why are men so irresponsible?

*Rubén Kaztman\**

This article seeks to answer the question posed in the title, which refers in particular to men in the lower-class urban sectors. The statistics reflect a type of behaviour marked by an avoidance of the obligations connected with the formation and maintenance of a family, leading to an increase in rates of illegitimacy, in the proportion of adolescent pregnancies, and in the rates of abandonment of families with children.

In order to seek an answer to these questions, various structural changes in Latin America which may have influenced this type of behaviour are analysed. The main changes which have taken place in family systems have undoubtedly played a role in this; in particular, these changes have affected the position of men in lower-class urban families. Among the factors analysed are the changes which have taken place in the man's role as breadwinner and model for the new generations, and male supremacy as a value.

The article concludes that a substantial proportion of the population in question are simply not fitted to play the roles of husband and father. This anomic situation gives rise to a vicious circle in which the failure to comply with the obligations associated with these roles weakens the man's authority within the family, and this in turn helps to speed up his abandonment of those obligations.

\*Principal Social Affairs Officer, ECLAC Social Development Division.

## Introduction

At an informal meeting attended by ECLAC professionals, a high official of the United Nations Population Fund described the main problems encountered in her field of work and concluded her statement with the question which serves as the title of this article. This question, which refers in particular to men in the lower-class urban sectors, arises from the information built up on a type of behaviour which involves avoidance of the obligations associated with the formation and maintenance of a family and is reflected in an increase in rates of illegitimacy, in the proportion of adolescent pregnancies, and in rates of abandonment of families with children.

## I

### Biases in family studies

The question posed in the title of this article is very useful, because it stimulates a search for information on recent changes in the situation of men and the impact of such changes on the formation and organization of the family. It seems to me that this question has been partly overshadowed in recent decades because academics and those responsible for social policies have shifted their attention mainly to the situation of women. Naturally, there have been ample reasons justifying this shift. One of them was the increasingly visible contrast between the equalitarian ideologies which have prevailed in the Western world and the real-life discrimination suffered by women in important sectors of social life. Another was the increased responsibilities which women had to assume in the biological and social reproduction of their families because of the desertion of the man of the house or the need to contribute to family income affected by serious economic crises. Yet another reason was the growing evidence that where women were the heads of families, this was associated with the inter-generational transmission of poverty and hence with the establishment of still more inequitable social structures.

The concern with the situation of women has had significant consequences with regard to the lines followed by research and the design of policies concerning the family. At the academic level, there has been a proliferation of studies on this subject

based on the story of women's lives, analysis of the evolution of the relative number and living conditions of unmarried adolescent mothers and lone women heads of households, and descriptions of their situation as compared with that of married women. Indeed, in recent years there has been a kind of identification between studies of women and those of the family. An example of this may be seen from a review of the literature on the family in Latin America carried out for UNESCO by Ana Jusid (1988). Of the 204 titles in the review, 52 contained references to the situation of women or motherhood, while only two refer to men or fatherhood.<sup>1</sup>

Studies aimed at understanding the objective conditions and subjective content of the lives of wives and mothers have undoubtedly helped to gain a better understanding of the evolution of the structure and functioning of the family. The bias which is implicit in this approach enjoys historical legitimacy, and economic and social change has indeed caused women to be increasingly the "apex of family organization" (Raczynski and Serrano, 1985, p. 108). I nevertheless believe, however, that all this does not in itself justify the present concentration of family studies on the situation of women, and I feel that

research and the compilation of data for policy formulation should be oriented rather towards gaining a fuller knowledge of the processes of family disorganization which lead to such results. In this respect, it is maintained in the present article that the most important immediate cause of family disorganization is the situation of social anomy which particularly affects men in lower-class urban sectors and which is characterized by a marked imbalance between the objectives defined by the prevailing culture for adult male roles in the family, on the one hand, and the access to legitimate means for fulfilling them, on the other. Recent publications on the family in the region only reflect this problem very inadequately. Indeed, anyone who has gone through the above-mentioned bibliography can confirm how difficult it is to find studies which deal with the male point of view on problems connected with the formation and consolidation of a family. Consequently, very little is known of the conditions under which men accept or reject the obligations connected with stable fulfilment of their roles of husband and father.

Let us now take a quick look at some of the structural changes which may have influenced this situation of social anomy in Latin America.

## II

### Changes in family systems

A distinctive feature of Latin American societies is the relative rapidity with which they undergo economic and social changes that have important effects on family organization. A brief comparison with what happened in the countries of early industrialization may help to make this statement clearer. The

<sup>1</sup>A similar symbiosis seems to exist at the level of social policies. Many of those aimed at relieving or eradicating poverty centre on the mother/child aspect. Strong encouragement has been given to the establishment of mothers' centres in local communities for taking care of programmes for communal kitchens, child care, training and the promotion of household micro enterprises, health control, community organization of purchases of consumer goods, etc. It is quite true that these programmes do have the virtue of correcting the traditional male bias of social policies and tacitly or explicitly recognizing that women are tending, either because of abandonment by men or because of serious shortcomings in the man's role as main breadwinner of the household, to assume a growing burden of responsibilities for the everyday maintenance of the family and the biological and social development of the children.

system of family production which predominated in the latter countries for many centuries was characterized by the coexistence of activities of consumption and production in the household and by a pattern of high-density interaction based on a form of mutual dependence which was favoured by the relative geographical isolation. The head of the household combined the roles of main breadwinner, manager of the collective enterprise, and transmitter of techniques and skills which ensured that his children would be able to reproduce the family form of life in conditions of extremely slow social and technical change.

The decline of this system coincided with the appearance and spread of the Industrial Revolution. The agricultural labour force was the biggest social group up to 1830 in England and up to 1907 in the United States (Davis, 1984, p. 402), but both before and after these dates there were movements from

quasi-subsistence work in agriculture and from handicraft-type domestic production workshops to wage-earning jobs in industry. Compared with the rate at which similar changes took place in the countries which are currently underdeveloped, those changes were slow and gradual, thus permitting the emergence of some intermediate organizational forms which reduced the impact on the family of the fact of separating the household from the workplace. This was so, for example, in the cotton textile factories in England in the late eighteenth and early nineteenth century. In these enterprises, according to Smelser (1968), whole families were hired, thus making it possible to preserve for some time the fathers' faculty of training their children and supervising their work in industry.<sup>2</sup> Data on changes in the composition of the economically active population in France since the beginning of the century also show a slow and gradual reduction in the "family labour system" (Przeworsky, Barnett and Underhill, 1980). The relative slowness with which production technologies and new forms of organization of economic

activities were introduced provided a breathing space of several generations during which people were able to adjust their patterns of family behaviour to the new conditions. This made it possible to consolidate the assignment of specifically working roles outside the home to the men, and specifically domestic roles to the women (the *breadwinner system*).

Something similar happened in the case of the transition to what K. Davis calls the "equality system", characterized by the fact that both spouses work. At a recent seminar of the International Social Security Association (Hoskins, 1990), many of the participants from industrialized countries concurred that the 1960s marked a turning point in the history of the family, in that the breadwinner system ceased to be the prevailing rule. The rates of participation of married women indicated that in most families both spouses had entered the labour force. In the United States, for example, these rates rose by an average of approximately one percentage point per year since the end of the Second World War, and in 1990 only 5% of families continued to follow the old pattern.

### III

#### General features of the changes in Latin American family structures

In Latin America the rate of change was much slower. Even in the middle of the present century, 55% of the population of 19 Latin American countries still lived in rural areas, and their main source of income was agricultural activities. By 1990, however, the figure had gone down to 18% for the same group of countries (United Nations, 1985). In order to understand the effects of this rapid process of urbanization on family structures it is necessary to take into account some features of the particular moment in history when these great transfers of population took place. I refer in particular to the type of organization which predominates in urban production activities and the degree of expansion of the mass media.

With regard to the first of these points, it may be said that with very few exceptions, the industrial,

commercial and services enterprises whose establishment coincided with the stages of rapid urbanization mostly adopted non-family forms of organization, in line with the technology and organization of the production of inputs for the various economic activities which predominated at that time. The result was a transfer of workers from family enterprises to non-family enterprises, and the faster and more recent the process of urbanization, the more intensive this transfer was. With regard to the second point, in most of the countries the great movements to the cities also coincided with notable changes in the coverage and content of the messages of the mass media. This gave rise to a "demonstration effect" of the forms and styles of life of the industrialized societies, which profoundly changed the aspirations and expectations of the masses. In this context, the adjustment of family structures to the new circumstances was subject to contradictory pressures, particularly in migrant families. On the one hand, the inertia of traditional cultural patterns

<sup>2</sup> Smelser examines the relationship between workers' protests of the time and the process whereby the family was losing some of its traditional functions in the socialization of children.

and the transfer of rural patterns of fertility to the cities favoured the maintenance of women in the home and the type of family division of labour described earlier. On the other hand, the difficulties in satisfying the rising aspirations of access to various elements of well-being by the family members made it necessary that women should contribute in some

way to the insufficient household income. Thus, in a complex combination of cause and effect, in which advances in education played a central role, fertility went down very rapidly in recent years, increasing the availability of married women for work outside the home and hence also the possibility that both spouses in a family would be in the labour market.

## IV

### Weakening of the authority of husbands and fathers in lower-class urban sectors

The distribution of power within lower-class urban families is of a macho and authoritarian nature, justified by "natural" privileges of the male sex and the very limited opportunities for discussing decisions. The legitimacy of this power is based on the force of traditional values and the fulfilment of the roles laid down by them. This concept of the intra-family distribution of power was simultaneously under attack from three angles, however: i) through the inability of men to fulfil their role of acting as the sole or main breadwinner to satisfy their families' needs; ii) through the weakening of the father image as a model for the new generations, and iii) through the action of ideological currents advocating greater equality of the sexes and thus questioning macho-authoritarian values.

#### 1. *The role of breadwinner*

In a study carried out in Chile on a sample of women from lower-class urban strata, it is noted that the fulfilment of the economic obligations of the husband is of fundamental importance in determining the women's assessment of his performance in the family (Raczynski and Serrano, 1985). This fulfilment is assessed as a function of the degree to which the consumption needs and aspirations of the family members have been satisfied. These needs and aspirations have undergone significant changes through the rapid expansion of the mass media, and they have also increased through the longer schooling of the children and their later incorporation into the labour market, which prolongs their dependent status.

The crisis of the 1980s reduced wages, increased unemployment and drove substantial sections of the

population into activities which were less productive, less stable and less covered by social benefits, thus helping to undermine the capacity of men in lower-class urban strata to satisfy the basic needs and growing consumption expectations of their families. One indicator of this is the increase in the proportion of households with incomes below the poverty line. This increase, however, conceals the fact that many households are able to escape from poverty through the work of other household members and especially the wife.

An analysis of information on six cities (Buenos Aires, São Paulo, Bogotá, San José, Montevideo and Caracas) shows that during the 1980s there was a considerable increase in the participation of married women and common-law wives in the labour force (in the second half of the decade this rate varied between 40% and 60% in these cities),<sup>3</sup> and this was particularly marked in the case of mothers between 25 and 39 years of age with children under five years of age in nuclear families (at the end of the period, their participation rate was between 33% and 57%). We do not know how far this tendency reflects what happened in the lower-class urban strata, but a study carried out in Montevideo confirms that if it had not been for the participation of wives in the labour force, the percentage of poor households in 1981, 1984 and 1987 would have been between two and three times greater (Kaztman, 1988). Everything seems to indicate that many men in lower-class urban sectors were under heavy pressure to give up

<sup>3</sup> It may be noted that these rates are similar to those registered by married women in a number of industrialized countries in the 1970s (United Nations, 1979).

their role of sole breadwinner. The fact that in most cases they did so against their will is reflected in the repeated comments registered in interviews of wives on the resistance they had to overcome in order to go out to work (Raczynski and Serrano, 1985; Cortázar, 1977; De Oliveira and García, 1991, p. 11, and Mattelart and Mattelart, 1968, p. 120). A contributory factor in this resistance was undoubtedly the importance attached by men to economic dependence as a guarantee of fidelity and a safeguard of their pretensions to authority in marital relations.

## *2. A model for the new generations*

The intra-family power distribution model most deeply rooted in lower-class urban sectors was built up over many generations through the daily interaction of the members of rural families, which, as we have already seen, accounted for the bulk of the lower-class strata in the region up to the middle of the present century. The most favourable environment for the development of this model was the small agricultural enterprise. In it, the father not only acts as main supplier of the household income but also organizes productive tasks in a cooperative effort with a high degree of mutual dependence and trains his children in the basic skills needed to carry out their economic activities. In this context, which was reproduced in craft workshops and small urban commercial enterprises in the countries of the region where urbanization took place at a earlier date, the adoption of the paternal model smooths the way for the incorporation of the children into the labour market, strengthens the father-child relationship and helps to legitimize the power exerted by the father within the family. Various processes have helped to break down this relationship.

The great majority of heads of household in the lower-class urban strata are wage earners in the lowest positions. They have little contact with their children. The exposure of the latter to the mass media, however, has allowed them to get to know more gratifying forms of consumption and lifestyles than those which they see around them. Young people have rapidly been turned into a subculture which is recognized as such by publicity and is the object of specific messages involving material and non-material symbols of belonging to that culture which change very rapidly. This subculture, which is backed up every day by the mass

media, captures the imagination of young people and is a powerful element in determining their expectations and aspirations.

The result is a further widening of the generation gap. Although this takes place in all households, the rift seems to be particularly deep in the lower strata. The first reason for this is because the period of youth (of "role moratorium") enjoyed by the parents of these households was generally shorter than for parents in other strata, so that there is less superimposition of their frames of reference with those of their children, and because rural migrants are concentrated in the lower strata, so that the burden of urban socialization is much greater for the children than for their parents. The second reason is because their achievements are far from satisfying the juvenile expectations contained in the subculture's values. The boys, who are better educated and have a better knowledge of the world than in the past, have their eyes fixed on the status symbols of modern society and are perfectly familiar with what the middle strata of society consider to be desirable goods. From this point of view, what their parents have achieved compares very poorly with the elements contained in the widely disseminated model lifestyles.

This disparity between efforts and achievements reduces the possibility that the children can consider the father's behaviour or standards as valid and effective models on which to base their own conduct. Finally, either because of the need to contribute to the family budget, or the desire to acquire goods which show that they belong to the category of modern young people but which the family cannot give them, or simply because of a desire to gain greater freedom and independence, many of them enter the labour market at an early age.<sup>4</sup> Whatever the causes, the precocious feeling of independence produced by having their own income may also heighten the children's resistance to paternal authority. Some studies on intra-family violence indicate that the erosion of the bases for the father's authority leads him to try to impose his will on the rest of the family in an authoritarian manner (De Oliveira and García, 1991), thus generating a kind of negative synergy whose final result is the progressive deterioration of the legitimacy of a form of power which is gradually losing its moral backing (Heintz, 1965).

<sup>4</sup> Madeira (1986, p.78) refers to studies made in Brazil which highlight the sense of "freedom" involved in young people's decisions to start work.

### 3. *Male supremacy as a value*

The concept of male domination formed part of the basic prescriptive nucleus of traditional Latin American society, and as such it remained for centuries beyond all doubt or possibility of question (Germani, n/d). Male pretensions to monopolize power in the home were backed up by institutions such as the church, schools and national and community organizations, whose simple, repetitive and unanimous messages implicitly assumed the supremacy of men in the power dimension.

Both urbanization and the modernization of the structures of production, as parallel processes of secularization which brought with them greater emphasis on individualism and personal realization and extended rational examination to areas traditionally considered as sacred, helped to undermine the cultural and institutional foundations of the concept of power centered on the male. The notable expansion of the mass media and the consequent opening up to multiple, divergent messages helped in this task. The fissures opened up by these processes were widened through the action of movements holding that, both for ethical reasons and for instrumental reasons connected with better adaptation of society to technological, social and demographic changes, it was necessary to progress towards greater equality of the sexes.

Various factors are facilitating the penetration of these ideas into the lower-class urban strata (or, at

least, those parts of these ideas which have to do with the questioning of the concentration of family power in the male). First of all, there are the factors already referred to concerning the gulf between the ideal patterns of behaviour defined by traditional family models and the real behaviour of fathers and husbands. Secondly, there are the degrees of freedom and independence which women are winning as they increase their participation in the labour force (generally through the force of economic circumstances), their educational levels, their knowledge of birth control procedures, access to domestic technology, and the availability of institutional options for looking after the children. And finally, there is the decline in the social control exercised by traditional institutions—especially the Church—, whose fields of action and messages are increasingly restricted, while more and more areas of human activity are subjected to rational analysis.<sup>5</sup>

Although no results of specific studies in this respect are available, the very limited available information gives grounds for assuming that the combined effect of these factors goes a long way towards explaining the inferior image that children have of their fathers compared with that of their mothers, and the similar image that women have of their husbands, as may be judged from some studies made in the region (Cassá, 1989; Gissi, 1978; Raczynski and Serrano, 1985).

## V

### **The weakening of the authority of fathers and husbands and its consequences**

Caught as they are between crushing material constraints, changes in patterns of values which threaten their traditional role, and scanty possibilities—further reduced by the crisis—of finding any legitimate ways of satisfying the needs and aspirations of their family members, a substantial proportion of men in the lower-class urban strata find themselves unable to play their roles of husband and father. This anomic situation gives rise to a vicious circle in which their failure to fulfil their obligations weakens their authority within the family, and this in turn helps to hasten their abandonment of those obligations.

<sup>5</sup> A detailed analysis of the content of the encyclicals, declarations, speeches and messages of ecclesiastical leaders and of Argentine publications connected with the Church led Wainerman (1981, p. 92) to reach the following conclusion: "on the basis of an image that the two sexes are essentially different and that, since their physical and psychological differences are of a biological origin, governed by divine will, and therefore cannot be changed in any way, it is asserted that women are the depositaries of all that is affective and of the heart: weak vessels whose area of action is naturally and obligatorily the domestic and private sphere, while men are the depositaries of authority and judgement: strong beings who can and should rule over public matters; the man is the lord and master of the home and the sole provider of its economic needs, while the woman is his meek and obedient helpmate".

In order to understand what this erosion of their authority means for fathers and husbands in the lower-class urban strata, it must be appreciated how important it is for them to enjoy the respect and recognition of their family members as a way of making up for their general situation of subordination and marginality in the economy and in society. In view of the lack of other sources of self-esteem, the loss of family authority deeply affects a man's appraisal of his own worth. The hypothesis I am putting forward is that the supposedly irresponsible behaviour of men in the lower strata with regard to their function in the process of social reproduction is essentially a response to the structurally conditioned devaluation of their own image.

What are the most significant consequences of these processes for the family and society? The first and most obvious of them is the disorganization of the family. Either because the family is never set up properly at all, because it is set up but not consolidated, or because the conjugal nucleus is dissolved, the failure of a man to fulfil his obligations as husband and father breaks the pattern of social roles which defines the family as an institution.<sup>6</sup> This first consequence gives rise to a second one: the strengthening of the mechanisms of reproduction of poverty and social inequality. Studies on the impact of forms of formation of the family on the biological and intellectual development of the children in

lower-class strata show that the disorganization of families is a major factor in the transmission of situations of high social vulnerability from one generation to the next; consequently, its effects help to determine the more or less equitable character of social structures (ECLAC, 1991; Buvinic, Valenzuela, Molina and González, 1991; Astone and McLanahan, 1991, pp. 309-320). A third consequence, which has been very little explored but which applies in particular to cases where the father is present, is connected with at least two contents of the socialization of the children. On the one hand, the children learn to live and adjust their behaviour to the impositions of a form of power which has no legitimacy and is divorced from morality, and they lack family models which would enable them to internalize a concept of power linked with responsibilities and duties. On the other hand, for the reasons set forth earlier, their environment offers them few examples in which effort is associated with achievement. As they internalize a notion of power which is divorced from morality and a notion of achievement which is not linked to effort, the children become carriers of expectations and patterns of conduct which favour the reproduction in the future of the situations which prevailed in their families of origin. Finally, the weakening or abandonment of the father's role makes society less capable of regulating important areas of the behaviour of the new generations.

## VI

### Conclusions

Both because of the consequences of family disorganization on the well-being of the persons involved and its effects on the social structure, one of the main problems that must be tackled by family policies is to find a way of furthering the formation and consolidation of units which can fulfil socialization functions

<sup>6</sup>The failure to set up a family, linked with the existence of unmarried mothers, is seen as a form of disorganization not only because the potential father and husband does not meet social expectations, but also because it reflects the weakness of the socialization and social control mechanisms of the respective families of origin (see Goode, 1961). I am not aware of any studies in the region which have explored the characteristics of the parents of unmarried mothers, other than the scanty information that may be provided by the mothers themselves (see Buvinic, Valenzuela, Molina and González, 1991).

in keeping with the demands of present-day societies. The most serious shortcomings in this respect are undoubtedly concentrated in the lower-class urban strata.

The foregoing considerations highlight the need to study in greater depth the values, attitudes and expectations of men in those strata and the conditions which cause them to be reluctant to assume the obligations of husband and father. Both academics and those responsible for the relevant policies must be alert to the bias observed in the region, where there is a tendency to view the problems of the family on the basis of information collected in studies centered specifically on the situation of women.

The policies which have been most highly developed in this field are those aimed at solving situations of intra-family breakup or conflict or at making up for the absence of the father. I wish to stress here the need to go to the root of the problem rather than merely dealing with its consequences. In order to deal successfully with the formation and consolidation of families it is necessary not only to create conditions which facilitate access to material resources, but also, in view of the magnitude of the generation gap, to give children and young people solid guidelines with regard to the roles of husband and father which are in keeping with the real conditions in which the family must live. These guidelines should foster the transmission of images that support

a more equitable distribution of intra-family decision-making power and less differentiation of tasks on the basis of sex, promoting more flexible attitudes among men with regard to their role in the household. In this way it would be possible to stimulate the presence of the man, strengthening his role in the family and at the same time correcting his expectations with regard to the distribution of power and division of labour in the home. Two of the most noteworthy advances made in this direction in recent decades are perhaps the progress made in eliminating segmentation by sex in enrolment in educational establishments and the equalization of the educational achievements of men and women on a level markedly higher than that of previous generations.

### Bibliography

- Astone, Nan Marie and Sara McLanahan (1991): Family structure, parental practices and high school completion, *American Sociological Review*, vol. 56, No. 3, Washington, D. C., American Sociological Association, June.
- Buvinic, Mayra (consultant), J. P. Valenzuela, Temístocles Molina and Electra González (1991): *La suerte de las madres adolescentes y sus hijos: un estudio de caso sobre la transmisión de la pobreza en Santiago de Chile* (LC/R. 1038), Santiago, Chile, ECLAC, 8 August.
- Cassá, Roberto (consultant) (1989): *Juventud y sociedad en República Dominicana* (LC/R. 512), Santiago, Chile, ECLAC, 7 July.
- Cortázar, René (1977): *Necesidades básicas y extrema pobreza*, Estudios CIEPLAN, No. 17, Santiago, Chile, Economic Research Corporation for Latin America (CIEPLAN), September.
- Davis, Kingsly (1984): Wives and work: the sex role revolution and its consequences, *Population and Development Review*, vol. 10, No. 3, September.
- De Oliveira, Orlandina and Brígida García (1991): "Jefas de hogar y violencia doméstica", Mexico City, El Colegio de México, mimeo.
- ECLAC (Economic Commission for Latin America and the Caribbean) (1991): *Panorama social de América Latina* (LC/G. 1688), Santiago, Chile, 31 October.
- Germani, Gino (n/d): *Democracia y autoritarismo en la sociedad moderna*, *Crítica y utopía*.
- Gissi, Jorge (1978): *El machismo en los dos sexos*, Chile, *mujer y sociedad*, Santiago, Chile, United Nations Children's Fund (UNICEF).
- Goode, William J. (1961): Family disorganization, Mabel A. Elliot and Francis E. Merrill (eds.), *Social Disorganization*, New York, Harpers and Brothers.
- Heintz, Peter (1965): *Curso de Sociología*, Buenos Aires, Editorial Universitaria de Buenos Aires.
- Hoskins, Irene (1990): Changing family patterns, women and social security, *Network News*, vol. 5, No. 2, Belgium, International Social Security Association, Fall-Winter.
- Jusid, Ana (1988): América Latina: literatura sobre familia en los años setenta y ochenta, *Familia y desarrollo en América Latina y el Caribe*, Estudios y documentos URSHSLAC, No. 6, Caracas.
- Kaztman, Rubén (1988): *Evolución y reproducción de la pobreza en Montevideo*, paper presented at the Seventeenth Latin American Sociology Congress, Montevideo, 5 and 6 December.
- Madeira, Felicia Reicher (1986): Youth in Brazil: old assumptions and new approaches, *CEPAL Review*, No. 29, Santiago, Chile, United Nations, August.
- Mattelart, Armand and Michèle Mattelart (1968): *La mujer chilena en una nueva sociedad*, Santiago, Chile, Editorial del Pacífico.
- Przeworsky, Adam, Barnett R. Rubin and Ernest Underhill (1980): The evolution of the class structure of France, 1901-1968, *Economic Development and Cultural Change*, vol. 28, No. 4, Chicago, IL, The University of Chicago Press, July.
- Raczynski, Dagmar and Claudia Serrano (1985): *Vivir la pobreza. Testimonios de mujeres*, Santiago, Chile, Programa de Investigaciones Sociales sobre



- Población en América Latina (PISPAL)/CIEPLAN, July.
- Smelser, Neil (1968): *Essays in Sociological Explanation*, New Jersey, Prentice-Hall, Inc.
- United Nations (1979): *Demographic Yearbook. Historical Supplement*, special issue. New York, United Nations publication, Sales No. E.79.XIII.8.
- (1985): *Estimates and Projections of Urban, Rural and City Populations, 1950-2025: the 1982 Assessment*, New York.
- Wainerman, Catalina (1981): La mujer y el trabajo en la Argentina desde la perspectiva de la Iglesia Católica a mediados del siglo, *Desarrollo económico*, vol. 21, No. 81, Buenos Aires, Instituto de Desarrollo Económico y Social, April-June.



## Erroneous theses on youth in the 1990s

*John Durston\**

Recent proposals aimed at furthering equality of opportunities for young people are often not backed up by detailed empirical information. This article takes issue with some contentions made in diagnoses on this subject, especially regarding formal education and integration into work, and contrasts them with recent information in this respect.

Consideration of the heterogeneous situations and characteristics of young people in the countries of the region shows how serious the lack of opportunities continues to be for a large number of poor and under-educated young people. At the same time, it gives grounds for cautious optimism over the future possibilities of offering better options to these young people and thus contributing to greater equity in the societies concerned.

Policies for improving opportunities for marginalized young people, rather than being attempted through specific programmes, should be carried out as part of the overall strategy of changing production patterns with equity in the urban and rural, formal and informal, and modern and traditional sectors. Their inner logic should consist of a virtuous circle made up of three elements: increasing the productivity of young peoples' labour, increasing the productivity of the units of production in which they work, and improving the organization and social integration of young people.

\*Social Affairs Officer, ECLAC Social Development Division.

The author is indebted to Rodolfo Stavenhagen in respect of the title and also wishes to thank Martine Guerguil and Emilio Klein for their valuable comments on a previous version of this article.

## Introduction

Equity, which is the great central objective of social development (ECLAC 1990a), largely depends on the successful application of the principle of equal opportunities for people of equal merits. The failure of past attempts to put into practice absolutely equalitarian utopias, and the general recognition that the "spontaneous" social phenomena linked with the market economy include the perpetuation of marginalization and the inheritance of privileges, have caused this aspect of equity to be recognized as a legitimate priority object of planning and public intervention.<sup>1</sup>

The skewed "intergenerational transmission of lifetime opportunities" (ECLAC, 1990b) begins before a child is even born, with such factors as the nutrition of the mother and the economic and social characteristics of the parents and the home into which the child is born. It is the fleeting period of youth, however, which is the stage in life in which most of the important opportunities are concentrated and in which the channels of social mobility are definitively opened for some and closed for others. Just as the psychological experiences of the adolescent play a decisive role in forming the definitive personality of the adult, it is the greater or lesser degree of success achieved in the passage through the stage of youth—in terms of education, social interaction and the first ventures into the labour market—which defines the range of possible socio-occupational identities for the adult.

Since youth is a transitional stage between the home in which the child is socialized and the formation of a new home and a new social identity for the adult, it is a particularly valuable indicator of the relative rigidity or flexibility of the structures of socio-occupational stratification: an aspect of fundamental importance as regards the question of equity in the process of economic and social development. The intergenerational transmission of lifetime opportunities is one of the main processes—if not the main process—whereby a rigid social stratification is perpetuated (Weber, 1958). In poor homes where the adults have a low level of formal education and were brought up in cultures very different

<sup>1</sup>The other aspect of equity—income redistribution—reduces the most extreme manifestations of inequality more rapidly. This reduction of the extremes is also a prior requisite for achieving true equality of opportunities (see Gurrieri and Torres-Rivas, 1990; ECLAC/UNESCO, 1991; and ECLAC, 1992).

from the dominant one, the possibility that education will be able to provide the children with real equality of opportunities to attain jobs which are more productive, have better status and are better paid than those of the parents will be extremely small unless strong compensatory measures are applied.<sup>2</sup>

There are two basic conditions for overcoming these barriers standing in the way of equity in the period of youth: firstly, that each young person should be able to realize his full educational potential—to form his “capabilities” (Sen, 1989)—in accordance with his inborn intelligence and his efforts to learn, and secondly, that there should be equality of access to the same occupations and equal income for all young adults with similar levels of educational achievement. The aim of the present article is to see, on the basis of recent statistical information, to what extent these two conditions have been fulfilled in Latin America.

Every policy proposal must be based on a diagnosis and a projection. However, many of the strategies proposed in recent years for moving towards equality of opportunities for the young people of Latin America have been based on subjective impressions, with little detailed empirical information or with a superficial and sketchy analysis of such information. This article will take issue, on the basis of recent empirical data, with some contentions which are frequently found in diagnoses on Latin American youth, particularly with regard to formal education and the process of integration of young people into the adult working world. It will conclude with some reflections on what this “revisionist” diagnosis means for the formulation of policies aimed at giving greater equality of opportunity to the young people who will become adults in the 1990s.

## I

### Parameters and definitions

The age stratum analysed is that of adolescents, youths and young adults between 15 and 29 years of age. The definition of youth used here distinguishes between the abstract concept of youth as a phase in the life of human beings, and the concrete concept of the young people of today: the cohort of real persons who are at this moment in the stage of youth.<sup>3</sup>

In this article, we will deal mainly with the prospects of the real youth of today, in the light of the trends observed in household surveys of the

1980s, and with policies designed to promote equity among subgroups of young people of this “generation of the 1990s”.

There are two main prior considerations which guide this analysis: firstly, the heterogeneity of the various national situations in Latin America and the Caribbean means that it is difficult to make an analysis at the regional level. Every analyst must struggle against the unconscious tendency to impose on such widely varying countries an image similar to that of the situation in the country he knows best. The very different possibilities of achieving a high degree of equality of opportunity in education and employment for the whole of youth in the medium term give rise to a range of national situations which are structurally very different from each other. These structural differences reduce the usefulness of standard proposals for the whole region and for all the countries composing it. In order to simplify the analysis, however, it is useful to consider the phase reached by each country in its demographic, occupational and economic transition from an agricultural society to a modern urban industrial and services society. We shall concentrate on the two extremes of this continuum: on the highly urbanized countries of

<sup>2</sup> There are various other mechanisms for the reproduction of the social status of the parents in the children, such as the inheritance of wealth, the transmission of subcultural codes, introduction into informal networks of social contacts, etc. In this study, however, we are only interested in the role that public policy can play in ensuring that the educational system and the labour market function on terms of authentic equality of occupational opportunities. In this article the subject is restricted to the prospects of the present cohorts of young people in the 1990s.

<sup>3</sup> Like other researchers in the region, we have preferred to add the 25-29 age group (“young adults”) to the usual statistical definition of youth, since at present between 10% and 20% of urban young people between these ages have not yet become fully integrated into productive employment (ECLAC, 1990a).

the Southern Cone, and on the poorest and most rural countries of the region (the Andean, some Caribbean, and the Central American countries). All the other countries occupy intermediate positions in this range of levels of demographic transition, urbanization and modernization, which is also related to variables such as employment structure and average levels of education. Ordering the countries in this way is no more than a heuristic tool, however, and there are clear limits on the validity of its use. On the one hand, it does not mean that all countries must necessarily follow the same path of modernization, and on the other hand several large countries such as Brazil, Colombia and Mexico, rather than occupying "intermediate" positions in

the continuum, are seen to be more or less polarized nations with a developed part and a poor part coexisting and interacting within the same territory.

The second main consideration in our analysis arises naturally from the way in which recent statistical data shed new light on eight frequently repeated assertions which have served to guide some diagnoses and proposals on policies for youth but which, when compared with the empirical evidence, seem to us to be erroneous.<sup>4</sup> This exercise is carried out as a way of leading up to conclusions which in many cases contradict these commonplaces and make it necessary for us to modify our working hypotheses, diagnoses and policy recommendations.

## II

### **Eight erroneous contentions on youth in the region**

The most common erroneous contentions on youth in Latin America cover a wide variety of topics. An effort has been made here to order them in line with a simple typology of these topics: thus, the first contention concerns the growth rate of the young population, others concern education, and others employment.

*Erroneous contention No. 1: The growth rate of the number of young people is going down steadily all over Latin America.*

*Observations.* The number of young people in the region as a whole is indeed growing more and more slowly, but what is true for the region as a whole is not necessarily so for each of the countries composing it. Various poor and predominantly rural countries, such as Bolivia, Guatemala, Honduras and Haiti, are in fact now registering peak youth growth rates as part of their processes of structural demographic transition (table 1). Moreover, the growth rates of limited age groups (such as young people) are more sensitive than the growth rate of the population as a whole to earlier changes in fertility and infant mortality. In countries such as Argentina and Chile, which are at a more advanced stage of demographic transition and have had low growth rates for years, there may nevertheless be sharp fluctuations in the growth rates of the young population. Because of

an earlier increase in fertility, Argentina is currently registering a temporary speeding up of the growth rate of its young cohorts, but the rate will go down again before the end of the century (table 1). In Chile in contrast, the number of young people is going down in absolute terms at this moment, but it will rise again with the cohorts of the second half of the 1990s.

In a recent exercise to project employment and income trends in the formal and informal sectors up to the year 2000, a striking feature—although this was not highlighted in the analysis—is that the factor determining the prospects of productive employment and income is not so much the stage reached in the transformation of production patterns as the growth rate of the working-age population in each type of country studied (ILO/PREALC, 1990). For this reason, the great heterogeneity of the various national situations with regard to the growth rates of the new cohorts of young people reaching working age each year is of particular importance.

<sup>4</sup>Contentions 1, 3 and 6 are expressly or implicitly contained, for example, in UNOV/CSDHA/SDD, 1991; contentions 7 and 8 are to be found in ECLAC, 1990a, and contention 5 is in ILO/PREALC, 1990. Contentions 2 and 4 have appeared in various national diagnoses of the impacts of the crisis on youth, in proposals for development strategies, etc. All of them are frequently heard in meetings and seminars on these subjects, both in academic circles and within the United Nations system.

Table 1

**SELECTED LATIN AMERICAN COUNTRIES:  
GROWTH OF YOUTH POPULATION,  
1990-1995 AND 1995-2000**  
(Average annual percentage rates)

|           | Age group | 1990-1995 | 1995-2000 |
|-----------|-----------|-----------|-----------|
| Argentina | 15-19     | 2.99      | 0.01      |
|           | 20-24     | 2.50      | 3.00      |
|           | 25-29     | 0.96      | 2.51      |
| Bolivia   | 15-19     | 3.08      | 3.09      |
|           | 20-24     | 3.06      | 3.19      |
|           | 25-29     | 2.95      | 3.18      |
| Chile     | 15-19     | -0.74     | 2.55      |
|           | 20-24     | -1.29     | -0.18     |
|           | 25-29     | -0.10     | -0.18     |
| Cuba      | 15-19     | -7.83     | 0.32      |
|           | 20-24     | -1.29     | -7.96     |
|           | 25-29     | 0.81      | -1.30     |
| Guatemala | 15-19     | 3.48      | 2.79      |
|           | 20-24     | 3.40      | 3.66      |
|           | 25-29     | 3.12      | 3.59      |
| Haiti     | 15-19     | 1.07      | 1.63      |
|           | 20-24     | 1.40      | 1.15      |
|           | 25-29     | 3.13      | 1.49      |
| Honduras  | 15-19     | 1.83      | 3.19      |
|           | 20-24     | 3.99      | 1.86      |
|           | 25-29     | 4.42      | 4.02      |

Source: ECLAC, on the basis of data from CELADE, 1991.

There are no grounds, then, for expecting the problems of young people and of equity in the region as a whole to be relieved merely by the gradual reduction of the number of those requiring education and taking up their first jobs. The heterogeneity of the growth rates of the number of young people –not only in different countries but also at different times and in different strata of a given country– must be taken into account in formulating public policies. Strategies designed to ensure greater equality of opportunity with regard to education and productive employment must above all be flexible in time and capable of being modified to suit young populations from different social sectors, and from the very start they must take account of the estimated probable demand for access.

*Erroneous contention No. 2: The demand for primary education has already been satisfied or almost satisfied in the great majority of the countries of Latin America.*

*Observations.* The idea that the problem of primary education has already been “settled” in Latin America may stem from the widely disseminated figures on gross rates of enrolment. The statistics provided by governments indicate that gross enrolment of children of primary school age has been close to 100% for several years now in most of the countries of the region (ECLAC, 1991a). However, these figures suffer from intrinsic weaknesses because they come from two very disparate sources: the enrolment figures collected by Ministries of Education, and the information on the population of primary school age derived from population censuses. Official data from household censuses, which are methodologically stricter, have in various cases indicated that around 1980 there were significant percentages of children (who are now young people) who were not attending school, and some of these figures came from countries where the gross enrolment rate for the year in question was close to or over 100% (table 2).

Even more important is the high and growing rate of repetition in the early years of schooling (Schiefelbein, 1989 and ECLAC, 1991b), which reflects the enormous qualitative insufficiency and lack of adaptation to the needs of poor children which is displayed by public education in almost all the countries of the region. Repetition is often a vicious circle in which the child remains bogged down until adolescence and eventual expulsion or “dropping out” from the formal educational system.<sup>5</sup> As might be expected, the rates of absenteeism and especially of low educational achievement among children from the poorest 25% of households are significantly higher than the average rates for all children (ECLAC, 1991b, tables 12 and 13).

<sup>5</sup> Hardly any young person “drops out” simply because he wants to. Both repetition and dropping out are felt by the young people concerned to be signs of personal failure, but from the educational point of view, it is the educational system which has failed in the vast majority of these cases.

Table 2

**BRAZIL, URUGUAY AND VENEZUELA:  
FUNCTIONAL ILLITERACY IN ONE COHORT,  
ABSENCE FROM SCHOOL A DECADE AGO,  
AND YEARS OF SCHOOLING OF YOUNG  
PEOPLE OF TODAY**

|                  | Children between<br>6 and 14 who<br>do not go to<br>school<br>(%) |             | Young people<br>between 15 and<br>19 with 0-3 years<br>of completed<br>schooling |
|------------------|---|-------------|--|
| <i>Brazil</i>    | <i>1979</i>   | <i>1987</i> | <i>1987</i>  |
| Urban sector     | 17.3  | 6           | 19   |
| Rural sector     | 39.8  | 13          | 51.8   |
| <i>Uruguay</i>   | <i>1981</i>   | <i>1989</i> | <i>1986</i>  |
| Urban sector     | 5   | 5.5         | 2.4  |
| <i>Venezuela</i> | <i>1981</i>   | <i>1986</i> | <i>1986</i>  |
| Urban sector     | 6.9   | 6           | 5.3  |
| Rural sector     | 17.3  | 17          | 21.2   |

Source: School attendance: ECLAC, 1991b; Completed schooling: ECLAC, 1991c.

The proportions of young people with 0 to 3 years of schooling –an indirect indicator of functional illiteracy, since most people with these levels of education cannot read even simple texts– are an eloquent illustration of the consequences of dropping out from primary education among the young people of today (table 2). In 1986, the rates of functional illiteracy ranged from 2.4% of the urban population between 15 and 19 in Uruguay to 51% of rural youth in Brazil (table 2) and to as much as 72% of young rural women in Guatemala (ECLAC, 1991c).

In other words, there continue to be young illiterates in all the countries of the region. In most of the countries the problem of under-educated young people continues to be serious, especially among those who live in rural areas or are of rural origin, and it demands effective responses through programmes to remedy deficient learning processes at the primary school level. In many countries of the region (Bolivia, Brazil, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti and Honduras) the main current challenge in education from the point of view of equity is still that of eliminating functional illiteracy among the young people of today. Without qualitatively adequate primary education for all, secondary and higher education has no role to play in an equity strategy, at least in

countries where most young people lack a learning base which is sufficiently solid to enable them to benefit from secondary education.

*Erroneous contention No. 3: In Latin America, young men have more years of schooling than young women.*

*Observations:* Latin America differs from the other developing regions (and in this sense is more similar to the developed countries) in that in the great majority of the countries in the region young men do not have more schooling than young women (Eichelbaum, 1988; ECLAC, 1989; ECLAC, 1991c; Schiefelbein and Peruzzi, 1991). Except in a small number of countries at the least urbanized and most predominantly peasant and indigenous extremes of the region, girls go to school more than boys. In a number of countries, the present generation is the first one in which this new relation of educational privilege between the sexes is registered, even in higher education, according to data from official surveys in six countries from 1986 onwards (ECLAC, 1991c; Parada, 1991). The disadvantages of young university-level women begin to be observed more in the type of studies in which they are concentrated, since these tend to be intended to prepare for occupations defined by the predominant culture as “women’s work”, of lower status and income than the tertiary level studies in which men are concentrated.<sup>6</sup>

It is only in societies which are still markedly agricultural that young women have gone to school less, especially in rural areas. The most pronounced and serious educational disparity, however, is that which persists in all countries between

<sup>6</sup> Most of the occupations reserved for educated women are, on the one hand, non-manual, and on the other hand, a reflection of the traditional stereotype of women as “servers” of men and children. An aspect of the situation of young women in these areas of education and occupation which has been little studied is that of their proximity to men in occupations of higher status and income. At least in past decades, women of the lower-class strata saw a “good marriage” as an important means of social mobility (Gurrieri, 1971, p. 53).

rural young people of both sexes and their urban peers (ECLAC, 1991b and 1991c).<sup>7</sup>

*Erroneous contention No. 4:* *The crisis has led to massive and generalized dropping out from school, because of the reduction of income suffered in the homes of lower-class young people*

*Observations:* Although there has been some tendency towards greater early dropping out among some subgroups of young people in some countries, such as Costa Rica and Brazil, this has not been on a very large scale. Moreover, there have been two other reactions to the difficulties caused by the economic crisis of recent years. One has been the increase in young people (especially males) who study and work at the same time: in 1987 in Brazil, for example, 46% of the young men between 15 and 19 who were studying were also working or seeking work. The other is the tendency towards longer studies, partly due to the persistent demand in all social strata for more education for their children, and partly representing a reaction to a depressed labour market which cannot, in the short term, provide all young people with jobs in keeping with their expectations. Thus, it would appear that many young people stay out of the market and continue to study with the hope of entering a more buoyant future labour market with better qualifications.<sup>8</sup> This latter strategy, however, is not open to young people from households with very few resources, and instead of studying they have to work in order to live, at great personal sacrifice and to the detriment of their academic performance (Braslavsky, 1991). Work in itself is of course also a useful way of acquiring

<sup>7</sup> This disadvantage is largely explained by the fact that there is a higher proportion of poor people in the rural population than in urban areas. In this context, another "erroneous contention" is the idea that the rural poverty of yesterday has been transferred to the urban centres. What has actually happened is that today most of the *total* population of the region lives in cities, and this partly explains why a slight majority of poor people also live there. In addition to the fact that the proportion of poor people continues to be very high in rural areas, however, there is also the fact that "indigents" – the poorest of the poor – mostly continue to live in rural areas (ECLAC, 1990). Among poor young people, the indices of rurality are probably even higher, since they include potential migrants.

<sup>8</sup> It is not possible to determine exactly how much of the lengthening of studies is due to the attitude of seeing them as a refuge from a labour market which is in crisis, and how much is due to the long-standing general tendency to increase the number of years of schooling.

experience and background for seeking better jobs, but when it is only the poorest young people who follow this path, work diverts them from the competition for tertiary-level education. In practice, this helps to strengthen the stratified transmission of opportunities between generations.

*Erroneous contention No. 5:* *The size of the urban economically active population of young people is already fixed in advance for the period 1990-2000, because these cohorts of the new generation have already been born.*

*Observations:* The few projections of the urban economically active population (EAP) which have been made at the regional level assume, not unreasonably, that various important economic and social processes will follow in the future a similar pattern to that observed in recent decades. However, the youth portion of the urban EAP may vary in coming years in two ways. On the one hand, the proportion of the total youth population which is working or seeking work varies from one country to another, from one subgroup to another, and from one moment to another in line with the proportions which remain *inactive*: those who devote themselves exclusively to longer studies, young people engaged in domestic tasks, and those who neither study nor work and have lost all hope of finding work.<sup>9</sup> On the other hand, rural-urban migration flows of young people may vary according to the perception that rural young people have of the relative advantages of *staying in rural areas* or migrating.<sup>10</sup> In countries where there is a majority of rural population, this perception is decisive in determining the growth rate of the cohorts of young people and young adults entering the urban economically active population each year.

<sup>9</sup> The numbers of young people who do not work or study and of young women engaged in domestic tasks have increased in recent years in some countries, in contrast with historical trends (ECLAC, 1991b).

<sup>10</sup> There are indications that migratory flows vary as a function of the difference between the urban minimum wage and average rural day-wages (Commander and Peek, 1983), and that the emigration of young people with complete primary education is lower in more prosperous areas where there is a higher level of agricultural technology (ECLAC, 1992). Moreover, there is evidence that rural-urban migratory flows are going down in some countries, possibly because some crops have become more profitable as a consequence of reforms in national price and subsidy policies.



*Erroneous contention No. 6:* *The main damage which the debt crisis has caused among adolescents is the high level of unemployment currently registered in the 15 to 19 age group.*

*Observations:* Unemployment is such a serious problem that, whatever the proportion of young people affected, governments must give high priority to its eradication. In order to deal with adolescent unemployment adequately, however, it must be seen in perspective. In the first place, the levels of unemployment of all age groups increased in the first years of the crisis, but then sank back in most of the countries to somewhere near their historical levels (ECLAC, 1990a), both for young people and for adults. In the second place, the young economically active population has historically tended to go down as a percentage of the total youth population in the process of modernization of production patterns, since a growing proportion spend a longer time studying. The corollary of this is that young people who give up their studies have less education and fewer production skills than the average, work in unskilled occupations, and register high rates of unemployment. All this has led to a growing distortion of perceptions regarding youth unemployment rates when these are calculated as a percentage of the young *economically active* population, rather than of the *total* youth population, and the greater the degree of modernization of the country, the greater this distortion is. To take an extreme example, in 1986 in Panama, 34% of the urban female adolescent EAP was unemployed, but this was only equivalent to 7% of the total urban population of that age group and sex, since the great majority were studying and did not form part of the economically active population (ECLAC, 1991c).

All the countries of the region have passed or are passing through the transition towards modern production patterns in which young men work less and study more and young women devote themselves less to traditional domestic tasks. In a first phase of this socio-occupational transition to modernity, many of these young women enter the wage-earning labour market, but a growing number also take up secondary and tertiary-level studies.

When measured with the more appropriate yardstick of the total youth population, there are no clear indications that youth unemployment rates, as a

percentage of the total youth population, have increased compared with the same rates for the total population (they remained at around double the latter rates both at the end of the 1970s and the end of the 1980s), nor that a major sector is being formed of people who, after being young unemployed, are becoming unemployable adults (ECLAC, 1991c, Statistical Annex, table 1). Rather than increased unemployment, the most serious and lasting damage done by the crisis has been the reduction of the time available for school work or early abandonment of studies in order to work, in some subgroups of young people from lower-income homes. Their lack of minimum qualifications will probably make it difficult for these young people to integrate themselves in a productive manner into the labour force, and many of them will be doomed to lifelong underemployment.

*Erroneous contention No. 7:* *New jobs for young adults (20 to 29 years of age) are only being created in the informal sector.*

*Observations:* It is quite true that in most of the countries of the region, employment in the urban informal sector has grown more than in other sectors, and the relative weight of that sector in the total economically active population has therefore increased. In many countries, however, employment in the formal sector has also grown in absolute numbers (table 3); in cases where the formal sector already covers a high percentage of the total labour force, this growth has in some periods exceeded that of the urban informal sector, once again in absolute terms.<sup>11</sup> In particular, many of the jobs recently occupied by young adults (20-29 years of age) with more education are in the formal sector (ECLAC, 1991b). Indeed, many employers in the formal sector have been benefitted by an abundant supply of young workers with a good education, willing to accept lower wages than before (ECLAC, 1991b and 1991c; ILO/PREALC, 1990).

<sup>11</sup> In the cases of Panama and Brazil, it has not been possible to separate the population employed in enterprises with one to five employees (urban informal sector) from the total number employed in private firms. It has been estimated that these micro-enterprises absorbed a large part of the increased number of people seeking work during the decade. This subsector is relatively small in both countries, and in the case of Costa Rica it did not grow in relative terms over the period 1982-1988.

Table 3

**COSTA RICA, PANAMA AND BRAZIL: ABSORPTION OF INCREASE IN EMPLOYED  
POPULATION BETWEEN 25 AND 29 YEARS OF AGE BY THE FORMAL  
AND INFORMAL SECTORS**

|   | Increase    |     | Urban formal<br>sector<br>(%) | Urban informal<br>sector<br>(%) | Domestic<br>service<br>(%) | Agricultural<br>sector<br>(%) |
|---|-------------|-----|-------------------------------|---------------------------------|----------------------------|-------------------------------|
|   | (Thousands) | %   |                               |                                 |                            |                               |
| <i>Costa Rica</i> <sup>a</sup><br>1982-1988 | 35.5        | 100 | 29                            | 31                              | 15                         | 25                            |
| <i>Panama</i> <sup>b</sup><br>1979-1986     | 10.3        | 100 | 43                            | 23                              | 6                          | 32                            |
| <i>Brazil</i> <sup>b</sup><br>1979-1987     | 2 067.6     | 100 | 62                            | 20                              | 8                          | 10                            |

Source: ECLAC, on the basis of household surveys.

<sup>a</sup> In Costa Rica, the urban informal sector covers non-agricultural own-account workers (excluding professionals and technicians), unpaid family members, and persons employed in enterprises with between 1 and 5 workers.

<sup>b</sup> In Panama and Brazil, the urban informal sector covers own-account workers (excluding professionals and technicians) and unpaid family members ("Limited Definition"). Because of the lack of disaggregated data, persons employed in enterprises with 1 to 5 workers are included in the urban formal sector.

*Erroneous  
contention No. 8*

*The poorest economically active young adults are to be found in the urban informal sector, whose workers are those expelled or rejected by the formal sector because of their low levels of skills.*

**Observations:** When we speak of the urban informal sector, we are speaking of something which may be one of two different phenomena. In its theoretical definition, the urban informal sector is a part of the economy characterized by production units with very little capital, largely self-generated jobs, and a labour force with a low level of skills which has been expelled from the formal sector (where the jobs are more productive and better paid).

The second definition of the urban informal sector seeks to make this theoretical concept operational from the statistical point of view, in terms of the usual variables of the available official censuses and surveys. According to this *operational/statistical* definition, the urban informal sector is made up of persons working in non-agricultural occupations in own-account activities (excluding professionals and technicians), in

family production units, or in small enterprises with between one and five employees; sometimes, domestic servants are also included in this group. This same definition is used to estimate the magnitude of underemployment (usually by adding together the population employed in agriculture, own-account activities and in family production units).

Table 4 sticks to this definition as far as possible and applies it to the active population of young male adults in four countries in a recent year of the crisis period. It is immediately obvious that this table provides some useful data for analysing the employment opportunities open to young adults today. First of all, in the five types of jobs most frequently encountered in the informal sector, one country shows clear superiority of those employed in the formal sector in terms of income (and, in general, productivity). This country is Panama, the most "formalized"<sup>12</sup> and "modernized" of the four countries in table 4

<sup>12</sup>In Panama, 55% of the total employed population between 25 and 29 years of age was in the formal sector in 1986 (ECLAC, 1991b).

Table 4

**PANAMA, COSTA RICA, BRAZIL AND GUATEMALA: INCOMES OF MEN BETWEEN  
25 AND 29 IN THE FORMAL AND INFORMAL SECTORS<sup>a</sup>**

*(Average income of the total employed population = 100)*

|                                 | Panama, 1986  |                 | Costa Rica, 1988 <sup>b</sup> |                 | Brazil, 1986  |                 | Guatemala, 1986 |                 |
|---------------------------------|---------------|-----------------|-------------------------------|-----------------|---------------|-----------------|-----------------|-----------------|
|                                 | Formal sector | Informal sector | Formal sector                 | Informal sector | Formal sector | Informal sector | Formal sector   | Informal sector |
| Industrial and craft workers    | 0.84          | 0.77            | 0.83                          | 1.08            | 0.98          | 1.14            | 1.00            | 0.73            |
| Transport drivers               | 0.87          | 0.84            | 0.98                          | 1.15            | 0.83          | 2.19            | 1.15            | 0.83            |
| Construction workers            | 0.70          | 0.59            | 0.78                          | 0.91            | 0.55          | 0.81            | 0.98            | 1.01            |
| Shop assistants, street traders | 0.84          | 0.51            | 0.81                          | 0.96            | 0.83          | 1.11            | 1.04            | 1.03            |
| Agricultural workers            | 0.46          | 0.34            | 0.54                          | 0.68            | 0.38          | 0.63            | 0.65            | 0.93            |

Source: ECLAC, on the basis of household surveys.

<sup>a</sup> In the most frequent occupations in the informal sector, according to the "limited" definition of the Regional Employment Programme for Latin America and the Caribbean (PREALC), wage-earners = formal sector and own-account = informal sector.

<sup>b</sup> Employed male population (any age).

(ECLAC, 1989). In two other countries, however, the income of these young adults in the urban informal sector is higher than that of their opposite numbers in the same occupations in the formal sector, and the same is true of those working in agriculture. These data coincide with the conclusions of other researchers, according to which in 26 of 28 household surveys analysed, the poorest 25% of households in the region receive most of their income in the form of wages and not through own-account activities (ECLAC, 1991b).

Secondly, it is worth noting that the differences in income between the two sectors are smaller than the differences between different occupations (in either of the two sectors). This suggests that the heterogeneity of the informal sector (ILO/PREALC, 1990) is due partly (ECLAC, 1989; Cacciamali, 1983) to voluntary mobility –and not just expulsion– of workers from the formal to the informal sector, which occurs when the real wages in the former deteriorate and the workers perceive the possibility of obtaining advantages by working on their own account. This information also suggests that the higher overall average

productivity of the formal sector is due largely to the weight of non-manual occupations (office workers, professionals, technicians, etc.) who require medium or high levels of qualifications.

In order to evaluate the equality of opportunity with regard to employment and income that the young people of today will encounter in the coming years, it seems necessary to formulate a new and modified model of formal/informal employment (see for example Tannen, 1991), in which expulsion or rejection of workers from the formal sector is not the only determining factor in the size of the urban informal sector. As well as taking into account voluntary movements in both directions between these sectors –and between them and the agricultural sector–, it also seems worth while evaluating the level of education or skills attained by various subgroups of young people, not so much in relation to a rigid formal/informal dichotomy, but in terms of the types of occupations which they can hope to enter, either in big firms or micro-enterprises, or working on their own account.

### III

#### Equity policies for the generation of the 1990s

It is not disputed here –indeed, this is not the place to dispute such an assertion– that most of the countries of the region are far from reaching the degree of equity needed to achieve a change in production patterns which is cohesive and stable from the social point of view. Nor does it seem feasible that this generation of young people, whose capabilities are already very inequitably defined (ECLAC, 1991b), will be able to achieve real equality of opportunity with regard to employment and income. On the contrary, the tremendous shortcomings in training, and the vast number of young people today who are suffering from these shortcomings in all the countries of the region, give no grounds whatever for complacency nor for easy optimism that things will put themselves right automatically.

These realities make it necessary, in this decade of economic adjustment and restructuring and for this generation, to set the objectives with regard to equity at a more modest level. One of these objectives would be to increase as far as possible the opportunities for education, employment and better income for young people in the poorest rural and urban strata. Such a deliberately skewed increase in the opportunities for education, employment and reasonable income of young people of the poorest strata must be distinguished from the “structural mobility” which characterized the social changes in the three decades prior to the crisis in the region, and thanks to which a large part of the new generations in all strata improved their occupational and economic situation, albeit without really changing the great existing inequalities (ECLAC, 1989). In the 1990s, what we can reasonably propose is that the increases in the per capita gross domestic product (which may be quite modest, especially in the first part of the decade) must be reflected in increases of at least a similar amount in the support given to education of the marginalized young people of today and in the income they receive from their work. The analysis made in the preceding pages helps to place in perspective the trends already observed with regard to equity of access to education, employment and higher incomes. In order to take account of these trends in policies aimed at promoting equality of opportunity –using the restricted definition of equity applicable to this

generation of the 1990s– it is necessary to review in approximately reverse order some of the erroneous contentions and the observations made on them above.

With regard to a fundamental aspect –the feasibility of achieving greater equity in the midst of economic adjustments and restructuring– we should recall recent experiences such as those of Costa Rica and Mexico (García, 1991), which show that it is possible to carry out far-reaching processes of adjustment and restructuring of production with a minimal social cost (in both degree and duration) in terms of inequity, provided the political forces are agreed that it is necessary to give maximum support to levels of employment, minimum wages and essential social spending.

##### *1. General considerations on education and income in the 1980s*

Generally speaking, “educational capital has continued to weigh heavily in determining the capacity to generate income from work” (ECLAC, 1991b, p. 35). In spite of the growing disparities between the quality of free public education and paid private education, this weight is reflected, in general terms, in the correlation between the number of years of study completed by young adults and their income. Clearly, the differences in the quality of the first years of education have a feedback effect –in terms of educational backwardness and more or less early abandonment of studies– on the number of years of studies successfully completed. In most of the countries of the region, where less than one-fifth of young people manage to continue studying after their secondary education and where another fifth or more consists of functional illiterates, the dispersion of the youth population in terms of number of years of studies successfully completed means that this variable continues to be useful for evaluating the educational capital of the youth labour force of today.

Another process which has affected equity in labour remuneration is a secondary effect of the relative stagnation in the creation of new jobs of higher productivity (ECLAC, 1991c). This has reduced the effect of education as a channel for social

mobility, since the difference in income between better educated young people and their less educated but better paid elders seems to have increased (ECLAC, 1991c). There has thus been a downward levelling of average incomes in various middle-class or white collar occupations; it was in these occupations which demanded higher levels of education that previous generations of young people had found their main channel of upward social mobility (ECLAC, 1991b and 1991c). Up to a certain point, because of the abundance of relatively well-qualified labour among young people in the 1980s, they have had to pay a good part of the social cost of the crisis and the adjustment.

Against this empirical background, various guidelines can be deduced for strategies aimed at achieving greater equity in employment. As the main problem posed by the more modest definition of equity is the absorption of young people with less education in productive jobs that give them sufficient income to escape from poverty, it is worth looking again at the observations on contention No. 8 on productivity in the informal sector and contention No. 7 on absorption in the formal sector at lower wages.

## *2. Productive employment for young people in the urban informal sector*

In the less developed countries (and also in recently industrialized countries which display social polarization), where there are relatively big urban informal sectors and a current high growth rate of the young cohorts, the need to reduce the prevailing inequality of opportunities calls in the medium term for the provision of support to those microenterprises in the informal sector which appear to be "viable candidates for modernization and expansion" (ILO/PREALC, 1990, p. 81). As it costs less to improve the productivity of the informal sector than to create (adequately remunerated) jobs in the formal sector, the informal sector can occupy a notably important place, especially in the countries where it is larger and is growing more rapidly.

The available information on the true magnitude of urban informal sector heterogeneity (see the observations on contention No. 8) lead to a further conclusion: that in order to improve the opportunities of productive employment for the less favoured young people it is necessary to reduce to the minimum that part of the urban informal sector which really does

correspond to its theoretical definition, that is to say, those microenterprises which do indeed have extremely low levels of capital, know-how and integration into formal markets. In other words, if a good proportion of informal sector jobs have levels of income which are higher than the average income in the same occupations in the formal sector (table 4), this part of the urban informal sector does not raise any problem of "underemployment". The formal sector is not always a synonym of modernity, while a substantial part of the empirical informal sector, in contrast with its theoretical abstract model, has modernized its activities in recent decades, raising its levels of capitalization, training and productivity to levels comparable with the same jobs in the formal sector (ECLAC, 1989).

In order for the "modernized" urban informal subsector to serve as a channel of mobility for marginalized youth, it will be necessary to improve and expand information systems on available jobs and local "labour exchanges", while at the same time providing assistance in the form of credit, technical assistance and marketing services to micro-production units which give employment to these young people.<sup>13</sup>

At the same time, as suggested in the observations on contention No. 7, it would be wrong to discount out of hand the substantial capacity of the formal sector to absorb the increasingly well-trained youth labour force which is emerging in all the countries of the region (see observations on contention No. 4). It could be said, as a working hypothesis, that the countries which are still in the "easy phase" of the employment transition (ECLAC, 1989) require

<sup>13</sup>The supposed duality of the labour market disappears when the policy of "formalization of the informal" is applied. A novel way of generating jobs for unemployed young people in microenterprises which do not suffer from the stigma of being "informal" may emerge from another tendency which is also beginning to be a concern for planners: the rapid increase in the number of retirees and pensioners. During their working life, many pensioners accumulate experience, a small amount of capital (savings, pension funds, a house, or other real estate), and often also knowledge of supervision or management. In spite of the commonplaces about their "wage-earning mentality", many pensioners who are in the situation described are interested in beginning a second career of independent work, either on their own account or in partnership with their peers. Offering this type of person cheap credit, technical assistance and support in marketing, on condition that they hire and help to train unemployed young people, could be an effective way, in some countries, of integrating marginalized young people into productive jobs.

lower growth rates of the product than the more developed countries of the region, which have already exhausted this phase, in order to bring about a high growth rate of creation of new jobs in the formal sector. On the other hand, when the objective is to achieve more equitable conditions of productive work for young people in the countries with more formal production structures, the deterioration of wages in the formal sector is of crucial importance. It is obvious today that this deterioration constitutes one of the main costs of the adjustment (ILO/PREALC, 1990). Many enterprises have taken advantage of the oversupply of labour and other factors in order to achieve a spurious form of competitiveness based on excessively low wages which have no relation with the real productivity of the labour force (ECLAC, 1990a). There are substantial proportions of young people and young adults who are currently receiving lower incomes than those received by their peers in the period before the crisis (ECLAC, 1991c), and in quite a number of these cases (ECLAC, 1991b) these incomes are so low that they do not even cover the minimum needs of a small household. It is perfectly possible, and in fact often happens, that young people are occupying jobs in the formal sector yet at the same time living in a state of poverty. Combating the lack of reasonably paid jobs for working-class youth in the formal sector means creating a suitable climate for the strengthening of trade unions and collective negotiation, furthering the interest of young people in participating, and involving these collective actors of society in the concertation of national restructuring and economic and social development strategies.

### *3. Elements of educational strategies*

In the countries which are at the most modern end of the Latin American continuum, the adoption of measures to assist the majority of young people who have difficulties in completing their secondary education is a priority objective which is quite capable of being attained. If the forced abandonment of studies is the most serious aspect of the early entry of young people onto the labour market, as noted in the observations on contention No. 6, then the creation of jobs for young people must necessarily be accompanied by universal access to secondary education, support for the initiation and financing of university studies, and training in "modern" occupational techniques.

Giving support to young people with economic or academic difficulties in continuing their full time studies –in formal secondary education or specific occupational training programmes– is also a way of putting off, at least during the first and most difficult phase of the restructuring of production activities, the entry of part of the current cohorts pressuring the labour market each year. In order for this strategy to make an effective contribution to reducing the prevailing inequity in education, it is necessary to increase substantially the financial resources for programmes of positive discrimination in the poorest schools, through scholarships, food subsidies, bonuses on top of their salaries in order to attract the best teachers, reduction of the size of classes, and lengthening of the school day in these schools (Simmons and Alexander, 1978).

However, bearing in mind that a substantial proportion of the students who are today in secondary education have already suffered the drawbacks of an insufficient primary education and no longer aspire to university studies, it would appear to be necessary to combine formal studies with productive work which could give them more useful learning processes than those available to them in school. If it is desired to increase in this way the opportunities open to young people with few acquired capacities, it will be necessary to coordinate efforts with employers who really will provide training for these young people at work.

In the countries which are at the least urban-industrial end of the continuum, emphasis will have to be placed on the rescue of young people who are functional illiterates (see observations on contention No. 2), on the promotion of the equality in education still not attained by young women (see the observations on contention No. 3), and on the dual effort of training and support for the existing institutions in the urban informal sector and, above all, in rural areas.

Functional illiteracy among young people continues to be one of the most difficult challenges to the modernization of production activities, especially in the less developed countries (see the observations on contention No. 2). In these countries, young adult functional illiterates form more than half of the male and two-thirds of the female populations (ECLAC, 1991b), and they are doomed to pass their lives in lower-income jobs as peasants, agricultural labourers, domestic servants, construction workers, craft workers or day labourers (ECLAC, 1991c).

## IV

## Elements of educational and employment strategies for some subgroups of young people

### 1. *Young women*

The adverse employment situation of young women in the less urban-industrial countries of the region explains why the school attendance of this group is greater in the remaining countries. In the latter, young women have some opportunities for social mobility through education. Unlike young men, who can enter some productive occupation with only a minimum of education, combined with physical strength and skills acquired informally, young women need secondary education in order to escape from unpaid domestic chores or the "underemployment" of being a domestic servant: around 80% of young adult women with 0 to 3 years of schooling are "inactive", and the great majority of them are engaged in these tasks (ECLAC, 1991c). Young women increasingly enter paid employment through the so-called modern female occupations—secretary, teacher, shop assistant—, and these require secondary levels of formal studies. In these countries and in the relevant social subgroups, they require special public support in order to attain the educational "privilege" of crossing the minimum threshold for entering paid women's occupations.

### 2. *Working adolescents*

Policies directed at young people who are now between 15 and 19 years of age and who are working must be differentiated in order to take account of the capabilities and needs of the various subgroups of working young people. In all cases, however, it is essential to exercise increasing vigilance to ensure the fulfillment of their legal rights with regard to minimum wages, maximum working hours, dangerous jobs and social security coverage, since these rights are frequently violated.

For working young people of low educational attainments, work experience is often much more instructive and useful than a forced formal schooling of which they are not in a position to take advantage. Even for this group, however, education continues to be necessary in this stage of their lives, but it must

be adapted to their needs and it must give priority to the effective learning of the basic skills of reading and writing, the main arithmetical operations, and basic civics (ECLAC/UNESCO, 1991).

Even these young people with less educational background, however, must continue to be provided—as an optimum option—with the possibility of continuing their studies and obtaining their secondary school leaving certificate, which is a passport—not sufficient in itself, but increasingly necessary—for formal employment. For the great subgroup of young people who are working and are fully capable of deriving benefit from secondary and post-secondary studies, strategies for modernizing production patterns with equity should include the allocation of sufficient resources to enable these young people to optimize their educational activities (for example, through maintenance grants which permit those who wish to do so to devote themselves full-time to their secondary or post-secondary studies).

A separate subsector is that made up of young people who neither study, nor work, nor are looking for work: the number of these young people is increasing and they require special attention in public policies for youth (ECLAC, 1991b). At the same time, however, this aspect must be kept in proportion: the percentage of males<sup>14</sup> between 19 and 24 years of age who neither study nor are economically active varies from 2.3% in urban Uruguay to 5.3% in rural Costa Rica, whereas in the same two areas the figures for young people who are working are 77.5% and 86.6%, respectively (ECLAC, 1991c, Statistical Annex, tables 1 and 4). In other words, although both subgroups have been neglected in public policies, it would appear that because of their large number, the problems of young people who are working deserve greater priority on the part of the State in terms of the allocation of resources and the adoption of measures.

<sup>14</sup> Almost all females between 19 and 24 years of age who neither work nor study are engaged in domestic tasks. This is due mainly to the persistence of traditionally dominant cultural patterns with regard to the role of women, which continue to prevent many young women from studying or having paid employment.

### 3. Rural youth

In the strategy aimed at giving opportunities to marginalized young people in the less developed countries of the region, where indigence is still a mainly rural phenomenon (ECLAC, 1991b), a key element is the effort to transform the fact of living and working in rural areas from a depressing fate for young people into a valid and real option for personal progress. It is a key element largely because this is the only effective way to check the growth of the urban economically active population due to the migration of young people with little schooling, and above all because it represents the most direct way of attacking the worst forms of poverty. In particular, a strategy aimed at inducing young couples to stay in the rural areas where they now live and to give them support through training and participation in production programmes can make all the difference in their possibilities of setting up their own home in such areas.

It has been demonstrated that rural social development faces a dual problem: the need to have at least four years of formal studies in order to benefit from support programmes for peasant production, and the fact that rural young people who want more education must seek it in urban centres, yet if they return to rural areas they will not find any productive opportunities for using their skills (ECLAC, 1991c and 1992).

In this context, more than in any other, it is necessary to coordinate and synchronize programmes for the educational rescue or promotion of rural youth with measures to provide support for production units, whether they be agricultural, agroindustrial, or of some other type. In commercial agriculture, it is necessary to implement programmes to improve the productivity of the young rural labour force, while at the same time improving their position through trade union organization.

The gradual attainment of universal basic education does not of itself guarantee greater equality of opportunity in respect of this key tool. Some studies made in more developed countries indicate that although greater apparent equity is achieved by reducing the dispersion of educational attainments, at the same time there is a growing correlation between these attainments and the economic and social level of the students' homes (Maré, 1981). Indeed, such a correlation also seems to

have risen in Latin America in the 1980s (ECLAC, 1991b). It has also been noted that programmes of early stimulation and support providing "positive discrimination" in favour of poor children at the primary school level give more positive results in the long term if such support is maintained throughout the educational cycle. Thus, here too youth is a key phase for breaking the age-old mechanisms that reproduce the marked inequality of opportunities observed between the various strata making up Latin American societies.

To sum up, a close look at the heterogeneous situations and features of youth in the various types of Latin American countries makes it possible, first of all, to dispel some widespread myths. Secondly, it brings an awareness of the seriousness for the whole of society of the lack of opportunities suffered, in the Latin American economies of the end of this century, by a large number of poor and under-educated young people. However, there are grounds for viewing with cautious optimism the possibility of rescuing these young people and thus helping to further equity in these societies, provided the collective social actors are willing to give priority to this task by assigning public and private resources to it.

The question of which sector or sectors (urban formal, urban informal, rural peasant or rural wage-worker) should be given priority in policies to improve the opportunities of marginalized youth will depend on the type of country involved. Rather than taking the form of specific programmes, such policies should be part of the global strategy for changing production patterns with equity in each of these sectors. Their inner logic, for its part, should form a virtuous circle with three elements that mutually reinforce each other: i) increasing the labour productivity of young people through education and training; ii) increasing the productivity of the production units where they work through technical, credit and institutional assistance, and iii) promoting the collective self-enhancement of marginalized young people through support for trade union organizations, party organizations, grass-roots social movements, and the integration of young people in all of these. A prior condition for this very necessary participation in national consensus-building on economic policies is to ensure the access of all subgroups of young people, through education, to the basic cultural codes of modernity (ECLAC/UNESCO, 1991).



## Bibliography

- Arriagada, Irma (1990): Unequal participation by women in the working world, *CEPAL Review*, No. 40 (LC/G. 1613-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), April.
- Braslavsky, Cecilia (1991): "Reflexiones y tendencias acerca de la juventud latinoamericana", paper presented at the Fifth Intergovernmental Conference on Youth Policies in Latin America, Santiago, Chile, September.
- Cacciamali, María (1983): *Sector informal urbano e formas de participação na produção*, São Paulo, Instituto de Estudos e Pesquisas Econômicas.
- CELADE (Latin American Demographic Centre) (1991): *Demographic Bulletin*, Vol. XXIV, No. 47, Santiago, Chile, January.
- Commander, Simon and Peter Peek (1983): *Oil Exports, Agrarian Change and the Rural Labour Process: the Ecuadorean Sierra in the 1970s*, WEP 10-6/WP 63, Geneva, International Labour Organisation (ILO).
- ECLAC (Economic Commission for Latin America and the Caribbean) (1986): *Development, Change and Equity: Vanquishing Poverty* (LC/R. 538 (Sem. 35/3)), Santiago, Chile, 21 November.
- (1989): *Transformación ocupacional y crisis social en América Latina*, Santiago, Chile. United Nations publication, Sales No. S.90.II.G.3, December.
- (1990a): *Changing Production Patterns with Social Equity*, Santiago, Chile, 19 March. United Nations publication, Sales No. E.90.II.G.6.
- (1990b): *La transmisión intergeneracional de las oportunidades de vida en la década de los ochenta* (LC/R. 957), Santiago, Chile, 20 December.
- (1991a): *Statistical Yearbook for Latin America and the Caribbean. 1990 Edition*, Santiago, Chile, March. United Nations publication, Sales No. E.91.II.G.1.
- (1991b): *Panorama social de América Latina* (LC/G. 1688), Santiago, Chile, 31 October.
- (1991c): *Latin American Youth in the 1980s: Equality of Opportunity in Education and Employment* (LC/R. 960), Santiago, Chile, 26 December.
- (1992): *Social Equity and Changing Production Patterns: An Integrated Approach* (LC/L. 668), Santiago, Chile, January.
- ECLAC/UNESCO (United Nations Educational, Scientific and Cultural Organization) (1991): *Educación y conocimiento: eje de la transformación productiva con equidad*, Santiago, Chile.
- Eichelbaum, Ana (1988): La inversión de los privilegios de los sexos en la educación latinoamericana, *Revista Interamericana de Desarrollo Educativo*, No. 102.
- García, Norberto (1991): *Reestructuración, ahorro y mercado de trabajo*, Santiago, Chile, Regional Employment Programme for Latin America and the Caribbean.
- Gurrieri, Adolfo (1971): Situación y perspectivas de la juventud en una población urbana popular, A. Gurrieri, Janette González, E. de la Vega and E. Torres-Rivas, *Estudios sobre la juventud marginal latinoamericana*, papers of the Latin American Institute for Economic and Social Planning, Mexico City, Siglo XXI Editores, S.A.
- Gurrieri, Adolfo and E. Torres-Rivas (eds.) (1990): *Los años noventa: ¿desarrollo con equidad?*, Santiago, Chile, ECLAC/FLACSO (Latin American Faculty of Social Sciences).
- ILO/PREALC (Regional Employment Programme for Latin America and the Caribbean) (1990): *Empleo y equidad: desafío de los 90*, Documento de trabajo No. 354, Santiago, Chile.
- Katzman, Rubén and Pascual Gerstenfeld (1990): The complexity of evaluating social development, *CEPAL Review*, No. 41 (LC/G. 1631-P), Santiago, Chile, August.
- Latin American Centre on Youth (1991): *Informe sobre la Juventud Latinoamericana, 1990*, Montevideo.
- Mare, Robert (1981): Change and stability in educational stratification, *American Sociological Review*, Vol. 46, No. 1, Bloomington, IN, Indiana University, February.
- Martínez, Javier (consultant) (1984): *La estratificación social de la juventud: el caso de Ecuador* (LC/R. 389), Santiago, Chile, ECLAC, 19 November.
- Parada, Soledad (1991): "Síntesis de la situación de la mujer en Paraguay", Santiago, Chile, ECLAC, mimeo.
- Schiefelbein, Ernesto (1989): La repetición: la última barrera para universalizar la educación primaria en América Latina, *Boletín del proyecto principal de educación*, No. 18, Santiago, Chile, UNESCO.
- Schiefelbein, Ernesto and Sonia Peruzzi (1991): Oportunidades de educación para la mujer: el caso de América Latina y el Caribe, *Boletín del proyecto principal de educación*, No. 24, Santiago, Chile, UNESCO.
- Sen, Amartya (1989): Development as capability expansion, Keith Griffin and John Knight (eds.), *Journal of Development Planning*, No. 19, New York. United Nations publication, Sales No. E.89.II.A.2.

- Simmons, John and L. Alexander (1978): The determinants of school achievement in developing countries: a review of the research, *Economic Development and Cultural Change*, Vol. 26, No. 2, Chicago, IL, The University of Chicago Press, January.
- Solari, Aldo (consultant) (1988): *La desigualdad educativa: problemas y políticas* (LC/R. 644), Santiago, Chile, ECLAC, 2 March.
- Tannen, Michael (1991): Labor markets in northeast Brazil: does the dual market model apply?, *Economic Development and Cultural Change*, Vol. 39, No. 3, Chicago, IL, The University of Chicago Press, April.
- UNOV (United Nations Office at Vienna)/CSDHA (Centre for Social Development and Humanitarian Affairs)/Department of Social Development (1991): "Report on the global situation of youth: trends and prospects (project document)", Vienna, United Nations, mimeo.
- Weber, Max (1958): *Wirtschaft und gesellschaft*, H. Gerth and C. W. Mills (eds.), *From Max Weber: Essays in Sociology*, New York, Oxford University Press, Inc.

## Decentralization and equity

Sergio Boisier\*

ECLAC has staked its all on the *idée-force* of changing production patterns with equity and sustainability. It has done well to take this decision, and it would be desirable for all the "players" (at least those in the institution itself) to unite their efforts to turn a test tube utopia into an effective and efficient social practice.

The task that must be carried out is not an easy one, and progressing from the level of an *idée-force* to a higher paradigmatic level involves—as has already been recognized—defining each of the basic concepts and the system as a whole more precisely, and above all making them more operational.

This article explores, in a preliminary but nonetheless pointed manner, the ways in which appropriate political and territorial decentralization can help to strengthen such a weak and historically elusive link in the chain as *equity*, in so far as this is associated with better access to two socially scarce resources: political power on the one hand, and productive employment on the other.

The creation of a broad set of representative spaces which facilitate active participation and systematic meeting of citizens and bureaucrats (in the good sense of the term) and which are located between the State and the individual, and the potential offered by a modern sector of small and medium-sized enterprises in terms of the creation of jobs are the two central proposals of the article, it being naturally understood that both processes must take place within a deconcentrated and decentralized framework of policies and programmes.

\*Coordinator of the ILPES Regional Planning and Policies Area. The original version of this article forms part of a collective document by S. Boisier, F. Sabatini, V. Silva, A. Sojo and P. Vergara entitled *La descentralización: el eslabón perdido de la cadena transformación productiva con equidad y sustentabilidad* (CEPAL/ILPES(1003)C.2) document 91/8, Essay series, 1991.

## Introduction

"Changing production patterns with equity and sustainability" is an *idée-force*, that is to say, a conceptual matrix which gives rise to research and action proposals that seek to determine what lies behind the basic concepts of this *idée-force* and, in particular, answer the question of how to attain such a complex multidimensional objective as that expressed in it.

On the basis of the two fundamental documents prepared by ECLAC (ECLAC, 1990a and 1991a) and the internal discussions held on them, it was possible to identify a number of "pending issues", which is the term used to describe the set of collateral (and in some cases operational) issues which, understandably, were not considered in those two proposals.

One of these issues—which is repeatedly referred to in both studies—is decentralization, and especially *territorial* decentralization, at the level of regions or communes. It may be argued that such decentralization is a *necessary* condition for simultaneously achieving changes in production patterns, equity and sustainability, although it must not be interpreted as meaning that this condition is equally important in all cases.

Consequently, a preliminary exploration will now be made of the "interface" between one of the basic concepts in the *idée-force* (equity) and territorial decentralization.

The general argument which serves as a framework for the study is that the process of changing production patterns depends largely—according to a number of authors—on the formation of synergic agglomerates, that is to say, systemic structures with a high degree of feedback made up of enterprises, scientific and technological research centres, business associations, corporations and the government itself (at its different levels). These agglomerates do not come into being spontaneously (one of their own components acts as a catalyst), nor are they distributed randomly over the territory, since there is a certain affinity with some forms of accumulated capital (infrastructure, industrial tradition, innovative attitudes, etc.) which differ in different parts of the territory.

Thus, the coexistence of these latter elements with a component which can act as a catalyst of the synergic agglomerate, *local government*, can

bring on a systematic process of innovation. It goes without saying that the local government (of a region or a commune) can only carry out a catalytic function in a context of real decentralization.

Social inequity, for its part, has an undeniable geographical configuration in each country, as is shown not only by the well-known rural-urban contrast but also by the interjurisdictional differences in levels of poverty (including their causal factors).

There is a growing conviction that in order to bring about profound changes in the current situation of social inequity it is essential to have a modern labour market on a stable basis. The flexibilization of this market appears to be more and more closely linked with the behaviour of small and medium-sized enterprises and promotion and stimulation measures of an essentially local nature—without prejudice to their forming part of the general context of macroeconomic policies—and this in turn presupposes decentralization in favour of governments at the level of regions and communes.

The deconcentrated and/or decentralized administration of employment policies and programmes can help substantially to increase their effectiveness and efficiency. This would be of little use, however, if the general trend of economic policy were biased against growth of employment or in favour of activities which make more intensive use of capital than of labour.

According to numerous studies, enterprises of different sizes and types display great variations as regards their capacity to generate employment; some types of producers make more intensive use of labour than others. Likewise, the economic soundness and viability of enterprises of different types and sizes is considerably influenced by the economic policy context in which they operate. This means that if the economic policy has a negative bias, it is not possible to use the potential for expanding productive employment by stimulating particular categories of producers, such as small and medium-sized enterprises, as shown in a recent international study (Hagglade, Liedholm and Mead, 1990).

From another point of view, political/territorial decentralization, by creating *representative political spaces*, automatically helps to

reduce social inequity, since this also depends on limited access to power.

If a country and its economy are to be strong in the long term, this calls for strong regions and strong economic sectors. Territorial macrocephaly is incompatible with an economy enjoying long-term macroeconomic balance. Consequently, regional development begins to shape a new field of public policy and, among other attributes assigned to it, a “positive and active social attitude with regard to the preservation of the regional environment” appears as a decisive variable in the development of each region.

It does not seem possible to arouse and maintain such an attitude in a regional community, however, if this does not have real possibilities of managing its own environment: a question which is once again linked with the process of decentralization.

The extraordinary rapidity of technological, economic, social and political change all over the world is overthrowing utopias, ideologies, rationales and concepts which it was believed were firmly established. This process has naturally profoundly affected the basis of the regional paradigm, in its most Kuhnian sense (if we may use such an adjective). The professional training and intellectual endowments of the recent past seem to have lost their usefulness, and no-one knows for certain how to give them validity again, since the new context of development may be so ephemeral that it hardly gives us time to understand it.

Paradoxically, in such a turbulent setting, which tends to break up only to reorganize itself again, we see the strength and permanence of the organized territory, that is to say, of localities, which are veritable fractals of an apparently chaotic reality.

We are witnessing the dismemberment of nation-States which subsequently regroup themselves into supra-national political and economic structures, while at the same time their regions and cities strengthen themselves in order to recover their identity and compete for capital and technology.

At the same time, the Welfare State and the great social safety nets (big firms, big trade unions, stable employment and collective social security) are collapsing, while the local level is being strengthened as a territory of solidarity.

The crisis in the modern rationale is driving the world towards an explosion of heterogeneity and diversity. What is important today is not equality pure and simple, but the ability to produce different goods, consume different products, and live in a more segregated manner. In the dialectic between alienation and individualism, the special features of the habitat, the uniqueness of the territory and the particular nature of the autochthonous are emerging as a synthesis which may be either transitory or definitive: no-one yet knows.

The transition towards changing production patterns which are now compatible with social justice (or at least with less injustice) and with the preservation of the fundamental structures of "Spaceship Earth" seems to place the organized territory in the position of a synthetic and systemic unit of an equitable and sustainable form of modernization.

Possibly the most significant contextual change which has taken place in recent years in the approach to local development is the preponderant role now assigned to the localities themselves in the design of their development proposals. In keeping with the decentralizing and privatizing trends, the central and national government has decided to transfer to the regions themselves the tasks which until recently were considered the responsibility of the central authority, the most important of them being the design of the national regional plan.

From being a mere "by-product" of the social relations of production, the individual space (or, more exactly, the organized territory (region, province, commune)) is now seen as the "agent" or "subject" of its own development, more endogenous and equitable, but in no way autarkic and indeed, on the contrary, fully incorporated into the world around it.

## I

### Decentralization: a new dimension of public policy

Latin America has a centralist type of culture, attributable to the fact that it has not undergone historical processes similar to the industrial revolution, the French Revolution, or feudalism, and also to the influence of a single religion of a latitudinarian nature.

Regardless of whether one agrees or disagrees with these hypotheses, one must recognize that they do contain an element of common sense. Whatever its origins may have been, and whatever benefits it provided in the past, centralization has become a characteristic feature (considered to be negative in Latin America), and this explains its generalized permanence, which makes it almost immune to any attempt to change it.

As usually happens in the case of a matter of such political importance which at the same time so deeply influences everyday life, the ideological and political positions on this matter tend to be polarized. Some see in decentralization a magic concept capable in itself of producing a whole mass of social changes, while others see it in almost demonological terms, as the ultimate attack on what remains of the Welfare State or on the

idealized remnants of a social order inevitably doomed to be replaced.

However, the real world operates in accordance with a less emotional form of logic, and the plain fact is that the tendency towards greater decentralization, that is to say, the tendency to organize society at some intermediate point in the *centralization-decentralization* continuum—a point closer to the second of these poles, of course—is a sign of the times which cannot be ignored.

Historical periods in which old and new paradigms overlap are naturally confused. A paradigm is not discarded from one day to the next, and consequently the new one does not come into effect instantaneously either. Changes in paradigms take time; it is necessary to adjust social, mental and cultural structures. We are now passing through one of these periods at the end of the twentieth century. The prevailing development paradigm, which among other features displays a bias in favour of large-scale (production and/or services) activities, the formation of territorial conglomerates which are big in terms of population and production, and also—as could hardly be otherwise—

the formation of verticalized, distinctly ranked and centralized systems of decision-making and organization, is being penetrated by another paradigm based on different concepts of industrial and territorial organization and different forms of distribution of decision-making power, extending from political power to the chains of command within business and social units.

For this reason, it is appropriate to speak of certain megatrends of universal scope which reflect the deployment of forces accompanying the new paradigm and tend to generate spaces where old and new decentralizing political projects acquire a potential viability which had been denied them in the past. Of course, if it is correct to say that there are *universal megatrends*, it is equally correct to maintain that they do not manifest themselves in exactly the same way and to exactly the same extent in each major region of the planet. Consequently, when comparing these trends with the actual situation of Latin America, the results must be appraised in relative terms.

Firstly, the scientific and technological revolution is seen as a phenomenon which, through its effects in the fields of *production, information and transport*, is shaping a new industrial panorama, or a new kind of industrial geography. It has been termed both a *dispersed economy* and a *variable geometry economy*, and its essential features are the replacement of the Fordist model in the organization of industrial work; the breakdown of large-scale trade union activity; new relations between capital and labour; the preeminence in production technology of "knowledge" inputs over the traditional ones and, finally, in the sphere of the territorial location of the new industrial stock, the presence of structures of industry which incorporate processes of delocation, deconcentration and, in the long run, decentralization.

Specifically, the impact of the scientific and technological revolution in the *production* sphere may be summarized through the following two aspects:

a) With the new industrial technology, *economies of scale* have lost importance in the stage of the final assembly of the product but have now become important in the phases of the

manufacture of component parts, accentuating the flexibility of response by industry to variations in demand.

b) Manufacture through systems such as CAD (Computer Assisted Design), CAM (Computer Assisted Manufacturing) and FIM (Flexible Integrated Manufacturing) makes it possible to produce parts in different places in a country (or in the whole world), for subsequent assembly on production lines directly linked with the final markets. In this way, it is possible to dissociate the various production units in spatial terms, without breaking up the functional unity of the process but at the same time maximizing the productivity and profitability of each location.

Both these aspects may acquire notable importance in the context of the new trade integration agreements (such as MERCOSUR), in connection with industries such as motor vehicle manufacture which are particularly suitable for operation under geographically disaggregated schemes.

In the field of *communications*, the effect of the scientific and technological revolution is reflected in such innovations as on-line computation, fibre optics, image and data transmission systems, and other systems which facilitate the spatial segmentation of entrepreneurial functions by permitting "face to face" communication through electronic means. Brazil is perhaps the most notable example of the modernization of communications as a requisite for the geographical deconcentration of the industrial system.

In the field of *transport*, the impact of the scientific and technological revolution is most clearly expressed in the expansion of high speed trains (France, Japan, Germany, Italy, Spain); the new intermodal systems which make possible transport without breaking bulk; the solution of the problem of saturation of air traffic which was so visible a few years ago; and the replacement of the types of goods transported in the past by products which weight less and have a higher unit value per tariff unit. Obviously, in some aspects the distance between the European situation and that of Latin America is out of this world, but nevertheless in the latter region there have been by no means negligible advances in the port infrastructure and management which have been

reflected in a reduction of costs, with obvious favourable consequences for the location of production activities on the "periphery".

All these effects make up the new "variable geometry economy" which is generating a potential space for greater territorial and decision-making decentralization.

Secondly, the process of the political restructuring of the State and the administrative restructuring of government must be highlighted as a trans-ideological force leading to decentralization.

As in many other orders of things, this reveals a dialectic operation. The changes in the system of industrial production and those which consequently take place in the mode of accumulation of the new and mature industrialized economies adversely affect the *accumulation function* of the State. Neither the previous forms of direct accumulation by the State (public ownership) nor the indirect forms of support (certain public policies) are of use any longer, and consequently the State goes through a process of metamorphosis in order to give rise to a new State which is functional to the new conditions (an example of this is provided by the modern policies of giving support to scientific and technical research instead of applying purely economic policies aimed at industrial promotion, or by the leading role assumed by the State in promoting new forms of international insertion and internal deregulation).

But this restructuring in Latin America is not due only to the need to bring the State (and the government) into line with the new forms of accumulation and international insertion. It is also due to the need to legitimize a new political order which is emerging once again all over the world—democracy—and which is also taking on new forms and adopting new procedures. The new democracy is of a more consensual nature, it assigns a more important role to civil society as a whole rather than merely to political society, it faces up to the challenge both of reaching understanding in cases of dissent and of expanding consensus, etc. If it were only a new version of the "old" democracy which was thus emerging, the "old" State would still be functional.

"In short, the challenge faced by the State in Latin America on the political plane is that of

profoundly changing its régime, due to the fact that it has to face the problem of implanting and exercising democracy in a society which is at present corporatist, disarticulated and without a clear system of hegemony" (Faletto, 1989).

Thirdly, mention must be made of the growing and universal demand by the organized bodies of civil society (many of them of a territorial nature) for greater spaces for self-realization, which implies the need for both decentralization (transfer of power) and autonomy (specific fields of competence).

It would seem that both individuals and collective bodies are gradually reaching their majority and becoming aware of the possibility and desirability of having greater capacity for self-government and self-representation. There is growing skepticism and mistrust with regard to national-level organizations (including political organizations), which are accused of being hide-bound, bureaucratic and centralist and more concerned with their fundamental objectives of permanence and expansion than with ensuring proper representation of social interests. In this context, the socio-territorial category of the *region* is seen as a barrier to the danger of veritable territorial anarchy when situations of exaggerated localism arise.

Behind this demand, of course, there are various forces which give special features to what at all events has the stature of a universal megatrend: ethnic, religious, economic and purely political factors help to design and put into effect territorial *social movements* and/or *political parties* with a clear regional identity which question above all the *domination* exercised by the central State itself or its representatives, the *central regions*.

These demands are closely linked with a kind of revitalization of participation. Thus, it is noted that among the policies for stimulating participation within the anti-hegemonic matrix is decentralization.

"In contrast with the dominant models, the emerging matrix offers a social participation model in which it demands local-scale bodies, the relative autonomy of civil society *vis-à-vis* the State, and the possibility of direct and constant action in the recognized fields of participation" (Hopenhayn, 1988).

Fourthly, mention must be made of the trend towards the privatization of production and service activities, as another megatrend which is contributing to the design of scenarios favourable to decentralization.

Strictly speaking, privatization is a formal act of decentralization, since it means transferring functions to bodies endowed with a *different juridical personality* from that of the body previously responsible for the production and/or supply of goods and/or services.

It has rightly been said that privatization is a burning question, and like all questions of that type, it has been advocated or attacked more often than it has been understood.

"The reasons for the general concern about this subject are clear, and although they vary from country to country, some common basic questions underlie the comparative analyses. Three of these should be emphasized: i) the imbalance in public financing, aggravated by the restrictions of the recent past and by the continuing growth of demands and costs; ii) concern over the quality of public management, which has been negatively influenced by the vested interests of corporate groups and by the rigidity of central bureaucracies in adapting and responding to periods of rapid change; and iii) the demonstration of obvious instances of overall inefficiency in the economies of the region and the need to improve their external competitiveness and rationalize their internal functioning.

"From this point of view, greater decentralization of decisions may be viewed as one of the ways to mobilize resources through new procedures and to overcome deficiencies in management and, on the other hand, as a hope for improving the prospects of adaptation to change and to innovation" (Martin, 1988).

On the other hand, it is well known that decentralization cannot be confined to the juridical-administrative field. Unless it is accompanied by the transfer of financial resources, it will remain mere empty rhetoric.

When a new system of allocation of fiscal resources between the "old" central State and the new local "quasi-States" is proposed, the traditional administrators of public resources react strongly and take all kinds of defensive action. This attitude is understandable, since they fear an assumed state of "fiscal disorder" which could endanger the stability of the macroeconomic balances.

The recent (1991) discussion in the Chilean Parliament on the proposed constitutional reforms in regional and municipal matters has reflected this situation, which places at the centre of the discussion a kind of *fiscal regionalism* derived from the well-known theory of fiscal federalism.

It is held that centralized handling of public funds is justified by reasons of efficiency (less tax distortion), coordination (in the case of certain types of indivisible public goods and services, or goods and services where economies of scale are important) and redistributive considerations. However, its drawbacks are no less important, as shown in Box 1.

In short, the fact that the question of decentralization has emerged anew with unusual force at the present time does not seem to be due to any kind of "perverse conspiracy", but to the dynamics and rationale of a varied set of trends.

A sound social reaction would be to try to take advantage of those trends in order to place them at the service of certain objectives regarding which there is little or no controversy: greater democracy, greater geographical balance of development, and greater confidence in the capacity of civil society.

What is involved, in the final analysis, is a *social wager* on a new "social compact" between the State and civil society under which the latter can systematically learn to assume once again the responsibilities which it exercised in various periods and at various times in the past but subsequently lost to the State. Demanding strict economic rationality in respect of this wager would be exaggerated, to say the least.



## Box 1

**PROBLEMS OF THE CENTRALIZATION OF PUBLIC FINANCES**

The centralization of public finances has certain shortcomings from the point of view of efficiency and equity, as detailed below:

a) When the level, composition and form of financing of public expenditure are decided at the central level, they tend to reflect the national average of the preferences of the population. In contrast, local autonomy in determining them would permit greater flexibility to meet different tastes. Moreover, through a process of migration known as "voting with their feet", people with similar preferences would tend to go and live in the same locality, thus achieving greater adaptation to individual tastes.

b) When the provision of local public goods and services is decided upon at the central level, this calls for delegated bodies in each locality in order to obtain information on local needs and to supervise the execution of the projects. This means higher administrative costs than those of a decentralized form of management.

c) Central control of public funds raises problems in obtaining information on the value of certain local public goods and services which, since they are not traded on the market, have no explicit price (for example, road signs or clean air). This is because each locality tends to try to magnify the value of these goods and services in order to obtain a greater share of the centrally decided public expenditure. In contrast, if public expenditure were financed by the local community, that is to say, if the costs had to be borne by the local inhabitants themselves, they would be more willing to reveal their real preferences.

d) There is always a risk that the person responsible for taking decisions may act in an arbitrary way. The more centralized the decision-making process is, the more serious this problem, since there are more resources at the disposal of the central authorities and the coverage of their policies is greater. It should be noted that arbitrary action is further accentuated (since supervision is more complicated) when the benefits and costs of a project cannot be objectively quantified: that is to say, when they do not stem from public goods and services with explicit prices. For example, in allocating funds for the promotion of culture it is not easy to check that the projects are correctly evaluated, since the value of culture is essentially subjective.

e) In the field of taxation, there is also an aspect favouring decentralization. The closer the relationship between public expenditure and the taxes collected, the less incentive there will be for tax evasion, since the benefits derived from payment of taxes are perceived more closely.

To sum up, the decentralization of public finances must not be considered in completely positive or negative terms, since it depends on many aspects which need to be evaluated at the moment that a particular structure for the financial administration of the State is proposed.

Source: TASC (Economic Advisory Assistance to the National Congress) (1991). *Descentralización de las finanzas públicas*, Bulletin No. 21, ILADES/Georgetown University Programme, Santiago, Chile, July.

**II****Equity and decentralization: an interactive duo**

The concept of equity is usually understood in three senses: the first corresponds to a classical approach and is connected with the ideas of commutative and distributive justice; the second, known as the modern sense, is associated with the philosophical principles of the French Revolution, and the third or present-day sense is broader than the other two and basically calls for the elimination of the economic, social and

political barriers which stand in the way of its realization (the achievement of equity). In turn, the modern sense has two variants: a liberal variant, which lays its main stress on the importance of the inequality which has grown up as a means of social stimulation, and a democratic variant which places greater emphasis on the establishment of suitable social conditions for true equality of opportunity.

"Therefore, as the inequality of opportunities for participating in the competition of skills begins almost at the moment when the child is conceived, in order to ensure equality of opportunity it is essential to *break the critical links in the social reproduction of inequality of initial conditions*" (ECLAC, 1990a) (Our italics).

One of these "critical links" is of a territorial nature, and it is through this link that equity is connected with decentralization.

As several authors have pointed out, *an individual's possibilities of realization in the course of his life depend both on his initial location in the social structure and his location in the territorial system* (Alden and Morgan, 1974).

What is asserted here is very simple: for a given social status it is "better" to be born in a big city than in a remote village in the jungle or the mountains. The possibilities for self-realization are different, and consequently "equality of opportunity to become unequal" is merely a fiction.

An important policy question also derives from this assertion. If this hypothesis is correct, it means that every social policy which aims at greater equity must include a territorial component in order to maximize its effectiveness and efficiency, and this opens up an important interface between social policies and territorial or regional policies (Boisier and Silva, 1989).

This hypothesis has received substantial empirical support, at least in Latin America. In particular, the studies carried out by León (León, 1982) with data from Colombia, Panama and Venezuela (Box 2) confirm that the mere location of persons, that is to say, their location in the territorial system, explains between 10% and 20% of the variation in income distribution among them. These results are in line with those previously obtained by Fields and Schultz in Colombia (Fields and Schultz, 1980). Likewise, the ECLAC report on the magnitude of poverty in Chile (ECLAC, 1990b) gives a very true picture of the territorial (regional) dimension of this social problem.

Thus, regardless of whether the problem of distribution is viewed from a purely conceptual standpoint or from a normative one, its territorial nature is evident, and it may therefore be asked if the introduction of decentralized forms of

decision-making would help to correct situations of inequality.

The nature of the *territory* in which each individual spends his life thus becomes a factor influencing his possibilities of satisfying both his basic needs and his needs for development or self-realization. The differences of quality between territories also determine the social distribution of the opportunities to gain access to wealth or create it. It has been said that the revolution in production and technology opens up enormous possibilities for the social redistribution of these opportunities. At the same time, however, it is recognized that it has had important real effects of greater inequity and impoverishment. The euphemistically termed "flexibilization" of labour relations may have meant, in addition to the material impoverishment of workers for a long space of time, a massive injection of insecurity into their lives. They can no longer hope, as they did in the past, to enter a big enterprise and protect themselves through a powerful trade union. Moreover, the Welfare State lies in ruins. It cannot provide them with such security, since the task of the new State is rather to support private enterprise, and it must try to redistribute that support as much as possible. How might it be possible to replace that model or pattern of security which the workers want? One response –and possibly a very important one– would be decentralization and territorial development.

Structurally improving a situation of inequality –particularly at the end of the twentieth century– means improving the access of the persons suffering from such inequality to two scarce social resources: power and employment, without prejudice to the need to apply certain direct redistributive policies.

Many people remain in a situation of poverty or a comparatively underprivileged situation because, apart from other factors, they lack organizational and political spaces in which they can make known their needs and demands: in other words, they do not have "intermediators" to represent them *vis-à-vis* the State or other organizations of civil and political society which could wholly or partly remedy their situation. This means that in order to improve their living conditions these persons need to have access to political power. Of course, this assertion does not imply any concealed support for "clientage": a common but spurious form of socio-political mediation.

In a classic article written fully twenty years ago it was stated that:

## Box 2

## THE TERRITORIAL DIMENSION OF SOCIAL INEQUALITY

The studies made on this subject with data from Colombia, Panama and Venezuela are based on the hypothesis that interregional disparities in income are basically determined by the specific form of insertion of the workers in question in qualitatively differentiated strata of the system of production, concentrated in differentiated areas or regions of the territory.

The following figures show the magnitude of the relative regional disparities in the three countries in question:

*Relative regional disparities, 1970 (in US dollars)*

|   | Panama | Venezuela | Colombia |
|---|--------|-----------|----------|
| 1. Administrative area with highest average income (1)                              | 2 375  | 1 368     | 1 758    |
| 2. Administrative area with lowest average income (2)                               | 569    | 519       | 493      |
| 3. Ratio 1:2 (3)  | 4.2    | 2.6       | 3.6      |
| 4. Percentage of administrative areas with income levels below the national average | 67     | 83        | 65       |

In Panama, income in the Metropolitan Area was 57% higher than the national average, and corresponded to 41% of the country's population. In Venezuela, income in the Metropolitan Area was 38% higher than the national average and corresponded to 32% of the population. In the case of Colombia, three areas (Bogotá D.E., Antioquia and Valle), with 40% of the population, had an average income 37% higher than the national average.

The relative importance of the territory in this problem is shown below (on the basis of Theil indices):

*Breakdown of overall disparities  
(Percentages)*

|                                | Panama | Venezuela | Colombia |
|--------------------------------|--------|-----------|----------|
| Overall disparity              | 100.0  | 100.0     | 100.0    |
| Disparity <i>between</i> areas | 22.4   | 10.2      | 13.2     |
| Disparity <i>within</i> areas  | 77.6   | 89.8      | 86.8     |

The differences in average income between regions are due to the existence of strata which are very different from the point of view of average productivity and forms of technico-social organization in each of the sectors of production.

Source: A. León (1982), *op. cit.*

"It is unquestionable that power is a determinant (sometimes of a relatively autonomous nature) of income distribution. Furthermore, the dynamics of the income structure are strongly influenced by the operation of power. It is quite true that power has its own logic, but there can be no doubt that such logic derives from important economic reasons. The roots of power lie deep in the structure of the distribution of wealth and income and, above all, in the most active vein of production relations" (Graciarena, 1971).

Another author, writing of poverty, participation and regional development, said:

"The search for alternative approaches has caused poverty to be defined as a politically determined phenomenon, while equity, according to B. B. Schaffer and G. Lamb, has been defined as *an ideological construct on the distribution and sharing of resources in society, so that it is a political issue, in the sense of an intervention in the struggle between political ideas.*

"The relationship between economic power and political power means that the total or partial solution of poverty calls for the reorganization of the existing power structures. For a long time, the response was to call for radical political

change. The frustrations and difficulties encountered in experiments in this direction, however, have caused attention to be shifted to alternative strategies. Among these, the expansion of participation and political mobilization of the poor groups, as the fundamental basis for a process of real improvement, has received increasing attention.

"... These approaches, in turn, are to be found in a more disaggregated view of the contradictions within societies. In support of these ideas, it is argued that class interests are not the only ones, and that on the contrary, the interests of ethnic, regional and electoral groups form a more complex picture. Moreover, the existence of elitist groups with an altruistic form of behaviour should not be ruled out. An approach of this nature emphasizes localized action on a small scale. The success of the strategy calls for its generalization, however, in view of the fact that the poor are a majority, and it therefore means in the long run a substantial restructuring of the distribution of power" (Uribe-Echevarría, 1986).

Correcting social inequality then, involves *political and territorial decentralization*, so as to create numerous intermediate spaces between the State and the individual (extending all the way from neighbourhood associations, through the municipality, to the region itself), which multiply the probability – for any individual – of having access to intermediation bodies or more direct means of finding a solution. Thus, *decentralization is seen as a condition for equity*.

*Participation*, which is another form of creating power, cannot be understood apart from decentralization, if we are speaking of *real* and not merely *formal* participation. It has been asserted in this respect that:

"The contra-hegemonic participation matrix calls for decentralization processes which make it possible to strengthen resource management and use in the local spaces. One of the tasks of greatest scope and relevance in the design and application of social policies which aim to strengthen their impact through a participative reception in the community is to investigate and design models for securing better linkages between local governments and grass-roots organizations. Decentralization makes it necessary to rethink the relationship between central

planning bodies, ministerial offices connected with the execution of policies and programmes, municipalities and communities" (Hopenhayn, 1988).

At the same time, improving the access of persons to employment naturally calls for a growing supply of jobs, because of the changes which may be expected in the size and composition of the labour force (higher rates of female activity, for example), and it also calls for jobs which are not only intrinsically productive but also of *growing* productivity, so that increases in income will have a real, permanent base and not a purely monetary and hence inflationary one.

As maintained in a number of recent studies, the net generation of employment is proportionately greater at the level of small and medium-sized enterprises, due partly to the competition strategies of the large enterprises, which are based more on productivity than on employment.

From this viewpoint, it is important to mention the study by Yoguel and Gatto prepared in ECLAC for the Federal Investments Council of Argentina. This study offers a most valuable discussion on the growing importance of small and medium-sized enterprises in the context of technological change and the crisis in production, which strongly supports the argument put forward here (Yoguel and Gatto, 1989).

Now, if the generation of employment in this stratum is to be accompanied by growing productivity, this presupposes the *systematic introduction of technical progress* in the activities and organization of these enterprises. As is well known, however, these enterprises have structural difficulties in gaining access to innovations, they very rarely have their own research and development departments, and they run into many barriers when they try to enter the international science and technology market.

Consequently, the modernization of this stratum of enterprises must be based on the existence of a *localized science and technology market* where an active and interactive innovative role is played by the universities and research centres located in the geographical space where these enterprises operate: that is to say, in the *region* or, in more general terms, at the local level.

However, the mere introduction of technical progress into small and medium-sized enterprises may not be successful unless there has been prior training of the staff to use the innovations.

Consequently, *human resources training* is another key point for correcting the situation of inequality.

An important consideration in this context is that the increase in employment generated in this stratum must be based above all on a systematic increase in the number of establishments, rather than in their size, since the latter option would ultimately lead these enterprises to adopt the same competition strategies as large enterprises. Thus, from the point of view of the application of practical policies, the question is how and where to eliminate the barriers which prevent or hinder the creation and consolidation of small and medium-sized enterprises, such as for example difficulties in gaining access to the capital market or in surviving in a "hostile" economic, social and territorial environment.

The linking of small and medium-sized enterprises, through subcontracting, to large enterprises which are applying long-term competition and trade strategies (and which are assuredly completely independent of the "good fortune" of their territory) is an alternative which should not be discounted when seeking to impart dynamism to this stratum.

As noted in an ECLAC study:

"Moreover, in the period under consideration there was notable growth of employment in small enterprises (that is to say, with less than 10 employees). According to a non-weighted average for seven countries, employment in this sector is estimated to have increased 23% more than that of employment as a whole... It may be assumed that this phenomenon was due, inter alia, to the need of large enterprises to maintain their competitiveness during the crisis: they therefore sought to reduce their labour costs (by freeing themselves, among other things, from their social commitments) by contracting from small enterprises part of the goods and services which they had previously produced in their own establishments" (ECLAC, 1991b, p. 29)

As may be noted, the equity-employment combination, from a normative point of view, is beginning to point the way to a *systemic* approach, with integrated and interactive treatment of the various aspects of the problem, which may be an important requisite for the effectiveness of the policies.

The question that arises here is, in the final analysis, whether all this can be achieved more

efficiently through the centralized handling of policies and instruments, or if some degree of territorial decentralization is needed.

As frequently noted, in the area of public local development policies (especially regional policies) Latin America may be accused of indiscriminately copying concepts and experiences originated and used in the North. At the present time, however, it would be a serious error to close our eyes to the new forms of regional action which are being tried out, particularly in Europe and especially with reference to employment, which is the main subject of this article. Consequently, the following references are worthy of note, at least as points to be borne in mind.

Some authors, in commenting on the emergence of a new industrial organization model, well represented in practice by the Italian regional experience, note that:

"This style of industrialization has far reaching cultural consequences. It does not seek to deal only with an economic problem that calls for greater decentralization and flexibility. It also seeks to meet the need that the form of economic organization adopted should reflect desires for cultural and local identity, humanization of working conditions, and reconciliation of the values of solidarity and cooperation with those of efficiency and productivity (Ffrench-Davis, Meller and Muñoz, 1990).

A lengthy and powerful argument in favour of the decentralized management of employment creation policies is given by Xavier Greffe. According to this author:

"Local initiatives in favour of increased employment are viewed with mistrust: how, it is asked, can they offer a solution at a time when the globalization of the economy highlights the importance of large-scale technological options and the necessity for coordination of short-term policies?

"This skeptical attitude leaves aside the new realities concerning employment and investment.

"Local development initiatives order the environment where activities arise and are carried on, so as to favour their continuation there and facilitate change. Their principles are clear: "solvency" of new needs, insertion and qualification, development of a positive attitude to entrepreneurial activities and to the idea of association, encouragement of services networks,

and appropriate use of the social economy. The measures extend from nurseries of enterprises to poles of technology, via schools of production, informatics workshops and local risk capital companies. They concern both urban and rural development.

"Why, then, should we be afraid of a form of *decentralization which represents the main lever for such initiatives?*" (Greffé, 1988 (our italics)).

The key issue, according to this same author, is that of *permanent innovation* in order to create new activities: a point of view which is also strongly maintained by Porter, in his well-known article on the competitive advantage of nations. Referring to what he calls the "diamond" of national advantage, he asserts that vigorous domestic competition stimulates the development of unique sets of specialized factors, *especially if the competitors are located in a single city or region*, while another effect of the systemic nature of the "diamond" is that a country is rarely the site of only one competitive industry: instead, the diamond produces an environment which promotes conglomerates of competitive industries. These are not scattered at random throughout the economy, but are generally connected through vertical (seller, buyer) or horizontal relations (clients, technologies and common channels). *Nor are the conglomerates physically scattered: they tend to be geographically concentrated*, since one competitive industry helps to create another, in a mutually strengthening process (Porter, 1990) (our italics).

At the practical level, DATAR (Délégation pour l'Aménagement du Territoire et de l'Action Régionale), a French body coming under the Ministry of Equipment, Housing, Physical Planning and Transport, has published a noteworthy guide for local economic action: a manual containing novel and practical guidelines for creating activities and employment at the local level on the assumption –it is worth noting– that the centralized management of employment policies in the present accumulation context is not efficient.

Mention should also be made –in the field of initiatives for creating local employment– of the original and successful experience of the LEDA

(Local Employment Development Action) programme of the European Economic Community, which is designed to promote local development both in backward rural areas of Europe and in declining industrial areas.

Under the title "Local development concerns human beings of flesh and blood", Morley (1990) describes the essence of the LEDA programme, asserting that the fundamental message in it is that human beings are important: not much can be done without money, but *nothing* can be done without human beings. Local development is not a technocratic activity for experts and specialists, but a political activity concerning the way we organize our lives and support the underprivileged groups in society. It is also a social activity, concerned with constructing strong and viable agricultural, industrial and services sectors. In all these processes, motivating, mobilizing, educating and training people is just as important as the corresponding material investments. The two most important matters are association and the development of capacities. "Association" means not only improving the vertical relations between local, regional, national and Community public authorities, important though these are, but also strengthening horizontal associations at the local and regional level by furthering cooperation among all those concerned, be they entrepreneurs, workers, local branches of national government departments, local administrations, or voluntary associations. "Development of capacities", for its part, means everything that can help to strengthen the capacity to participate in this process of association at the local level. There is a problem here, however: local capacity to organize and direct projects, to manage resources –especially financial resources– and guarantee high quality in the operation of such plans is as yet underdeveloped. The positive aspect here, however, is that the LEDA programme and other activities have shown that even though this capacity may be lacking, it can be developed through suitable support and training and these local weaknesses can be overcome by developing the strong points in the people involved and constructing local organizational structures (Morley, 1990).

See, in this respect, the examples given in Boxes 3 and 4.

## Box 3

**"BLAZING THE TRAIL": ESTABLISHING SUITABLE CONDITIONS FOR THE  
ESTABLISHMENT OF A REGIONAL TECHNOLOGICAL CIRCUIT  
IN THE METAL PRODUCTS AND MACHINERY SECTOR**

As part of the development strategy for the Biobío region of Chile, various agents in the development of that region were interviewed. Thus, information was obtained from small and medium-scale entrepreneurs in the metal products and machinery sector on their concern for making progress in ways ranging from the provision of services to large enterprises to the manufacture of equipment for the lumber industry (the activity of greatest importance and dynamism in the region).

The enterprises studied have an average of 36 employees and operate in the fields of metal-casting, structural engineering, machine tools and hydraulic services. In the region, there are 50 similar workshops with an average of 30 workers each, while the small and medium-scale metal products and machinery sector in the region consists of 300 enterprises, of which less than 15 have over 40 employees.

Bearing in mind this relative specialization, the entrepreneurs propose to approach the development of production and technology on an associative basis, for which purpose they must overcome their limitations with regard to technical design and market information. There is an initiative aimed at bringing their concerns to the attention of two universities and coordinating the various actors involved in the formation of a regional technological circuit (CTR).<sup>a</sup>

As a result of meetings held with the participation of entrepreneurs, academics, and national and regional government representatives –plus the talks held by entrepreneurs with one of the universities and with a public sector body– over a period of approximately one and a half months, the proposal of the entrepreneurs gradually began to take shape. It was proposed that a new enterprise should be established which would carry out the work of design, assembly (on the basis of purchases from the existing small and medium-scale firms), quality control and marketing. In coordination with the university, the product was defined as a set of machines for the processing of wood (manufacture of window frames), an area in which one university already has designs and patents.

Within the framework of the preparation of the strategy, work has been carried out on:

- i) The formation of the enterprise in question, which would be devoted in particular to transfer of technology and marketing; for this purpose, collaboration has been received from the regional public sector connected with the production sector and especially small and medium-scale industry;
- ii) The linking up of this idea with an international technical cooperation project which is expected to provide machinery and make available models for such machinery;
- iii) The organization of trips by entrepreneurs to explore markets and technologies, for which purpose support would be available from the recently created Regional Development Corporation and a public sector body specializing in export promotion;
- iv) The possibility of supplementing this idea with support in the field of management for the enterprises involved, the number of which has been increasing since the early stages of organization of this CTR.

At the same time, the following activities would have to be carried out:

- i) More precise definition of the market to be served, and communication with large and medium-sized enterprises and potential clients in order to generate mutual confidence;
- ii) Study of possible linkages with other universities for the study of materials, optimization of designs, quality control and training; and
- iii) Exploration of possible financing for the stages of preinvestment, design, testing of prototypes, etc.

The coordination process has been the responsibility of a regional public body responsible for providing support to small and medium-sized enterprises, with the collaboration of the regional planning body, thus confirming the role of the regional government in the generation, formulation and follow-up of these types of activities.

**Source:** ECLAC/ILPES/UNDP (1990): *La región de Biobío al encuentro del siglo XXI*, ECLAC/ILPES/UNDP Technical Cooperation Report, Concepción, 1990.

<sup>a</sup> CTRs are defined as bodies bringing together entrepreneurs, universities and technological centres, organized around technical and entrepreneurial training programmes aimed at improving product design and quality and raising the levels of production, productivity and competitiveness.

## Box 4

**LOCAL CREATION OF EMPLOYMENT**  
**MINAS GERAIS: Community Development Programme (PRODECOM)**

Artisanal Carpet Production Project <sup>a</sup>

Through the Social Action Programme for North Central Minas Gerais (ASCENOMIG), a project was initiated and established for the training of local craft workers to produce artisanal carpets. This project, which was supported by the CEAG/MG, is aimed at integrating into the labour market, in the short term, a substantial amount of labour which has no other opportunities in the Diamantina area (Valley of the Jequitinhonha). In a second stage, the craft workers trained by ASCENOMIG were grouped together in a cooperative (the Regional Craft Cooperative of Diamantina, CARDI), which was set up at the end of 1978 in order to consolidate and expand the activities envisaged in the initial project. In order to improve on the action already begun, a project was submitted to PRODECOM for the consolidation of all that had been done so far and an increase in the number of craft workers. The necessary resources were budgeted at 9 252 340 cruzeiros (approximately equal to US\$340 000) at September 1979 prices, of which the community, through the mobilization of various sectors and with its own counterpart resources, raised resources estimated at 5 892 387 cruzeiros. PRODECOM's share, amounting to 3 359 953 cruzeiros, represented nearly 36% of the necessary resources, while the community provided the remaining 64% as counterpart resources. This project is one of the most expensive of all those examined and approved up to the moment, and the financing provided by PRODECOM, which benefits 7 000 persons, is also one of the largest yet registered, amounting to 480 cruzeiros per beneficiary (around US\$18). The apparently high cost is justified (the other projects are concerned with public works and above all the provision of services) because in reality this is a project for the creation of employment in a poor region which is extremely short of capital, recognized as one of the biggest "poverty pockets" in the whole country. In other words, if the project is considered from the point of view of the investment per person employed, the ratio is extremely low.

Source: P. R. Haddad (1980): *Participação, justiça social e planejamento*. Rio de Janeiro, Zahar Editores.

<sup>a</sup> *Tapetes arraiolos*, in the original Portuguese.

It is worth repeating that it is not a question of copying indiscriminately. The cost of lack of information or, even worse, of trying to "reinvent the wheel", however, can be socially very burdensome.

Another matter is that of *microenterprises*, a substratum of small and medium-sized enterprises which has received much less study and attention. In Argentina, the Federal Investments Council is trying out a programme of support for microenterprises (Box 5). It is interesting to note, apart from the figures given in the box, that only 12% of the total number of microprojects are located in the three most developed provinces (Buenos Aires, Córdoba and Santa Fe).

In order to conclude this brief discussion of "equity and decentralization" and the role of employment policies, it should be noted that Latin America has not yet internalized the central issue (which is crystal clear in other parts of the world), namely, that the development paradigm which is still in force is incapable today of satisfying the demand for jobs.

The ECLAC Social Development Division clearly recognizes this inability in the following statement:

"Since economic growth no longer seems to be having the same positive effect on the creation of new jobs as in past decades, it is estimated that productive employment will increase by less than 0.5% per year, while the labour force of the region will grow by an average of 2.8% per year. These facts lead to a clear and inescapable conclusion: that growth alone will not be sufficient to cope with the problem of employment unless profound changes are made in government policy" (ECLAC, 1987).

On the other hand, however, in the main current proposal by ECLAC –changing production patterns with equity– consideration of *one* of these "profound changes" is left aside: we refer to decentralization, which, as shown above, is now indissolubly linked with equity precisely through its importance for the creation of jobs.



## Box 5

**PROVINCIAL MICROENTERPRISES PROGRAMME (CFI/FFI)**

In Argentina, a programme has been carried out for financing microprojects generated and located in the provinces and aimed at creating employment there. These projects have access to resources provided by the Federal Investments Fund (FFI) through Act S-47/90, and most of them are initially identified by the UEPs (Provincial Liaison Units) of each province, which are a decentralized branch of the Federal Investments Council (CFI). The municipalities and provincial sectoral bodies have only identified some 15% of the total number of projects put forward since the entry into effect of Act S-47/90. This is connected with the difficulties of "real decentralization, which must initially be necessarily based on procedures which merely involve deconcentration.

Some conclusions reached by the CFI with regard to the initial stage of the programme highlight the following features:

- i) the 263 projects evaluated have generated 1 044 new jobs;
- ii) the cost of each job amounts on average to US\$4 300 of total investment and US\$3 100 of financing from the FFI;
- iii) the types of goods or services produced are predominantly (84%) for final consumption;
- iv) some 81% of the sales of the products go to local and regional markets;
- v) in nearly 60% of the projects, the raw materials are locally supplied, and in almost all of them (93%) the technology used is traditional;
- vi) almost half the projects are located in provincial capitals, and only one-fifth of them are in rural areas, which suggests that deconcentration must not be confused with full dissemination, contrary to basic economic principles.

*Average employment generated and credit requested, by provinces*

| Province             | Employment<br>generated per project <sup>a</sup><br>(1) | Credit requested<br>per project <sup>b</sup> (US\$)<br>(2) | Cost of generating<br>employment (2:1)<br>(3) |
|----------------------|---|--|---|
| Buenos Aires         | 4.0   | 11 864   | 2 966   |
| Catamarca            | 7.8   | 8 572  | 1 099   |
| Córdoba              | 1.6   | 3 995  | 2 497   |
| Chaco                | 7.1   | 12 654   | 1 782   |
| Chubut               | 3.7   | 12 594   | 3 404   |
| Entre Ríos           | 2.9   | 6 237  | 2 151   |
| Formosa              | 4.0   | 6 362  | 1 590   |
| Jujuy                | 5.7   | 13 375   | 2 346   |
| La Pampa             | 3.0   | 13 900   | 4 633   |
| La Rioja             | 4.6   | 13 202   | 2 870   |
| Mendoza              | ...   | 12 997   | ...   |
| Misiones             | 3.5   | 9 379  | 2 680   |
| Neuquén <sup>c</sup> | 2.3   | 13 857   | 6 025   |
| Río Negro            | 3.5   | 11 812   | 3 375   |
| Salta                | 3.9   | 8 220  | 2 108   |
| San Juan             | 3.8   | 4 162  | 1 095   |
| San Luis             | 1.5   | 8 827  | 5 885   |
| Santa Cruz           | 4.1   | 11 104   | 2 700   |
| Santa Fe             | 6.2   | 13 130   | 2 118   |
| Santiago del Estero  | 6.5   | 9 728  | 1 497   |
| Tierra del Fuego     | 6.0   | 14 180   | 2 363   |
| Tucumán              | 3.0   | 16 078   | 5 359   |
| Average              | 4.0   | 9 717  | 2 429   |

Source: Federal Investments Council, Projects Department, Project Formulation and Evaluation Unit, Buenos Aires, 1991.

<sup>a</sup> Information corresponding to 271 projects covered by the survey.

<sup>b</sup> Information corresponding to 299 projects covered up to 15 April 1991.

<sup>c</sup> Four projects are still to be studied.

### III

## The territory: a synthetic and systemic linking space in the chain of changing production patterns with equity and sustainability

*Changing production patterns with equity and sustainability is a process of a systemic nature*, as we are constantly reminded in the two basic ECLAC documents referred to. In other words, each of the concepts involved in this proposal, which we have called *foundational* in this article, is related to the other ones so that they form a mesh or network with a high degree of feedback and synergy. For the moment, the intention to adopt an *integrative approach* is clearer than the fact of forming a system which really works, which is still to be attempted.

Beyond a necessary normative voluntarism, however, what can the systemic nature really be expected to contribute to the ECLAC proposal?

ECLAC develops in greater depth the argument aimed at demonstrating the systemic nature of *changing production patterns* when it emphasizes that:

i) ... "The generation and adoption of technical progress as well as increasing competitiveness are *systemic processes* in the sense that an economy's technological performance depends to a much greater degree on the presence of a whole series of differing types of synergies and externalities than it does on the optimization efforts of individual firms in response to changes in the price system"

ii) ... "the systemic character of technical progress and competitiveness has to do with the *conditions under which interaction takes place between the originators of technological innovations and users ...*" (ECLAC, 1990a, p. 71).

With regard to equity, however –it must be noted– less conclusive results are reached with regard to the systemic structure of the proposal as a whole (ECLAC, 1990a, pp. 77 *et seq.*). Nowhere in those pages are such explicit arguments as the foregoing put forward; instead, using a basic argument developed in previous studies, the systemic nature of the *technical progress-equity combination* is asserted. In the first place, however, equity is not strictly speaking a necessary condition for competitiveness in absolute terms (otherwise, there could not be any such thing as "spurious competitiveness",

although it is such a necessary condition for the authentic competitiveness proposed by ECLAC; and secondly, the *feedback* (between competitiveness and equity) is not a *sufficient* condition to make the process systemic. Feedback is of fundamental importance in cybernetics, and it is essential in control processes (control or amplification of deviation), but it takes account of only a single functional element within the whole idea of a system. It may be noted, in this connection, that interest is concentrated on control as "amplification of deviation", that is to say, in the system advocated by ECLAC the underlying idea is one of *progress* and qualitative change.

If competitiveness and equity made up a binary system, *feedback* would be a simple *circulatory* relationship, whereas if it is sought to show that these two elements are integral parts of a *complex* system, then according to Ashby they must be considered as such, and no attempt should be made to identify independent feedback circuits in them. Feedback and control are associated with the imposition of certain restrictions, and therefore, when seeking to explain these processes, at least two levels of rank must be taken into consideration. This therefore gives rise to the question of what the relative rankings of competitiveness and equity are.

It would appear that the conditions which permit a given set of elements to be described as systemic are first of all their organized or unorganized *complexity* (variety, levels of rank and non-linear linkages) and secondly, the *state* towards which this structure tends, that is to say, equilibrium with maximization of entropy in closed systems, or the maintenance, preservation or modification of the system itself with high levels of synergy in some non-dissipative open systems. These states depend on the manner of setting out and managing the *flow systems*, which determines the complexity of a structure, since every system is a flow system (of information, energy or matter). In other words, we are speaking here of the *functional* aspects of the system. The concept of *autopoiesis* formulated by Maturana (Maturana and Varela, 1984) is, it is true, a valid definitional

characteristic of living systems, but it is not so clear when it is applied to social systems.

With regard to the third foundational concept—that of *sustainability*—its contribution to the systemic nature of the ECLAC proposal is even less clear, because the mere addition of elements to a whole does not necessarily transform this into a system; the comments made previously about feedback are pertinent here also.

In one of the basic ECLAC documents, there is a paragraph which perhaps contains the key for turning this aggregation of concepts into a systemic structure:

“... On the other hand, when major changes in technology are occurring rapidly, the need for *geographical* and cultural proximity becomes more important. In such cases, the possibility of direct contact and a common cultural context can be of decisive importance for information exchange” (our italics) (ECLAC, 1990a, pp. 71-73).

Despite the general validity of this assertion, it must also be borne in mind that we are witnessing the rapid development of systems of production based on the use of a type of information which reduces spatial friction to zero.

Can the *territory* perhaps be a reference, container or cross-section capable of generating a systemic structure of which changing production patterns (or competitiveness), equity and sustainability are *integral parts*?

The territory can indeed be considered as the first of the structural elements in this system. Its *limits*, which define its borders and its separation as a function of the intensity of its relationship with other systems (the outside world), determine its character of a *container*, which maximizes the functional elements (flows, controls, lags and feedback). The territory intersects with the structural and functional elements and makes possible systemic configuration of changing production patterns with equity and sustainability. Moreover, as ECLAC rightly suggests, it incorporates an identity factor, which is important because what is involved is the operation of a social and not a mechanical system. Its identity is probably in inverse relationship to its “size”, in the light of the internationalization and transnationalization of present-day society.

It is worth repeating something already commented upon, namely, that the exponential innovation typical of the world of today—a requisite for non-spurious competitiveness—seems to be associated with the formation of *synergic agglomerates*, that is to say, systemic structures (and hence structures with a high degree of feedback and complexity) made up of numerous social agents: enterprises, science and technology centres, universities, associations (business associations, trade unions and others) and the *government* (in some of its multiple functions and levels of operation).

These agglomerates do not arise by chance or by spontaneous generation, although such possibilities must not be completely ruled out. Instead, they are built up by virtue of the inductive and catalytic role exercised during a certain length of time by one or more of the agents mentioned earlier. In this respect, the government is seen to be in a privileged position because of its normative capacity, its capacity to manage information, its control over certain material resources, and other reasons such as the use of its legitimacy to create consensus. The government's position is therefore a dual one: it is both a bureaucratic apparatus and a political arena.

It has also been maintained that these synergic agglomerates (whose origin goes back conceptually to Marshall's industrial districts) have an *affinity with particular territories*: they do not spring up at random in the national space. This affinity is connected with the need to be located in an environment which already has skilled labour, infrastructure, entrepreneurial spirit, a culture favouring innovation, etc. Other agglomerates, however, do not have such a clear affinity of this type.

Such territories, which in the sense of their historical development may be considered as initially *natural*, subsequently *equipped*, and finally *organized*, that is to say, structured and interactive, are precisely what we mean by *regions* (using this term in a broad sense).

Thus, in the final analysis and in a figurative sense, the question boils down to a system of two equations: the agents and activities which will subsequently make up a systemic structure, and the territories and agents which can serve as a basis for this. The solution of this system gives a “value” to the dependent variable represented by *local government* (using this term in the broad

sense of territorial government) and its capacity to play a catalytic role in the territory under its jurisdiction or within its area of control. This role can only be played to the full, however, *in the context of decentralized decision-making power*, which makes it possible to have the capacity, resources and potential to generate concertation strategies.

Where do equity and sustainability come in all this, then?

Apart from the technical considerations, which are clearly set forth in the ECLAC documents, especially where they put forward the concept of "authentic competitiveness", it is necessary to reaffirm the *ethical dimension* which is implicit in the development proposal, and which is all the more perceptible the smaller, more representative or more workaday is the space in which people live and work. Who can maintain that a situation of overall national equity has an exact counterpart at any subnational level? The situation described in connection with income distribution could probably be repeated in this respect.

If changing production patterns, as a process, must be extended specifically to sub-national spaces (regions, provinces, municipalities), it must be agreed that the (regional) economic growth deriving

from it must be placed above all at the service of human beings (through equity) and also that these changes must be secured by ensuring that the territory (the region) and its resources must always be at the service of human beings (through sustainability).

The foregoing considerations bring the discussion, but especially the *idée-force*, to an area which is mainly, but not exclusively, concerned with regional (subnational) development: a question which is outside the scope of these comments and regarding which there is an increasingly obvious need to overcome the limitations of cartesian analysis in order to apply synthetic methods which can explain the systemic complexity of the regional unit.

In conclusion, it should be noted that the suggestion which we have tried to express more clearly in this article is that adequate consideration of *territoriality* and the necessary *decentralization* can help to make the systemic conception of the ECLAC proposal more operational, by facilitating its transfer from the abstract space of ideas to the concrete space of policies.

Consequently, it may be said that decentralization can help to improve a situation of inequality if government is decentralized and suitable incentives are provided to encourage the non-State sector to generate employment.

### Bibliography

- Albuquerque, F., C. de Mattos and R. Jordán (eds.) (1990): *Revolución tecnológica y reestructuración productiva: impactos y desafíos territoriales*, Buenos Aires, Grupo Editor Latinoamericano (GEL).
- Alden, J. and R. Morgan (1974): *Regional Planning: A Comprehensive View*, London, Leonard Hill Books.
- Boisier, S. and V. Silva (1989): "Descentralización de políticas sociales y desconcentración territorial. Puntos de intersección para investigación y acción", *Inter-agency Seminar on Decentralization and Deconcentration of Social Sectors and Services* (LC/IP/R.81), Santiago, Chile, Latin American and Caribbean Institute for Economic and Social Planning (ILPES), 18 October.
- ECLAC (Economic Commission for Latin America and the Caribbean) (1987): *The Crisis of Social Development: Challenges and Possibilities* (LC/L. 413), Santiago, Chile, 24 February.
- (1990a): *Changing Production Patterns with Social Equity*, Santiago, Chile, March. United Nations publication, Sales No. E. 90.II.G.6.
- (1990b): *Una estimación de la pobreza en Chile* (LC/L.599), Santiago, Chile, October.
- (1991a): *Sustainable Development: Changing Production Patterns, Social Equity and the Environment* (LC/G.1648 (Conf. 80/2) Rev.1), Santiago, Chile, 12 February.
- (1991b): *Nota sobre el desarrollo social en América Latina* (LC/G. 1665), Santiago, Chile, June.
- ECLAC/ILPES/UNDP (1990): *La Región del Bío-Bío al encuentro del siglo XXI*. Report of the ECLAC/ILPES/UNDP Technical Cooperation Mission, Concepción.
- Faletto, E. (1989): "The specificity of the Latin American State", *CEPAL Review*, No. 38 (LC/G. 1570-P), Santiago, Chile, August.
- Fields, G. S. and J. P. Schultz (1980): Regional inequality and other sources of income variation in Colombia, *Economic Development and Cultural Change*, vol. 28, No. 3, Chicago, IL, The University of Chicago Press, April.

- Ffrench-Davis, R., P. Meller and O. Muñoz (1990): *El desarrollo económico de América Latina: perspectivas históricas y políticas de promoción empresarial*, Estudios sobre Pequeña y Mediana Empresa, No. 1, Santiago, Chile, CEFOP, second edition.
- Graciarena, J. (1971): Estructura de poder y distribución del ingreso en América Latina, *Revista Latinoamericana de Ciencia Política*, vol. II, No. 2, Santiago, Chile, Latin American Faculty of Social Sciences (FLACSO), August.
- Grefe, X. (1988): *Décentraliser pour l'emploi. Les initiatives locales de développement*, Paris, Ed. Economica.
- Haddad, P. R. (1980): *Participação, justiça social e planejamento*. Rio de Janeiro, Zahar Editores.
- Haggblade, S., C. Liedholm and D. L. Mead (1990): The effect of policy and policy reforms on non-agricultural enterprises and employment in developing countries: a review of past experiences, Frances Stewart, H. Thomas and T. de Wilde (eds.), *The Other Policy*, Washington, D. C., ATI/ITP.
- Hopenhayn, M. (1988): "La participación y sus motivos", document ASD/95, Santiago, Chile, ILPES, mimeo.
- León, A. (1982): *Dimensión territorial de las disparidades sociales. El caso de Venezuela* (E/CEPAL/ILPES/R.44), Santiago, Chile, ILPES, 16 August.
- Martin, J. M. F. (1988): Interaction between the public and private sectors and the overall efficiency of the economy, *CEPAL Review*, No. 36 (LC/G. 1537-P), Santiago, Chile, December.
- Maturana, H. and F. Varela (1984): *El árbol del conocimiento*, Transcultural Communication Program, Organization of American States (OAS), Santiago, Chile, Editorial Universitaria.
- Morley, J. (1990): El desarrollo local no es opcional, *Nuevas asociaciones para crear empleo a nivel local*, Dublin, Ireland, Local Employment Development Action Programme (LEDA), European Community.
- Porter, M. (1990): *The Competitive Advantage of Nations*, New York, The Free Press.
- TASC (Trabajo de Asesoría Económica al Congreso Nacional) (1991): *Descentralización de las finanzas públicas*, Boletín No. 21, Santiago, Chile, ILADES/Georgetown University Programme, July.
- Uribe-Echevarría, F. (1986): La pobreza en las políticas de desarrollo, M. Jaramillo and F. Uribe-Echevarría (eds.), *Pobreza, participación y desarrollo regional*, Bogotá, Universidad de Los Andes/CIDER.
- Yoguel, G. and F. Gatto (1989): *Primeras reflexiones acerca de la creciente importancia de las plantas pequeñas y medianas en las estructuras industriales. Crisis productiva, cambio tecnológico y tamaños de plantas* (LC/BUE/R.141), Buenos Aires, Federal Investments Council (FIC)/ECLAC, January.



## Reorientation of Central American integration

*Rómulo Caballeros Otero\**

The Central American countries promoted a vigorous integration process which gave rise to valuable experience. The increased trade furthered industrialization and stimulated investment, modernization of production and economic growth. However, the exhaustion of the past growth model based on agricultural exports and the persistence of the system of over-protection of substitution industry, which was continued longer than was necessary, led to a profound crisis in the economies and in the integration programme itself.

On the basis of a review of that experience and reflections on the present conditions and the role that community action can play in a new development strategy, this article presents some proposals for rethinking the process. It is proposed to move from a demand-based approach to one based on the complementation of supply, as an essential means of achieving a new and effective form of insertion in international trade and thus regaining the path to development in Central America.

\*Head of the Economic Development Section of the ECLAC Subregional Headquarters in Mexico.

## Introduction

In the mid-1940s, the governments of the Central American countries began to move towards closer mutual relations, which were achieved in 1951 with the signing of the Charter of the Organization of Central American States.

In the 1950s, there were many initiatives which reflected the political will to progress in various aspects of these links. It was only in 1960, however, that the countries signed the General Treaty on Central American Economic Integration, which was to be, for a number of years, one of the most important factors in the growth and industrial development of the economies of the region.

In spite of the spectacular results achieved with regard to intra-regional trade during the first decade of application of the Treaty, unfortunately timely action was not taken to correct some shortcomings of the system, such as the lack of mechanisms to avoid the benefits of the increased trade being concentrated in a few countries. This led to one of the parties suspending its integration commitments in 1971. In the 1970s, intra-regional trade continued to grow and the institutional system was further consolidated, albeit against the background of an abnormal legal situation tolerated by the parties, since one of the countries was only participating partially in the commitments originally entered into.

In the early 1980s, the region suffered the effects of the international economic crisis. The exhaustion of the growth model based on agricultural exports and import substitution, which had facilitated the integration process in the past, now became evident. First the depletion of the international reserves, and then the scarcity of external resources obliged the governments to seek greater national financial stability. This led to the almost complete abandonment of the integration instruments and commitments, and hence to a systematic decline in intra-regional trade. This was yet another element which depressed the national economies by weakening regional demand, and this tendency lasted throughout almost the whole of the 1980s.

In mid-1990, the Central American Presidents met in Antigua (Guatemala) to redefine the future role of integration as an important element in a new strategy of openness to the exterior and modernization of production.

In the context of this renewed impulse for integration, expressed at the highest regional political level, this article presents some reflections based on various studies carried out at the ECLAC Subregional Headquarters in Mexico (ECLAC, 1991a, b and c) regarding two processes which it is considered must be simultaneous and must be initiated as soon as possible: i) the preparation and negotiation of a new

legal and institutional scheme to back up progress towards a Central American economic community, and ii) the normalization of the legal aspects of the present scheme and the application of measures designed to reactivate trade, together with other measures in respect of mutual economic relations designed to boost national efforts to return to the path of development.

## I

### A retrospective view

In order to understand the outlook for a new integration process, it is worth recalling the experience built up by the region over the last 30 years. This section therefore seeks to draw up a general balance-sheet of the process in order to draw lessons from this and identify the aspects which could be improved. The following analysis distinguishes between four stages corresponding to the marked changes in trends observed over the period 1960-1990: i) buoyant growth and normality, ii) institutional abnormality, iii) emergence of the crisis, and iv) deepening of the crisis.

#### 1. *The period of growth and normality (1960-1969)*

In 1960, after various attempts to work out an economic cooperation scheme, the Central American Common Market (CACM) was finally set up with the purpose of achieving faster and more autonomous regional development: the General Treaty on Central American Economic Integration was signed in Managua and formally came into effect in four countries in June 1961, with Costa Rica entering the system in July 1962.

Once the free trade area and the common external tariff (which eventually covered 96.7% of the regional tariff universe) had been established, the new integration process rapidly gave rise to steady growth in trade. Thus, trade rose from a little over US\$30 million in 1960 to nearly US\$300 million in 1970, and the common market's share in the total external trade of the region rose from 6.7% in 1960 to 20% in 1966 and 26.1% in 1970. The industrial sector expanded, and productive activities in general

were boosted. A Central American highway system was built, fleets of heavy transport vehicles were established, a Central American telecommunications system was set up, and an interconnected electricity grid was constructed. In addition, regional financial support was mobilized for important infrastructural works and for the main production sectors.

The common external tariff consolidated the creation of a regional space by eliminating distortions in competition and in the allocation of investments caused by the existence of different national tariff systems with clear fiscal orientations. Together with the free trade area, the common external tariff played an important role in Central American industrialization, in the training of new entrepreneurs and in the building-up of management capacity. A particularly important feature was the high share (90%) of industrial products in intra-regional trade. This represented a significant change from the traditional investment model and gave rise to some reallocation of capital for the creation of new production capacity, as well as new jobs offering higher productivity and wages than in other sectors of the economy.

The common external tariff encouraged investment in the manufacturing sector because of the tariff protection given, which was high in some cases. Even so, however, in general it did not reach the level of protection given in other Latin American countries nor that of the non-tariff protection prevailing in some of the industrialized countries.

The regional system of institutions also played a very important role. Within a few years of the signing of the Treaty, the range of functions of the



region's institutions was widened through the establishment of a Central American institutional system made up of the specialized regional bodies and of commissions and committees with specific competence in particular sectors.

Despite the favourable effects of integration on the national economies, however, the process became bogged down at the level of the free trade area, since only trade in goods was liberalized and mobility of factors was never introduced.

Gradually but increasingly, some contradictions in the scheme began to emerge, including the unequal shares of the countries in regional trade, the lack of flexibility of the system for correcting tariff imperfections, the operational difficulties in implementing the Central American Agreement on Fiscal Incentives for Industrial Development, the failure to foresee the difference in national capacities to adapt to the stimuli of the expanded market, and the exhaustion of the easy stage of import substitution.

At the same time, the incorporation of many aspects of integration into the activities of the institutions without having made the necessary modifications in the latter was gradually creating two bottlenecks: i) the increase in the budgetary needs of the institutions, which raised problems of allocation of funds in each of the countries, and ii) the growing difficulty of the organs of the General Treaty in directing Central American integration as the process became more complex and incorporated new sectors of activity (agriculture, transport, etc.). The incorporation of new sectors called for decisions on matters coming within the competence of several ministries, whereas the organs of the General Treaty were made up exclusively of representatives of the economic authorities.

## 2. *The period of institutional abnormality (1970-1978)*

In 1969, the dissatisfaction of Honduras with the integration process on account of the unequal trade benefits received, and its growing problems with El Salvador, led to an armed conflict between the two countries. Despite the shortness of the war, it had consequences which continued to affect the integration process until only a few years ago. From that

period onwards, the process was carried on in abnormal conditions because one of the members of the CACM withdrew from the organization, which had adverse consequences for trade liberalization and further increased the inequality of the industrialization opportunities.<sup>1</sup>

Intrazonal trade –as measured by exports– continued to increase, however, until it reached a peak of US\$1 250 million in 1978, representing around 25% of the total exports of the region.

Since mid-1971, three types of macroeconomic imbalances which threatened to destabilize the economies were identified (ECLAC, 1971): in the balance of payments, in public financing, and in regional trade. The balance of payments of the region *vis-à-vis* the rest of the world had deteriorated with the passage of time, and the import component had become less and less flexible because of the change in the composition of imports: finished goods gave way to capital goods and intermediate inputs used in the process of import substitution.

In general terms, the composition of intra-regional trade did not change substantially between 1970 and 1980, since it continued to be concentrated on manufactures for final consumption, above all textiles, food products, and industrial chemicals. These branches represented over 55% of intra-regional imports in 1970, and in 1980 the figure still stood at 51%.

The two main intra-regional exporters also continued to be the same countries as before. In 1970, Guatemala was the main intra-regional exporter (with 35.6% of sales), followed by El Salvador (25%) and Nicaragua and Costa Rica (around 16% each). The share of Honduras in intra-regional sales went down from 12% in 1968 to 6% in 1970. In 1980, Guatemala continued to generate 35.7% of total exports within the region, and El Salvador, 26.2%. The most noteworthy changes were the growing share of Costa Rica, which almost reached the level of El Salvador (23.9% of regional sales), and the decline of

<sup>1</sup> Through decree No. 97 of 31 December 1970, the Honduran Government took the country out of the free trade system by imposing tariffs on intra-regional imports. Because of the conflict with El Salvador, diplomatic relations between the two countries were broken off until 1980.

Nicaragua as an intra-regional supplier to a level (6.7%) even below that of Honduras (which accounted for 7.4% of total exports).

### 3. *The emergence of the crisis (1978-1984)*

Between 1978 and 1984, the CACM gradually became weaker for various reasons. As from 1979, the Central American countries faced serious difficulties: the decline in the demand for exports to third countries and the further rise in oil prices aggravated the fragile situation of the region's trade. The member States thus encountered increasing difficulty in meeting their obligations and maintaining full freedom of intra-regional trade. The "chronic debtors", as well as sometimes lacking foreign exchange to make their payments, tended to give priority to payments to creditors and financial institutions from outside the region when they did have such foreign exchange. For their part, the creditors took measures to avoid entering into trade transactions when these were not backed up by immediate payment in foreign exchange.

Intra-regional trade slumped in this period to a little over half the amount registered at the end of the 1970s, and there was no indication that this decline was likely to stop (see table).

Nicaragua and El Salvador suffered from heavy deficits in their trade with the other countries, and in 1982 Costa Rica adopted restrictive trade measures against Nicaragua. The Central American Clearing House became in practice a credit mechanism for financing the debit balances between pairs of countries, thus weakening the multilateral nature of the payments system. The result was a form of intra-regional trade settled bilaterally through payments in foreign currency, or characterized by the adoption of barter or bilateral credit procedures.

The economic crisis in the region also gave rise to a constant decline in the effectiveness of the institutional framework of the integration process. On the one hand, governments adopted resolutions aimed at revitalizing the process, but on the other they cut down the budgets for the regional institutions—especially the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) and the Central American Economic Integration Bank (BCIE)—whose capacity

to cope with the various problems of integration was thus reduced.

The delays by member countries in paying off their debts with the BCIE became chronic, and this limited the Bank's capacity to finance new projects. This situation was further complicated by problems of organization and administrative management in the institution. The Central American Monetary Stabilization Fund (FOCEM) was exhausted, and on top of this there were the countries' needs to change their exchange and monetary policies, so that the regional impact of the CACM was reduced, and there was growing disharmony in this field.

### 4. *The deepening of the crisis (1985-1990)*

The integration crisis became even worse during the period 1985-1990 on account of the persistent lack of a political definition on the importance and desirable features of intra-regional links, in view of the continuing irregular nature of the CACM. In addition, there was the problem of the abnormal external relations of Nicaragua. Because of the weakening of integration as an institution and as an "idée-force", national strategies to meet the crisis did not give a central place to integration. On the contrary, in this period the application of adjustment and stabilization programmes at the national level became more generalized and more intensive, leading to the almost complete abandonment of the integration instruments. As the programmes were defined individually by the countries—in some cases in line with programmes negotiated with international financial institutions—it was virtually impossible to coordinate rates of action, time limits and degrees of implementation at the regional level.

In 1986, intra-regional trade reached its lowest ebb (US\$417.6 million, or only 10.4% of total exports), because of the serious imbalances in intra-regional trade and the collapse of the regional payments system due to the accumulation of intolerable debit balances between pairs of countries.

As from 1988, however, the integration process showed its intrinsic vigour: intra-regional trade stopped falling and began to recover slowly but surely. Although the number and value of the transactions carried out within the framework of

Table

**CENTRAL AMERICA: VALUE OF INTRA-REGIONAL TRADE AND ITS  
RELATIVE WEIGHT IN TOTAL EXPORTS OF GOODS (FOB)**

|   | 1970    | 1975    | 1980      | 1981    | 1982    | 1983    | 1984    | 1985    | 1986    | 1987    | 1988    | 1989 <sup>a</sup> | 1990 <sup>b</sup> |
|---|---------|---------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|-------------------|-------------------|
| Value of exports to the rest of Central America<br>(thousands of Central American pesos)          |         |         |           |         |         |         |         |         |         |         |         |                   |                   |
| <i>Total</i>  | 286 304 | 536 380 | 1 129 157 | 936 790 | 765 455 | 766 623 | 719 182 | 487 816 | 417 567 | 506 141 | 548 991 | 651 679           | 638 900           |
| Costa Rica  | 46 091  | 107 227 | 270 328   | 238 023 | 167 196 | 198 184 | 192 913 | 142 904 | 100 507 | 109 612 | 129 800 | 144 575           | 123 100           |
| El Salvador   | 73 768  | 141 759 | 295 795   | 206 483 | 174 229 | 164 894 | 156 217 | 95 728  | 90 984  | 119 598 | 139 801 | 182 548           | 154 000           |
| Guatemala   | 102 345 | 168 227 | 403 727   | 355 501 | 320 068 | 308 689 | 285 238 | 205 127 | 192 005 | 232 200 | 236 441 | 261 290           | 287 600           |
| Honduras  | 18 044  | 26 593  | 83 888    | 65 911  | 51 876  | 61 380  | 47 722  | 19 893  | 18 836  | 25 931  | 23 800  | 38 324            | 37 800            |
| Nicaragua   | 46 056  | 92 574  | 75 419    | 70 872  | 52 086  | 33 476  | 37 092  | 24 164  | 15 235  | 18 800  | 19 149  | 24 942            | 36 400            |
| Value of exports to the rest of Central America, as a<br>percentage of the value of total exports |         |         |           |         |         |         |         |         |         |         |         |                   |                   |
| <i>Total</i>  | 25.5    | 22.8    | 23.1      | 21.4    | 20.0    | 20.0    | 18.1    | 12.9    | 10.3    | 13.3    | 13.8    | 15.4              | 14.4              |
| Costa Rica  | 20.0    | 21.7    | 27.0      | 23.8    | 19.2    | 23.2    | 19.3    | 15.2    | 9.3     | 9.9     | 11.0    | 10.8              | 9.1               |
| El Salvador   | 31.3    | 26.6    | 27.5      | 25.9    | 24.7    | 21.8    | 21.5    | 14.1    | 11.7    | 20.2    | 23.0    | 36.7              | 26.5              |
| Guatemala   | 34.5    | 26.2    | 26.6      | 27.5    | 27.4    | 28.3    | 25.2    | 19.3    | 18.3    | 23.7    | 22.0    | 22.8              | 23.1              |
| Honduras  | 10.1    | 8.6     | 9.9       | 8.4     | 7.7     | 8.8     | 6.5     | 2.5     | 2.1     | 3.1     | 2.7     | 4.0               | 4.0               |
| Nicaragua   | 25.7    | 24.7    | 16.7      | 14.0    | 12.8    | 7.8     | 9.6     | 8.0     | 6.2     | 6.4     | 8.1     | 8.6               | 11.3              |

**Source:** ECLAC, on the basis of official figures and data provided by the Permanent Secretariat of the General Treaty for Central American Economic Integration (SIECA).

<sup>a</sup> Revised preliminary figures.

<sup>b</sup> Preliminary figures.

the Central American Clearing House tended to be close to zero, mutual trade found ways of offsetting this state of affairs. On the one hand, agreements were reached between pairs of Central Banks, and on the other, enterprises made arrangements to accept payment in their respective national currencies.

Intra-regional trade continued to be restricted to the "traditional" products traded between the countries in the past, while because of the opening up to supply by third countries, a reverse form of substitution took place, with intra-regional sources of supply being replaced by external suppliers. In the case of agricultural products, the limitations persisted on free trade in basic grains and other food items such as edible oils, dairy products and poultry products.

In short, although the process displayed great vitality in its first phase, since a system of integration actions was kept in effect and mutual trade

machinery was established, numerous internal and external factors acted to check this dynamism and maintained the integration process at an incomplete stage. The programme gradually flagged because of the disputes over its real beneficiaries, the exhaustion of the easy stage of import substitution, the inability to put into practice initiatives such as those concerning integration industries, and the deterioration of the multilateral payments system because of growing problems of liquidity.

At present, even though the strong links of interdependence built up in recent decades still exist, and there is still a political will to take advantage of integration as one of the motive forces for resuming the path of development within the framework of a growth model, the legal anomalies still persist and the process still suffers from the weakness of an institutional framework designed for an outmoded integration model.

## II

### Elements conditioning a new development strategy

The changes which have taken place in the international environment, together with the new situations which have arisen in Central America, form a set of conditions and challenges that must be faced in defining a new Central American development strategy. It is clear, however, that economic integration continues to be just as necessary as it was in the past, although now in a different context.

#### 1. *The international environment*

The tasks of stabilization, adjustment and economic recovery facing the Central American countries must now be carried out in an international economy which tends towards the regionalization of markets and the emergence of new trade barriers.

The first of these tendencies is reflected in the formation of great economic and political blocs polarized around North America, Western Europe and the Pacific, which mean a realignment of world economic power. Clearly, the formation of these subsystems calls for changes in traditional styles of bilateral and multilateral negotiation and cooperation. Agreements and conflicts within a multipolar international structure involve an interaction of interests which is not foreign to national policies but goes beyond them. The logic imposed within each expanded economic and political space and the degree of coordination with other blocs filter and subtly influence the interests of each country.

In this new institutional framework which may be expected to govern international relations in the future, it must be borne in mind that the countries or zones which are not as yet aligned with those international subsystems cannot avoid taking a stand on their own linkages with them. The definitions of the links with these international blocs—in terms of forms, preferences and rates of change—will decisively influence national development strategies and even regional development proposals.

The second trend connected with the process of regionalization is reflected in the propensity to intensify protectionist policies within each bloc. In contrast with the paradigm which is supposed to

be in force, and in view of the foreseeable incidence of recessionary conditions, the possibility of consolidating policies for the liberalization of trade in goods and services and movements of labour between countries still seems far off. The persistence of protectionist practices, such as those defended in the Uruguay Round of GATT, augurs frequent friction between the macroeconomic policies of the industrialized countries and the blocs which each of them are forming.

#### 2. *The regional framework*

In this last decade of the twentieth century, Central America has largely overcome the regional political crisis, but the economic crisis persists.

The end of the regional political crisis was the result of a great effort at consensus building among the five Central American governments, dating from the Esquipulas Declaration of 25 May 1986.

It is now hoped that, within a reasonably short space of time, it will be possible to put an end to the domestic political tensions in some countries of the region, without which it will not be possible to restore the conditions needed for economic and social development.

At the same time, resuming the path of development after the situation of profound deterioration in the productive and financial fields suffered by the economies of the region is a task which is much greater than any challenge Central America has faced in the past. This deterioration became even more marked because of the dispersion of the efforts made by the Central American countries to cope with the crisis, and although they are aware of this, they have not yet managed to coordinate their macroeconomic policies.

The difficult situation just described is further complicated by the growing social demands, which have long been put off but naturally tend to become more pressing in periods of greater political openness. It is therefore urgently necessary to resume the path of sustained growth in order to be able to respond to these demands and consolidate the democratic processes in the region.

### III

## The role of integration within a new development strategy

In the face of the changes which have taken place in regional and international conditions and the incorporation of the concept of integration into a new development strategy in Central America, what is needed is not to reconstitute the original integration scheme, but to redesign it and bring it up to date in order to broaden its scope and enhance its objectives.

#### 1. *Redefining the scope of integration*

Expanding the scope of integration does not mean giving up the idea of a regional economic identity, but rather achieving greater weight in external relations through a more effective form of openness and firmer cohesiveness *vis-à-vis* the outside world.

In its day, the CACM was an expanded market of its member countries. This is because the integration process itself placed limits on it by restricting the mutual relations fundamentally to the area of trade. Unfortunately, this market suffered a marked decline because of the preference for using tariff-based policies, the excessive persistence of which gave rise to a type of protectionism which prejudiced competitiveness and efficiency.

The concept of integration outlined here differs both from that which amounts to the mere aggregation of demand and from that which involves the creation and restructuring of economic blocs in the developed world.

The formation of these great economic spaces is a response to the multipolarity now prevailing in the industrialized world, which has given rise to disputes or alliances aimed at gaining supremacy in production, trade, finances, technology and international politics itself. These blocs tend to be homogeneous in their interior and maintain strong similarities between themselves in terms of competitiveness.

The processes of association in Latin America, and above all in Central America, have opposite characteristics to these. There is no question of hegemony involved, their international insertion is one-sided, and the regional structure is heterogeneous. Nevertheless, there are possible points of cooperation or relationship between the two processes which

should be explored in order to see how they can contribute to the changes in production patterns required by the Central American countries.

A form of integration which goes beyond the limits of the Central American region will undoubtedly lead to greater links with the new economic spaces and permit a more decisive form of openness to the rest of the world; the study of the options for integration or cooperation agreed with other Latin American countries—as well as with nations of North America, Europe or Japan and the Pacific—is associated with the need to gain a greater share in world trade.

International openness of this type must be understood as a willingness to accept criteria of greater competitiveness and benefits in trade flows, together with a policy of market diversification. It is not a synonym for unrestricted liberalization or deregulation, since the more developed countries continue to apply high margins of protection, without taking account of criteria of productivity and competitiveness.

This is of great importance for the less developed countries, where global liberalization would cause ill-effects that could not be offset or checked in other areas of economic activity. This means that while we should support a process of openness, this should be one which is linked with gradual and selective liberalization, and which eliminates from the start the evils of excessive protectionism and the obstacles which hold back productivity and hinder better use of resources in economic and social terms.

The aim of this new approach to integration is to avoid the restriction of agreements and concertation mechanisms solely to the area of trade. Integration must cease to be the pedestal for a belated process of import substitution, or the prop of a traditional agricultural export model. Likewise, it must leave behind it the image of a mere expanded internal market, in order to become instead a platform for community investments with international projections.

#### 2. *Enhancing the purposes of integration*

Integration understood in this way will help to promote productive activity and its restructuring by

taking advantage of the benefits deriving from concentration of resources and economies of scale. This is particularly important for Central America because of the small size of its economies, the low levels of domestic saving, the serious external financing problems, and the increasing difficulties in operating individually in international capital markets.

The obstacles standing in the way of projects such as integration industries indicate that a firm political will is needed in order for initiatives of this type to result in dynamic poles of development incorporating technical progress and for production activities to be diversified and placed on a more solid basis.

In the agenda defined by the Presidents themselves, most of the points of which are contained in the Economic Action Plan for Central America, valuable initiatives are proposed which will undoubtedly help to enhance the new integration

scheme, especially in the areas of physical infrastructure and the generation of new community projects: transport corridors, communications, customs, ports and energy production; schemes for concerted negotiations on activities and measures connected with the external sector; agricultural and agroindustrial complementation programmes; scientific and technological cooperation policies aimed at promoting innovation, and finally the selective incorporation of new production, management and marketing techniques designed to conquer extra-regional markets.

Among these proposals, the governments will assuredly carry out those based on the most suitable economic and political criteria. It will be of fundamental importance, however, for the execution of the programme, project or policy finally selected to be undertaken on a regional basis, thus giving Central American integration a new and more dynamic turn.

## IV

### Some elements for restructuring the integration process

The Declaration of Antigua, adopted by the Central American Presidents on 17 June 1990, placed on record the governments' commitment to "restructure, strengthen and reactivate the integration process, as well as the Central American regional bodies, by adapting or redesigning their legal and institutional framework in order to give them renewed dynamism and facilitate their readaptation to the new strategies of external openness and modernization of production being undertaken by the Central American countries, with the objective of the formation and consolidation of the Central American Economic Community".

For its part, the Economic Action Plan for Central America, which forms part of the Declaration of Antigua, provides for "the initiation as soon as possible of the analysis and study of the legal and institutional instruments of integration in order to establish a new legal and operational framework for it".

In order to fulfil this commitment, adjustments could be made to the General Treaty on Central American Economic Integration, which is the main

instrument currently in effect. However, this does not seem to be the best option: firstly, because the General Treaty was prepared 30 years ago, in a different conceptual framework and against a background of national, regional and international situations very different from those of the present day, and secondly, because the idea of keeping the Treaty in being in a modified form is not politically viable, particularly for some of the States.

It would be better to prepare a new and very brief legal and institutional framework limited to the establishment of the bases for the normative and institutional structure of the new scheme. In this way, the creation of community law would remain the preserve of the States and regional organs in all the areas where they have been endowed with regulatory and policy-setting powers.

A legal instrument of this nature would have the dual advantage of being easier to approve, while reserving for the signatory States and the integration organs the possibility of directing the process in a flexible manner, in accordance with

the situations which may arise, without losing sight of the essential objectives of the path thus traced out.

### *1. Some basic principles of the new scheme*

Since it is essential to prepare a suitable legal and institutional framework for a renewed integration scheme –without prejudice to continued efforts to reactivate the present system–, it seems appropriate to reflect on some of the fundamental elements that such a scheme should contain.

Whatever the institutional form or scope that the new integration process may have, it must be based on certain basic criteria, including the following:

i) The proposed economic community must pursue the economic and social development of its member States and of the region as a whole, in order to raise the standard and quality of life of the Central American people;

ii) Regional integration is complementary to national development efforts, which means that it must contribute to the success of national policies, while the latter must take maximum advantage of the possibilities provided by the expanded region;

iii) Regional integration and participation in the international economy are likewise complementary. Internal and external resources together are the source of the dynamism of the Central American economy;

iv) The interest of the countries in the different fields that may form part of the integration process will vary according to circumstances; development, as an objective, must give coherence and stability to the whole. Consequently, the integration process must not be subject to a succession of stages that must be completed in a predetermined sequence.

The new integration scheme should be guided by some fundamental principles which should form basic standards for the decisions of the States and of the integration institutions. It should provide for geographical expansion and the incorporation of the most varied economic and social activities. In this way, the globality of the integration process would be in keeping with the fundamental purpose of development, since both of

these can only be achieved gradually. The decisions on the areas to be incorporated and the time of their incorporation would be sovereign acts by the States, in response to domestic problems or external situations.

In every case, before signing agreements or entering into commitments it will be necessary to make a careful evaluation of the real possibilities for fulfilling them. Entering only into commitments for what is really possible, and not necessarily what is desirable, will avoid subsequent disappointments that could reduce the credibility of the integration process.

In selecting the areas to be incorporated in the process and laying down priorities, certain criteria must be taken into account. Above all, the programmes, projects and activities must correspond to needs which are recognized by all the countries. Secondly, priority must be given to the projects which have the greatest possibility of being extended to other areas or activities, in order to reconcile short-term objectives with the creation of longer-term forms of interdependence. Finally, it is desirable to select a considerable number of programmes and projects, so that the success of some of them will make up for the lesser benefits obtained in others. The integration process also involves two situations which must be tackled in line with these basic principles. One is the different capacity of the countries to progress in the integration process, and the other is the distribution of the costs and benefits of that process.

With regard to the first of these, while it is desirable that the integration process should be very flexible and that the commitments entered into should be shared by all the parties, sometimes there are countries which cannot progress at the same rate as the others. Consequently, it is necessary to define the different forms and degrees of execution, together with the measures that should be taken to back up countries with difficulties and the measures that these countries themselves should take in order to overcome them.

With regard to the costs and benefits of integration, it may be noted that in the various integration schemes an attempt has been made to define the concept of balanced development, but no general agreement has been reached on this matter. Frequently, balance is equated with the

absence of a deficit on intra-regional trade, which could perhaps only be achieved if trade were based on barter. In more general terms, the problem of using the concept of balanced development in an integration process is that the notion of balance corresponds to a static comparison of situations, whereas development is essentially dynamic.

The ultimate aim of the Central American economic community should be that integration should promote the development of all the member countries, so that for each country the total benefits of integration exceed its total costs.

This is better reflected in the concept of reciprocity, which does not mean ensuring benefits in all areas for all countries, but rather achieving as a general balance suitable compensation of the costs when, in particular areas, these are not equivalent to the benefits.

## *2. A new institutional scheme*

The proposed Central American Economic Community must have a new set of organs to direct it, and redesigned institutions to manage the process.

In the light of the experience of recent years, the supreme organ of the Community should be the Meeting of Central American Presidents, which should be responsible for outlining Community policies.

There would be two other main organs: one which would direct the implementation of the Community's policies and ensure the fulfilment of the obligations laid down in the treaty of association, and a technical and administrative organ of the Community.

The directive organ would be made up of the incumbents of the ministries responsible, according to the internal legal order of each State, for the matters to be dealt with at each meeting. As indicated by both Central American and international experience, this is desirable in order to be able to handle not only specialized issues in the administrative field, but also political issues which demand that the national spheres of competence should be taken into account in dealing with them.

This scheme leaves open the problem of the continuity which should be observed in the direction of the process. So far, this continuity has been guaranteed because the integration bodies have been made up of the Ministers of the Economy.

One solution would be that these Ministers could form a permanent part of the directive organ: this would not be at variance with Central American experience.

This solution might be difficult to put into practice, however, since it is not easy to bring together a very large number of ministers at once. They could, however, be represented by other officials fully authorized to take decisions, thus achieving both of the objectives pursued: that of competence to take sectoral decisions, and that of continuity.

The technical and administrative organ of the Community, for its part, should be endowed with some capacity for taking initiatives or decisions. It would be of an authentically Community nature, since its members would not represent individual countries, in contrast with the members of the organ made up of Ministers and, of course, the supreme organ of the Community.

As a body which would be responsible for preparing projects and presenting them to the decision-making organs, the technical and administrative organ should have machinery for consultation with non-governmental sectors, so that the economic and social interests of the latter could be properly reflected in the exercise of its capacity for taking initiatives.

Before the projects thus prepared are put forward for a decision to be taken on them, active work to seek consensus is indispensable. This work could be carried out by the technical organ (as has been done in the past, although to an insufficient extent). Alternatively, a body of permanent representatives of the countries could work together with the technical organ with the specific task of maintaining direct contact with governments and passing on in both directions the information which could facilitate the search for consensus.

The Community would also have a Central American Parliament. Its functions would be defined in the Treaty of Association, which should be in keeping with the new institutional structure.

Finally, there would be another body – the Tribunal – which would interpret and apply the treaty setting up the Community in a uniform manner, together with its complementary or subsidiary instruments.



## V

**Elements of a strategy for the transition**

Passing over to a new integration scheme will involve a transitional period during which the new treaty will be negotiated, signed, approved and ratified. In this period, it will be essential to ensure basic legal continuity. For this reason, it is considered indispensable to temporarily restore the full validity of the General Treaty, and it will also be necessary to adopt a set of measures designed to return the integration process to a state of normality, so that the stage can begin in better circumstances.

Up to mid-1990, it seemed clear that in the state of deterioration to which the CACM had declined it would not be viable to put into effect a restructured scheme without first of all taking measures for reactivation, that is to say, measures to restore as far as possible a state of normality under the prevailing legal framework.

The Declaration of Antigua represented a radical change. In view of the political will to restructure and reactivate the integration process, there cannot be a division between these two elements, since the measures to reactivate the process cannot be of a short-term nature, and consequently they must be combined with the restructuring measures. In reality, they form two parts of a single short and medium-term strategy for regional integration.

The measures included in a transitional programme could reactivate those integration mechanisms which are inactive or suffering from problems in their operation, and put into effect projects which all the countries consider necessary and which have both short and long-term effects. These projects could be incorporated in the programmes approved by the Community when it comes into operation.

In view of the foregoing, it is proposed that the transitional programme should at least include measures and projects<sup>2</sup> aimed at:

i) Restoring free trade among the five Central American countries. The aim would be to recover and surpass the previous levels of trade. The main measures for this purpose were laid down in the agreement signed in September 1989 between the Central American governments and the Central Banks of the area, on the one hand, and the Commission of the European Communities on the other, and in the agreement signed on 13 December of the same year by the Ministers responsible for Central American Economic Integration and Regional Development and the Presidents of the Central Banks;

ii) Keeping in being the Central American Clearing House, which, under the above mentioned agreement with the Commission of the European Communities, would now be responsible for establishing a Central American payments system;

iii) Strengthening the process of regional coordination in the fields of exchange, monetary and credit policy in order to reduce exchange and price instability, which have had such serious effects on regional trade. Cooperation in this field would obviate the adoption by the countries of unilateral compensatory measures that would militate against the restoration of free trade;

iv) Strengthening the Central America Monetary Stabilization Fund, which gave important support in the past to the balance of payments of the Central American countries;

v) Making the Central American customs tariff system uniform again<sup>3</sup> at levels compatible with the objective of making regional production internationally competitive. Future changes in the tariff system, if considered necessary, would be subject to the rules of the Agreement on the Central American Tariff and Customs Regime;

vi) Coordinating economic policies aimed at modernizing Central American industry, without however neglecting other sectors of the economy;

<sup>2</sup>Most of these measures are included in the Economic Action Plan for Central America. Although these measures have been discussed and studies have been begun on them, however, the executive decisions needed to put them into practice are still lacking.

<sup>3</sup>In this respect, the Meeting of Central American Presidents (Puntarenas, Costa Rica, 15-17 December 1990) reached an agreement of great importance for whose implementation definite time limits were set, and at the San Salvador Summit the main parameters of the new tariff system were established.

vii) Modernizing Central American transport and rehabilitating, restructurizing and extending the regional road network. A good deal of progress has already been made in this field thanks to the work of the Meeting of Ministers of Transport and of the Central American Bank for Economic Integration;

viii) Defining the positions to be adopted in negotiations within the framework of the Enterprise

for the Americas, Europe 1992, and negotiations with the Far Eastern regional bloc and with other Latin American countries or blocs, especially the Group of Three (Mexico, Colombia and Venezuela);<sup>4</sup>

ix) Strengthening the regional institutions, which have had to assume a large number of responsibilities. For this purpose, it is necessary to create a mechanism for the automatic financing of the regular budgets of the regional institutions.

## VI

### Possible areas of integration

As already noted, the new scheme should be sufficiently flexible to cover all the fields where Community action is desirable and possible. By way of illustration, some of these fields are mentioned below.

An area of high priority is that of *trade integration*, the formal objective of which continues to be a Customs Union, and the economic objective of which is to create a regional space which makes possible economies of scale, stimulates investments, and facilitates the creation of new linked production systems. Trade integration paves the way for the region to project itself onto the international market.

In the future, efforts should be made to strengthen *agricultural integration* by consolidating the possibilities for intra-regional trade in agricultural products, especially basic grains. It would be important for the Community to attain food security at the regional level, and this would call for joint efforts in the production, technology and distribution of basic grains. Joint efforts will also have to be made to raise the international competitiveness of agricultural production in general and to present a common front in forums which are negotiating the adoption of agreements on the regulation of production and exports of agricultural goods.

Particular importance should be given to *industrial integration*. Its specific objectives should be to modernize established industry, to expand the production capacity of the sector, and increase its productivity and international competitiveness.

The substitution process should be brought into line with criteria of regional efficiency, and it should be selective. At the same time, intensive efforts should be made to export manufactures to the international market.

In the new integration scheme, particular importance will be assumed by *cooperation and integration in the field of external trade*, with the aim of gaining a much larger share of trade in new agricultural products and, in particular, industrial products in the region's international trade. There is still a great deal of dispersion of effort in this field, even though the existence of great economic blocs makes it increasingly necessary for the Central American countries to act in a joint and coordinated manner. The Community should give high priority to the coordination of its external trade policy, because of the changes taking place in the international environment and, in particular, the trends shown by foreign investment in Central America and the difficulties of access to sources of external credit.

*Physical integration*, for its part, is one of the most effective ways of creating a regional-scale economy.

Finally, among many other areas which are suitable for complementation and integration, particular attention should be given to *monetary and*

<sup>4</sup> On 10 and 11 January 1991, a meeting of Presidents of Central America and Mexico was held in Tuxtla Gutiérrez, Chiapas, and it was agreed to work out arrangements for a free trade area within a period of five years.

*financial cooperation and integration.* In this field, it will be necessary to consolidate the substantial progress already made and, in some cases, ensure that commitments are effectively fulfilled. With regard to financial integration, there is still a great deal of room for Community action, such as the development and consolidation of a re-

gional capital market and the strengthening of Central American capacity to obtain external financing. In view of the profound and apparently irreversible changes which have taken place in the international financial field, joint action by the region could improve its possibilities of gaining access to sources of external credit.

### *Bibliography*

- ECLAC (Economic Commission for Latin America and the Caribbean) (1971): *El mercado común centroamericano y sus problemas recientes* (E/CN.12/885), Santiago, Chile, 15 March.
- (1991a): *La integración en Centroamérica: su evolución desde los años setenta y perspectivas en los noventa* (LC/MEX/R.271/Rev.1) Santiago, Chile, 13 May.
- (1991b): *Bases y propuestas para la reestructuración del sistema centroamericano de integración* (LC/MEX/L.157), Santiago, Chile, 13 August.
- (1991c): *Centroamérica: notas para una estrategia de desarrollo en los años noventa* (LC/MEX/R.319 (Sem.47/3)), Santiago, Chile, 4 September.



## MERCOSUR and the new circumstances for its integration

*Mónica Hirst\**

This article analyses the evolution since the middle of the past decade in the integration process between Argentina and Brazil which subsequently gave rise to MERCOSUR.

Studies on economic integration usually concentrate on the analysis of structural factors of an economic and political nature in each of the countries participating in the process. This article naturally fully recognizes the importance of these kinds of factors, such as imbalances between the economies of the respective countries, low volume of mutual trade, the conflictive nature of certain trade issues, and even possible military conflicts. However, it also highlights and analyses the importance of another type of factor, termed processal factors, which together with the structural factors determine the progress of the integration process.

The common feature of this second type of factors is that they impart greater dynamism to the integration process by modifying in various ways restrictions of a more structural nature. Among these factors, mention is made of the convergence of external policy views and shared political will in favour of integration; the review of bilateral trade policies and the favourable conditions for subregional economic projections; the existence of technical cadres trained for and sensitive to cooperation and integration, as well as the presence of sectoral interests favourable to the process; and the loss of importance of the hypothesis of military conflict.

The article concludes that, despite the current degree of progress made in the integration process, it may still be affected by macroeconomic divergences between its member countries. At the same time, however, the new horizon of economic and political interaction which has already been opened up has laid the foundations for the emergence of a whole network of varied and increasingly close linkages.

\*Researcher of the Latin American Faculty of Social Sciences (FLACSO), Buenos Aires.

## Introduction

In Latin America, the integration option has always been associated with an economic development recipe advocating the expansion of the regional market and the formulation of a common industrialization strategy. For almost three decades, however, the normative aspects present in Latin American regional integration projects have not been accompanied by the real conditions needed to give them success, either because of the difficulties encountered in reconciling the different economic policies laid down in developmentalist models, or because of the nationalist sentiments accompanying these policies, or else because of the recurrent situation of institutional instability prevailing in the region.

Today, in a post-authoritarian era, this recipe is associated with the conditions for interaction provided by pluralistic and democratic political systems. The trend towards the reduction of political rivalries and the solution of territorial disputes in the region is the result of the processes of internal and external pacification carried out in recent years in a number of Latin American countries. Noteworthy changes are also to be observed in the economic field, including the exhaustion of substitution models based on a linkage between closed market strategies and an active role of the State in production activities, and all this has led to structural reforms. These changes, in turn, have been furthered by the new horizons glimpsed in the international economic system, where tendencies towards regionalization and others favouring multilateralism are superimposed on each other.

In the subregional area made up of Brazil and the Southern Cone countries (excluding Chile), this set of changes begun in the mid-1980s has been accompanied by a strong drive towards economic cooperation and integration. Under the leadership of the Argentina-Brazil axis, a process has been set afoot which combines institutional stability, the review of international economic insertion strategies, and the establishment of a common space for production activities.

Although slow and tortuous, this process has displayed over the last six years important vital signs which incentivate the use of a neoliberal and neofunctional approach in its analysis. After a battery of well-intentioned declarations put out by the

governments of the two countries late in 1985, today –six years later– intensive negotiations are underway among four countries (Argentina, Brazil, Paraguay and Uruguay) with a view to the formation of a common market in 1995.<sup>1</sup>

In addition to the analytical horizons opened up by these approaches, their use also makes it possible to link the MERCOSUR process with the expansionary tendencies being displayed by other integration initiatives at the present time.

## I

### Structural and processal factors

In the mid-1980s, the conditions for embarking on an Argentine-Brazilian integration process were particularly unfavourable. From a neo-realist point of view, the conception and application of the Argentine-Brazilian Integration and Economic Cooperation Programme (PICE) simply had no point, in view of the imbalances between the two countries and their increasingly conflictive effects on bilateral relations. However, if an analysis of the negotiations which set the Programme in motion takes account of the activation of its processal factors, it clearly reveals the existence of dynamics favouring the identification of common interests rather than the maintenance of a “defensive positionalism”.<sup>2</sup>

However, the possibility of changing the structure of this relationship has not meant the immediate entry into operation of a smooth and rapid process. On the contrary, the incidence of structural factors has made it necessary –at least so far– for this process to coexist with a set of adverse aspects which hinder its expansion and consolidation. The structural factors condition the scope and depth of the processal factors, which are the ones that lend dynamism to cooperative interaction. In accordance with this distinction, we must try to identify the aspects which, over the last six years, have complicated the efforts at integration and cooperation which began at the bilateral level and are now taking on a subregional aspect.

This analytical purpose, although designed to aid in the study of MERCOSUR as a whole, concentrates on the Argentine-Brazilian relationship. The structural and processal factors which have made themselves felt in the recent cooperation and integration efforts between the two countries are the following:

#### a) *Structural factors*

- i) Economic imbalances.
- ii) Low level of mutual trade.
- iii) Conflictive list of trade issues.
- iv) Hypothesis of military conflict.

#### b) *Processal factors*

- i) Convergent lists of external policy concerns.
- ii) Political will in favour of integration.
- iii) Review and modification of bilateral trade patterns.
- iv) Technical cadres prepared for and sensitive to the need for cooperation and integration.

<sup>1</sup> Between 1986 and 1988, 24 protocols were negotiated which laid down guidelines and goals for the following areas: capital goods, trade, binational enterprises, financial matters, investment funds, energy, economic studies, aeronautical cooperation, iron and steel industry, land and sea transport, communications, cooperation in nuclear matters, cultural cooperation, public administration, monetary instruments, border industries, and economic and social planning. In 1989, Argentina and Brazil signed the Treaty on Integration and Cooperation, providing for the establishment of a common space within 10 years. In July 1990 the two countries signed the Buenos Aires Act, providing for the establishment of a common market between them as of 31 December 1994. Soon after, the Economic Complementation Agreement within the framework of ALADI (ACE 14) was negotiated, which condensed all the sectoral negotiations already carried out and at the same time established a gradual programme of trade liberalization with a view to the complete elimination of tariffs and non-tariff restrictions on mutual trade between the two countries. In March 1991, a programme was established for the formation of a common market in the Southern Cone, with the participation of Paraguay and Uruguay.

<sup>2</sup> This expression was used by Grieco (1987) to describe the resistance of the LAFTA countries to the further fulfilment of their commitments with regard to tariff reductions.

- v) Sectoral interests in favour of integration.
- vi) Favourable conditions for subregional projection.
- vii) Formulation of measures raising confidence in respect of strategic issues.

The first group contains the factors which negatively affected cooperation between the two countries. It may be of interest here to recall what was stated by Axelrod (1984, chapter 9) on the dynamics set up in a cooperation effort between the forces of the past and the potential of the future. According to this author, the emergence, growth and maintenance of cooperation call for some prerequisites regarding individuals and the social context. They require that an individual should be capable of recognizing the other player who was a previous opponent, and that the previous history of interaction with that player should be recalled, so that the right answer can be arrived at (*Ibid.*, p. 174). However, Axelrod concludes that it is the future which will play the decisive role in cooperation, provided that the potential it projects (its "shadow") is sufficiently broad. As this same author suggests, this potential is only in a position to assert itself when the actors have confidence in respect of the most recent acts of their counterparts.

If these requisites are fulfilled, it is assumed that a turning point has been reached which can

give rise to a process of cooperation. In the Argentine-Brazilian integration process, this point was reached in November 1985, with the announcement of the Iguazú Declaration. From that time on, the processal factors projecting a new "shadow" over the future of relations between the two countries were gradually activated.

There is no question of trying to establish here a simplistic link between factors considered to be structural and the past, since some of these factors are permanent aspects of the Argentine-Brazilian relationship. However, the capacity of these factors to act as obstacles may vary as the "shadow" over the future of the cooperation process broadens. This brief digression permits a differentiation to be made, this time within a given universe, between reversible structural factors and permanent structural factors. Of the four structural factors listed earlier, only one of them is permanent: that regarding economic imbalances. The others are partly or totally reversible.

Among the processal factors, only that regarding the convergence of external policies has varied substantially in recent years. At the present time, it is not a particularly active element in the MERCOSUR process, if we look at its specifically political dimension. However, both countries have an interest in preparing a convergent agenda in the area of their external economic policies.

## II

### The process underway

When Argentina and Brazil took the first steps towards a programme of cooperation and integration, their points of convergence on international policies played a crucial role. This was the item with the biggest scope and significance in the first document announced by the Argentine and Brazilian governments in November 1985, and it formed the origin of the political will which has impelled the process. For this reason, the bases of operations in the two countries were their respective foreign ministries, which, starting from different levels of political dynamism, saw long-term bilateral association as an option

which would further the projects they had for improving their international insertion.<sup>3</sup>

<sup>3</sup>See the Iguazú Declaration of 30 November 1985. The convergent external policy positions of the two countries were to be seen with regard to the Cartagena Consensus, the Contadora Support Group, the establishment of an area of peace and cooperation in the South Atlantic, and the Argentine position claiming sovereign rights over the Falkland Islands (Malvinas) in the United Nations. In turn, these points formed part of projects aimed at expanding the leeway for action by the two countries with regard to the international system. At this point, it is necessary to take up again the set of assumptions forming the basis for the functional approach which gives priority to political affinities and loyalties between States (Mitrany, 1968).

In the case of Argentina, this association was to serve as an instrument to break the country's political and economic marginalization at the international level, while at the same time seeking to develop a new model of external insertion on an autonomous basis, similar to that formulated by its neighbour. The idea of creating a common universe of economic interests at the subregional level was present in Argentina ever since its first approaches to Brazil.<sup>4</sup> Subsequently, and once again through Argentina's own efforts, the agenda of points of convergence in external policy was transformed into an economic integration programme.

The immediate adherence by the Brazilian government was connected fundamentally with that country's political interests. For Brazil, the establishment of stable and permanent closer relations with Argentina, as well as eliminating a point of tension on its southern border, increased its possibilities of increasing its economic and political projection inside and outside the region. In the eyes of the Brazilian diplomatic project, the definitive deactivation of the hypothesis of conflict with Argentina was an essential step in the consolidation of a peace giving greater autonomy and prestige in the international system. A specific concern of Brazil in this case was to "defuse" the international pressure regarding its advances in the field of nuclear technology, by developing a relationship of confidence and reciprocity with Argentina in this field.

The preliminary phase of the Argentine-Brazilian talks was fully in line with the idea of a *prenegotiation* stage, which is initiated when one or more parties consider negotiation to be a political option and communicate this decision to other parties.<sup>5</sup> The first contacts between the two countries with a view to the establishment of a cooperation and integration programme coincided with a moment at which their trade relations were going through a critical stage, both as regards the amount of the

transactions and as regards the bureaucratic and administrative problems involved.<sup>6</sup>

There were three reasons for these divergences. Firstly, as from the mid- 1970s the differences between the two countries with regard to their macro-economic policies, especially those concerning external trade and industrial policy, became increasingly marked. Whereas Brazil was pressing forward with a new stage in its substitution strategy, this time in the area of capital goods, Argentina decided on greater trade openness and adopted a set of measures of a typically liberal nature. Secondly, the external debt crisis of the early 1980s led Brazil to adopt an external trade policy which, in addition to closing its economy still more, gave priority to trade links with the industrialized countries, while as from the 1980s Argentina's import capacity was affected by the very rapid increase in its external financial commitments. Thirdly, the complementary nature of the two economies was gradually becoming less and less pronounced after the modifications made in Brazilian agricultural policy in the 1980s. All this increased the imbalances in the trade between the two countries, which were not only unfavourable to Argentina but also fostered conflictive perceptions and rivalries on both sides.<sup>7</sup>

The fact that the Argentine-Brazilian negotiations were preceded by a highly conflictive period is not unusual in the recent experience of economic association. Making allowance for the differences in the cases, the negotiation of a free trade agreement between Canada and the United States took place in a similar context. What is noteworthy in the Argentine-Brazilian case is the low level of bilateral trade which existed when the process of rapprochement was initiated.

<sup>6</sup> After having reached US\$1.8 billion in 1980, this trade fell to US\$1.4 billion in 1981, US\$1.2 billion in 1982 and US\$1 billion in 1983. In 1984 it rose to US\$1.3 billion, but in 1985 it dropped again to US\$1.1 billion. There were many reasons for the trade conflicts between Argentina and Brazil, outstanding among them being the heavily restrictive policy of Brazil over imports; the application of safeguard clauses to products traditionally exported by Argentina to the Brazilian market; the suspension of imports from Brazil by the Argentine Government, and the reluctance of the Brazilian Government to renegotiate Partial Scope Agreement No. 1. For a detailed analysis of Argentine-Brazilian trade relations in this period, see Hirst and Lengyel, 1986.

<sup>7</sup> These imbalances refer to the relative weight of bilateral trade for each of the countries on both the import and export side; to the composition of this trade, and especially the unequal proportions of primary commodities; and finally, to the deficit position occupied by Argentina during the period 1980-1985.

<sup>4</sup> The first idea of the Alfonsín government was to reach agreement with Brazil on common action for the renegotiation of their respective external debts. It was in this context that the two governments negotiated their participation in the Cartagena Consensus in early 1985.

<sup>5</sup> Gross Stein, 1989, p. 4. In the case of the talks between Argentina and Brazil, this stage took place in the months preceding the Alfonsín-Sarney meeting in December 1985, at which it was decided to set up a joint commission for bilateral cooperation and integration. Three working groups were set up at that time: one on economic issues, another on transport and communications, and another on science and technology.



The naturally unequal position of Argentina in its negotiations with Brazil meant that the question of balance was of special concern to that country. Ever since the prenegotiations on the Argentina-Brazil Economic Integration and Cooperation Programme (PICE), the Argentine authorities resisted the idea that such a programme should merely serve to strengthen the trends observed since the mid-1970s: i.e., a form of complementarity between the two economies in which Argentina supplied primary

commodities and Brazil further consolidated its position as an exporter of manufactures. Argentina's main concern was to reverse that trend through diversification of its exports. Without balance, there would be no reciprocity. The strategy adopted in order to achieve these objectives was to propose a privileged space for intra-sectoral integration. At the same time, mechanisms were instituted to guarantee balanced positions for both countries in their bilateral trade through gradual selective removal of tariffs.

### III

#### The technical component

The rapid mobilization of technical cadres in the two countries, motivated by the idea of creating a common economic space, speeded up the bilateral negotiations. This processual factor undoubtedly stimulated the adoption of a neo-functional approach in analysing Argentine-Brazilian integration. In spite of the differing origins and the changes in composition over the last six years, the incidence of this factor in the PICE - MERCOSUR process is one of the reasons for the latter's continuity and continued expansion. Ever since the period of initial formulation and implementation of the PICE, inter-bureaucratic networks were set up in both countries which were coordinated from the respective Ministries of Foreign Affairs. In Argentina, because of the way the Foreign Ministry operated, there was a greater mixture of political and technical cadres. Although at times this led to power vacuums, it eventually generated a more solid political base for integration than in Brazil.

The efforts of the technical cadres to set in motion an expansionary process which would ensure achievement of the common goals led to the preparation of a broad arsenal of operational rules and instruments, as well as the definition of mutual expectations and commitments. A curious type of dynamics was thus set up, whereby failure to fulfil previously established goals led to the preparation of new goals which were even more ambitious in terms of time limits and objectives.

The fact that the area of operation of the technical cadres was intergovernmental and not

supranational was no obstacle to the application of a neofunctional approach. Bearing in mind the natural imbalances, first of all between two and subsequently between the four countries of MERCOSUR, the persistent instability of their economies, and the small scale of their economic interactions (in the field of trade, financial or investment operations) and their political contacts (at the party or parliamentary level), supranationality will be a result rather than a cause of the process, as occurred in the European Economic Community.

There is technical resistance –greater on the Brazilian than on the Argentine side– to the creation of a supranational structure. In addition to the reasons already mentioned, a factor which weighs against supranationality is the “burden” of the past generated by the frustration of integration projects. It is also quite true that in a first stage, avoiding this option facilitates the political management of the process at the Latin American level, thus making it less costly to exclude other participants. Even so, the increase in the number of members of the project and the extension of its objectives will mean that the inter-governmental efforts will give decreasing returns. As the agenda for the negotiations and the State and non-State interaction networks become more complex, including such issues as the settlement of disputes or the coordination of macroeconomic policies, it will become increasingly pressing to yield sovereignty on specific matters. As is well

known, intergovernmental actions always offer fewer guarantees of reciprocity, especially for the smaller countries.

Having formalized their participation, first of all through the constant preparation of protocols and their respective annexes and afterwards through the negotiation of treaties, the bureaucrats involved in the process (the future "Mercocrats") are working in two directions. On the one hand, they are trying to keep the flame of political will alight by creating a direct commitment between the governments and the integration process; this commitment has made up on

occasions, at least in political terms, for the difficulties encountered in gaining the support of government economic bodies which had never given high priority to subregional integration. On the other hand, at the private level, they are trying to "sell" the integration project to business sectors by incorporating them in the process, not as co-formulators of it, but as its first beneficiaries. This political option, while ensuring a "freer" field for managing the PICE, has reversed the technical expectations regarding a positive response by some sectors of industry to the Programme.

## IV

### The question of politicization

Since both countries have presidential systems and recently consolidated democratic regimes, the commitment of the Heads of State of Argentina and Brazil was a factor which was favourable to the integration process from the very beginning.<sup>8</sup> This was one of the reasons behind the "change" of profile and of the operational time limits for this project as from 1991, when the PICE was turned into MERCOSUR. However, this was a piece of makeshift political engineering which, although it does keep alive the political will to support integration, does not take care of the political needs of an integration process. Consequently, it is essential that the political will should be spread more widely, making use of the resources available in pluralistic political systems. The possibility of achieving this depends on the identification of specific functions for the political classes of the countries involved, and this has begun to be envisaged through the establishment of a parliamentary structure for MERCOSUR.<sup>9</sup>

This item is also connected with a considerably more complex aspect of integration processes: that

of their *politicization*. The greater this politicization is, the more room there is for controversy, causing the sought-for solutions to escape from technical control. In the neofunctionalist analyses of integration experiences in Latin America, the politicization aspect has been underrated because of the region's limited possibilities for adapting itself to the model of modern pluralistic industrial democracies. In the Latin American case, politicization took on a negative connotation, since it was related with the exaggerated nationalist feelings and perceptions of the operators of these processes. Bearing in mind the new democratic environment in which MERCOSUR is emerging, however, this might be a suitable time to adopt the notion of politicization as originally conceived in the neofunctional literature.

Referring to this aspect, Nye (1971, pp. 219-220) gives various reasons why an integration process is politicized: for example, a larger number of groups becomes involved due to the expansion of transactions, prior links, or the formation of deliberate coalitions. The greater the number, the greater is the possibility of divergent interpretations with regard to the common interests involved in an integration process. The broadening of the powers of the central institutions not only becomes more visible to public opinion, but also stimulates the action of groups opposed to integration, including national bureaucrats who are jealous of any infringement of their powers.

<sup>8</sup> In the case of both Argentina and Brazil, the integration programme was the only point on the external policy agenda of the governments ending in 1989 and 1990, respectively, which was recognized by the new Heads of State as a permanent objective of those countries.

<sup>9</sup> The first step in this direction was the establishment of a Joint Parliamentary Commission, proposed in article 24 of the Treaty of Asunción. With its entry into operation, debates were begun on the structure and terms of reference of a MERCOSUR Parliament.

The continuity of an integration process must therefore lead to a growing adjustment between the political will behind this process and the politicization in which it may become entangled. This outlook is not necessarily adverse, if the political class has a clear idea of its functions.

In the case of MERCOSUR, unlike what happened in the EEC, the national parliamentarians and their party organizations had only a passive role in the period of prenegotiations and negotiations.

The only country which displayed politicization before its participation in the process was Uruguay. This passivity may have been due to the absence of solid regional intra-party networks and the fact that the political class was taken up with strictly domestic problems. Nevertheless, this will not prevent the rise of politicization deriving from the concrete effects of the process, when, for example, it becomes essential to negotiate Community legislation.

## V

### Societal interests

Another field of action which is of fundamental importance for those operating the integration process is that of private interests, which are essential for the expansion of that process. It is undoubtedly in this field that the distributive problem arises most intensively. The Argentine and Brazilian economies have only limited scope for developing competitive strategies which stimulate specialization in production and intra-sectoral trade, so that there are particular misgivings on the Argentine side that the structural imbalances between the two countries may be further increased. These fears also stem from the uncertainty caused by the recurrent situations of instability and economic stagnation in the productive sectors of these countries, especially in Argentina.

During the period of operation of PICE, the strategy for expanding economic interaction was carried out selectively and gradually by means of protocols, which established an initial level of trade to be liberalized between the two countries on a sector-by-sector basis. In this stage, some entrepreneurial sectors exercised a reasonable power of veto, so that certain negotiations lasted longer than the operators of the programme had expected. Although it was less effective than had been foreseen, the sectoral method displayed several advantages: i) it generated an appreciable increase in bilateral trade on an orderly and managed basis, without aggravating the imbalances which had affected that trade; ii) it created a minimum winning coalition in entrepreneurial circles,

and iii) it enabled the various productive sectors of the two countries to gain a greater awareness of their respective comparative advantages.

These three aspects were particularly important for generating what is usually known as the "down payment" of economic integration processes. The political and techno-sectoral work was more systematic on the Argentine than on the Brazilian side during the PICE phase. Argentina mobilized itself economically, markedly increasing and diversifying its sales to the Brazilian market. Brazil, however, made little change in the composition of its exports to Argentina, which continued to account for almost the same percentage share of its total exports between 1985 and 1989.<sup>10</sup> During the PICE phase, the main efforts of the Brazilian technicians were of an internal bureaucratic nature, aimed at softening the protectionist bias of the sectors responsible for control of external trade.

As from the second stage of the process, anticipated by the 1988 Integration Act and finally defined through the Treaty of Asunción in 1991, the sectoral strategy was replaced by a policy of generalized trade liberalization, carried out through automatic removal of tariffs. The aim of the integration process ceased to be the balanced expansion of sectoral interactions and instead became the formation of a free trade area, a customs union, and finally a common

<sup>10</sup> Between 1985 and 1989, Argentina's exports to Brazil increased from 5.9% to 11.8% of its total exports. Over the same period, the Argentine market registered only a marginal change in its imports from Brazil, which represented between 2.1% and 2.3% of the latter country's total exports.

market, within the space of five years and with the participation of Uruguay and Paraguay.

The change in course begun in 1985 had different repercussions in the productive sectors of the four member countries of MERCOSUR, and immediately increased the problems of distribution of the costs and benefits of the process.<sup>11</sup> The differences between the sectors benefited or prejudiced by the process were further increased by the new strategy, which primarily favoured the principle of comparative advantages. Perceptions based on a zero-sum logic became generalized, leading in some cases to reactions of resistance to the integration plan. At the same time, there was an active "learning" movement and multilateral activities among the productive sectors of the four countries involved, especially in Argentina and Brazil.<sup>12</sup> The pursuit of cooperation came to be clearly associated with the need to reduce the disadvantages, and a strategy was put into effect whereby the common interest in expanding the market nevertheless left room for the application of solutions which made it possible to spread out the losses.

The agricultural sectors of Brazil, especially in the south, were the most sensitive area for that country. In Argentina, except in a few industrial sectors, conditions of competition with Brazilian industry were seen as unfavourable. In Paraguay and Uruguay, the industrial sectors considered that the short and medium-term economic benefits offered by

MERCOSUR were only limited. From the point of view of the economic interests of these two small countries, participation in this project was inevitable rather than desirable. In view of the size of both countries' trade with Argentina and Brazil, the creation of a common market between the latter would naturally cause a serious impact on their external sector. Adjusting to the process from within by developing an active policy to deal with its results became a more desirable course than merely passively suffering the consequences.

With regard to societal interests, it should be noted that the working class is an actor which is still absent from the MERCOSUR process. Its participation is entirely subject to the destiny of the productive sectors, and it suffers the effects of the redistributive shocks registered by the latter. The Argentine, Brazilian, Paraguayan and Uruguayan trade union organizations, increasingly conscious of the social costs of the process, see their activities prejudiced by the political and social limitations caused by the economic reforms underway in their respective countries. At the same time, if this sector is to have an expansionary role in the process this will depend on the *de facto* creation of a common market involving free circulation of all factors of production. In that case, the need to bring the social policies of the four countries into line with each other would make a process of politicization in the trade union field inevitable.

## VI

### The catalysts

In the academic debate on the pros and cons of the neofunctional approach, an item which was particularly questioned was the automatic nature attributed to regional integration processes, which it was claimed were favoured by continual trickledown dynamics. It was argued, in opposition to this notion, that these processes lacked catalytic elements which would automatically stimulate them. In the attitudes

<sup>11</sup> Preliminary studies are being initiated on the perceptions held in entrepreneurial circles in the four countries regarding the costs and benefits of MERCOSUR, in the light of the comparative advantages of different sectors.

<sup>12</sup> There was a notable increase in meetings, fairs and joint exhibitions, seminars of producers' associations, sectoral organizations, business chambers, etc.

and expectations observed among the Argentine and Brazilian productive sectors, as well as among those in Uruguay and Paraguay, the identification of those catalysts is of fundamental importance in explaining their recent gradual abandonment of "defensive positionalisms".

In the case of Argentina and Brazil, two types of catalysts have been in action, one of them internal and the other international. At the internal level, it is considered that a catalytic effect has been exerted by the economic reform processes begun in the last two years in these countries, which have led to a profound redefinition of the rules governing the productive sectors, with regard to their relations with both

the State and the international market. The new external trade regimes have taken away the justification for the defensive attitude of the entrepreneurial sectors which impeded the implementation of tariff reductions in these countries in the past. At the international level, the pressure has come from the process of regionalization observed in the world economy, from the division of the latter into three great dynamic blocs, and finally from the expectations created by the United States that an expanded free trade area will be established at the hemispheric level.

This latter element was a catalyst which undoubtedly influenced the Argentine-Brazilian decision to turn their bilateral integration project into a subregional venture, and it intervenes in a sensitive field of MERCOSUR: its externality, that is to say, the external projection of collective interests which presuppose a minimally constructed identity. Although in principle an external identity can fulfil an important function, excessive exposure may end up by having ill-effects. Thus, the emergence of an unnecessary crisis could stimulate anti-integration coalitions which would ultimately be prejudicial to the continuity of the process.<sup>13</sup> In the case of MERCOSUR, this type of risk is clearly to be seen in the problems the member countries have run into in trying to maintain coordinated and harmonious practices in their external economic relations, especially in the area of trade.<sup>14</sup> Jointly facing up to the growing international tensions caused by the difficulty of maintaining a multilateral trade system, which are particularly marked in the area of agricultural products, is a

thorny problem for the countries in this case. So far, the depth and scope of the common interests generated by the subregional integration process have been sufficient to ensure solid collective positions free of contradictions.<sup>15</sup>

The main challenge that MERCOSUR will have to face in its future external economic relations will be that of its negotiations with the United States in connection with the Enterprise for the Americas. A good result in these negotiations would undoubtedly be an important indication of successful action at the external level. However, the linking up of various bilateral trade agendas which already exist in respect of the United States, in a context of shaky collective identity, could have an adverse effect on the achievements already made by the subregional integration process.

Just as catalytic elements which give a boost to the integration process can be identified, it is also possible to identify elements which lead to a process of disintegration. This is the case of factors external to the process which can cause a backward movement. In the case of MERCOSUR, elements which act as "negative" catalysts are the recurring situations of economic instability of the member countries: in addition to causing crises of imbalance in their trade relations, these make the whole development of the process less predictable, thereby making the addition of new actors more difficult and preventing progress in such a vital field as the harmonization of macroeconomic policies.

## VII

### The military and strategic aspect

With regard to the political and strategic dimension of the MERCOSUR process, this article subscribes to the thesis of the neoliberal school, which questions the classification of issues into those of *high* and *low*

politics when analysing the interaction of States in an interdependent context (Keohane and Nye, 1977, p. 24). In a regional integration process such as that under analysis, even though there is no *a priori*

<sup>13</sup> See, in this respect, Nye (1968).

<sup>14</sup> In spite of the harmony observed among the policies of trade openness applied by the MERCOSUR countries, there are still substantial differences in their tariff policies. Thus, the average nominal tariff in Argentina is 9.8%, while that of Brazil is 35%, scheduled to be reduced to 20% in 1994.

<sup>15</sup> Concrete examples which bear out this assertion are the purchases by both Argentina and Brazil of subsidized products from the United States and the EEC, in spite of the formal and explicit undertaking that such a policy would not be followed.

relation of interdependence, this can be expected to be established in the course of the process, so that the universe of the so-called *high* politics will have decreasing importance on the agenda of the countries concerned.

This decline has indeed been observed as from 1979, when the main geopolitical controversy between Argentina and Brazil (over the hydroelectric resources of the River Paraná) was settled. These negotiations marked a turning-point in the dispute between the two countries for hegemony over the River Plate Basin which had underlain their respective military doctrines since the early decades of the nineteenth century. As well as opening up new prospects for joint achievements by the two countries, these negotiations permitted greater intervention by diplomacy in their conduct. The possibility of making the demilitarization of relations between Argentina and Brazil coincide with the processes of transition to democracy in the two countries favoured still further the preparation of a bilateral political agenda which relegated old conflictive perceptions to the background.

As from the end of 1985, when the process of rapprochement between the two countries began, explicit mention began to be made of the possibility of creating a space for cooperation in a key strategic area: that of nuclear energy. Indeed, within the framework of PICE a field of interaction was set up which was specially devoted to nuclear cooperation, and over the last six years this has shown notable capacity for expansion.<sup>16</sup> Since it was originally conceived, the main function of this cooperation has been to maximize the capacity of both countries to maintain their nuclear activities in the face of international control and verification systems. The pressures for greater subordination of these activities to international monitoring were most clearly expressed after the announcements by Argentina (1983) and Brazil (1987) that they possessed the technology

for enriching uranium. They therefore started off from the classical assumption that cooperation in areas of security would give benefits in the area of security itself.<sup>17</sup>

In the Argentine-Brazilian nuclear negotiations, the perception of these benefits was shared on both sides by the technical sectors of the respective Atomic Energy Commissions and diplomatic circles. In both countries, an effort was made to educate military circles in this respect in order to reduce their resistance to such cooperation. This concern was particularly marked in Brazil, in view of the association in that country between nuclear activities and programmes to develop military technology.

From the point of view of international policy, the most appropriate way of defending the "legitimate" continuation of the nuclear programmes in Argentina and Brazil was to give assurances that they were committed solely to peaceful uses. It became generally accepted among those engaged in nuclear cooperation that in order to prove the peaceful nature of the programmes they should be capable of being verified and controlled through a system of safeguards. After meeting more resistance on the Brazilian side than in Argentina, this solution gained currency as from 1990, when a Common Accounting and Control System was negotiated to cover all the material used in the nuclear activities of both countries. The next step was the decision of the two countries, through this System, to sign a safeguards agreement with the International Atomic Energy Agency (IAEA), similar to that signed between that agency and EURATOM.

The confidence-building measures taken in the field of nuclear cooperation and their institutionalization through bilateral and international agreements were well received abroad and became a precedent for similar measures in the military and strategic field. Mention may be made in this respect of the agreement outlawing chemical weapons signed by Argentina, Brazil and Chile, and the growing interest on the part of those three countries in the entry into force of the Treaty of Tlatelolco outlawing nuclear weapons in Latin America.

In the area of Argentine-Brazilian relations, the deactivation of conflictive perceptions in the respective military circles was also furthered by the efforts

<sup>16</sup> With regard to nuclear issues, the Presidents of Argentina and Brazil have signed several joint declarations: the Declaration of Iguazú in 1985, the Declaration of Brasilia in 1986, the Declaration of Viedma in 1987, and the Declaration of Iperó and the Declaration of Ezeiza in 1988. Within PICE, two protocols (Nos. 11 and 17) were devoted specifically to the question of nuclear cooperation. In 1990, the two countries approved a Common Accounting and Control System for all material within their respective programmes, and in 1991 they signed a safeguard agreement with the International Atomic Energy Agency (IAEA) guaranteeing that the nuclear programmes of the two countries would be used purely for peaceful purposes.

<sup>17</sup> For an analysis of the motives for cooperation in the area of security, see Jervis, 1988.

to establish a common agenda of understanding and debate on security matters of interest to the armed forces of the two countries (drug trafficking, the environment, military technology, the Inter-American defence system, etc.).<sup>18</sup> The organization of periodic "learning" exercises on the respective perceptions has stimulated, even in some military circles, the idea of creating a "security system" in the MERCOSUR

area which would give greater stability to this process. There can be no doubt that a space in which military sectors could play a positive part in the integration process could increase the conditions for its institutional stability, provided this space was fully in keeping with the consolidation of democratic and pluralistic regimes which has taken place in the subregion.

## VIII

### Final considerations

There is still, to be sure, a marked imbalance between the levels of scope and depth reached in the integration process, and this makes it particularly vulnerable to macroeconomic "squalls". In this respect, the "transitional" period, which is formally due to end in 1995, should fulfil its role of filling out the skeleton plan. It may well be that the ambitions projected by the Treaty of Asunción themselves hinder the achievement within this space of time of a

minimum programme such as the creation of a free trade area. The reversal, and even the mere adjustment, of initial expectations could give rise to a process of politicization among the social and State actors which could unnecessarily complicate the integration process.

In spite of its difficulties, however, MERCOSUR has opened up new horizons for the interaction of its members. The foundations have been laid for the establishment of a system of economic, political, social and cultural links which, it would appear, is encountering more acceptance than resistance. The institutional stability provided by the consolidation of pluralistic democracies is obviously an essential asset in this context.

<sup>18</sup> Annual meetings between the Joint Chiefs of Staff of the two countries are held for this purpose, at which aspects and possibilities of cooperation in the field of security are discussed. Uruguayan and Paraguayan military representatives also recently began to participate in these meetings.

### Bibliography

- Axelrod, Robert (1984): *The Evolution of Cooperation*, New York, Basic Books, Inc.
- Grieco, Joseph (1987): *States, Anarchy and Cooperation. A Realist Critique of Neoliberal Theory*, Durham, North Carolina, Duke University.
- Gross Stein, Janice (1989): Getting to the table: the triggers, stages, functions, and consequences of prenegotiation, Janice Gross Stein (ed.), *Getting to the Table*, Baltimore, Maryland, The Johns Hopkins University.
- Hirst, Mónica (1990): *Continuidad y cambio del programa de integración Argentina-Brasil*, Buenos Aires, Latin American Faculty of Social Sciences (FLACSO), December.
- Hirst, Mónica and Miguel Lengyel (1986): *Las relaciones comerciales argentino-brasileñas: 1976-1985*, Buenos Aires, FLACSO, May.
- Jervis, Robert (1988): Realism, game theory and cooperation, *World Politics*, vol. XL, No. 3, Princeton, New Jersey, Princeton University Press, April.
- Keohane, Robert and Joseph Nye (1977): *Power and Interdependence*, Boston, Little, Brown and Co.
- Mitrany, David (1968): The prospect of integration: federal or functional?, Joseph Nye (ed.), *International Regionalism*, Boston, Harvard University.
- Nye, Joseph (1968): Patterns and catalysts in regional integration, Joseph Nye (ed.), *International Regionalism*, Boston, Harvard University.
- (1971): Comparing common markets: a revised neofunctionalist model, *Regional Integration, Theory and Research*, Cambridge, MA, Harvard University.





## International industrial linkages and export development: the case of Chile

*Alejandra Mizala\**

This article analyses the role played by international industrial linkages in the export development of Chile. International industrial linkages or cooperation are taken here to cover a wide range of international entrepreneurial activities other than majority equity contributions.

In order to study this subject, interviews were arranged with executives of 32 enterprises in four sectors of activity specially defined for this study: i) marine products and related industries; ii) agriculture and agroindustry; iii) forestry, lumbering and paper and pulp industries; and iv) chemical industry.

It is concluded that the special features of the Chilean export process, which makes use of natural resources in which the country has comparative advantages, mean that in an initial phase the export potential of national industries does not depend to a major extent on industrial linkages with enterprises in developed countries. Export-oriented Chilean firms probably need to have recourse to cooperation agreements with such enterprises, however, since the penetration of new markets calls for products with a high component of technology. This is because most countries have tended to set up non-tariff barriers by raising quality standards and imposing strict requirements on products seeking to enter their markets.

\*Professor/researcher in the Department of Industrial Engineering of the University of Chile.

This article is the result of a study made by the author for the Joint ECLAC/CTC Unit on Transnational Enterprises. The author wishes to express her thanks to Gustavo Riveros, for his efficient help in carrying out the study; to Rodrigo Donoso, for his generous support in organizing interviews with enterprises in the chemical sector, and to Michael Mortimore and Alejandro Vera for their valuable comments.

## Introduction

Transnational corporations are the main source of industrial technology in the world, and the most important actors in international technology transfer. Foreign direct investment has traditionally been the main way in which transnational corporations have transferred technology to the developing countries, since this implies the direct and continued ownership of technology. Technology is one of the intangible assets of those enterprises which they refuse to share, since it constitutes one of their main competitive advantages.

Up to the end of the 1970s, technology transfer took place mainly through the establishment of industries located in the host country.

However, the rapid expansion of transnational corporations in the 1960s and 1970s increased international competition among suppliers of technology and enabled the governments of the developing countries to pass restrictive laws limiting the establishment of wholly-owned subsidiaries of transnational corporations. The establishment of joint enterprises, however, was seen as a way of increasing technology transfer while maintaining partial control of the production process.

At the same time, the deterioration in the economic outlook and the more evident instability in most of the developing countries has caused the transnational corporations to change their strategy. Many of them have realized that they can gain satisfactory profits if they offer their tangible and intangible assets for particular investment projects without necessarily owning or financing the latter. The transnational corporations have therefore intensified joint operations and transactions which do not involve contributions to equity; in this way, they continue to receive profits on these assets, while at the same time reducing their exposure to the trade and political risks associated with foreign direct investment.

The wide range of international entrepreneurial activities known as "new forms of investment" includes: i) licensing agreements, ii) franchise agreements, iii) management contracts, iv) marketing contracts, v) technical service contracts, vi) turnkey contracts, and vii) international subcontracting (Oman, 1989). In some cases, these new forms of investment are accompanied by minority participation in the equity of the joint enterprises with local

partners; in other cases, the local enterprise maintains total control of the project.

The developing countries are currently displaying a growing tendency to liberalize their economies, and especially their policies on foreign direct investment, with the aim of attracting more investments of this type in order to cope with the acute balance-of-payments problems which arose in the early 1980s. There are indications, however, that the new forms of investment will continue to gain importance in the developing countries, complemented with foreign direct investment in many cases.

We will analyse here the case of Chile, a country which, unlike other Latin American countries, undertook far-reaching economic reforms in the 1970s which have transformed the Chilean economy into one of the most highly liberalized in the region.

The military coup in that country in late 1973 was followed by the reprivatization of many companies, the lifting of the extensive price controls then in force, and the abolition of innumerable administrative regulations. Later on, measures were taken to promote fiscal reforms and the liberalization of external trade and financial markets. Consequently, by the early 1980s Chile already had an open market economy, with an even tariff of 10%, free interest rates, a relatively liberalized capital market, and, as a result of the severe measures dictated by the authoritarian regime, a disciplined and non-conflictive labour force.

During the most acute period of the external debt crisis, the Chilean economy suffered problems similar to those which hit other Latin American countries so hard. The Chilean economic model was subjected to slight adjustments, but it retained its essential features. Throughout the 1980s, the process of privatization and opening up of the economy to the exterior continued.

Exchange rate devaluation was one of the most important economic policy instruments used after the crisis of the early 1980s. The real devaluation of the exchange rate brought about changes in the relative prices of non-tradeable and internationally tradeable goods, with resources being reassigned to the latter sector. The doubling of the real exchange rate between 1982 and 1988 helped to expand exports from 20.4% of the gross domestic product in 1981 to 28.9% in 1989. This export boom has been described as one of the most positive results of the Chilean

adjustment process; it is therefore interesting to see what role the so-called new forms of investment have had in increasing Chilean exports.

Since 1990, the country has been engaged in a process of transition to political democracy. The current economic authorities have stated that one of the fundamental pillars of their development strategy is the energetic promotion of more and better integration of the Chilean economy into world markets. They therefore maintain that Chile must keep up its free trade policy, and they assign the market the role of allocating resources, while the private sector is responsible for leading the national development process.

In this article, an attempt will be made to determine how important the new forms of investment referred to earlier have become in Chile, and what effects they have had on the development of the country's export capacity; what the economic conditions of the country have been; the interests of foreign and domestic enterprises; the governmental measures taken to encourage partners to engage in a specific form of cooperation, and finally, the measures the various parties involved could adopt in order to strengthen international industrial linkages through these new forms of investment so as to benefit developing countries like Chile.

In order to seek answers to these questions, a series of interviews were held with executives of 32 companies from four sectors of the Chilean economy. In all cases, those who provided the answers were the general manager, the chief of operations, or the chief of development.

In order to ensure that the sample of companies selected was representative of the Chilean economy, the analysis concentrated on four sectors specially defined for this purpose: i) marine products and related industries, ii) agriculture and agroindustry, iii) forestry, lumbering and paper and pulp industries, and iv) chemical industry. These sectors were selected because (if copper is left out of the reckoning) they generate 62% of Chilean exports and because their external sales registered an appreciable increase in the 1980s. The mining sector, which contributes nearly half of the country's exports, was not taken into account in this study because of its very special characteristics.

Section I of this article gives a brief description of the mechanisms used for technology transfer in the country. Section II deals with the external trade

structure of the Chilean economy. The main body of the study (section III) is made up of the data collected and their analysis, and it examines in detail,

sector by sector, the interviews carried out with the various companies. Finally, the main conclusions deriving from this study are given in sector IV.

## I

### Mechanisms for technology transfer in Chile

A characteristic feature of the Chilean economic model since late 1973 has been the explicit incorporation of foreign direct investment into the development process.

This is because foreign direct investment is considered to be an essential complement of the insufficient capital accumulation based on domestic saving, and it is seen as indispensable for achieving a rate of investment which will permit sustained economic growth.

As from 1974, this was reflected in the enactment of new legal rules on foreign capital which have resulted in significant simplification of the regulations previously in force. The new rules, contained in Decree-Law No. 600, provide solid guarantees for foreign investment: basically, they involve the principle of non-discrimination compared with local investors and almost unrestricted access to domestic markets.

With the adoption of the new rules, large amounts of foreign direct investment began to flow into the country, although to begin with they were less than the credits obtained from international banking institutions (ECLAC, 1991a).

In the early 1980s, as a result of the international external debt crisis, there was a marked decline in foreign investment, especially because the lower profitability associated with the risk of non-fulfilment made it less attractive for investors. Despite this decline in absolute terms, however, the importance of foreign direct investment grew considerably compared with the flow of external credit.

This tendency became even more evident as from 1985, when a set of regulations was approved and sanctioned by the Central Bank, grouped together in Chapter XIX of the Compendium of International Exchange Regulations. These rules permitted and promoted the conversion of Chilean external debt paper into equity, and through this means, non-resident foreigners can convert Chilean

external debt paper into local currency for investment in the national economy.

This new mechanism has played a decisive role in the flow of foreign capital into the country since the mid-1980s. According to the Executive Secretary of the Committee on Foreign Investments, however, in the early 1990s investors have been operating much more under Decree-Law No. 600 than under Chapter XIX. The advantages of the first-named law are becoming more and more evident as the external debt paper needed in order to operate under Chapter XIX is disappearing and the Chilean debt paper is rising in value, so that there is little interest in selling it.

With regard to current regulations on the new forms of investment, since 1990 firms have had free access to the exchange market, so that neither they nor natural persons need to make application to the Central Bank in order to obtain foreign exchange. Consequently, in practice the latter body has ceased to have any control over remittances abroad in connection with any of the contractual arrangements between foreign firms and Chilean enterprises.<sup>1</sup>

Payments in respect of licenses and other charges connected with industrial property are subject to Chilean tax legislation, just as any natural or juridical person resident or domiciled abroad must pay tax on income generated in Chile. The legislation establishes a flat rate of 40% on total payments for the use of trade marks, patents, technical assistance and other similar contracts, and persons or enterprises must retain and deduct these taxes when paying the royalties. As the rate of tax is calculated on the net value of the royalty (that is to say, including the value added tax), it currently amounts to 67%.

<sup>1</sup> For an analysis of the regulations in force before 1990, see CINDA, 1989.

Little use has been made of industrial subcontracting in Chile. There are no regulations on this matter, and only a few isolated cases are on record, in the clothing industry.

The foregoing analysis shows that the Chilean legislation is extremely open and flexible with regard to the different mechanisms used for technology transfer. The present development model gives export activities the role of acting as the motive force for economic growth, and this has led to the

application of policies designed to facilitate the access of this sector to the most modern technologies available in the world. Consequently, the present regulations, both on foreign direct investment and on other forms of technology transfer, emphasize the provision of guarantees and other incentives rather than the application of controls. This means, among other things, that national firms have extensive facilities for directly acquiring on international markets the technology they require.

## II

### Structure and evolution of Chilean exports

Ten years ago, it could be said that Chile was a country that was absolutely dependent on sales of its main export product: copper. Today, however, although Chile continues to be basically dependent on this metal, the tendencies observed in the 1980s give grounds for expecting greater diversification of the country's exports in the future.

Although in the last years of the 1980s the share of copper in total Chilean exports increased (from 41.2% in 1987 to 47.9% in 1988 and 50.2% in 1989), this was due fundamentally to rises in the price of this metal on international markets rather than to increases in the amount exported. In fact, the price of copper rose from an average of 62 US cents per pound in 1986 to US\$1.29 per pound in 1989.

There can be no doubt of the growth in Chilean exports (figure 1). In 1983-1989 they represented an average of 27.1% of the country's gross domestic product, compared with only 22.2% in 1977-1983 (figure 2). As already noted, this significant change has taken place within an economic scheme which gives priority to the open market economy.

Statistics on Chilean exports reveal that the four sectors of economic activity covered by the present study generate 32% of Chile's exports and over 60% of its income from non-copper exports (figure 3).

Analysis of the evolution of the different types of goods exported shows that non-copper exports account for an increasing proportion of total Chilean export income. This trend will be further accentuated as the added value of export products rises. Large-scale copper mining continues to be the main source of foreign exchange for Chile, and will probably

remain so in the future, because of the enormous comparative advantages which Chile has in this type of production. However, exports of agricultural products and marine products trebled in the 1980s, while industrial exports (mainly fish meal, wood pulp, paper and chemical products) more than doubled over the period 1984-1989.

In order to make possible this export growth, the country has had to strengthen its road and port infrastructure so as to provide smooth and efficient outlet channels for meeting its external trade commitments. This increase in infrastructural investments has enabled the country to export fresh products (fruit, fish, seafood, flowers, etc.) under the high quality conditions demanded by external markets.

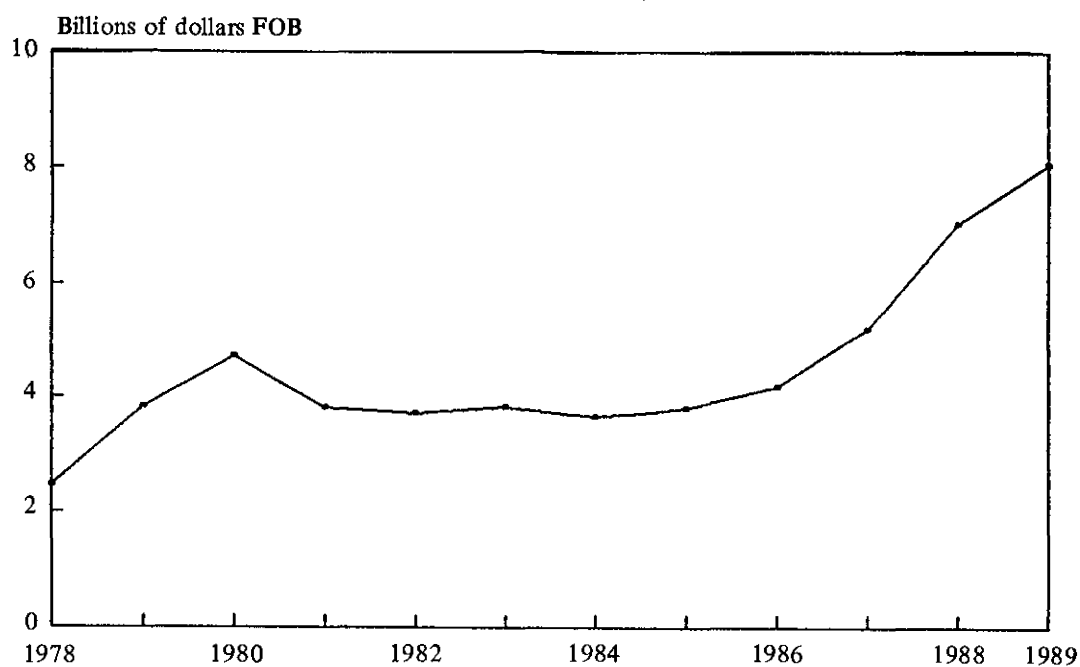
Each of the sectors defined earlier for the purpose of this study will now be analysed in detail.

#### 1. *Marine products and related industries*

In the early 1980s, this activity registered important growth which has continued throughout these years. Thus, its average share in total Chilean exports came to 11.8% in period 1982-1988, and the fluctuations in this share have not exceeded one percentage point.

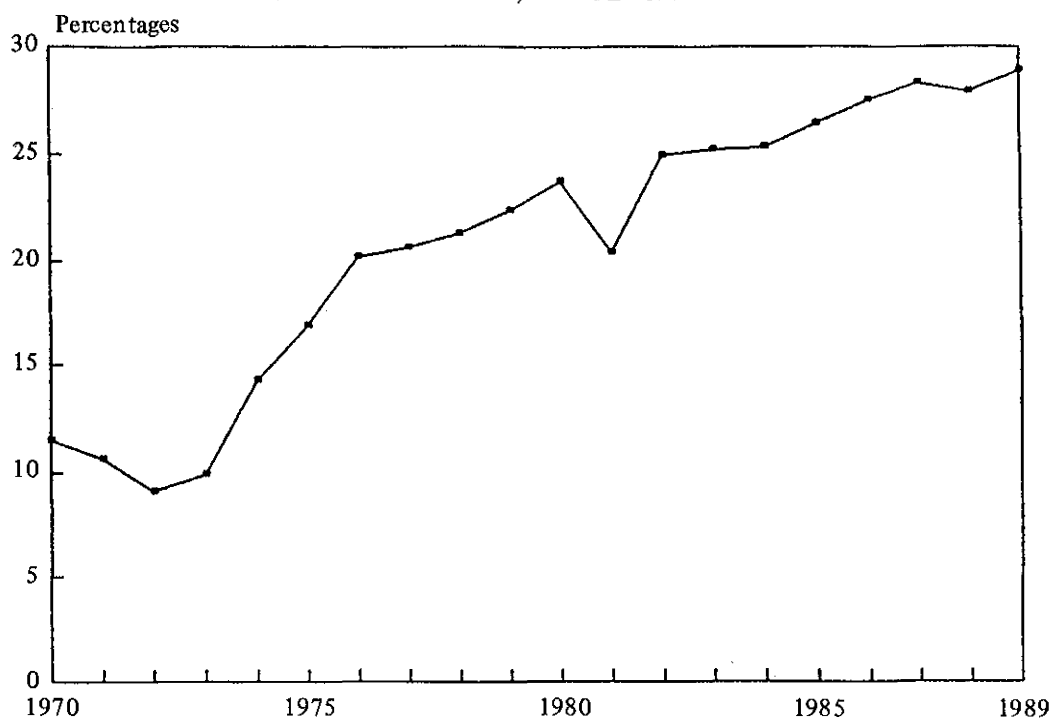
The main raw material used in Chilean fishery production is pelagic fish, which account for around 93% of total landings. In addition, fishery production uses demersal fish, crustaceans, molluscs, echinoderms and benthonic macroalgae.

Figure 1

**CHILE: TOTAL EXPORTS, 1978-1989**

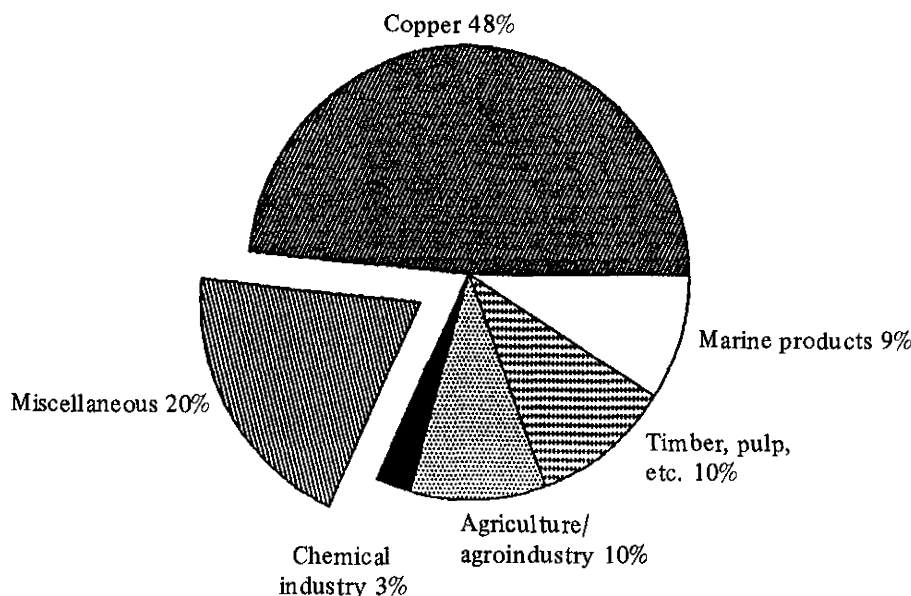
Source: Central Bank of Chile.

Figure 2

**CHILE: TOTAL EXPORTS, AS A PERCENTAGE OF GDP**

Source: Central Bank of Chile.

Figure 3  
CHILE: COMPOSITION OF EXPORTS, 1988



Source: Central Bank of Chile

The fish meal and fish oil industry has been the most important activity in this sector to date (figure 4). This is because, from a private point of view, it is more profitable than production for direct human consumption, such as tinned and frozen products. In addition, efforts can be concentrated mainly on the production stage, since fish meal and fish oil are substantially basic commodities which do not need great marketing efforts.

If such variables as employment generation capacity and linkages of the fisheries industry with the rest of the economy are taken into account, however, it may be concluded that the current production structure of the sector should be substantially modified. These changes call for sustained technological efforts in order to strengthen production for direct human consumption.

Fish farming (salmon breeding and cultivation of algae), the export of chilled fresh fish, and canned fish production have latterly become more important, although they are not yet really significant, in total fishery activities. As already noted, in order to increase exports of these products, substantial changes must be made. On the one hand, it is necessary to

improve production techniques in order to meet the quality standards imposed in external markets. On the other hand, exports of these products require substantial marketing efforts. Development of the canning industry is particularly important from a strategic point of view, because of its close linkages with part of the Chilean metal products and machinery industry.

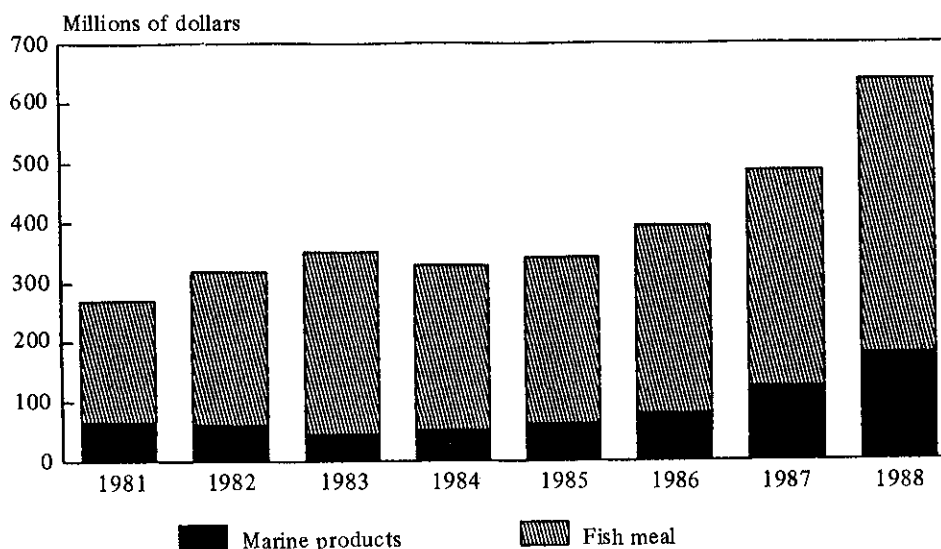
The problems faced by this sector are due mainly to the variability of the availability of fishery resources along the Chilean coasts. Thus, in 1990 pelagic fish concentrated more along the Peruvian coast than the Chilean one. This was reflected in increased fishing costs and reduced profit margins.

Finally, aquiculture is an activity of higher added value which allows for increased participation by the processing industry in the domestic market. It is limited by the lack of research on the feeding and reproduction habits of the species involved.

## 2. Agriculture and agroindustry

The export boom registered by Chile as from the second half of the 1980s was reflected in a very special

Figure 4  
CHILE: EXPORTS OF MARINE PRODUCTS AND  
RELATED INDUSTRIES, 1981-1988



Source: Central Bank of Chile

way in this sector. Thus, its average participation in the total exports of the country rose from 7.4% in the period 1980-1983 to 13% in the period 1984-1988. This increase of over 75% was the greatest and fastest registered by any sector of the Chilean economy in that decade.

Within the agricultural sector, fruit-growing was one of the activities which developed most rapidly in this period. Whereas in 1975 and 1980 income from fresh fruit exports accounted for 63.3% and 69.1% respectively of total agricultural sector export income, by 1985 this share had risen to 84.3% (figure 5). This increase was due mainly to a 16% rise in physical shipments between 1979 and 1985, since over the same period real prices only rose by 1.9%.

Fresh fruit exports first began to assume importance in the 1960s, but they only definitively became an important source of foreign exchange in the 1980s. This delay is explained mainly by the lack of suitable storage and transport facilities, as well as the difficulties in controlling certain pests and post-harvesting diseases.

The fruit-growing industry is very sensitive to the restrictions imposed by the recipient countries on imports of Chilean fruit. This is due, no doubt, to the relatively low level of diversification of the recipient markets abroad (although this has been increasing in recent years) and to the fact that over 80% of the

income from fresh fruit exports comes from sales of grapes and apples.

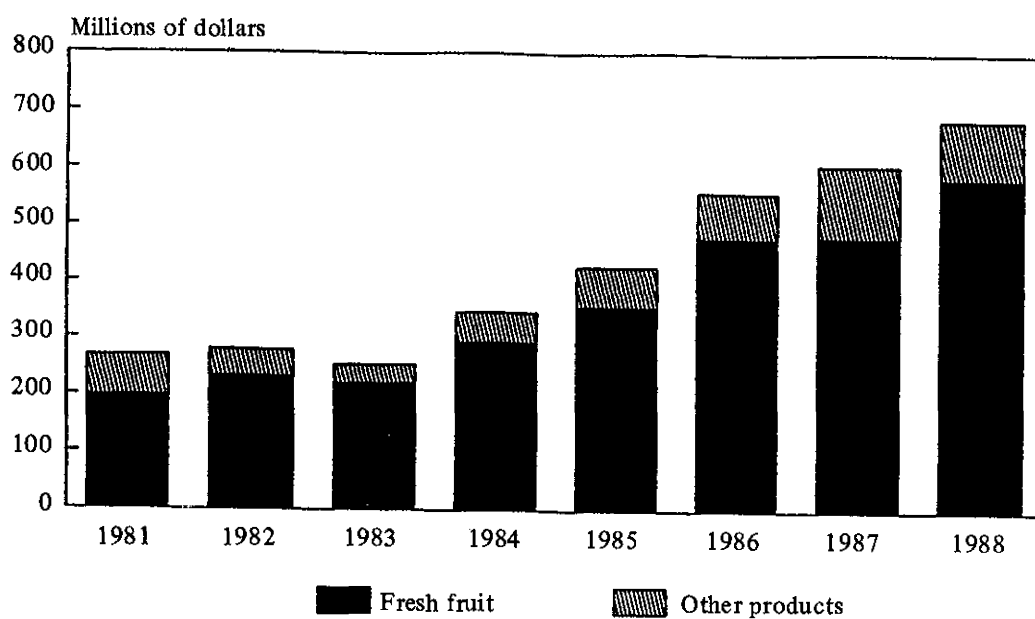
In spite of the rapid development of this activity, the products exported are generally of quite a low level of processing, so that their promotional effect on Chilean manufacturing is only limited. The vegetable and fruit exporting sector is mainly linked with the export packaging industry, especially the branches using paper and wood.

### 3. Forestry, lumbering and paper and pulp industries

The growth of exports by this sector speeded up in the last three years of the 1980s. Chile's natural advantages hold out expectations of an even more promising future for this sector of export activity. The higher income from sectoral exports in the last years of the decade was due mainly to the increase in exports of timber (figure 6).

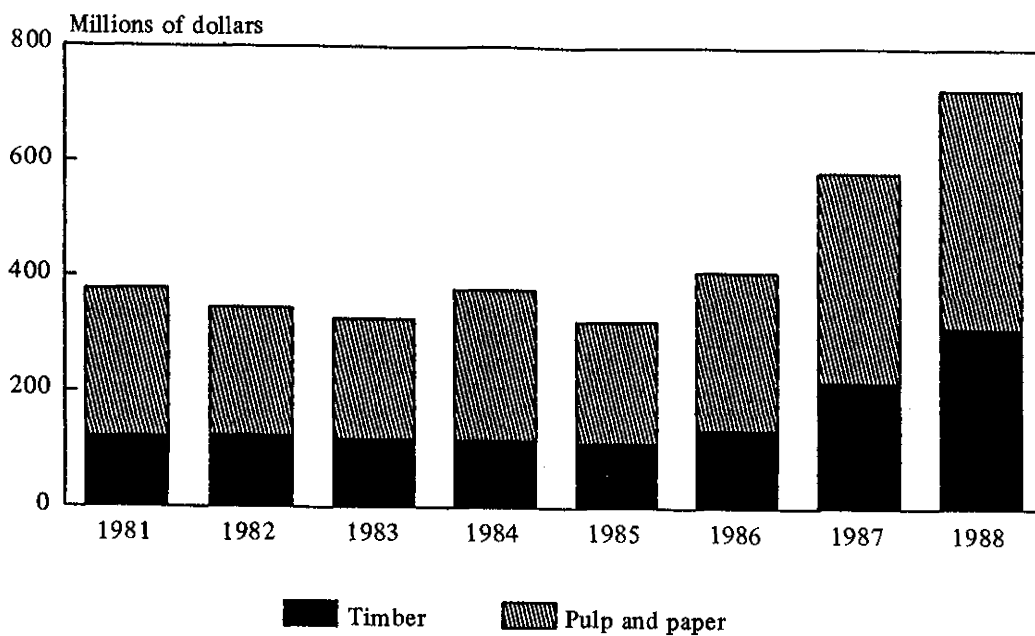
Chile's forestry resources consist mainly of Monterey Pine (*Pinus Radiata* D. Don), which originated in California. This species has adapted so successfully in Chile that it now registers growth rates much higher than those observed in its region of origin. Chile has over a million hectares planted with this species, most of them consisting of very young trees, so that there are enormous future opportunities of expansion for industries in the sector.

Figure 5  
CHILE: AGRICULTURAL AND AGROINDUSTRIAL EXPORTS, 1981-1988



Source: Central Bank of Chile.

Figure 6  
CHILE: EXPORTS OF TIMBER, PULP AND PAPER, 1981-1988



Source: Central Bank of Chile.



These industries display quite a high degree of vertical integration, extending from forestry and forest management to the use of the wood in the many branches of the paper industry.

In recent years, thanks to skilful management of forest resources in terms of pruning and thinning, the enterprises in this sector have increased the possibilities of producing goods of higher added value.

#### 4. The chemical industry

The chemicals sector covers industries producing intermediate and final chemical products mainly for manufacturing, mining and the agricultural, health and public sectors. It corresponds to Division 35 of the International Standard Industrial Classification of All Economic Activities (ISIC) and includes the following major groups:

- 351 Manufacture of industrial chemicals
- 352 Manufacture of other chemical products
- 353 Petroleum refineries
- 354 Manufacture of miscellaneous products of petroleum and coal
- 355 Manufacture of rubber products
- 356 Manufacture of plastic products not elsewhere classified

The main exports by this sector are of inorganic chemicals (lithium carbonate, molybdenum oxide, saltpetre, iodine), organic chemicals and plastic

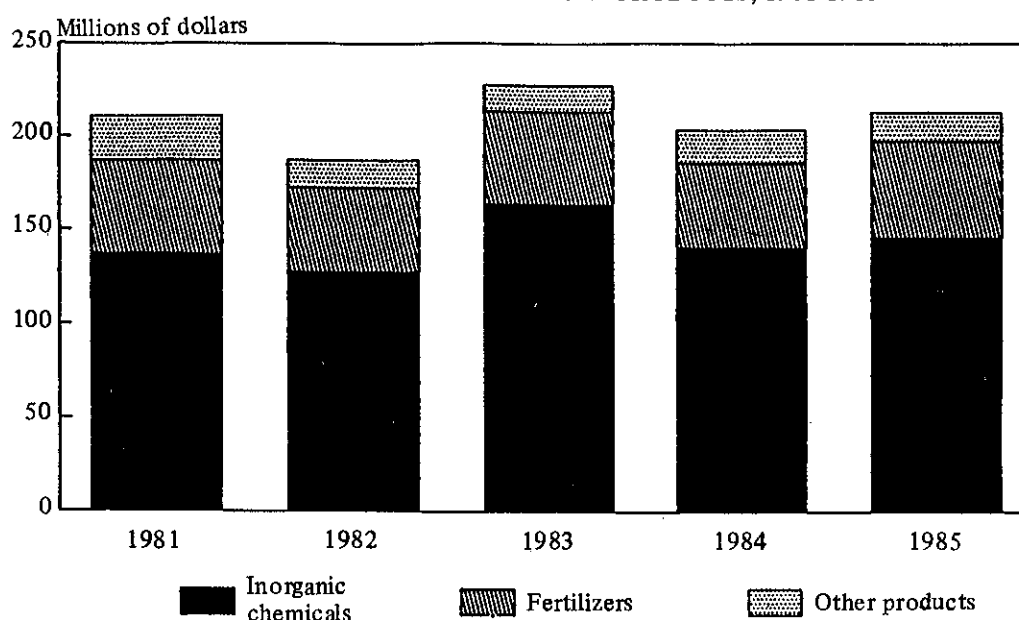
products. These exports have grown steadily since 1974. Some 95% of them are accounted for by industrial chemicals, but this group comes third in importance in the chemical sector when measured in terms of the gross value of production. This group (351) is known as the industrial chemicals industry, and attention will be centered on it in this article in view of its importance in Chilean foreign trade.

The main common feature of enterprises in the chemical industry is that their essential production processes are based on chemical reactions carried out at the industrial level. Most of the products of this industry are intermediate goods, so that it is of great importance for the growth of the rest of the economy.

The main clients of the chemical industry are manufacturing (especially the chemical industry itself), agriculture and mining. The export market is of considerable interest to this industry, and there are enterprises which are heavily dependent on it and indeed are organized as a function of such trade. The bulk of exports consists of inorganic chemicals (figure 7).

On the domestic market, chemical firms tend to have few competitors within the country, and in some cases they are the only producers. The great majority of industrial chemicals produced, however, have to compete with imported chemicals. Such competition is based generally on the price/quality ratio of the goods.

Figure 7  
CHILE: EXPORTS OF CHEMICAL PRODUCTS, 1981-1985



Source: Chilean Development Corporation (CORFO), 1987.

### III

## Results of the study: analysis and interviews

In this section, we will examine the results of the study. After some methodological considerations,<sup>2</sup> we shall analyse the relationship between foreign direct investment and exports in the Chilean economy and summarize the results of the interviews held with the companies forming part of the selected sample.

### 1. Methodological considerations

For this study, a group of the most prominent exporters in the country was selected, with a view to finding out what type of international linkage (new forms of investment) they used, if any.

Consequently, a questionnaire was designed (Mizala, 1991) in order to examine the importance of contractual agreements between enterprises in industrialized countries and their local opposite numbers within the context of Chilean exports.

On the basis of Central Bank data on total exports and a classification of Chilean exporters, a representative sample was prepared, consisting of 32 firms belonging to four sectors defined for the purposes of the study. These sectors were: i) marine products and related industries; ii) agriculture and agroindustry (especially fruit-growing); iii) forestry, lumbering and paper and pulp industries, and iv) chemical industry. These sectors generate 62% of Chile's non-copper exports. This form of aggregation was selected because in each of the sectors most of the enterprises are vertically integrated.

In the selection process, factors taken into account were the total volume of exports and the most important exporters in each sector, which are also the biggest companies in their respective sectors. A set of small companies, amounting to 30% of the sample (two companies for each sector) was also selected as a control group. This control group served to compare the conduct of small and large enterprises oriented towards external markets, in terms of the degree of use made of international linkages and the types of mechanisms employed.

The enterprises forming part of the control group answered the same questionnaire as that submitted to the large companies.

With regard to the representativeness of the sample of enterprises selected, measured by their weight in the total exports of each sector, in the case of the marine products and related industries sector the sample of 10 companies generates 45% of total exports; in the agricultural and agroindustrial sector the sample of nine enterprises generates 64% of total exports; in the forestry, lumbering and paper and pulp sector the eight enterprises selected generate 68% of total exports, and in the chemical industry the sample of five enterprises accounts for 73% of total exports.

### 2. Foreign direct investment and exports

In this section, we shall analyse the relationship observed between foreign direct investment and exports. For this purpose, we shall use the classification of the main Chilean exporters made by the Central Bank of Chile and data on the participation of foreign capital in these export enterprises, provided by the Joint ECLAC/CTC Unit on Transnational Corporations.

The first part of the analysis of this relationship seeks to determine how much foreign-owned enterprises increased their share of Chilean exports during the period in which the latter registered substantial growth (1986-1989). In order to do this, information was sought on the share of enterprises with foreign capital in the total exports of each of the main export sectors. As the information on the participation of foreign capital in the enterprises operating in the country is rather incomplete, calculations were made for two groups of companies: those with majority foreign ownership, and those with some degree of participation by foreign capital.

The share of enterprises with majority foreign ownership in total sectoral exports grew most in the forestry, lumbering and paper and pulp sector (from 16.4% in 1986 to 25.1% in 1989) (table 1). In the rest of the sectors analysed, the increases were only 2% to 3%.

<sup>2</sup> For more details in this respect, see Mizala, 1991.

Table 1

**CHILE: EXPORTS BY FIRMS WITH FOREIGN EQUITY PARTICIPATION, AS A  
PROPORTION OF TOTAL EXPORTS OF EACH SECTOR, 1986-1989**  
(Percentages)

|   | 1986                                  |   | 1989                                  |   |
|---|---------------------------------------|---|---------------------------------------|---|
|   | Firms with majority foreign ownership | Firms with some degree of foreign ownership | Firms with majority foreign ownership | Firms with some degree of foreign ownership |
| Marine products and related industries            | 8.5                                   | 54.5  | 11.6                                  | 44.8  |
| Agriculture and agroindustry                      | 31.1                                  | -   | 33.1                                  | -   |
| Forestry, lumbering and paper and pulp industries | 16.4                                  | 56.2  | 25.1                                  | 53.8  |
| Mining  | 10.9                                  | -   | 13.2                                  | -   |

Source: Central Bank of Chile and Joint ECLAC/CTC Unit on Transnational Corporations.

In contrast, if we look at the group of enterprises with only a certain degree of foreign capital, we see that in the two sectors for which it was possible to obtain information, the share of these enterprises in the total exports of the sector went down. In the case of marine products and related industries the share fell from 55% to 45%, while in forestry, lumbering and paper and pulp industries, it dropped from 56% to 54%.

Table 1 also shows that, except in the agricultural and agroindustrial sector, enterprises with majority foreign ownership only had quite a small share in the total exports of each of these sectors, both in 1986 and in 1989.

This information gives grounds for concluding that, while there has been an increase in the share of enterprises with majority foreign ownership in the external sales of the main Chilean export sectors, their contribution does not explain the substantial increase registered by Chilean exports during the recovery phase, after the adjustment process which followed the external debt crisis.

In order to investigate further the relationship between foreign direct investment and exports, we also made use of information supplied by Rozas (1991), the Foreign Investments Committee, and the Central Bank of Chile on foreign direct investment under Decree-Law No. 600 and Chapter XIX and on exports for the four-year period 1986-1989. The examination covered a total of 75 firms which are the main exporters in the country and have also

received some form of foreign direct investment. Statistical tests were made to find out up to what point the companies which are among the main exporters in the country –according to the classification of Chilean exporters already referred to– have received a significant volume of foreign direct investment. The object was to find out whether or not there is a positive correlation between such investment and the export capacity of the enterprises.

Cross-sectional regressions were then estimated by the ordinary least squares method, both for the sample as a whole and for the mining, agriculture and agroindustry, and marine products and related industries sectors. The forestry, lumbering and paper and pulp sector was not considered because there are few firms in it which are oriented towards external markets and which received foreign direct investment during the period under analysis.

The aim in estimating these regressions was to determine whether or not there is a significant correlation between exports and foreign direct investment, rather than to try to explain the export performance of the enterprises, since a larger-scale econometric analysis would be needed for this latter task.

Table 2 gives the results obtained for the overall sample of enterprises. The partial correlation coefficient between exports and foreign direct investment is positive and statistically significant. However, this result is attributable entirely to a single large enterprise in the mining sector, and if this company is excluded the results change dramatically, for the

partial correlation coefficient now becomes statistically insignificant and the adjusted R2 extremely low, showing that foreign direct investment has no relation to the volume of exports of the enterprises (table 2, column 2). If, however, the *two* main enterprises in the mining sector are excluded from the sample, we see that the partial correlation coefficient again becomes positive and statistically significant, although the adjusted R2 continues to be very low. Consequently, the results obtained must be considered as very shaky and subject to the conduct of the few enterprises which account for an appreciable volume of foreign direct investment. This result is hardly surprising, since it is well known that most of the foreign direct investment during the 1980s went to the mining sector.

Table 2

**CHILE: RELATIONSHIP BETWEEN VOLUME OF EXPORTS AND FOREIGN DIRECT INVESTMENT IN A SAMPLE OF EXPORT-ORIENTED FIRMS**

|                           | Dependent variable: volume of exports |                            |  |
|---------------------------|---------------------------------------|----------------------------|--|
|                           | Whole sample of firms                 | Whole sample less one firm | Whole sample less three firms <sup>a</sup> |
| Constant                  | 33 181.5<br>(4.01) <sup>b</sup>       | 37 225.8<br>(4.57)         | 22 405.7<br>(3.31)                         |
| Foreign direct investment | 0.42<br>(9.41)                        | 0.07<br>(0.45)             | 1.44<br>(3.28)                             |
| R2                        | 0.54                                  | 0.0003                     | 0.12                                       |
| SE                        | 69 066                                | 67 437                     | 49 561                                     |
| n                         | 75                                    | 74                         | 72   |

Source: Cross-sectional data series for a sample of export-oriented Chilean firms.

<sup>a</sup> The firms excluded were: Minera Disputada Las Condes, Minera Mantos Blancos and Minera Mantos de Oro.

<sup>b</sup> Figures in parentheses indicate absolute value of statistics, t.

Table 3 gives the results obtained for each one of the sectors considered. As expected, mining shows a significantly positive partial correlation between exports and foreign direct investment, with an adjusted R2 of 0.61. Something similar occurs in the case of the agriculture and agroindustry sector, which has a significantly positive partial correlation coefficient and a high adjusted R2. This is attributable to

the number of foreign-owned enterprises registered in recent years. Marine products and related industries, however, have a statistically insignificant partial correlation coefficient and a very low adjusted R2.

Table 3

**CHILE: RELATIONSHIP BETWEEN VOLUME OF EXPORTS AND FOREIGN DIRECT INVESTMENT IN SOME SPECIFIC SECTORS, 1986-1989**

|                           | Dependent variable: volume of exports |                               |  |
|---------------------------|---------------------------------------|-------------------------------|--|
|                           | Mining                                | Agriculture and agro-industry | Marine products and related industries |
| Constant                  | -                                     | -                             | 54 818.6<br>(3.35)                     |
| Foreign direct investment | 0.44<br>(4.02) <sup>a</sup>           | 4.79<br>(19.37)               | -1.10<br>(0.55)                        |
| R2                        | 0.61                                  | 0.95                          | 0.04                                   |
| SE                        | 172 500                               | 18 931                        | 52 852                                 |
| n                         | 7                                     | 14                            | 19                                     |

Source: Table 2.

<sup>a</sup> Figures in parentheses indicate absolute value of statistics, t.

Thus, the empirical information presented so far does not allow us to draw any definitive conclusions relating foreign direct investment to the export capacity of national firms. Only in a few particular sectors does foreign direct investment appear to be positively correlated with exports. However, nothing can be asserted at this stage regarding the causality of that relationship, especially since a sector which is also oriented towards external markets (marine products and related industries) does not display any correlation between the volume of its exports and foreign direct investment in it.

There is some supplementary information which can be used to evaluate the relationship between foreign direct investment and exports in the Chilean economy. This information comes from a study carried out by Aninat (1990) with the aim of analysing the medium-term prospects of investment projects for the period 1990-1995. This author analysed the results of a survey or inventory of 442 individual investment projects with a total estimated value of

US\$19.7 billion for the six-year period 1990-1995. In contrast with previous analyses, which had sought to identify the relationship between foreign direct investment and exports on an *ex post* basis, Aninat studied, among other things, the potential incidence of these new projects, under certain assumptions, on export growth rates in the future.

Among the most useful messages emerging from this study is the marked orientation of the projects analysed in it towards the production of internationally tradeable goods. Thus, 262 of these projects are clearly oriented towards external trade. The investments made in export activities amount to US\$10.4 billion, or 53% of the total gross value of the investments. This figure does not include projects basically involving the allocation of resources for infrastructural improvement or support, even though these directly favour subsequent progress in the export of goods.

The types of export products involved in the investment projects included in the survey are: fish meal, canned fish and shellfish, salmon, semi-frozen fish, newsprint, wood pulp, cardboard, wood panels, veneers, round wood, sawn wood, furniture, tomato and apple sauce and pulp, grapes, nectarines, strawberries and raspberries, asparagus, nitrates, boron and potassium salts, iodine, sulphur-based products, copper in its various forms, silver, gold, iron ore pellets, manganese products, ceramics, yachts, fishing vessels, garden tools, spare parts for industrial machinery, tobacco, tourism complexes, telecommunications services, international port services (air and sea) and geological exploration services abroad. The concentration of investment projects on these products is fully in keeping with the specialization scheme of Chilean external trade.

With regard to the ownership of the export projects, it is worth noting that those which are wholly foreign owned represent a little over one-third (35%) of the total sample. A further substantial proportion belong to enterprises with some participation of foreign capital and are being carried out by the Chilean private sector in conjunction with foreign investors.

Aninat quantifies the possible effect of such projects on export growth rates. He carries out various simulations in order to make a tentative calculation of the value of the exports involved, considers the generation of production flows with a life horizon of 15 years, which he applies to all the projects

selected, and assumes constant FOB prices over this period of time. On this basis, he observes that there will be a shift of importance in Chilean exports towards the rest of the world: according to reasonable parameters, in the long term the investment projects will probably generate increases of 20% to 22% per year in the country's current export values.

It may be concluded, then, from this study that foreign direct investment can have a favourable effect on Chile's industrial exports. This is due mainly to the fact that foreign investors channel their resources towards those sectors with a clear orientation towards external markets, that is to say, sectors based on the exploitation of those natural resources where Chile has its biggest comparative advantages.

### 3. Analysis of the results of the interviews by sectors

In this section, an analysis is made of the results of the interviews of the companies making up the selected sample.<sup>3</sup>

#### a) Marine products and related industries

The sample selected for this sector consisted of 10 companies, eight of which operate in the processing industry (fish meal and fish oil), while the export activity of the other two enterprises is concentrated on such products as canned fish and shellfish, chilled and frozen fresh fish, salmon and sea urchins.

Of the eight companies engaged in the production of fish meal and fish oil, six of them are between 23 and 45 years old, while the two newest ones are only 7 and 10 years old, respectively; the newer companies generate a smaller volume of production. The five biggest companies, for their part, generate 85% of the total production of the companies in this sector included in the sample, while the other three account for only 15%.

The output of the processing enterprises is almost all exported, sales on the domestic market being only marginal. The main destinations of the exports of fish meal and fish oil are Germany, Japan, Netherlands, Belgium and the United States, although South American countries have also begun to purchase these products.

<sup>3</sup> For a summary of the characteristics of the sample of companies and the main answers to the questionnaire given by the executives who were interviewed, see Mizala, 1991, appendix C.

In this sector, the majority ownership of the companies in the sample (including those which have formed joint enterprises with the participation of foreign capital) is in the hands of national entrepreneurs. Altogether these companies employ rather more than 7 500 people.

Among the mechanisms of international industrial linkage used by the sector, a leading place is occupied by the purchase of capital goods, which seven of the enterprises described as the main means of acquisition of technology. Two enterprises indicated that the formation of joint companies with participation by foreign capital was the most important mechanism used by them. Only one company, engaged in the export of frozen and canned shellfish and salmon, mentioned informal technical assistance agreements for training personnel as a main mechanism. In this case, a Japanese firm which decided to obtain its supplies from the Chilean firm in question laid down as a condition in the purchasing contract the stationing of one of its employees in the Chilean plant in order to ensure fulfilment of sanitary regulations in the handling, processing and packing of the product. The benefits for the Chilean firm in question have been extremely important, since the Japanese representative has become an authentic agent of technology transfer in those parts of the process which are of vital importance for ensuring the quality of the final product demanded on foreign markets.

The technology transfer which takes place through the various industrial cooperation mechanisms in the market for fresh, chilled, frozen and canned fish and shellfish is very different from that which exists in the fish meal and fish oil processing industry, for the technological base which has been built up in the latter industry is much greater, thus permitting the development within the country of many of the capital goods required by the industry. Furthermore, in the fresh, frozen or canned products markets, the quality attained in the handling, processing and packing of the products is of fundamental importance for entering the demanding foreign markets, whereas the differences in quality of the products of the fish meal and oil industry are only reflected in the final price. This means that in the processing industry the necessary technology is incorporated in the capital goods, whereas in the fresh, frozen or canned seafood industry the personnel must be carefully trained to carry out the production processes properly.

Although generally speaking the system of licenses is not used by the companies interviewed, there is one special case. An enterprise related with some other companies in the sample began by using a license from a Norwegian firm to manufacture capital goods for the fisheries industry in Chile. After a while, the Chilean firm formed a joint enterprise with the Norwegian company for the production and marketing of capital goods for the world fisheries industry. During the first one and a half years of operation, the recently formed company had a technical assistance contract with the firm providing the technology. Later on, the new enterprise bought the exclusive rights to the brand of goods from the Norwegian firm, thus becoming the only company producing this highly respected line of equipment in the world. The main benefit for the Norwegian firm was to ensure the sale of its technology to the main world markets, located on the South Pacific coast. The Chilean firm, for its part, had the advantage of lower transport costs and a more comprehensive knowledge of the technological needs of Chilean fishery enterprises.

Technical assistance agreements, of whatever type, are also important for the companies in the fish meal and fish oil processing industry, but the use made of them has only been secondary or complementary to the purchase of capital goods. It should be noted that the technical assistance agreements are carried out in a very informal manner. Indeed, most of the companies do not have contracts but instead visit firms or institutions connected with the fisheries industry abroad and take advantage of visits of foreign suppliers and clients to Chile.

With regard to the origin of the basic technology used in the enterprises, the opinions of those interviewed were divided. Half of them said that the technology came from foreign firms, whereas the other half said that the technology had been designed in Chile, at least at the basic engineering level, and in some parts of the process, even at the level of the detailed engineering. In this connection, mention must be made of the ability of Chilean engineers to adapt the technology incorporated in capital goods acquired abroad, as well as to fabricate complete pieces of equipment with certain parts brought from abroad. The latter group of firms interviewed coincided in stating that development carried out within the company had been the main origin of the basic technology used.

The main reasons stated by the two companies which set up joint enterprises with the participation of foreign capital were the sharing of risks and the transfer of technology. The unanimously stated main reason for using informal technical assistance agreements was the possibility of opening up new export markets for the company by attaining the quality standards demanded abroad.

The main reason for buying capital goods stated by all the firms interviewed is their use as a means of technology transfer.

All the firms in the sector noted that contracts for the acquisition of capital goods include a period of technical assistance for putting them into operation, with further assistance in the event of breakdowns.

The benefits which the companies say they obtained by using these systems of industrial linkage are firstly, improvement of the quality of the product (six firms), –an evident gain in the case of the companies producing fish meal, which have been able to produce special meal of higher protein content and with higher international prices– and secondly, reduction of production costs (six firms). Other benefits mentioned include improvement of the skills and training of staff, expansion of production capacity, and technological updating of production processes.

When consulted on the differences in the use of these systems of industrial linkage in the various stages of the export process,<sup>4</sup> the companies gave the following answers: there is no difference from one stage to another (five firms); in the stages of collecting information and penetrating markets, the companies are more dependent and the amount of resources spent on the use of these mechanisms is greater (four enterprises); in the stabilization and consolidation stages the enterprises are more dependent and the amount of resources spent on these mechanisms is also greater (one firm). It may be noted that companies in the second group consider technological development within their own companies to be extremely important in the later stages of the export process.

All the companies interviewed consider that the fundamental reason why foreign companies set up these forms of linkage with local companies is that they are trying to open up new markets for the sale of

their technology, mainly through capital goods, but also through technical assistance and the transfer of technological know-how.

The conditions which those interviewed consider to be responsible for the position of their firms as the main exporters in the country are: natural competitive advantages (four firms mentioned these in first place, and five firms in second place) and exchange rate policy (four firms mentioned this in first place and one in second place). Only two firms mentioned access to appropriate technology (in second and third place, respectively). Finally, one firm mentioned the quality of its products, while another considered that the size of its firm was the main reason for its export success.

With regard to the political and economic conditions which make it possible for foreign firms to accept these contractual arrangements, it is considered that the main factor is the legislation in force with regard to foreign capital (five companies), together with the existence of mechanisms for the protection of industrial property (four firms mentioned this, in second place), and the economic stability prevailing in Chile (one firm mentioned this in first place and two firms in second place).

Desirable government measures suggested by the companies are, in order of importance: carrying out a national technological development programme (one company), defining clear rules on the technical specifications of some imported inputs through some controlling body (one company), and changing the additional tax of 40% on the remuneration of foreign specialists (one company). The other companies considered that the present situation is acceptable and they did not have in mind any measures which the government should apply in order to facilitate industrial cooperation with foreign firms.

With regard to possible suggestions to foreign firms for the facilitation of contractual arrangements such as those described, none of the companies felt that foreign firms need to take measures different from those applied at present. Both the Chilean firms and foreign institutions have a very positive attitude in this respect.

#### b) *Agriculture and agroindustry*

The sample selected for this sector included nine firms, seven of which operate in the export of fresh fruit. They mainly export grapes, stone fruit and apples and pears, with grapes accounting for between

<sup>4</sup> For a definition of the stages in the export process, see the annex to this article.

50% and 90% of the total production. The other two companies concentrate on the markets for frozen vegetables, fruit pulp, dehydrated fruit, fruit juice, and tomato paste and by-products.

Four of the companies engaged in the export of fresh fruit are less than 10 years old, two of them are 14 years old, and only one of them existed before the economic reforms begun in Chile in the mid-1970s. The remaining companies interviewed are between 12 and 15 years old. In other words, this is a sector in which most of the companies are relatively new and, in contrast with the situation in the fishery sector, the new enterprises have very substantial volumes of production.

Among the companies operating in the export of fresh fruit, the four largest account for 84% of the total production of the enterprises in the sector covered by the sample.

With the exception of one company operating in the fruit pulp and frozen fruit and vegetables market, all of them export more than 65% of their production. This is particularly marked in the sector exporting fresh fruit: in this sector, the companies only sell on the Chilean domestic market fruit which does not meet the quality standards demanded on international markets. The main destinations for fruit exports are the United States and the European countries. Japan, however, is an important market for the company producing tomato paste.

Four of the nine companies interviewed are foreign-owned; one of them has just passed into foreign hands through its purchase by a transnational corporation operating in the area of fresh fruit. Three of the companies are Chilean-owned; one of them has just passed into Chilean hands with the purchase by Chilean investors of the 60% of the equity which belonged to a foreign enterprise. Of the remaining two companies, one is mainly Chilean-owned and the other mainly foreign-owned. A noteworthy fact is that the four firms which are branches of transnational corporations are responsible for 40% of the exports of the sector and are among the biggest exporters in the whole country; the volume of exports of these four firms represents 60% of the total exports of the companies covered by the sample in this sector.

The companies with the highest levels of production employ between 300 and 800 workers on a permanent basis, and those with lower levels of production employ between 22 and 160 workers.

Altogether, the firms covered by the sample give employment to 3 058 persons. These figures do not include the seasonal workers employed at harvest time, when the total number of persons employed increases three or four-fold.

Among the industrial cooperation mechanisms used by this sector, an outstanding place is occupied by the purchase of capital goods from developed countries, mainly the United States and Europe, which is considered to be the main means of acquisition of technology by seven out of the nine companies. One firm stated that the formation of a joint enterprise with foreign capital was the main mechanism used, while another firm (that producing tomato paste and by-products) felt that technical assistance agreements for staff training were the main means of industrial cooperation, followed by the purchase of capital goods.

Eight out of the nine companies interviewed mentioned technical assistance agreements for staff training as the second most important means of industrial cooperation. As in the case of the companies interviewed in the fisheries sector, these agreements are generally of an informal nature, consisting of visits to international fairs, to capital goods suppliers, and to foreign companies producing similar goods.

Visits to companies in developed countries are easy to organize and are very useful for gaining information on the technology currently being used. It is very difficult, however, to obtain information on technologies which are in the development stage. No differences were observed between Chilean and foreign-owned firms with regard to the types of industrial linkage mechanisms used.

Five companies reported that they hired foreign experts to help them adapt imported technology to Chilean conditions. The biggest companies hired these specialists on their own account, but the smaller firms used foreign specialists brought in by the Chile Foundation, an institution whose aim is to promote and transfer to the country the most modern technologies available on the world market.<sup>5</sup>

Licensing has not been used by the companies interviewed, although some varieties of grapes, including the best variety, are patented. Since the payment of royalties would increase their costs, the companies prefer to produce and market other varieties which are not patented.

<sup>5</sup> For an excellent analysis of the technology transfer work of the Chile Foundation, see Huss, 1991.



With regard to the origin of the basic technology used in the companies, seven of them obtain it mainly from unrelated foreign companies. One company obtains it from its parent company, while another receives it from national research institutes. With regard to a second source of basic technology, opinions were divided: three companies stated that development within their own firms had been important in their basic technology, especially in the adaptation of the technology incorporated in imported capital goods (in addition, some of them carry out the design engineering in Chile and only import the necessary components), while three companies reported that their secondary sources of basic technology were national research centres and foreign universities and research institutes. Finally, one firm reported that its parent company was a secondary source of its basic technology.

The main reason stated by the companies for purchasing capital goods abroad was the impossibility of developing such equipment within the country. In second place, they mentioned the use of these purchases of capital goods as a means of technology transfer. The capital goods acquired by the companies interviewed consist mainly of refrigeration and packing equipment. The four most technologically advanced firms in the sector have controlled atmosphere plants, by means of which they have been able to extend the storage life of apples. This technology has enabled them to export apples at times when they are not produced in the country, thereby gaining access to new external markets.

All the companies except one stated that the contracts for the acquisition of capital goods included a period of technical assistance in the start-up phase, as well as assistance in the event of breakdowns.

The companies which stated that they used technical assistance agreements said that the main reasons for using such contracts were the know-how deriving from them and the need to facilitate access to external markets by complying with their quality standards.

The need for extra capital and the possibility of entering new markets were the main motives stated by the company which set up a joint venture with a foreign firm.

The benefits which the companies reported that they had obtained through these mechanisms

of industrial linkage with developed countries were first of all improvement of the quality of their products (seven companies) and secondly, reduction of production costs (four companies). Other reasons mentioned were the possibility of gaining access to new external markets, raising the level of skills and training of workers, technological up-dating of production processes, and the development of new products.

When the firms were consulted on possible differences in the types of industrial linkages used in the different stages of the export process, the unanimous answer was that there were no such differences. However, eight of the nine companies stated that they depended more on those mechanisms in the stages of stabilization and consolidation of the export process and spent more resources on the use of such arrangements in those phases. The companies argued that as a firm progresses in the export process, the quality requirements of external markets –both for remaining in a market and entering new ones– are increasingly high, which obliges companies to keep up a high technological level. Technology is of fundamental importance for improving product quality and overcoming sanitary barriers. Only one company considered that it was not appropriate to speak of different stages in the export process: as that company was a subsidiary of a big transnational corporation operating in the sector, it was familiar with the export process right from the start and had had a leading position in the market from the very beginning.

Most of the companies interviewed consider that foreign firms adopt these forms of industrial linkage with companies located in Chile because they are interested in opening up new markets for their top-level technology, especially through the sale of capital goods. Only the firm which had set up a joint company with a foreign counterpart mentioned in first place the existence of comparative advantages with regard to natural resources, and in second place the opening up of new markets for the sale of final products, as the reasons why the foreign enterprise had entered into association with it.

The conditions which, in the view of those interviewed, have enabled their companies to be among the main exporters in the country are the following, in order of importance: natural competitive advantages (one firm put this factor in first place of

importance and four other firms in second place); access to appropriate technologies (two companies put this in first place and one in second place), and the macroeconomic policy applied in the country (two companies put this in first place and one in second place). Other reasons mentioned included the quality of the human resources of the enterprise (three firms) and the possibility of access to external credits (one firm).

With regard to the political and economic conditions which make possible the acceptance of these contractual arrangements by the foreign firms, the companies interviewed gave the following answers: the economic stability of the country (two firms put this in first place and five in second place); the current legislation on foreign capital (two firms put this in first place and two in second place), and the macroeconomic policy of the country (four firms mentioned this in first place and two in second place).

The government measures suggested by the firms for facilitating these contractual arrangements with foreign firms are: maintaining clear and stable policies (four firms); providing companies operating in the country with technical assistance in selecting, acquiring, adapting and assimilating the foreign technology included in the contracts (two firms); carrying out a national technological development programme (one firm); changing the additional 40% tax on technical assistance contracts (one firm), and promoting the formation of joint enterprises with the participation of foreign capital (one firm).

When consulted regarding possible suggestions to foreign firms for facilitating contractual arrangements with them, most of the firms stated that there were no difficulties in establishing and operating such arrangements, and that it was therefore not necessary to take any measures in that respect.

### *c) Forestry, lumbering and paper and pulp industries*

Eight firms were selected for the sample in this sector. Of these, three centre their operations on forestry (sawnwood, roundwood for lumber and roundwood for pulp); four are engaged in the manufacture or marketing of different types of paper; one concentrates on the manufacture and marketing of raw and bleached pulp, and one enterprise is engaged in the production of knot-free pine wood for the manufacture of mouldings and door and window frames.

Seven of the companies in the sample are at least 70% Chilean owned, and only one firm is 100% foreign owned (since only two years ago).

The three biggest firms in the sample employ between 1 100 and 3 300 workers. Four companies have between 400 and 540 workers, and one has only 30 workers, which makes altogether a total of almost 7 500 employees.

Two of the firms in the sample are over 70 years old, five are between 10 and 30 years old, and one is a little less than 3 years old.

The activities of the firms in the sector are of a varied nature, and the size of their exports depends on the type of products. For example, over 90% of wood pulp and almost 70% of the production of the various types of paper is exported. In the forestry firms, the products with the highest value added are high quality sawnwood and roundwood for lumbering, over 90% of which is exported. On the other hand, not more than 50% of roundwood for pulp, which is of lower quality, is exported. This is because there is quite a high demand for this product on the domestic market from the wood pulp production firms. For its part, the firm which produces knot-free wood, using modern finger jointing technology to join together different pieces of wood, has only achieved sporadic exports, because of short-term financial problems due to lack of investment capital, shortage of working capital, and exhaustion of the firm's possibilities of offering guarantees.

In the paper business, the various markets behave differently. In Chile there are two large producers and two large consumers of paper, thus leading to rather a low level of competition and rivalry in the local market. In the Latin American market, only normal efforts of competition are needed in order to gain access, but in the European markets timeliness and strict fulfilment of other contract conditions are essential. In other words, once the products have been accepted in terms of their price and quality, the exporters must comply strictly with delivery dates and volumes.

In the forestry business, the products are clearly differentiated by quality and by the secondary use made of them. Thus, sawnwood is destined for processing into items of higher added value, while pulp-wood is that which is not of sufficiently high quality for sawnwood and is therefore sold to the companies which require it as raw material for wood pulp. There is a high degree of competition, and fulfilment of delivery dates and volumes is essential in order to keep clients.

Of the eight companies interviewed, six stated that the purchase of capital goods abroad had been

the main industrial cooperation mechanism used, and they also mentioned that technical assistance agreements had been of less importance than the purchase of machinery and equipment. The other two firms, however, said that technical assistance agreements were the main mechanism, with purchases of capital goods occupying a somewhat less important place. Only two firms had set up joint enterprises with participation of foreign capital in order to share risks and attract new capital. All the firms, however, agreed that the acquisition of capital goods incorporating modern technology, together with the requisite know-how, were essential for achieving success.

In the pulp industry, two Chilean-owned enterprises have carried out two big investment projects by forming joint enterprises with foreign capital. The main reasons given by the local enterprises for their association with foreign firms are the need for new capital and the possibility of sharing risks. For their part, foreign firms have been interested in associating themselves with Chilean firms because of the important comparative advantages which Chile enjoys in wood pulp production, and the possibility of sharing investment risks.

According to five of the companies consulted, the basic technology used comes mainly from unrelated foreign firms. Two other firms mentioned Chilean enterprises as the source of the technology, and only one firm reported that the technology had been developed within the firm itself.

According to all the companies interviewed, the technical impossibility of manufacturing the necessary capital goods in Chile is the main reason for buying them abroad. The six biggest firms, together with one of the smallest, stated that contracts for the purchase of capital goods include technical assistance for the start-up period, together with subsequent assistance in the event of breakdowns.

With regard to their reasons for entering into technical assistance agreements, four firms stated that what interested them most was the transfer of know-how, since this is not acquired merely by purchasing capital goods, and developing it in Chile would be a costly and lengthy process. Two firms stated that they signed technical assistance agreements with the final objective of gaining access to new markets through the contacts made and the higher product quality thus attained.

The main benefits obtained from these contractual arrangements, according to five of the firms, have been the expansion of their production capacity

and the improvement of product quality. Other benefits mentioned include reduction of costs, updating of technology, and the incorporation of new products or lines of products.

With regard to the stages in the export process, five companies stated that the information and penetration stages were those which depend most on this type of mechanism. In the view of four companies, the information and penetration stages were likewise those which required most resources, while three firms considered that the highest level of spending on these mechanisms took place in the later stages of the export process, that is to say, those of stabilization and consolidation of markets.

Five of the seven companies interviewed considered that the main reason why foreign firms engage in these mechanisms is to open up new markets for the sale of their technology. The other two firms considered that foreign companies are interested in the comparative advantages that Chile enjoys with regard to natural resources. Only one of them considered that the basic motivation of the foreign firms is to gain access to raw materials for their own processes.

When the enterprises were consulted regarding the conditions which had enabled them to be among the main exporters in the country, they said that this was due to the existence of comparative advantages in the area of natural resources (three companies mentioned this in first place, and two firms in second place). Other firms attribute the success of their export activities to the macroeconomic conditions existing in the country (two firms put this in first place and two in second place). Finally, several firms indicated that access to suitable technologies had helped them to gain success in exporting (one firm put this in second place and two in third place).

According to four out of the five companies which answered the question on the conditions which have most favoured these contractual arrangements, economic stability and, in second place, political stability were the most important factors in this respect. In third place, they mentioned the prevailing macroeconomic policy.

With regard to measures to facilitate industrial linkages with firms in developed countries, the companies interviewed felt that the government could take measures to attract external credits for the purchase of capital goods (two firms), provide technical assistance in selecting, acquiring, adapting and assimilating the technology covered by such

contractual arrangements with foreign firms (one firm), and implement a suitable policy of protection of industrial property (one firm). Most of the companies considered that generally speaking both the foreign firms and the prevailing government policies offer ample facilities for making such contractual arrangements.

#### d) *Chemical industry*

The sample selected for this sector consisted of five companies.<sup>6</sup> One of them generates 66% of Chilean exports in this sector, while all the others together only account for 7%. These latter firms are engaged in the production of chemicals for industrial use: iodine, sodium nitrate, potassium nitrate, low-density polyethylene and resins, pentaerythritol, sodium formate, formic acid, sodium bicarbonate, ulexite, boric acid, paraffin waxes, cuprous chloride, cupric oxide, etc. The exports of the company responsible for the major part of external sales are based on natural resources: mainly iodine and sodium nitrate. The companies interviewed are between 20 and 50 years old. The biggest of them provides employment for 4,000 people, while the remaining firms employ between 70 and 500 persons each.

Only two of the companies export rather more than 70% of their production (i.e., the biggest firm and one of the small ones), while the remainder export less than 33%. The main purchasers of their products are the United States, Europe, Brazil, and other Latin American countries.

Four of the companies in the sample are the property of Chilean private entrepreneurs; one of them has set up a joint company with Argentine capital. Only one firm is of majority foreign ownership: it was formed through the association of a Chilean public enterprise (the supplier of the raw material) with a transnational corporation.

The chemical industry in Chile does not have competitive advantages in terms of natural resources or labour compared with other countries. Consequently, process efficiency and a secure supply of raw materials are of fundamental importance in order to be able to compete in the demanding external markets. The world level of technological development in this industry is so high, and the

volumes of production of the Chilean chemical industry are so small compared with foreign firms, that research and development programmes such as are carried out in the big transnational corporations are not feasible. The enterprises in this sector are therefore more dependent on modern foreign technologies than the other sectors studied.

It should be noted that many of the chemical processes used do not require any licenses, since the chemical reactions employed are well known to all. The main thing in these cases is the degree of efficiency of the production process and the availability and secure supply of raw materials. This is so in the case of the production of methanol from natural gas, for example.

Three companies in the sample have set up joint enterprises with foreign capital as a main means of transferring technology, while one company mentioned that it paid licenses for processes and products for this purpose. All the companies in the sample buy capital goods from developed countries, but this is only of secondary importance in this respect. No major differences are observed between the industrial linkage mechanisms used by the big firms and the small ones.

The companies which have set up joint enterprises with the participation of foreign capital have done so in order to secure the transfer of technology, although one also did this in order to share business risks.

Licenses and capital goods have been acquired mainly because of the impossibility or excessively high cost of developing such goods in Chile. The contracts for the purchase of capital goods do not include technical assistance, because the companies have sufficiently highly skilled personnel in order to install and repair the equipment. Like the other companies interviewed in this study, those in the chemical sector send their technicians abroad to receive training in new technologies, and as mentioned earlier, this is done in quite an informal manner, mainly through the companies' relations and contacts with foreign firms.

The benefits which the companies say they have obtained through these industrial linkage mechanisms are: incorporation of new products or product lines (two companies mentioned this in first place); lower production costs (one company mentioned this in first place and two firms in second place), and

<sup>6</sup> Cape Horn Methanol was also selected for the sample, but this was the only firm consulted which refused to answer the questionnaire.

technological updating of production processes (one company mentioned this in first place and another in third place).

Three of the companies in the sample stated that the last two stages in the export process depend more on the use of this type of industrial linkage mechanism and these stages are also those which have involved the heaviest expenditure of resources. The other two companies in the sample said that there were no differences between the various stages.

According to three of the firms in the sample, foreign companies use these industrial linkage mechanisms in order to open up new markets for their final products. Two companies (one in first place and the other in second place) also considered that access to raw materials and inputs was a further reason for this interest by foreign firms.

Access to appropriate technologies (two firms put this in first place) and the availability of licenses (one company put this in first place and another in second place) were considered to be the main

reasons why the companies in the sample were among the biggest exporters in the country.

The macroeconomic conditions which the firms in the sample considered to have made possible the acceptance of these contractual arrangements are: the current legislation on foreign capital (two companies put this in first place), the macroeconomic policy applied in Chile (two companies put this in first place) and economic stability (two firms put this in second place and one in third place). With regard to measures that the government could take to facilitate such contractual arrangements, one company stated that it would be desirable to simplify the administrative procedures needed in order to make such arrangements, while another firm mentioned the desirability of reducing the additional 40% tax on income received by foreigners in Chile.

None of the companies suggested any measures that the foreign firms could take to facilitate these contractual arrangements, since they considered that there were already ample possibilities and facilities in this respect.

## IV

### Conclusions

The characteristics of the Chilean export process, which is based on the use of natural resources where the country has comparative advantages, mean that in an initial stage the export capacity of local firms does not depend to a major extent on industrial linkages with companies in developed countries. In the near future, however, in order to maintain their position in markets where they are already operating or to penetrate new markets, Chilean firms will have to make use of such international industrial linkages. This is clearly so when the companies must comply with given quality standards in order to enable their products to enter new markets or to consolidate their position in markets where they are already present.

Local firms mostly use two means of industrial cooperation: the acquisition of capital goods from international suppliers unconnected with the companies, and technical assistance of an informal nature, mainly for staff training.

The establishment of companies with participation of foreign capital (joint ventures) is less

frequently used. Association of local firms with foreign companies is due above all to the need to obtain financing for large-scale investments and to share the risks involved in these operations. Consequently, the establishment of such enterprises with participation of foreign capital is not one of the usual ways of obtaining the transfer of technology. The new technologies needed can be acquired on international markets by anyone who requires them, and it is not necessary to enter into association with foreign firms in order to do so. On an ex post basis, however, it was noted that in terms of technology transfer, the benefits derived from the functioning of joint ventures with foreign capital are of the greatest importance for the local firms involved.

International industrial subcontracting is not practiced in any of the sectors studied, so it was not possible to study the operation of this mechanism. The main export activities owe their success to the exploitation of the comparative advantages enjoyed

by Chile in natural resources, rather than to the low cost of labour or transport costs, which are among the main reasons why foreign enterprises subcontract production to local firms.

The various sectors studied do not display any substantial differences with regard to the types of industrial linkage mechanisms used. The only exception is in the chemical industry, which, unlike the other sectors, makes some use of licenses for products and processes. This may be due partly to the fact that three of the four sectors analysed base their export capacity on the comparative advantages which exist in terms of natural resources, which is not the case in the chemical industry.

No major differences are to be observed between large and small firms with regard to the types of industrial cooperation (or linkage) mechanisms used.

The main benefits which the companies in the sample have obtained through international industrial cooperation are: improved product quality, which has given them access to new external markets; lower production costs, and increased production capacity. Moreover, the contractual arrangements made with foreign firms have enabled the Chilean companies to update the technology used in their production processes.

The success achieved by the export firms is due mainly to the existence of competitive advantages based on natural resource availability; to the application in Chile of macroeconomic policies favourable to export-led growth (especially the exchange and tariff policies applied), and to the access to appropriate technologies.

The Chilean firms consider that their foreign counterparts make use of such linkage mechanisms mainly because they are interested in opening up new markets for the sale of their technology, mostly through capital goods but also through technical assistance which is reflected in the transfer of know-how.

With regard to the degree of maturity of the enterprises—that is to say, the phase they have reached in the export process—the companies interviewed all agree that there are no differences between the types of industrial linkage mechanisms used in the various phases. The differences lie more in the extent to which such mechanisms are used. The agricultural and agroindustrial

sectors and the chemical industry stated that the stages of stabilization and consolidation (the last ones in the export process) are those which depend most on international industrial cooperation and also those in which the enterprises have invested most resources. This is because the ability to gain access to new markets is closely linked with high product quality, which is achieved through the incorporation of advanced technology.

With the opening up of most economies to international trade, tariff barriers have ceased to be the main hindrance to trade. The barriers raised by the countries are now increasingly based on demands with regard to quality and requirements of a technical nature (sanitary barriers, for example). This is clearly visible in the case of Chilean fruit producers and exporters, who began by exporting all qualities of fruit, but must now meet rigorous standards with regard to colour and weight and must subject their products to cooling processes to ensure their durability and quality. Because of these requirements, the exporters have had to incorporate specialized high-technology machinery, modern refrigeration equipment, and even controlled atmosphere plants which enable them to increase the durability of the fruit considerably and to ensure a product of homogeneous quality. Something similar has taken place in the chemical sector.

A different situation is observed in the marine products and related industries sector, especially with regard to the production of fish meal. The companies in this sector state that the stages which most require international industrial linkages and absorb the biggest resources are the first two stages, that is to say, information and market penetration. As noted in the previous section, the companies operating in this sector decided to set up a joint enterprise with a Norwegian firm to manufacture the main capital goods required by the fisheries industry in Chile. In the first stage, they were highly dependent on foreign technology, but with the establishment of this joint enterprise their access to technology is just as rapid as if it were locally developed. Moreover, fish meal is a basic commodity whose entry into international markets involves fewer difficulties.

In the forestry, lumbering and paper and pulp industries sector it is not clear which stage involves most dependence on industrial linkages.

The answers given by the companies interviewed did not allow any definitive conclusion to be reached in this respect.

In general, the companies interviewed said that they had not had any problems of a political or institutional nature in making use of the existing industrial linkage mechanisms. In view of the openness of the Chilean economy and the free-market system existing in it, any company which so desires can have access to imported capital goods and can enter into association with foreign firms, set up a joint enterprise, or establish technical assistance agreements with overseas institutions or firms.

In the case of the small firms, however, shortage of capital and financing make it difficult or impossible to take advantage of these conditions. Consequently, policies to promote this sector should be aimed fundamentally at solving the financing problems which exist. There are at least two measures which should be taken in this respect. First of all, technical assistance agreements should be signed at the level of institutions grouping together companies in one or more entire sectors: this would make it possible to assemble resources in order to bring in foreign experts who could divide up their time among the different companies. Institutions exist in Chile which are capable of carrying out actions of this type. They could even be given financial support by the government in order to carry out these programmes. Secondly, it would be desirable to promote the use of existing risk capital to finance the purchase of imported capital goods needed by the smaller companies. As noted in the analysis of the interviews, many of the capital goods needed are of foreign origin and their possession is an essential requirement for gaining access to modern technologies which will enable the companies to compete effectively on international markets.

It would undoubtedly be interesting to extend this study to other sectors of the Chilean economy. According to the analysis carried out here, the export capacity of three of the four sectors studied is based mainly on the exploitation of natural comparative advantages: that is to say, these sectors have very special characteristics. Indeed, the chemical industry displays somewhat different results, due essentially to the fact that it does not

enjoy advantages of this type. A study covering other sectors of the economy would give a broader view of the effects that international industrial linkages have had on Chilean exports.

Although this study only takes account of the sectors which register the highest levels of participation in the country's exports, some observations are called for on certain aspects connected with the prospects and potential of international industrial cooperation agreements as a means for promoting the sale of Chilean products on international markets.

Chilean firms whose activities are oriented towards exports will probably need to make increasing use of such agreements with companies in the industrialized countries, since the penetration of new markets demands products with a high technological content. This is because most countries, including those which have reduced their tariff barriers, have replaced them with non-tariff barriers (higher quality standards and strict regulations on health, safety and ecological aspects, etc.). Contractual agreements between local firms and their foreign counterparts permit the former to gain access to international channels for marketing their products.

Nevertheless, there are a number of difficulties that national firms must take into account when they seek to enter into agreements of this nature with companies from developed countries.

Firstly, it will probably be easier for Chilean companies to conclude agreements of this type with foreign firms when they involve projects that use relatively stable or mature technologies. In contrast, there are indications that they will find it more difficult to enter into associations with foreign firms when their aim is to gain access to spearhead technologies. The explanation for this is that foreign firms are more willing to share ownership and control when the technology involved in a given project is already quite widespread and therefore does not represent an essential asset for them. The analysis made in this study shows that Chilean firms do not encounter any restrictions on the procurement of the technologies which are already available on the market; consequently, in this case there are no clear advantages in associating themselves with foreign firms.

Secondly, while these contractual agreements offer Chilean companies broader potential advantages than those given by foreign direct investment, at the same time they involve much greater risks. Among the advantages, the biggest is that the local firm is more closely involved in the process of capital formation and has a bigger share in the profits derived from the investment. In most agreements of this type, however, the local firm assumes all or most of the risk associated with the investment projects, and the firms from the industrialized countries do not show much interest in the coherence of the initial investment decisions, in contrast with what occurs when they have equity participation in the local company.

Thirdly, these contractual agreements oblige the local firm to obtain its capital from other sources. This creates financing problems, especially for small firms, which have always found

it difficult to gain access to the capital market. This aspect was indeed mentioned by some of the representatives of small firms interviewed during the study.

Finally, government policies can play a significant role in cases where the agreements do not include equity participation. The authorities should promote contractual agreements between local and foreign firms in those sectors where the country has comparative advantages which are sustainable in the long term. Moreover, it would be advisable to select some specific international industrial linkage mechanisms in order to promote the establishment of a home-grown technological base which would permit the future incorporation of larger-scale technological innovations and thus gradually reduce the technological dependence of the country.

## Annex

### STAGES IN THE EXPORT PROCESS

#### 1. *Information:*

- Contacts with potential buyers.
- Determination of the needs of potential buyers.
- Studies within the company: technical investigations (technological feasibility as regards quality, quantity, etc.) and economic studies (feasibility of delivery dates, credits, etc.)
- Investments needed to adapt the company's technology.
- Prototypes, samples, etc.

#### 2. *Penetration:*

- Initial exports and their respective quality certification.
- Concentration of efforts on lines of production, with assignment of functions; search for secure supplies of inputs in order to be able to meet the requirements.
- Growth of exports, but not yet in accordance with an orderly plan.
- Search for smooth and flexible marketing channels.

#### 3. *Stabilization:*

- Exports now on a more or less regular basis, with some adjustments in the production technology.
- Concern to optimize the production process (balancing lines, eliminating bottlenecks, effecting time studies, etc.).
- Stabilization of distribution channels.
- Security of supply of raw materials.
- Initiation of a search for new markets for products.

#### 4. *Consolidation and expansion:*

- Growing exports aimed at increasing the market share.
- Penetration of new markets.
- Only a limited number of innovations needed in the production process.
- Increased bargaining power *vis-à-vis* intermediaries.



### Bibliography

- Aninat, Eduardo (1990): "Investment opportunities in Chile: results from a survey of projects 1990-95", paper presented at the seminar on investment opportunities in Chile, Santiago, Chile, March, *mimeo*.
- ECLAC (Economic Commission for Latin America and the Caribbean) (1991a): *Inversión extranjera y empresas transnacionales en la economía de Chile (1974-1989). El papel del capital extranjero y la estrategia nacional de desarrollo*, "Estudios e informes de la CEPAL" series, No. 86 (LC/G. 1678-P), Santiago, Chile (in the press).
- (1991b): *Inversión extranjera y empresas transnacionales en la economía de Chile (1984-1989). Proyectos de inversión y estrategias de las empresas transnacionales*, "Estudios e informes de la CEPAL" series, No. 85 (LC/G. 1677), Santiago, Chile (in the press).
- CINDA (1989): *Contratación de tecnología*, Manuales de investigación y desarrollo, No. 9, Santiago, Chile.
- CORFO (1987): *Diagnóstico del sector químico*, Santiago, Chile.
- Huss, Torben (1991): "Transfer of technology: the case of the Chile Foundation", *CEPAL Review*, No. 43 (LC/G.1654-P), Santiago, Chile, April.
- Mizala, Alejandra (1991): "Cooperación industrial entre países desarrollados y en desarrollo: un estudio de caso en Chile", Santiago, Chile, *mimeo*.
- Oman, Charles (1989): *New Forms of Investment in Developing Country Industries: Mining, Petrochemicals, Automobiles, Textiles, Food*, Paris, Organization for Economic Co-operation and Development (OECD).
- República de Chile (1987): *Estatuto de la inversión extranjera*, Decreto Ley No. 600, Santiago, Chile.
- Rozas, Patricio (1991): "Inversión extranjera y empresas transnacionales en la economía de Chile, 1984-1989", Joint ECLAC/CTC Unit on Transnational Corporations, Santiago, Chile, *mimeo*, February.



## The ideas of Prebisch

*Ronald V. A. Sprout\**

This paper reviews the evolution of Prebisch's thought from his early focus on the centre-periphery dynamics to his latest writings on the crisis in peripheral capitalism. An analysis of some of Prebisch's fundamental ideas follows. Evidence is provided which supports Prebisch's core ideas, as well as bearing out the observation that he changed with the times, though probably not enough. The author argues that while Prebisch's ideas can help restore some balance to the current debates regarding the merits of free markets, his analysis of what the State is capable of doing was insufficient.

An effort is then made to assess how Prebisch would respond to the extraordinary world changes taking place today. It is argued that he would identify some very encouraging trends in economic policy and attitudinal changes both within the periphery and the centres—in particular, as regards the relationship between markets and government, as well as between the internal and external influences on development. However, Prebisch would contend that the nature of State intervention must change in the periphery; efforts to ensure adequate growth and distribution of the surplus are needed to overcome the crisis. He would also contend that there still remains an unacceptable degree of asymmetry between centre and periphery as regards the burden of adjustment to global economic problems.

The article ends with some assessments of Prebisch's basic contribution to our understanding of the development process, including his multifaceted methodology of deciphering reality, the perspective which emerges from this method, and the policy prescriptions deriving from that perspective and aimed at a fairer distribution of the gains and losses generated by the capitalist system.

\*Economic Commission for Latin America and the Caribbean, Washington Office. This paper is part of a larger effort undertaken by David Pollock and Ed Dosman, who are researching a biography of Prebisch. Many thanks for their help.

## Introduction

Raul Prebisch held enormous sway over the evolution of ideas and policy in development economics during his lifetime. Yet the ideas and prescriptions for which he is best known—the declining terms of trade thesis and “export pessimism,” import substitution industrialization (ISI) and active State intervention—contrast widely with the prevailing free market, free trade winds which predominate today throughout most of the world, including Latin America. At an Inter-American Development Bank (IDB) lunch attended by several distinguished colleagues of Prebisch, I asked how he is presently being received in Latin America. Don Raul was a product of his times, it was suggested, and times have changed; he is currently respected in Latin America, yet at the same time rejected.

Are these characterizations fair? Which of his ideas have retained their relevancy? Which ones need revision? How did Prebisch's ideas evolve over his lifetime? Did his perception of reality adapt to changing times? And how would he react to today's events? These questions I attempt to address below, closing with some assessments of Prebisch's basic contributions to our understanding of the development process.

## I

### The evolution of Prebisch's thought

There are several fundamental observations to be made regarding Prebisch's evolution of thought. First, the early years of his career were characterized by a gradual yet dramatic shift in outlook from the prevailing orthodoxy of neoclassicism to the heterodoxy of structuralism. Once the transformation was complete, there was no going back. The principal themes first espoused by Prebisch in the 1940s and 1950s remained important components in his repertoire of ideas until his death in 1986.

As a structuralist, Prebisch's thinking on development evolved through a series of stages; “each phase (achieving) new dimensions without ever losing sight of their guiding threads” (Pinto, 1986, p. 9). The evolution of these stages (five by Prebisch's count; see Prebisch, 1984b) were the result of both new personal experiences and a changing reality.

Ultimately, Prebisch's intellectual pursuits led to an expansion of both method and subject matter. His theoretical framework expanded beyond the constraints of purely economic theory into political economy issues. In addition, while retaining an interest in the periphery's external relationship with the centres, increasingly Prebisch expanded the scope of his focus to include internal dynamics of the periphery.

### 1. *Prebisch's early years and the "ECLAC Manifesto."*

When Prebisch started his career as an economist and professor in the 1920s, he was an ardent supporter of neoclassical theories. The 1930s depression, "the first great crisis of capitalism," was primarily responsible for Prebisch's conversion. The harmonious and self-equilibrating market system depicted by the neoclassical paradigm, felt Prebisch, had little to do with economic reality, particularly in Latin America. Keynes' attack on the neoclassical orthodoxy, and his advocacy of active State intervention to redress the economic ills stemming from free markets in particular, no doubt significantly influenced Prebisch during this time as well. In fact, in 1947 Prebisch wrote an *Introduction to Keynes* in Spanish, which provided the first exposure of Keynes' ideas to many in Latin America.

It was Prebisch's 1949 document, *The Economic Development of Latin America and its Principal Problems*, written while he was Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), that first formally provided the essentials of Prebisch's structuralist framework. After his forced resignation as Director-General of Argentina's Central Bank in 1943 (presumably for failing to toe the free-spending populist line pursued by Peron), Prebisch had several years to formulate his response to the neoclassical orthodoxy. The 1949 study (the "ECLAC Manifesto") represented a crystallization of these ideas, which, by his own account, were now attaining maturity (1984b, p. 176). Here Prebisch unfolded his centre-periphery conception of the world and presented several themes which followed from this perspective and which were to be frequently drawn upon throughout his career.

The centre-periphery concept sought to identify three elements of reality as Prebisch saw it. First, unity: all the nation-States and territories are linked in one global economy. Second, diversity: there are two distinct types of nation-State economies –the periphery (Third World) and the centres (the industrial nations). Third, asymmetry: the economic gains from the interaction between the two are unevenly distributed. The periphery remains on the fringe of capitalism's central dynamics, receiving less than its fair share of the fruits of technological progress.

Foreign trade plays a crucial role in the dissemination of the gains from technological progress. While trade is an absolute necessity for peripheral development, the tendency for the periphery to incur declining terms of trade with the centres has helped perpetuate unequal international exchange.

The policy prescriptions espoused by Prebisch in 1949 logically followed from the problems he diagnosed, and were to become familiar Prebisch recommendations. They included the importance of ISI, of regional cooperation in trade and development, and of foreign capital as a means of supplementing the inadequate rate of domestic saving.

### 2. *Early criticism by Prebisch and the UNCTAD years.*

During the late 1950s and early 1960s, Prebisch turned his attention towards evaluation of the policy implemented in Latin America. As early as 1961, Prebisch was writing of the "very serious flaws" of ISI as then carried out (1961, pp. 2-3). Tariffs were excessive and had been "applied in a discriminatory way, without promoting a corresponding expansion in exports." Regional import substitution (a Latin American Common Market) was needed so that more sophisticated manufactured goods requiring relatively large markets could be produced. In fact, with the reconstructed international economy back on its feet and Latin American infrastructure and capability in place, it was time to promote manufactured exports to the centres.

During this time, Prebisch also gave greater attention to the growing social disparities within the periphery and the role of inflation in this process. In retrospect, however, Prebisch speculated that

remnants of his former neoclassicism may have surfaced on these issues (1984b, pp. 181-182). He reasoned that his relative neglect of income distributional concerns until the 1960s may have been due to an assumption that the free play of market forces would eventually correct the inequalities. Further, he tagged his solutions at this juncture as "conventional explanations."

Greater study and understanding of these matters, however, was not to come until some time later. Prebisch's next stage, from 1964 to 1969, was devoted to the international civil service rather than theoretical pursuits. During this period, as Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), Prebisch drew on his existing stock of ideas to formulate policies designed fundamentally to level the playing field between the periphery and the centres: to tackle the problems of international cooperation in trade, finance, and technology. The policies are familiar and include international commodity agreements to alleviate adverse price changes, preferential tariff treatment to facilitate greater access of Southern manufactured exports, greater foreign aid from the OECD countries (1% of GNP), and more favourable terms for the periphery regarding foreign direct investment by firms from the industrial nations.

Prebisch confessed his failure in these endeavours and attributed it to shortcomings on both sides of the North-South dialogue: the North was not willing to listen, and the South was not willing to follow through with the needed complementary internal structural reforms (1984b, p. 174).

### 3. *A period of transition and the IDB report.*

After the frustrating UNCTAD years, Prebisch went back to the drawing board to begin a more comprehensive probe. A series of lectures at Columbia University in 1969 provided the initial means to look anew. Of greater significance, however, was his research commissioned by the IDB which produced *Change and Development: Latin America's Great Task* (1971). This study was viewed by Prebisch in subsequent years as an imperfect, yet nevertheless significant step forward. It was a transitional document, linking his old ideas with emerging ones, many of which were to be refined over the remainder of his life.

It is in this document that Prebisch more systematically expands his method of understanding

reality to include social and political considerations alongside the economic. It is here that Prebisch starts to analyse more explicitly the internal determinants of peripheral development alongside the external factors, seeing the constraints on Latin American development as a function of the interaction between the two. "The time has come" (wrote Prebisch (1971, pp. 8-9)) "to shake off the all too common habit of attributing the inadequacy of Latin America's rate of development to external factors alone, as though there were no major internal stumbling blocks in the way. . . In this present report, the accent is placed on the internal factors of development."

Prebisch now began to focus more on the social disparities within Latin America; the exclusive nature of development, the growing impoverishment of the underprivileged masses. Development, he said, must be accelerated to incorporate these people. This is not only important for social and political reasons, but is also an economic necessity. Bringing the masses into the development process broadens the domestic market for industrial goods and perpetuates the process.

International cooperation and external financing on proper terms have a significant role to play. But much must be done within the periphery as well. "Development discipline," currently lacking, must be achieved. Otherwise development can only occur by compulsion.

Capital formation must increase, and hence so must domestic saving. This means that consumption on the part of the high and middle income strata needs to be restrained. Wrote Prebisch: "It is true that the burden of remittances abroad, together with the effects of the deterioration in the terms of trade, has seriously limited the capacity to mobilize domestic resources. But it is equally undeniable that consumption has frequently overstepped the bounds within which it should have been contained in order to ensure that such outflows of resources did not preponderantly affect investment" (1971, p. 76).

The lack of dynamism hence can be attributed in part to the changing "power structure" within the Latin American economies and the consequent tendency for "redistributional immediatism." The groups which have traditionally wielded influence—landowners and businessmen—are being joined by new elements, primarily from the middle strata through public administration and the growing influence of trade unions. Mounting redistributional

tensions are relieved in part through wage increases or public spending and ultimately inflation. Yet, "however genuine its underlying concern for social equity, and however much it may do to alleviate social tension in the short term, this redistributive immediatism does not solve the basic problems" (1971, p. 196).

Technology plays a critical role in the development process. It is a two-edged instrument: it can be used for good or ill.

First the good news.

"The opportunities for fullness of life are now broadening out to an extent inconceivable before. And for the first time in history this is happening without recourse to the sacrifice, the exploitation, of other human beings. What is now coming into play is the exploitation of technology, the ability to control the forces it unleashes and to take advantage of the tremendous possibilities it is continually opening up for the human race: the exploitation of technology by man, not the subjugation of man to technology" (1971, p. 220).

Yet, the application of advanced technology in the periphery has brought serious deleterious side effects. While the possibilities exist for bridging the centre-periphery gap (partly thanks to technology's potential), the actual effects of technology have helped create distortions: that is to say, current development conditions for the Third World which diverge from the more favourable environment enjoyed in years past by the now developed countries. Hence, the "ambivalence of technology."

Science and technology's success in significantly bringing down the death rate in the Third World, for example, has contributed to a population growth rate which is outstripping the Third World's ability to support such growth; a rate much higher than that experienced by the central countries during a comparable development stage. In addition, the capital-intensive technology of production has contributed to a distortion in the labour force: the agricultural labour force has declined, as happened in the industrial countries, but an inordinate percentage of workers have pursued relatively unproductive work in the services sector rather than in industry, where jobs are few.

Distortions due to technology have occurred in consumption as well. The technology of communication –the power of advertising– has

contributed to an excessive consumption mentality. Latin Americans see how their Northern counterparts live and want to imitate that lifestyle. Such consumption is premature; the economies cannot support such activity.

The consumption exacerbates the periphery's tendency towards external bottlenecks. The demand for nonessential imports is forever growing. In addition, the growth of exports is adversely affected. The capability to produce for export is diminished; the opportunity cost of extravagant consumption is less saving and capital formation. Furthermore, the demand for primary commodities has decreased due to technical change in the centres. Directly, this has occurred because of the creation of synthetic substitutes; indirectly, it has been a result of the centres' low income elasticity of demand for peripheral products.

Technology unfettered by State regulation has also led to large-scale pollution of water and atmosphere, systematic destruction of the natural environment, and urban congestion.

An active role for the State is needed to help resolve the contradictions arising from science and technology. In fact, "the farther science and technology progress, the more unavoidably necessary it becomes to influence the spontaneous movements of the economic forces" (1971, p. 198). State action is needed to encourage greater capital formation by promoting private and public saving and by investing in the economic infrastructure. State action (at the Latin American and international level) is needed to bring about structural changes in foreign trade; to direct the nature and growth of the periphery's imports; to promote Third World manufactured exports to the centres. The State must also redress the social inequities since the spontaneous play of market forces will not; its investment in the social infrastructure is imperative in order to smooth out social and geographic disparities.

It is interesting to place Prebisch's thinking in the context of the existing macroeconomic performances of the Latin American economies. By his calculations, Latin America had experienced an economic growth rate of 5.2% over the previous two decades. By his acknowledgment, this was an historically impressive rate; greater than the growth rates of the industrial countries during the same period, and greater than that which occurred in either the centres

or periphery for any sustained period of time prior to this period. Yet Prebisch argued that Latin American development needed to be stepped up to a growth rate of 8%.

Why such impatience? "Time is no panacea." International disparities and disparities within the periphery will only mount, if decisions are left to the spontaneous play of market forces.

#### 4. *The political economy ideas of Prebisch.*

Prebisch's final stage of thought roughly coincided with his directorship of *CEPAL Review* from 1976 to his death in 1986. Prebisch described this period as one in which he was "free from executive responsibilities for the first time in many years, (and hence) able to revise and advance systematically in (his) thinking" (1984b, p. 175). It was a prolific period. Prebisch wrote *Capitalismo Periferico: Crisis y Transformacion* in 1981 as well as frequent articles in *CEPAL Review* throughout this period.

Prebisch's broadening of both his approach and subject matter during this period represented an extension and refinement of the 1971 IDB report. Confronted with what Prebisch perceived to be the second great crisis of capitalism (1984b, p. 175), it was a period of searching for new answers to mounting problems. Why do growing disparities of income and wealth accompany the development process? Why does the periphery continue to lag behind the centres? Why is economic crisis so pronounced in the periphery? (1984b, p. 175).

At the core of Prebisch's analysis regarding the internal workings of peripheral capitalism is the dynamic importance of the economic surplus: the gains in productivity which are not transferred to the labour force. As the primary source of capital accumulation, the surplus has a critical role to play in the system's development. Yet, the surplus becomes increasingly vulnerable. Less is created and much of what remains tends to be unproductively used.

This manifests itself in economic crisis whereby the rate of expenditure exceeds the rate of accumulation of "reproductive" capital (capital which increases labour productivity). The forces that threaten the surplus are largely internal, though external conditions exacerbate the trends and influence the internal determinants.

Paradoxically, the crisis is fundamentally a consequence of the vigour of capitalism. There is an

innate "impetus to democratization and to the progressive evolution of individual liberties" in capitalism (1985a, p. 66). From this impetus arises a redistributive struggle between the different social strata that saps much of the system's potential to expand.

Excessive consumption and a premature diversification of demand play a central role. "Whatever degree of austerity may have been practised in the historical development of capitalism" (wrote Prebisch (1984a, p. 161)), "it must be acknowledged that this is not a characteristic of peripheral capitalism."

The overconsumption in turn is attributed in part to the periphery's propensity to imitate the consumption habits of the centres. Consumption patterns in fact are not the only thing that is replicated in "imitative capitalism." The Third World adopts the same technology as the "innovative capitalism" of the centres, imitates the centres' lifestyles, and copies their institutions. The centres' cultural manifestations, ideas and ideologies are constantly gaining ground in the periphery (1976, p. 11).

Yet the periphery is unable to replicate the centres' productive capability. And this contributes to a basic imbalance as imitation on the demand side is not matched by that on the supply side. "Productivity is lower in the periphery because of its historical time-lag. But there is no such time-lag in the imitation of consumption which tends to spill from the upper strata downward, but with enormous disparities" (1984a, p. 173).

Prebisch attributes the overconsumption to three guilty parties. The upper income strata lead the way. Increasingly, however, the middle strata have followed suit, their ability to do so being a function of their growing political power stemming from growing unionization and the encroachment of the State—the third contributor to such excessive consumption. The bloated State is a reflection of changing power relations; of the redistributive struggle.

The increased consumption by labour and the State, however, tends to impinge on that portion of the surplus otherwise allocated for capital accumulation. The upper strata's profligate ways continue unabated. While the redistributive struggle contributes to contraction of the surplus, then, it tends not to decrease the inequalities (1982a, p. 8).

The capital accumulation process slows not only because there is less surplus to draw from, but also because of the way the remaining surplus is used. In

addition to the wasteful spending of the upper strata, much is employed for "non-reproductive accumulation" (investment in innovations which provoke an increase in demand exceeding their contribution to output). Other portions must be used to redress environmental costs created by earlier technology.

External forces exacerbate the crisis. A "trend towards external dynamic disequilibrium is superimposed on the effects of the internal disequilibrium of the periphery, thus reducing the speed of its development" (1985a, p. 65).

Fundamentally, the external disequilibrium derives from the centripetal nature of global capitalism, which in turn is manifested in three major structural characteristics: i) demand disparities between the periphery and the centres; ii) economic and technological inferiority of the periphery; and iii) the fragmentation of the periphery into relatively small units. These features have perpetuated the considerable lag in the periphery's development, largely by contributing to the long-run deterioration of the periphery's terms of trade.

While much of the surplus is siphoned off to the centres through trade, other portions escape in the form of debt repayments. Some of the growth of the surplus is stunted by the protectionist policies of the North. Foreign multinational companies have also aggravated the crisis by proving more adept at internationalizing consumption than production. In addition, the periphery has been adversely affected by fiscal and financial irresponsibilities of the North—from the United States, and from the unregulated Eurodollars market in particular. By fuelling worldwide inflationary pressures, both have contributed to tight monetary policy and historically high real interest rates.

The crisis is manifested largely in a new type of structural or social inflation which results from the redistributive struggle. This new inflation is characterized by a relative immunity to conventional economic policies. In fact, conventional policies are typically further handicapped by the tendency for social inflation to coexist with fiscal inflation; the latter resulting from chronic budget deficits, ultimately stemming from social inflation. Both types of inflation tend to feed on each other. Tight monetary policy, for example, will aggravate fiscal inflation by exacerbating the fiscal deficit. The only effective means to address the fiscal deficit is by increasing taxes or decreasing State spending. Yet, tax increases

can ultimately spur social inflation if labour demands compensation to recoup its losses from the higher taxes.

This inflation's relative immunity to conventional economic policies increases the likelihood of the use of force by the State as the dominant means to protect the surplus. Hence, the compatibility of economic and political liberalism may be shortlived as the "democratic process tends to devour itself" in response to economic crisis (1985b, p. 28).

Prebisch felt the market had considerable economic and political importance. At the same time, he argued that "the market must not be confused with the (structural) factors that push it from behind, nor should it be expected to do more than it can. The market cannot modify the social structure whence emanate the power relations that largely determine income distribution, nor can it establish the necessary rate of accumulation" (1979, p. 174). The market, hence, cannot be expected to properly address problems of equity ("social efficiency"). Nor can we depend on the market to make rational long-term development decisions. The market lacks an adequate time horizon. Furthermore, as initially set forth by Prebisch in the 1971 IDB report, contradictions due to technology occur in an unregulated market environment.

His policy prescriptions hence centered on means to keep the economic incentives and dynamism of the market intact, while ensuring adequate growth and distribution of the surplus. The latter must entail consensus between all the major economic players in the economy, according to Prebisch; ultimately some form of market socialism may be necessary whereby economic liberalism can remain compatible with political liberalism.

Many of the familiar prescriptions espoused by the "early" Prebisch continued to be recommended by him to the end. Import substitution industrialization (ISI), under certain circumstances and correctly applied, remains part of a sensible policy mix. Economic integration of the periphery (regional ISI) should continue to be pursued despite failures in the past. In addition, Prebisch continued to call for policies in the North aimed at addressing development concerns in the South. His pitch was not to appeal to the centres' sense of moral obligation, but rather to their enlightened self-interest. Enactment of such policies, Prebisch felt, was in the interest of all.



Prebisch's pessimistic prognosis of the Third World's prospects was based in part on his gloomy forecast for global capitalism. He argued that the worldwide downturn in the early 1980s was part of a structural decline in the centres, representing the end of an historic stage of prolonged growth. He wrote of the crisis in 1982 as more "profound, complex and difficult" than the 1930s depression which he charac-

terized as "conjunctural, albeit of extraordinary severity. . . a cyclical decline (which) turned into an intense economic contraction" due in large part to a policy of restrictive credit and sharp increases in import duties (Prebisch, 1982b, p. 150). In this same 1982 article, Prebisch argued that "there are no grounds for expecting a lasting improvement in the economies of the centres" (1982b, p. 148).

## II

### Some reactions to Prebisch's thought

Was Prebisch primarily a product of earlier years and economic conditions at odds with today's economic realities? Did he change with the times?

Clearly the core of Prebisch's ideas was moulded by his experiences during the Great Depression and its aftermath. How has this core—the "guiding threads"—withstood the test of time?

On the broadest level, quite well. In particular, Prebisch's centre-periphery conception of the world, whereby the most advanced economies tend to reap the lion's share of technological progress, remains very relevant. To put it another way, there seems to be some basis for Prebisch's conception of centripetal capitalism.

On a theoretical level, one finds some intriguing support for these ideas from David Landes (1990 and 1989), for example, who has argued that while relative backwardness may have had its advantages in times past, it is today on balance a liability. Some of his ideas parallel those of Prebisch and include: i) growing disillusionment within the periphery due to the large centre-periphery gap and communications technologies which are facilitating a demonstration effect more powerful than ever before; ii) higher threshold costs to bridge the gap, the fundamental constraint now being the more elusive know-how rather than capital; iii) the adverse effect of technology on primary products, which are now more substitutable: "staples ain't what they used to be"; iv) misdiagnosis bred by historical circumstances: theories blaming underdevelopment primarily on external factors have proven to be self-defeating; and v) vested cultural values in the Third World are growing and becoming self-reinforcing agents for resistance to change and development.

Clearly, there are credible counter-arguments that could be put forward. Prebisch acknowledged as much in his assessment of the ambivalence of technology: it is a two-edged instrument with an enormous potential for good. However, what is the evidence on centripetal capitalism? Is the centre-periphery gap growing?

Results given in the seminal work of Paul Bairoch indicate a steadily widening gap in per capita income between the less developed countries and the developed countries over the past century. According to Bairoch, the divergence between per capita income or product was 1:5 in 1860, 1:6 in 1900, 1:7 in 1929, 1:8.5 in 1953, and 1:13 in 1970 (Bairoch, 1975, p. 192).

What story is told by more recent and more accurate data? Our efforts to measure the global income gap using purchasing power parity-based estimates of national income for 97% of the world's population over roughly the past three decades show results which vary widely according to how the gap is measured and the level of aggregation used (Sprout and Weaver, in the press).

On the one hand, the calculations show a narrowing of the centre-periphery income gap from 1960 to 1987. The periphery's share of global income increased from 34% in 1960 to 44% in 1987. Even on a per capita basis, the periphery experienced greater economic growth than did the centres over that 27 year period: 3.2% vs. 2.9%.

Yet, the aggregate picture is deceptive. The East Asian periphery—and China in particular—has been significantly pulling up the overall economic performance of the Third World. In fact, East Asia has been the only Third World region (out of five) that has

been closing the per capita income gap with the centres. In most areas of the periphery, the average person's living standard is deteriorating relative to his or her counterpart in the centres.

If capitalism can indeed be deemed centripetal, is it for the primary reason contended by Prebisch? There is evidence to support his argument. The gains from trade do seem to be asymmetrically distributed between the centres and the periphery as predicted by Prebisch, though it remains unclear as to what role the terms of trade have played in this matter.

Both sides of the terms of trade debate have some validity. While Prebisch's theoretical arguments—which focus on market power and structural disparities in demand and supply—are credible, so are the opposing arguments. Jacob Viner, for example, an early critic of Prebisch, argued that there are offsetting forces at work which would tend to increase the price of primary products (diminishing returns) and decrease the price of manufactured goods (greater gains in productivity).

Do the facts fit the theory? It depends on the choice of facts analysed. One finds a dismaying contradiction of results and conclusions among the many efforts made to test the thesis. Diakosavvas and Scandizzo (1991) provide an exhaustive survey of the terms of trade controversy, including a bibliographic appendix that covers four pages of books and articles on the debate. The authors observe that “out of the most important studies selected, about a third confirm the Prebisch hypothesis and about a fourth disprove it”, and they conclude from the literature that “although it is an open question whether there was much or little deterioration, the statistical evidence (on balance) is consistent with the view that there was some” (Diakosavvas and Scandizzo, 1991, pp. 236-237).

In an important sense, the debate is somewhat irrelevant. Specifically, Prebisch's conclusions regarding the asymmetric distribution of gains from centre-periphery trade do not hinge on the deterioration in the periphery's terms of trade. Prebisch's stress on industrialization and the need for peripheral economies to undergo a transition from primary goods production to manufactures, ultimately for export, is well-founded irrespective of whether the terms of trade are declining. What was once a controversial development objective is now widely accepted.

And there is a credible theory—apart from Prebisch's—supported by much evidence, which argues that manufactured exports provide greater economic returns than do primary exports. There are, for example, two groups of scholars who have produced cross-country econometric studies which find common ground on this topic despite widely differing theoretical perspectives in general. Within both major North American groups—one of economists testing neoclassical theory; the other of sociologists examining dependency theory—one finds support for the contention that manufactured exports have a greater positive impact on economic growth than primary exports. Furthermore, both concur that the explanation centres to a large extent on the relative absence of beneficial externalities among primary product exports.<sup>1</sup>

To the extent that economic reality has changed since Prebisch first outlined his basic theoretical framework, did Prebisch change with it? Yes, though probably not far enough. In this vein are some criticisms which, while insightful, have been inappropriately levelled at Prebisch.

This may be due in part to a commonplace failure to distinguish between the ideas of an influential thinker and the schools of thought which emerge from his or her theories. Typically, the latter tend to be more doctrinaire than the former: the ideas of Keynes vs. Keynesians; Marx vs. Marxians, for example. Such a tendency seems to hold true with Prebisch and the schools of thought that followed from his ideas: in particular, structuralism and dependency theory.

Two examples of this may be cited. Firstly, some have criticized Prebisch for focusing primarily if not exclusively on the external determinants of development, to the neglect of internal causes. This critique is certainly appropriate for some versions of dependency theory, and probably for the early ideas of Prebisch and structuralism as well. It is not germane to the ideas of Prebisch in his later years, however.

<sup>1</sup> Among the sociological studies, those which specifically examine the differing effects of export composition on economic growth include Stokes and Jaffee (1982), Chase-Dunn (1975), and Ragin and Delacroix (1979). The economic studies include Balassa (1985, 1978) and Syron and Walsh (1968). A review of these studies and further empirical support for the relative gains from manufactured exports can be found in Sprout and Weaver (1991).

Secondly, Prebisch has often been inappropriately criticized for allegedly advocating exclusively an inward-looking strategy. Prebisch envisioned ISI as part of a sensible policy mix. While not a first-best option, it was nevertheless viewed by Prebisch as a viable option during times when central countries are particularly unreceptive to Third World exports –and when, partly as a result, primary exports from the periphery are declining in price. Prebisch advocated flexibility in the periphery's trade strategy. He felt that ISI and the export of manufactures should not be and need not be mutually exclusive.

Nevertheless, there does seem to be a legitimate problem with Prebisch's export pessimism perspective, however well-grounded in reality it may be. In particular, it is an attitude conducive to a passive trade strategy. Those peripheral States that more aggressively pursue penetration of industrial country markets will succeed in obtaining a greater market share. Those that translate a pessimistic outlook into a passive strategy may find the predictions self-fulfilling.

What of Prebisch's continued advocacy of ISI? Prebisch argued that ISI was a better industrialization strategy than laissez-faire and some conventional policy tools (devaluation in particular). While he was probably correct, it may also be true that there may be better ways to go. Conventional economics, for example, tells us that in a world where externalities are widespread (in a "second-best" world), a tariff to promote industrialization may be less effective than a subsidy applied directly to industry. The rationale for State intervention favoring ISI was never articulated by Prebisch in a completely satisfactory manner.

Furthermore, there is a more fundamental problem with Prebisch's theoretical justification for ISI which embodies an important criticism of his overall framework. It is essentially a criticism that he did not go far enough.

In particular, Prebisch failed to incorporate an adequate theory of the State. He very capably laid

out the limitations of the market. Yet, as experience has shown, there is nothing to guarantee that State deficiencies will not exceed market deficiencies in certain matters. His strategies implicitly reflected excessive faith that the State can do what the market cannot do. Yet he provided scant analysis as to what is feasible.

It has been noted elsewhere that ECLAC has lacked a theory of the State (Rosales, 1988, p. 26 and Cypher, 1990, pp. 48-51). The State has been conceived as a benevolent agent of development, somehow above the fray of the sociopolitical environment that has created it. While Prebisch did attempt to endogenize some political dynamics in his model of peripheral capitalism, these criticisms can be applied to his thinking as well.

Finally, what is to be made of Prebisch's pessimistic forecasts: of capitalism in secular decline; of inherent tendencies towards economic crisis and political rule by force in the periphery?

Certainly some of this pessimism is well-founded. Prebisch's insight in uncovering many root –and historical– causes of the economic crises in much of the periphery, for example, go far towards exposing the fallacy of the assertion by Clive Crook of *The Economist* that the "setbacks which the developing countries ... encountered in the 1980s –high interest rates, debt-servicing difficulties, falling export prices– (were) an aberration" (Crook, 1989, p. 4).

On the other hand, tendencies can be averted. Albert Fishlow observed that "one can accept the reality and the force of tensions (Prebisch) describes without concluding that a self-destructive crisis is the only possible outcome" (Fishlow, 1984, p. 186). Prebisch himself, in fact, did not accept the inevitability of crisis. He strongly believed in the potential of man and in the great possibilities of technology properly channeled, and often concluded his writings on such a note.

### III

#### What might Prebisch say today?

How would Prebisch react to today's events? Below is my interpretation (interspersed with Prebisch

quotes in italics) as to what Prebisch might say if he were alive today:

We live in times unprecedented, with great promise and unequalled opportunities. Yet the challenges are likewise enormous. The recent gains in the political sphere, while of historic significance, remain fragile, always susceptible to setbacks. The democratic movements in fact are not sustainable in stagnating economies. The very existence of such reforms makes vigorous economic development all the more imperative.

Clearly there are some encouraging trends in economic policy and attitude both within the periphery and the centres. Yet the economic and social crises in the world economy continue, and in some respects and in some regions are deepening. The 1980s was a decade of devastating setbacks for the Latin American and African periphery in particular. For those who have begun to witness new-found political freedoms, the economic gains continue to lag far behind the political. Economic and social disparities within societies and between economies continue to widen.

Hence, a substantial renovation of ideas is imperative; creative and innovative solutions to persistent problems are vitally necessary. The task is ambitious, though ultimately feasible.

*We in the periphery have come to a stage in our relations with the centres at which there are great possibilities that a convergence of interests may be reached* (1988, p. 204). The growing consensus regarding the development process found in the centres and periphery alike no doubt stems in part from this movement towards convergence, and this in itself is very encouraging. Nevertheless, while there is much in this consensus which merits attention, the policy prescriptions are incomplete and, in some instances, misdirected.

Many of the development topics currently addressed by scholars and policymakers who make up this consensus revolve around two fundamental issues: i) the interaction between the market and the State in fostering development; and ii) the relationship between the external and internal forces of development. I likewise frame my thoughts below in this context.

### 1. *The role of the market versus the State.*

Barber Conable referred to the popular notion of this as a "market-friendly approach in which governments allow markets to function well, and in which

governments concentrate their interventions on areas in which markets prove inadequate" (World Bank, 1991, p. iii).

I too subscribe to such a "market-friendly" approach to development as thus defined. The markets should be allowed to do what they do well. Governments should intervene where markets fail: they should complement the markets, not supplant them. Where I differ with the World Bank is where I feel that the dividing line should occur. Specifically, markets fail in more ways than those envisioned by the Bank (with its underlying neoclassical perspective).

The growing reliance on the market to achieve economic efficiency is certainly well-founded. *Recognition of the great importance of entrepreneurial initiative in the market and of economic incentive to stimulate it, as well as of the role of this incentive in the efficiency of the labour force, is helping to exalt the significance of the neoclassical theories. I fully share this recognition (which socialism in practice can no longer escape)* (1985a, pp. 76-77).

In the same vein, some of the now widely supported orthodox prescriptions regarding the State's role make sense. Fiscal discipline is imperative. So is finding a means to reverse the State's excessive growth. *What is happening to the State is really paradoxical. It is tending towards hypertrophy, with manifold responsibilities militating against its own efficacy; and with a proliferation of interventions which undermine the economic freedom of enterprises and individuals and increasingly incapacitate the State itself from fulfilling the role of supreme regulator that the market fails to perform* (1985a, p. 83).

It is often argued by those in the orthodox fold that a reordering of State expenditure priorities is needed. I too am of this opinion. Let the markets have a greater say in price determination by phasing out those subsidies which have contributed to gross inefficiencies in resource allocation. Have governments focus more on public goods: on human infrastructure (education and health expenditures) and physical infrastructure. Minimize the State's role in the production of private goods: privatization of some sectors where markets have a comparative advantage makes sense.

Yet there must also be a role for the State not envisioned by the current orthodoxy. This is particularly the case in the Latin American periphery. The nature of State intervention there must change. This

need not mean further encroachment of the State, however.

The division of labour between markets and governments as prescribed by the current orthodoxy ultimately results in economic and social crises in the Latin American periphery. This stems in part from the unique nature of peripheral capitalism; from the redistributive struggle between the social strata in economies with a structural bias towards excessive consumption relative to productive capacities.

If the markets are given the primary responsibility to determine the growth and usage of the economic surplus, the accumulation of reproductive capital will be inadequate. Nor will the distribution of income and wealth be equitable and conducive to broad-based and sustained development.

The State must play the role of an intermediary: a go-between to help create a consensus between the major economic players in the economy so as to ensure adequate growth of the surplus as well as equitable distribution of it. The surplus must somehow be managed; its ownership cannot be left solely to the upper strata.

Similarly, the nature of State intervention must change with regard to stabilization policies. *Faced with the impotence of the State and the erosion of political power, the system inevitably develops a trend towards exacerbation of the inflation spiral. And the attempts to contain it are short-lived as well as being counterproductive. For the only instrument remaining to the State is anachronistic, depressive and regressive: i.e., the monetary instrument* (1985a, p. 83).

Inflation needs to be addressed at the source: at the redistributive struggle. Means must be devised to temper the expenditures of the upper and middle strata as well as the State. Labour's demand for wage increases which serve to slow the dynamism of the system must be mitigated; such demands are ultimately counterproductive for everyone.

## 2. Internal versus external influences on development.

Finding the formula whereby the markets and the State can optimally interact is indeed an ambitious undertaking. It requires among other things a radical change of attitudes among the major economic players in the economy: consensus rather than confrontation and restraint rather than indulgence.

There may be evidence that such a drastic change in attitudes is feasible, to judge from a fundamental attitudinal shift of a different nature, albeit of equal importance, that has taken place in Latin America. Specifically, there has been a growing recognition that many of our economic and social problems are largely internally induced; that we in the periphery need to take greater responsibility for our own problems. This is a healthy development.

Clearly the pendulum swung too far in the past as regards our perceptions of the role that external factors play in influencing our internal problems, and laying the blame elsewhere in this way proved counterproductive. We cannot rely on others to solve our problems.

The recognition that we in the periphery have much to gain from greater interaction in the world economy is likewise healthy. In our efforts to achieve relative self-sufficiency and structural change, we went too far; our economies became much too isolated. The trends towards greater trade and capital flows as well as dialogue between the periphery and the centres should be welcomed.

I am also heartened by certain attitudinal changes in the centres, though they remain insufficient. Many of the ideological rigidities of the development institutions in the centres that we in the periphery faced in the past seem to be less prevalent. In particular, there seems to be a greater sensitivity in the North to the unique external problems confronting the periphery as well as to the periphery's greater vulnerability to common problems. The former stems from the recognition that not all comparative advantages are equal. The latter stems from the recognition of the implications of the periphery's fragmentation into relatively small units.

Furthermore, there appears to be a more explicit acknowledgement in the centres that there are often two sides to global issues which necessitate a sharing of responsibility. This is evident in the proposed solutions emanating from the North regarding the debt crisis, which for most of its duration has represented *a convergence of irresponsibilities on both sides* (1988, p. 203). *The Baker Plan signified an acknowledgement of the political character of the problem* (1988, p. 203); the debt crisis cannot be resolved through market solutions only. The Brady Plan recognized in part that those who share the blame should also share the costs.

It is also encouraging to note a growing acceptance that the restructuring of Third World economies (and resolution of the debt crisis) must take place in the context of expansionary forces rather than contraction. Long-term solutions require that adjustments and conditionalities be compatible with economic growth. This too implies a certain sharing of responsibility between the North and South, as access to Northern markets is essential to Southern growth.

Yet much more is needed. Enlightened thinking does not automatically translate into enlightened policies. There is still *unacceptable asymmetry* as regards the burden of adjustment to global economic problems.

Remedies lie in part in greater dialogue. *As far as I know, for example, conditionality has never been discussed with Latin American economists, but has been decreed by the North. An efficacious cooperation policy calls for a significant change* (1986, p. 211).

*Furthermore, a double standard of judgement is by no means uncommon* (1988, p. 202). We in the periphery are told to exercise fiscal restraint to qualify for resources, yet the main centre is unable to temper its fiscal indiscipline. This inability in turn has contributed to excessively high real interest rates—which have proved inordinately detrimental to development efforts in the periphery.

We in the periphery are preached at by the North that we must liberalize our imports and reduce our trade deficits. Yet how is this possible as long as we are faced with the myriad of trading barriers in Northern markets? In recent years, the world's trading system has become markedly less liberal. As always, it is the weakest elements in the system which must bear the brunt of the costs.

The modest gains so far achieved in the Uruguay Round of the GATT talks are in danger of unraveling due to agricultural policy rigidities in the centres. *Historically, the periphery has been kept on the sidelines of the liberalization which took place among the centres* in the various GATT rounds (1983, p. 52); the reductions in trade restrictions accrued mainly to products from the centres. The latest talks, in contrast, hold out promise in that the periphery, for the first time, is directly engaged in the negotiations.

Much is currently at stake for all participants. The demise of GATT would further catalyze the formation of vertical preferences, with potentially grave

consequences. In our own hemisphere, there is much anticipation regarding the Enterprise for the Americas initiative. While there are grounds for optimism and enthusiasm on this matter, we must likewise be clear as to the possible dangers.

I have long been an advocate of regional integration formulas. Many of the stated goals of such formulas could be realized in the Bush initiative, with the sizable bonus of greater access to markets in the United States as well.

Yet we must be careful on two fronts—as regards relations within the region and with countries beyond. *The crux of the matter always has been and still is the trend towards an imbalance with the centres which must necessarily lead us to substitute domestic production for imports from the central countries* (1986, p. 208). We in the Latin American periphery must not allow ourselves to be confronted with a division of production with the United States which is contrary to our long-term development interests.

Common market efforts have failed in the past largely because of the inability to devise an equitable arrangement between countries at different levels of industrial development. *The countries whose industrial development is farthest advanced are in a position to export capital goods or intermediate goods to the relatively less or least advanced countries while the latter cannot participate to the same extent in trade of this kind. It is on their shoulders, however, that the cost of such operations tends to fall, since they are made to pay higher prices than are quoted on the international market for the capital goods and inputs* (1986, p. 208). *Special corrective measures* are hence warranted, and this of course is applicable to the Bush initiative as well. *One of these would be for the countries benefiting most by the trade in question to share with those that gained least the investment required to possibilitate a satisfactorily balanced trade not bilateral but multilateral among all the participant countries* (1986a, p. 208).

My second major concern regards the danger of creating intra-regional trade to the detriment of the growth in world trade. We must not allow trade liberalization within the region to translate into higher trade barriers beyond the region. This would further push the world economy into vertical preference arrangements with obvious deleterious consequences.

At any rate, should the Uruguay Round collapse, the likelihood that regional arrangements will focus inward increases dramatically.

*In the course of my long life I have witnessed in person and sometimes had to take action against the adverse effects of the vicissitudes of the centres: the Great Depression, the Second World War and the postwar period, the inflationary euphoria and its international spill-over; more recently, against the consequences of the anti-inflationary policy of the main dynamic centre.*

*I have also witnessed the great achievements of this centre: the Marshall Plan, the support for the European Payments Union, for the European Economic Community and also for the Alliance for Progress, which came to grief soon after its birth. Great vision and creative inspiration, such as are needed in these days likewise. They are needed also*

*by the periphery to grapple with its serious problems. Vision and creative inspiration, which is slow in coming everywhere* (1985a, p. 88).

I contended earlier that there are great possibilities—for the first time in capitalist development, I now stress—that a convergence of interests between the centres and the periphery may be reached. *For I am convinced that, once their industrialization has been achieved, the developing countries could play a meaningful dynamic role in the development of the economies of the Northern Hemisphere* (1986b, p. 37). Let us not waste a great opportunity to build new relationships with a long-term perspective. *We should not repeat the errors of the past; mistakes which have been made on both sides. An objective appraisal has to be made, but time is getting short. Let us begin a frank discussion right now* (1985c, p. 54).

#### IV

### Prebisch's contribution to our understanding of development

Prebisch provided us with more than ideas, of course. Many of his efforts involved the implementation of these thoughts in the form of institution building—in particular, his three United Nations creations: ECLAC, ILPES, and UNCTAD. He cloaked his ideas in institutional form, and used these institutions to provide the means by which his ideas could be translated into policy.<sup>2</sup> Prebisch was not a great thinker. He was an influential thinker. And, as impressive as Prebisch's other sides were, no doubt his legacy will stem primarily from his ideas.

Specifically, Prebisch has enriched our understanding of the world in a number of ways. First and foremost, he has provided us with a method of deciphering reality which consists of three links: spatial, temporal, and interdisciplinary. The first two links formed the basis of his early writings. His political economy stage represented a widening of focus to include all three.

Certainly one of Prebisch's greatest contributions stems from his framework linking the prospects and problems of the periphery with the economies of the centres, and similarly, looking at the individual parts as they are connected with the whole—the spatial connection. The temporal connection refers to Prebisch's historical approach—his proclivity to search for clues from yesterday's events to explain today's trends. The third link in his approach was the efforts to better understand the interaction between economic and political issues—his interdisciplinary methodology.

Such a holistic approach has borne much fruit, and compares quite favourably with the often sterile techniques and conclusions of mainstream economics—a body of theory which in some senses is “twice removed” from the realities of the Third World, reflecting the “doctrines developed for other countries in response to earlier events” (Seers, 1980, p. 6).

For starters, Prebisch's approach has spawned multiple offshoots. His writings have provided the backbone of the Latin American structuralist school. The dependency theorists have drawn liberally from

<sup>2</sup>From a conversation with David Pollock. See also Pollock (1988, p. 128).

Prebisch. And recently we have witnessed a flourishing of "neostructuralist" studies - mathematical models largely from North American scholars who have incorporated much of Prebisch's view of the world into their basic assumptions and predictions.<sup>3</sup>

It is through these neostructuralist studies that Prebisch's ideas may find a revitalization in the economics profession. The great appeal of this literature is at least twofold. First, the studies provide the means to merge Prebisch's global perspective with a more rigorous methodology, hence facilitating empirical verification. Secondly, they represent a bridge between Prebisch's ideas and other numerous economic perspectives (including neoclassical, Keynesian, Marxian, Kaleckian, Kaldorian, and neo-Ricardian) (Jameson, 1986).

Perhaps of equal significance to Prebisch's methodology, is the perspective that emerges from the method. From his spatial and temporal approaches evolve the notions of asymmetry and imbalance. The gains and losses that accrue in the world economy tend to be unequally distributed, favouring the more powerful entities. The poorer elements receive fewer of the benefits and incur a disproportionate share of the costs - what Landes (1989, p. 27), in "one of (his) favourite cynicisms," refers to as the privatization of gains and the socialization of losses. This is true domestically, where the poorer strata must typically bear the brunt of monetary contractions and yet remain largely excluded from the fruits of technological advances, and it is also true in the international realm - between the centres and the periphery, regarding trade and debt issues in particular.

The neoclassical theory of international trade, in contrast, tells us that trade is a positive-sum gain; that all countries engaged in trade stand to benefit. This perspective, while probably true, is at the same time incomplete. It takes an approach such as Prebisch's, which examines the relative

gains, to bring out the fact that some entities gain more than others from such interaction.

The same is true of his insight that domestic peripheral problems can be better understood in the context of historical external relations. The periphery's development lag is not caused by external forces, but it is certainly tempered by them.

From Prebisch's temporal and interdisciplinary approaches emerges the insight that economic behaviour and economic systems change. Capitalism is different today from what it was in the past. So is economic backwardness. And on a more concrete level, no doubt inflation is a different animal in Latin America today than in bygone days: an inflation subject to different dynamics which require new and largely political remedies.

Finally, Prebisch's interdisciplinary approach provides a better understanding of the multifaceted nature of development, of the limitations of the market and the structural forces which constrain market outcomes, and of the political and cultural nature of many of our economic problems which often, as a consequence, defy easy solutions.

Prebisch of course did not shy away from seeking solutions to intractable problems. His pursuits in this realm constitute yet another substantive contribution. Not content to better understand the world, Prebisch was continually prescribing means to improve it.

Just as his perspectives were moulded by his methods, his policy prescriptions derived from his perspectives. The common denominator in all his policy suggestions was an attempt to level the playing field; to devise means to more fairly distribute the gains and losses from the capitalist system. Prebisch felt, for example, that when creditors and debtors share the blame for a debt crisis, they should also share the costs, or that when trading partners experience structural imbalances, the solution should be based on addressing this imbalance from both sides.

But there was more than ethics to these policy prescriptions. Prebisch reminded us, with his characteristic long-term vision, that ultimately the fairest solutions coincide with the most effective ones.

<sup>3</sup> Ocampo (1986) surveys many of these North-South models. Other contributors to the literature include Bacha (1978), Chichilnisky (1981), Darity (1987), Dutt (1988), McIntosh (1986), Sarkar (1989) and Taylor (1981).



## Bibliography

- Bacha, Edmar (1978): An interpretation of unequal exchange from Prebisch-Singer to Emmanuel, *Journal of Development Economics*, vol. 5, No. 4, Amsterdam, North Holland Publishing Company, December.
- Bairoch, Paul (1975): *The Economic Development of the Third World since 1900*, Berkeley, University of California Press.
- Balassa, Bela (1978): Exports and economic growth: further evidence, *Journal of Development Economics*, vol. 5, No. 2, Amsterdam, North Holland Publishing Company, June.
- (1985): Exports, policy choices, and economic growth in developing countries after the 1973 oil shock, *Journal of Development Economics*, vol. 18, No. 1, Amsterdam, Elsevier Science Publishers B. V. (North Holland), May-June.
- Chase-Dunn, Christopher (1975): The effects of international economic dependence on development and inequality: a cross-national study, *American Sociological Review*, vol. 40, Washington, D. C., American Sociological Association.
- Chichilnisky, Graciela (1981): Terms of trade and domestic distribution. Export-led growth with abundant labour, *Journal of Development Economics*, vol. 8, No. 2, Amsterdam, North Holland Publishing Company, April.
- Crook, Clive (1989): The Third World, *The Economist*, 23-29 September.
- Cypher, James (1990): Latin American structuralist economics: an evaluation, critique, and reformulation, James L. Dietz and Dilmus D. James, *In Progress Toward Development in Latin America: from Prebisch to Technological Autonomy*, Boulder, CO, Lynne Rienner Publishers.
- Darity, William (1987): Debt, finance, production and trade in a north-south model: the surplus approach, *Cambridge Journal of Economics*, vol. 11, No. 3, London, Academic Press Limited, September.
- Diakosavvas, Dimitris and Pasquale Scandizzo (1991): Trends in the terms of trade of primary commodities, 1900-1982: the controversy and its origins, *Economic Development and Cultural Change*, vol. 39, No. 2, Chicago, IL, The University of Chicago Press, January.
- Dutt, Amitava (1988): Inelastic demand for southern goods, international demonstration effects, and uneven development, *Journal of Development Economics*, vol. 29, No. 1, Amsterdam, Elsevier Science Publishers B. V. (North Holland), July.
- Fishlow, Albert (1984): Comment, Gerald M. Meier and Dudley Seers, *Pioneers in Development*, Washington, D. C., World Bank/Oxford University Press.
- Jameson, Kenneth (1986): Latin American structuralism: a methodological perspective, *World Development*, vol. 14, No. 2, New York, Pergamon Press Ltd., February.
- Landes, David (1989): Rich country, poor country, *The New Republic*, 20 November.
- (1990): Why are we so rich and they so poor, *The American Economic Review*, Papers and Proceedings, Washington, D. C., American Economic Association, May.
- McIntosh, James (1986): North-South trade: export-led growth with abundant labour, *Journal of Development Economics*, vol. 24, No. 1, Elsevier Science Publishers B. V. (North Holland).
- Ocampo, José Antonio (1986): New developments in trade theory and LDCs, *Journal of Development Economics*, vol. 22, No. 1, Amsterdam, Elsevier Science Publishers B.V. (North Holland), June.
- Pinto, Aníbal (1986): "Raúl Prebisch 1901-1986", *CEPAL Review*, No. 29 (LC/G. 1427), Santiago, Chile, August.
- Pollock, David (1988): Raúl Prebisch versus the U. S. Government: changing perceptions over time, *Canadian Journal of Development Studies*, vol. 9, Ottawa, University of Ottawa Press.
- Prebisch, Raúl (1961): Economic development or monetary stability: the false dilemma, *Economic Bulletin for Latin America*, vol. VI, No. 1, Santiago, Chile, United Nations, March.
- (1962): The economic development of Latin America and its principal problems, *Economic Bulletin for Latin America*, vol. VII, New York, United Nations, February.
- (1970): *Change and Development. Latin America's Great Task*, Santiago, Chile; New York, Praeger Publishers, Inc.
- (1976): A critique of peripheral capitalism, *CEPAL Review*, No. 1, Santiago, Chile, first semester. United Nations publication, Sales No. E.76.II.G.2.
- (1979): The neoclassical theories of economic liberalism, *CEPAL Review*, No. 7, Santiago, Chile, April. United Nations publication, Sales No. E.79.II.G.2.
- (1982a): A historic turning point for the Latin American periphery, *CEPAL Review*, No. 18, Santiago, Chile, December. United Nations publication, Sales No. E.82.II.G.4.
- (1982b): Monetarism, open-economy policies and the ideological crisis, *CEPAL Review*, No. 17, Santiago, Chile, August. United Nations publication, Sales No. E.82.II.G.3.
- (1983): The crisis of capitalism and international trade, *CEPAL Review*, No. 20, Santiago, Chile, August. United Nations publication, Sales No. E.83.II.G.4.

- (1984a): The global crisis of capitalism and its theoretical background, *CEPAL Review*, No. 22, Santiago, Chile, April. United Nations publication, Sales No. E.84.II.G.3.
- (1984b): Five stages in my thinking on development, Gerald M. Meier and Dudley Seers, *Pioneers in Development*, Washington, D. C., The World Bank/Oxford University Press.
- (1985a): The Latin American periphery in the global crisis of capitalism, *CEPAL Review*, No. 26 (LC/G. 1350), Santiago, Chile, August.
- (1985b): Power relations and market laws, Kwan Kim and David Ruccio, *Debt and Development in Latin America*, Notre Dame, IN, University of Notre Dame Press.
- (1985c): The external debt of the Latin American countries, *CEPAL Review*, No. 27 (LC/G. 1368), Santiago, Chile, December.
- (1986a): Notes on trade from the standpoint of the periphery, *CEPAL Review*, No. 28 (LC/G. 1392), Santiago, Chile, April.
- (1986b): Statement by Dr. Raúl Prebisch at the twenty-first session of ECLAC (Mexico City, 24 April 1986), *Raúl Prebisch: Un aporte al estudio de su pensamiento* (LC/G.1461), Santiago, Chile, ECLAC.
- (1988): "Dependence, interdependence and development, *CEPAL Review*, No. 34 (LC/G. 1521-P), Santiago, Chile, April.
- Ragin, Charles and Jacques Delacroix (1979): Comparative advantage, the world division of labour, and underdevelopment, *Comparative Social Research*, No. 2.
- Rosales, Osvaldo (1988): An assessment of the structuralist paradigm for Latin American development and the prospects for its renovation, *CEPAL Review*, No. 34 (LC/G. 1521-P), Santiago, Chile, April.
- Sarkar, Abhirup (1989): A Keynesian model of North-South trade, *Journal of Development Economics*, vol. 30, No. 1, Amsterdam, Elsevier Science Publishers B. V. (North Holland), January.
- Seers, Dudley (1980): The cultural lag in economics, J. Pajeksta and C. H. Feinstein, *The Relevance of Economic Theories*, New York, Macmillan Publishing Co., Inc..
- Sprout, Ronald and James H. Weaver (1991): *Exports and Economic Growth: Neoclassical and Dependency Theory Contrasted*, Washington, D. C., The American University, Department of Economics.
- (n/d): International distribution of income: 1960-1987, *Kiklos*, Switzerland, Kyklos-Redaktion, Institut für Sozialwissenschaften (in the press).
- Stokes, Randall and David Jaffee (1982): Another look at the export of raw materials and economic growth, *American Sociological Review*, vol. 47, No. 3, Washington, D. C., American Sociological Association, June.
- Syron, Richard and Brendan Walsh (1968): The relation of exports and economic growth: a note, *Kiklos*, vol. 21, No. 3, Switzerland, Kyklos-Redaktion, Institut für Sozialwissenschaften.
- Taylor, Lance (1981): South-North trade and southern growth: bleak prospects from the structuralist point of view, *Journal of International Economics*, vol. 11, No. 4, Amsterdam, North Holland Publishing Company, November.
- World Bank (1991): *World Development Report 1991*, New York, Oxford University Press.

## Guidelines for contributors to *CEPAL Review*

The editorial board of the Review are always interested in encouraging the publication of articles which analyse the economic and social development of Latin America and the Caribbean. With this in mind, and in order to facilitate the presentation, consideration and publication of papers, they have prepared the following information and suggestions to serve as a guide to future contributors.

—The submission of an article assumes an undertaking by the author not to submit it simultaneously to other periodical publications.

—Papers should be submitted in Spanish, Portuguese or English. They will be translated into the appropriate language by ECLAC.

—Papers should not be longer than 33 double-spaced letter-size pages (U.S. quarto), but shorter articles will also be considered. The original and one copy should be submitted, as should the diskettes, if any (in IBM or compatible Word-Perfect format).

—All contributions should be accompanied by a note clearly indicating the title of the paper, the name of the author, the institution he belongs to, and his address. Authors are also requested to send in a short summary of the article (no more than 250 words) giving a brief description of its subject matter and main conclusions.

—Footnotes should be kept to the minimum, while bibliographical references and direct quotations should be carefully checked, since they are the responsibility of the author. It is also recommended that the number of tables and figures should be reduced to the minimum and that they should not duplicate information given in the text.

—Special attention should be paid to the bibliography. All the necessary information must be correctly stated in each case (name of the author or authors, complete title (including any subtitle), publisher, city, month and year of publication and, in the case of a series, the title and corresponding volume number or part, etc.).

—The editorial board of the Review reserve the right to make any necessary revision or editorial changes required by the articles.

—Authors will receive a courtesy copy of the Review in which their article appears, plus 30 offprints of the article, both in Spanish and in English, at the time of publication in each language.



## **Recent ECLAC publications**

**Inventarios y cuentas del patrimonio natural en América Latina y el Caribe (Natural patrimony inventories and accounts in Latin America and the Caribbean) (LC/G.1652-P),** Santiago, Chile, March 1991, 335 pages

Although at the world level the question of preparing accounts on the natural and cultural patrimony is already a central item in the debate on environmental problems, this publication represents the first attempt made in the region to prepare natural patrimony accounts.

The preparation of accounts on this patrimony is seen as an essential instrument for ensuring the sustainability of development processes. Furthermore, inventories and evaluations of the various components of the environment have a crucial role to play in countries with a big endowment of natural resources subject to very strong economic and financial pressures.

Part I studies the importance of natural patrimony accounts as a key instrument in environmentally sustainable development strategies in Latin America and the Caribbean and sets forth the most important results of the project.

Part II analyses the debate which is taking place at the international level on this subject, both among the industrialized countries –where attention is centered on problems of control of pollution and expenditure is currently accounted as income in calculating the gross domestic product– and among the developing countries, where the rational exploitation and management of natural resources is seen as an indispensable factor for their future growth. An effort is made to place the question of natural patrimony accounting and the corresponding economic valuation within the framework of economic theory, and the limitations and modifications involved in this are noted.

Part III begins with a critical analysis of the economic evaluations of natural resources which have been made in the world. Subsequently, economic/environmental indicators which could serve to modify the present figures in national accounts are suggested.

Part IV presents case studies for Chile, Argentina and Mexico. With regard to Chile, a methodological proposal is put forward for the preparation of natural patrimony accounts for the entire Magallanes region, supplemented with a study of the methodology for preparing an inventory of the cultural patrimony of the same region.

In the case of Argentina, attention is centered on the forestry resources of the province of Río Negro, and an

effort is made to prepare an economic valuation which goes beyond the market value of the lumber itself and takes account of the various different functions attributed to forests. The exercise is based on the replacement cost, as an accounting price for valuing functions which do not have a direct market value.

Finally, in the case of Mexico the question of inventories and accounts for the Chichinautzin Biological Corridor is approached, taking into account the current use made of the resources and their capacity for generating income. Taking as a point of reference a definition of sustainability in the broad sense, an income adjusted by the environmental cost is calculated for the existing production activities in the area.

Annex 1 contains a summary of the discussions which took place at the Regional Seminar on Natural and Cultural Patrimony Inventories and Accounts: Advances and Prospects in Latin America and the Caribbean (Santiago, Chile, 26-28 March 1990), organized by ECLAC through its Joint ECLAC/UNEP Development and Environment Unit. Annex 2 describes the technical advances made in computerized systems for the collection and processing of data on the environment and natural resources.

**La industria de bienes de capital en América Latina y el Caribe: su desarrollo en un marco de cooperación regional (The capital goods industry in Latin America and the Caribbean: its development within a regional cooperation framework) (LC/G.1628-P),** "Estudios e Informes de la CEPAL" series, No. 79, Santiago, Chile, June 1991, 235 pages.

The strategic function played by the capital goods industry in economic and social development, and the recognition that the development of this industry must be based on broader spaces than those provided by national markets, have caused various regional and international institutions to devote attention to this subject. A series of activities have been carried out, aimed both at gaining a better knowledge of this industry and at facilitating contact between the various economic agents and those responsible for its development in the region. With the aim of exchanging information on the results of this work and the programmes which are underway or planned, the Latin American Economic System (SELA), in conjunction with ECLAC and UNIDO, sponsored a meeting of the institutions concerned which was held in Caracas from 6 to 8 July 1987. Since the documents presented by the various sponsoring institutions contain material of interest to broader sectors of opinion, it has been considered appropriate to assemble these studies in the present publication.

Although the three studies are of different origins and institutional background, they may be considered to form a conceptual whole. The first of them, entitled "Bases for the

development of the capital goods industry in a regional cooperation framework" is largely the result of a regional project carried out by ECLAC in collaboration with UNIDO, with the sponsorship of the United Nations Development Programme (UNDP). Chapter I examines the analytical bases for the development of the capital goods industry, taking into account, among other aspects, the obstacles to the development of the sector, its current size, and the impact of the financial crisis affecting the region. Chapter II identifies the various instrumental areas of the development of the sector at the national level and within the framework of regional cooperation. The last chapter contains a description of the various studies carried out by the ECLAC/UNIDO Regional Project on Capital Goods.

The study "Possibilities of regional cooperation among the capital goods industries of Latin America", which forms the second part of the document, deals in chapter I with the analysis of the main factors affecting the development of this industry; chapter II sets forth the obstacles standing in the way of preferential treatment for the regional supply of capital goods, both from the point of view of tariff concessions and State purchases, and chapter III reviews some recent regional cooperation initiatives, ending with the presentation of a number of proposals for channelling State purchases towards regional production.

Finally, in the study "Latin American State enterprises and regional purchases", which forms Part 3 of the document, an instrumental area of particular importance is examined in depth. Basically, this study seeks to analyse the reasons for the scant attention given by State enterprises to regional capital goods suppliers. To this end, it examines *inter alia* some aspects of the purchasing policies of selected State enterprises in the electric and nuclear power, petroleum, and telecommunications sectors of Argentina, Brazil and Venezuela and identifies the factors behind successful cases of intervention in this area, as a basis for the formulation of a set of policy measures. In the transformation of structures of production, the design and manufacture of machinery and production equipment play a central role in various respects.

To begin with, national production of capital goods helps to sustain the investment process and to make it independent of income from exports of primary commodities. Moreover, if a developing country has a capital goods industry, this enables it not only to supply part of its own domestic needs but also to export such goods, the prices of which are more stable than those of primary commodities. Thus, investment is related more directly to the saving capacity of the country and thereby takes on a more autonomous nature.

Secondly, the capital goods industry is linked through its suppliers with a wide range of production activities. The specific requirements of this industry can often be fulfilled more effectively by local manufacturers than external

suppliers, especially in the case of products which have to be custom made. In such a case, closing a sale and the subsequent fulfilment of the contract call for close contact between the manufacturer and his client. Thus, a capital goods industry strengthens the links between the production activities of a country, helping to impart greater efficiency to the whole production apparatus.

Thirdly, the linking up of production activities is one of the requisites for technological development, since it enables an invention, or simply an idea for improving a product or process, to result in an innovation, as well as facilitating the dissemination of the latter. In this process, the capital goods industry plays an important part. Firstly, it materializes ideas on new equipment and processes in the form of prototypes or pilot plants. It then prepares for their manufacture under commercial conditions and introduces the new products and processes onto the market. In a mature economy, this is reflected in the fact that a significant proportion of the national technological research and development effort is carried out in the machinery and equipment industries.

Finally, the capital goods industry also fulfills an important function as a means of training and, in broader terms, as a factor of social development. It requires a large amount of skilled human resources at all levels of management and operation, so that it provides extensive employment opportunities for skilled personnel and also offers many possibilities for the improvement of skills through the learning process.

These are, in short, the characteristics of the capital goods industry in a mature economy. This frame of reference helps to estimate the degree of development reached by this industry in a developing country or region. In Latin America and the Caribbean, this industry displays a certain lag in most countries. This situation may partly be due to the fact that the local capital goods industries have remained confined to their own markets. In particular, these industries have been faced by intraregional trade barriers which still exist in spite of the many efforts made in the region as a whole and in various subregional groups to liberalize such trade and establish systems of industrial complementation. Because of this, the development of capital goods production in the various countries has been deprived of the potential stimulus represented by expanded markets. In particular, in countries with small markets there has been a veritable vicious circle: the small size of the domestic market has not allowed the production of capital goods to go beyond an incipient level of development, while at the same time the lack of access to the markets of other Latin American countries has prevented exports from being considered as a means of supplementing the demand of the domestic market. Generally speaking, exporting to the world market has not been a real option. Frequently, the incipient level of production has not made it possible to

meet the requirements and demands of consumers in the developed countries. Finally, the limited size of the national markets served by the capital goods industries in the region has been artificially aggravated by the fact that in many cases the possibility of local supply has been ruled out. Examination of the Latin American situation also shows that the evolution of this industrial activity has not been accompanied by suitable development of local technological capacity, such as the basic engineering oriented towards the creation of new processes and products.

These shortcomings have been attributed to the style of development which has prevailed in the region since the war. It has been claimed that Latin American industrialization has been based largely on the expansion of consumption. It is felt that the ways in which the import substitution model and its successive variants have been applied in the region have also favoured this form of evolution. Thus, among the various types of goods, capital goods register the lowest levels of effective protection. Furthermore, extensive use has been made of customs exemptions and other administrative measures which have given special facilities for the importation of capital goods. These systems have not only made the protection mechanisms less effective but have also helped to undermine the confidence of entrepreneurs in the development potential of a sector marked by the relatively slow maturity of investments.

One of the key instruments in industrial promotion policy is financing. Traditionally, in the Latin American countries there has been very little long-term bank credit available for the financing of investments in industry. Attempts have been made to make up for this through special development lines of credit, but the funds in question have rarely included lines of credit for the domestic sale of capital goods or provisions favouring the purchase of goods of domestic origin. Thus, local producers of capital goods have been at a disadvantage compared with external suppliers, who have normally enjoyed credit facilities. There have been exceptions in the region, however, as in the case of Brazil, which at one time adopted a set of financial mechanisms for these purposes.

The policies and mechanisms used, especially for financing the expansion and modernization of public enterprises, have not always been the most suitable ones for the development of national production of capital goods. The tariff and price policies approved by government authorities have often prevented the accumulation of reserves by public enterprises. Nor has sufficient provision been made through the national budget or other domestic sources in the countries for the resources needed to purchase capital goods of local origin on a scale compatible with local supply capacity. Consequently, the financing of investments in the public enterprises sector has depended to some extent on external credit. Among the

sources of external financing to which the public enterprises have had access, an important place has been occupied by international financial agencies and intergovernmental economic cooperation agreements, but the forms of establishing contracts provided for under the conditions and terms of credits from these sources have often resulted in the elimination or limitation of use of local sources of capital goods.

Public enterprises have traditionally been considered as important agents of development of national industry, not only because of the important position occupied by their activities in the economies of the countries and their activities in pioneering fields, but also because of the promotional effect that their purchases can bring about in the supply sectors. During the period under consideration, the public enterprises sector represented a very important purchasing potential in most of the countries of the region. Furthermore, public enterprises have often stood out by their level of development in the field of engineering, which has made them particularly suitable for aiding in the technological strengthening of local suppliers. In the region, however, public enterprises have only carried out this mission to a varying degree and on a makeshift basis. This uneven behaviour may be attributed partly to the fact that few countries have applied an explicit and ongoing policy of promoting the capital goods industry.

In spite of the shortcomings displayed by national promotion policies, however, the capital goods industries have reached a substantial level of development in many countries of the region, including some in the Caribbean. Naturally, the level of development reached in the various countries has been rather uneven. In those with the biggest markets, capital goods production has been substantially diversified. The share of national production in domestic supply has reached quite high proportions, and in a number of cases exports have come to represent a significant proportion of national production. In the other countries, the supply has covered a considerably smaller range of products, which have served a wide range of economic sectors and have generally been capable of meeting a certain level of technical requirements. In this group of countries, the share of the capital goods industry in the manufacturing product has been considerably less than might have been expected on the basis of international comparisons. Such countries do not export capital goods, or do so only in small quantities. In them, market demand is satisfied largely by imports.

Another indicator frequently used to evaluate the level of development reached by the capital goods industry in a particular country is the absence or existence of certain specialized complementary activities. Thus, analysis of industrial statistics reveals that the manufacture of specialized machinery has not attained an adequate level of development in the region, even in some of the countries with the biggest markets. Furthermore, the other Latin American countries display insufficient development of

such activities as metal-casting, forging, and the production of machine components. This situation imposes certain limits on the production of capital goods in these countries.

During the early years of the 1980s, regional demand for capital goods contracted sharply from the level registered at the beginning of the decade. Towards the end of the decade, such demand, although it had not yet recovered its former level, came to approximately US\$70 billion per year in terms of investment in machinery and equipment. The value of regional production of capital goods is rather more difficult to estimate. An approximate idea of this value may be gained by observing that in 1980 production is estimated to have covered an average of 57% of regional demand. There are no indications that in the course of the 1980s there was any generalized process of substitution of imports with national production or vice versa in the region. It may therefore be assumed that at the end of the 1980s the share of national industry in supplying the domestic demand for capital goods was approximately the same as at the beginning of the decade.

**Magnitud de la pobreza en América Latina en los años ochenta** (The magnitude of poverty in Latin America in the 1980s) (LC/G.1653-P), "Estudios e Informes de la CEPAL" series, No. 81. Santiago, Chile, August 1991, 177 pages.

The figures given in this document on the magnitude of poverty in ten countries of Latin America were obtained through the "income method". This method is based on the calculation of what are known as poverty lines, which represent the minimum income that would give a household—at a specific place and time—sufficient resources to satisfy the basic needs of its members.

The countries covered by the study are Argentina, Brazil, Colombia, Costa Rica, Guatemala, Mexico, Panama, Peru, Uruguay and Venezuela.

In most cases, the poverty measurements refer to the years 1980 and 1986, thanks to the ongoing collaboration provided by national statistical departments, which provided the basic data needed for this study. Special mention should be made in this respect of the files on all the surveys, whose incorporation into the ECLAC survey data bank made possible better evaluation of the available material and fuller use of it.

The estimates given here were prepared mainly in line with a very widely used procedure in the region involving the comparison of household income with the cost of satisfying the corresponding basic needs. In this study, an effort has also been made to progress in the examination of

certain methodological aspects which make it possible to improve these types of measurements and to give them a more periodic nature. Nevertheless, there is still ample room for conceptual and methodological progress and improvement of the methods of collecting and processing the data. ECLAC presents this study as a contribution to the efforts made in this field by national institutions and researchers, which, in view of their extensive knowledge of their countries, will undoubtedly help to improve the criteria and assumptions used.

The study consists of three chapters. Chapter I describes the procedure for the preparation of the basic food shopping basket and the method used to establish the cost of satisfying the remaining needs, thus permitting determination of the value of the indigence and poverty lines, respectively. Chapter II gives details of the sources of information used to measure the level of income of households and the procedures for correcting and adjusting these data. Finally, chapter III presents the results of the estimates of poverty and indigence for ten countries in 1980 and 1986 and puts forward some considerations regarding their implications. Estimates are also given of the poverty gaps, which show the seriousness of these, and the results of some alternative calculations are given. There is also an extrapolation of the poverty figures for 19 Latin American countries, their projections to the year 1989, and a comparison with similar estimates for 1970. Appendix 1 summarizes the main methodological differences between the present study and the 1979 ECLAC study entitled *La dimensión de la pobreza en América Latina* ("Cuadernos de la CEPAL" series, No. 27). Finally, annex 1 contains a set of tables and figures which supplement the information given in the text, while annex 2 deals with the question of the determination of energy and protein requirements.

**América Latina y el Caribe: El manejo de la escasez de agua** (Latin America and the Caribbean: handling the water shortage) (LC/G.1660-P). "Estudios e Informes de la CEPAL" series, No. 82. Santiago, Chile, September 1991, 148 pages.

This document was prepared by the Water Resources Unit of the ECLAC Natural Resources and Energy Division. It analyses various issues connected with the integrated management of water resources and, in particular, the difficulty presented by the shortage of water in this connection.

The document is in three parts: part I deals with the integral management of water resources in Brazil, Colombia, Ecuador and Peru; part II analyses irrigation



management in Argentina, Chile and Mexico; and part III examines some local experiences of water resource management in the basin of the River Piraf in Bolivia and in the arid and semi-arid areas of Venezuela.

**América Latina y el Caribe: Series regionales de cuentas nacionales a precios constantes de 1980 (Latin America and the Caribbean: Regional national accounts series at constant 1980 prices)** (LC/G.1594-P). "Cuadernos Estadísticos de la CEPAL" series, No. 15, Santiago, Chile, June 1991, 245 pages.

Up to 1985, the ECLAC Secretariat published regional national accounts estimates which used 1970 as the base year. However, the rapid changes which took place in the economies of the region during the 1970s and the crisis which arose in the 1980s gave rise to significant changes in the structures of production and prices of the countries, so that the representativeness of the indicators and variables calculated on the basis of constant 1970 prices was increasingly limited. The ECLAC Statistics and Projections Division therefore set about the estimation of new regional national accounts series at constant 1980 prices.

This document is designed to make known both the new regional estimates prepared by ECLAC for the period 1970-1988 and the main methodological elements used. It is also desired to give continuity to the presentation of regional series begun by the Statistics and Projections Division in 1970 with the publication of the document "Producto interno bruto en los países de América Latina" (Gross domestic product of the Latin American countries) (E/CN.12/L.51 and Add. 2). The series presented in this document refer to the origin of gross domestic product by class of economic activity, its destination by components of expenditure, and real gross income. The concepts, classifications, definitions and categories used are in line with the standards recommended by the United Nations Statistical Office.

The homogenization of these series for a considerable number of countries of different degrees of statistical development has not been an easy task, since it involved dealing with the difficulties due to the length of the period covered, which derived essentially from the differing quantity, quality and timeliness of the basic statistical information available for measuring the structural changes that took place in the economies of the region. Thus, in many cases it was necessary to combine national series with different base years, even sometimes of differing institutional origin, and to effect supplementary estimates or adjustments in order to make the coverage uniform.

Likewise, the retrospective extension of the series was limited by the difficulties due to the variety of different types of coverage and classification used by the countries in producing their statistics. However, the application of

different methodologies and the use of heterogeneous definitions and concepts was not such a serious problem, since in general the recommendations of the United Nations Statistical Office were used in making the calculations.

The document consists of four parts: part I contains comments on various conceptual and methodological aspects connected with the national accounts series at constant prices; part II contains a summary description of the main features of the estimates of their national accounts at constant prices which are made by the countries of the region; part III gives details of the various stages followed and the methods and assumptions used in the preparation of the new regional series, and finally part IV presents tables giving data connected with the comments made in the first three parts and with the regional national accounts series.

**Origen y destino del comercio exterior de los países de la Asociación Latinoamericana de Integración (Origin and destination of the external trade of the member countries of the Latin American Integration Association)** (LC/G.1650-P). "Cuadernos Estadísticos de la CEPAL" series, No. 16, Santiago, Chile, July 1991, 190 pages.

This document contains external trade data for the member countries of the Latin American Integration Association (ALADI) for the period 1983-1988. The aim is to provide users with data to complement those given in ECLAC Cuaderno Estadístico No. 9, "Origen y destino del comercio exterior de los países de la Asociación Latinoamericana de Integración y del Mercado Común Centroamericano" (Origin and destination of the external trade of the member countries of the Latin American Integration Association and the Central American Common Market) (LC/G.1365), which contains series for the period 1970-1982.

The information is presented at the most aggregated level (sections) of the SITC, Rev. 2, for the 11 member countries of ALADI, separately and as a whole; altogether, their external trade accounts for some 80% of the total external trade of the Latin American and Caribbean countries.

The way in which the information is presented seeks to give a general view of the evolution of the structure and direction of the external transactions of the countries in question. Thus, both for the exports and imports of each country and for ALADI as a whole, a table is provided for each year in the series 1983-1988, showing the destination of exports and the origin of imports in line with the ten sections of SITC, Rev. 2, and the areas and countries acting as partners in this trade. In addition, values are given in millions of dollars showing the total amount exported or imported according to SITC sections (first figure in each of the pairs given in the last line of the table) and the total

exported to each trading partner area or imported by it (second figure of each pair in the last column).

In order to illustrate the changes in the external trade structure of the individual countries and of ALADI as a whole, a bar chart after the tables of imports and exports shows three bars for each year between 1983 and 1988 which represent the following sectional groupings according to SITC, Rev. 2: (0 + 1 + 2 + 4), (3) and (5 + 6 + 7 + 8). These groupings correspond respectively to primary commodities, fuels and manufactures, but the presentation is only approximate, as the first group does not include non-ferrous metals, nor are they excluded from the third group, as is usual in the traditional definition of major groups.

Exports are given in FOB values and imports in CIF values, except for Venezuela, where they are in FOB terms.

The information is taken from Customs figures, so that in some cases the data may differ significantly from those published by other Ministries and Central Banks or the adjusted data used for balance of payments calculations. This is so, for example, in the case of Peru, where the external trade data provided by the Customs service correspond only to the posts at Callao and Jorge Chávez Airport, which account for some 80% of total transactions. It has been preferred to keep the customs data in the BADECEL data bank, not only because this permits analysis of the structure and direction of external trade by partner countries or areas, but also because it represents a record of the effective entry and exit of goods for a country over a given period: that is to say, it excludes financial operations which do not necessarily correspond to movements of goods (see annexes I and II).



## ECLAC publications

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE  
CARIBBEAN  
Casilla 179-D Santiago de Chile

### PERIODIC PUBLICATIONS

#### CEPAL Review

*CEPAL Review* first appeared in 1976 as part of the Publications Programme of the Economic Commission for Latin America and the Caribbean, its aim being to make a contribution to the study of the economic and social development problems of the region. The views expressed in signed articles, including those by Secretariat staff members, are those of the authors and therefore do not necessarily reflect the point of view of the Organization.

*CEPAL Review* is published in Spanish and English versions three times a year.

Annual subscription costs for 1992 are US\$16 for the Spanish version and US\$18 for the English version. The price of single issues is US\$10 in both cases.

The cost of a two-year subscription (1992-1993) is US\$30 for Spanish-language version and US\$34 for English.

| Estudio Económico de<br>América Latina y el<br>Caribe |         | Economic Survey of<br>Latin America and<br>the Caribbean |         |
|---|---------|--|---------|
| 1980,   | 664 pp. | 1980,  | 629 pp. |
| 1981,   | 863 pp. | 1981,  | 837 pp. |
| 1982, vol. I  | 693 pp. | 1982, vol. I   | 658 pp. |
| 1982, vol. II   | 199 pp. | 1982, vol. II  | 186 pp. |
| 1983, vol. I  | 694 pp. | 1983, vol. I   | 686 pp. |
| 1983, vol. II   | 179 pp. | 1983, vol. II  | 166 pp. |
| 1984, vol. I  | 702 pp. | 1984, vol. I   | 685 pp. |
| 1984, vol. II   | 233 pp. | 1984, vol. II  | 216 pp. |
| 1985,   | 672 pp. | 1985,  | 660 pp. |
| 1986,   | 734 pp. | 1986,  | 729 pp. |

|               |         |              |         |
|---------------|---------|--------------|---------|
| 1987,         | 692 pp. | 1987,        | 685 pp. |
| 1988,         | 741 pp. | 1988,        | 637 pp. |
| 1989,         | 821 pp. | 1989,        | 678 pp. |
| 1990, vol. I  | 260 pp. | 1990, vol. I | 248 pp. |
| 1990, vol. II | 590 pp. |              |         |

(Issues for previous years also available)

#### Anuario Estadístico de América Latina y el Caribe / Statistical Yearbook for Latin America and the Caribbean (bilingual)

|            |         |       |         |
|------------|---------|-------|---------|
| 1980,      | 617 pp. | 1987, | 714 pp. |
| 1981,      | 727 pp. | 1988, | 782 pp. |
| 1982/1983, | 749 pp. | 1989, | 770 pp. |
| 1984,      | 761 pp. | 1990, | 782 pp. |
| 1985,      | 792 pp. | 1991, | 856 pp. |
| 1986,      | 782 pp. |       |         |

(Issues for previous years also available)

#### Libros de la CEPAL

- 1 *Manual de proyectos de desarrollo económico*, 1958, 5th. ed. 1980, 264 pp.
- 1 *Manual on economic development projects*, 1958, 2nd. ed. 1972, 242 pp.
- 2 *América Latina en el umbral de los años ochenta*, 1979, 2nd. ed. 1980, 203 pp.
- 3 *Agua, desarrollo y medio ambiente en América Latina*, 1980, 443 pp.
- 4 *Los bancos transnacionales y el financiamiento externo de América Latina. La experiencia del Perú*, 1980, 265 pp.
- 4 *Transnational banks and the external finance of Latin America: the experience of Peru*, 1985, 342 pp.
- 5 *La dimensión ambiental en los estilos de desarrollo de América Latina*, Osvaldo Sunkel, 1981, 2nd. ed. 1984, 136 pp.
- 6 *La mujer y el desarrollo: guía para la planificación de programas y proyectos*, 1984, 115 pp.
- 6 *Women and development: guidelines for programme and project planning*, 1982, 3rd. ed. 1984, 123 pp.
- 7 *África y América Latina: perspectivas de la cooperación interregional*, 1983, 286 pp.
- 8 *Sobrevivencia campesina en ecosistemas de altura*, vols. I y II, 1983, 720 pp.
- 9 *La mujer en el sector popular urbano. América Latina y el Caribe*, 1984, 349 pp.
- 10 *Avances en la interpretación ambiental del desarrollo agrícola de América Latina*, 1985, 236 pp.
- 11 *El decenio de la mujer en el escenario latinoamericano*, 1986, 216 pp.

- 11 *The decade for women in Latin America and the Caribbean: background and prospects*, 1988, 215 pp.
- 12 *América Latina: sistema monetario internacional y financiamiento externo*, 1986, 416 pp.
- 12 *Latin America: international monetary system and external financing*, 1986, 405 pp.
- 13 Raúl Prebisch: *Un aporte al estudio de su pensamiento*, 1987, 146 pp.
- 14 *Cooperativismo latinoamericano: antecedentes y perspectivas*, 1989, 371 pp.
- 15 *CEPAL, 40 años (1948-1988)*, 1988, 85 pp.
- 15 *ECLAC 40 Years (1948-1988)*, 1989, 83 pp.
- 16 *América Latina en la economía mundial*, 1988, 321 pp.
- 17 *Gestión para el desarrollo de cuencas de alta montaña en la zona andina*, 1988, 187 pp.
- 18 *Políticas macroeconómicas y brecha externa: América Latina en los años ochenta*, 1989, 201 pp.
- 19 *CEPAL, Bibliografía, 1948-1988*, 1989, 648 pp.
- 20 *Desarrollo agrícola y participación campesina*, 1989, 404 pp.
- 21 *Planificación y gestión del desarrollo en áreas de expansión de la frontera agropecuaria en América Latina*, 1989, 113 pp.
- 22 *Transformación ocupacional y crisis social en América Latina*, 1989, 243 pp.
- 23 *La crisis urbana en América Latina y el Caribe: reflexiones sobre alternativas de solución*, 1990, 197 pp.
- 24 *The environmental dimension in development planning I*, 1991, 302 pp.
- 25 *Transformación productiva con equidad*, 1990, 3rd. ed. 1991, 185 pp.
- 25 *Changing production patterns with social equity*, 1990, 3rd. ed. 1991, 177 pp.
- 26 *América Latina y el Caribe: opciones para reducir el peso de la deuda*, 1990, 118 pp.
- 26 *Latin America and the Caribbean: options to reduce the debt burden*, 1990, 110 pp.
- 27 *Los grandes cambios y la crisis. Impacto sobre la mujer en América Latina y el Caribe*, 1991, 271 pp.
- 28 *A collection of documents on economic relations between the United States and Central America, 1906-1956*, 1991, 398 pp.
- 29 *Inventarios y cuentas del patrimonio natural en América Latina y el Caribe*, 1991, 335 pp.
- 30 *Evaluaciones del impacto ambiental en América Latina y el Caribe*, 1991, 232 pp.
- 31 *El desarrollo sustentable: transformación productiva, equidad y medio ambiente*, 1991, 146 pp.
- 31 *Sustainable development: changing production patterns, social equity and the environment*, 1991, 146 pp.

## MONOGRAPH SERIES

### Cuadernos de la C E P A L

- 1 *América Latina: el nuevo escenario regional y mundial/Latin America: the new regional and world setting*, (bilingual), 1975, 2nd. ed. 1985, 103 pp.
- 2 *Las evoluciones regionales de la estrategia internacional del desarrollo*, 1975, 2nd. ed. 1984, 73 pp.
- 2 *Regional appraisals of the international development strategy*, 1975, 2nd. ed. 1985, 82 pp.
- 3 *Desarrollo humano, cambio social y crecimiento en América Latina*, 1975, 2nd. ed. 1984, 103 pp.
- 4 *Relaciones comerciales, crisis monetaria e integración económica en América Latina*, 1975, 85 pp.
- 5 *Síntesis de la segunda evaluación regional de la estrategia internacional del desarrollo*, 1975, 72 pp.
- 6 *Dinero de valor constante. Concepto, problemas y experiencias*, Jorge Rose, 1975, 2nd. ed. 1984, 43 pp.
- 7 *La coyuntura internacional y el sector externo*, 1975, 2nd. ed. 1983, 106 pp.
- 8 *La industrialización latinoamericana en los años setenta*, 1975, 2nd. ed. 1984, 116 pp.
- 9 *Dos estudios sobre inflación 1972-1974. La inflación en los países centrales. América Latina y la inflación importada*, 1975, 2nd. ed. 1984, 57 pp.
- s/n *Canada and the foreign firm*, D. Pollock, 1976, 43 pp.
- 10 *Reactivación del mercado común centroamericano*, 1976, 2nd. ed. 1984, 149 pp.
- 11 *Integración y cooperación entre países en desarrollo en el ámbito agrícola*, Germánico Salgado, 1976, 2nd. ed. 1985, 62 pp.
- 12 *Temas del nuevo orden económico internacional*, 1976, 2nd. ed. 1984, 85 pp.
- 13 *En torno a las ideas de la CEPAL: desarrollo, industrialización y comercio exterior*, 1977, 2nd. ed. 1985, 57 pp.
- 14 *En torno a las ideas de la CEPAL: problemas de la industrialización en América Latina*, 1977, 2nd. ed. 1984, 46 pp.
- 15 *Los recursos hidráulicos de América Latina. Informe regional*, 1977, 2nd. ed. 1984, 75 pp.
- 15 *The water resources of Latin America. Regional report*, 1977, 2nd. ed. 1985, 79 pp.
- 16 *Desarrollo y cambio social en América Latina*, 1977, 2nd. ed. 1984, 59 pp.
- 17 *Estrategia internacional de desarrollo y establecimiento de un nuevo orden económico internacional*, 1977, 3rd. ed. 1984, 61 pp.
- 17 *International development strategy and establishment of a new international economic order*, 1977, 3rd. ed. 1985, 59 pp.
- 18 *Raíces históricas de las estructuras distributivas de América Latina*, A. di Filippo, 1977, 2nd. ed. 1983, 64 pp.

- 19 *Dos estudios sobre endeudamiento externo*, C. Massad and R. Zahler, 1977, 2nd. ed. 1986, 66 pp.
- s/n *United States - Latin American trade and financial relations: some policy recommendations*, S. Weintraub, 1977, 44 pp.
- 20 *Tendencias y proyecciones a largo plazo del desarrollo económico de América Latina*, 1978, 3rd. ed. 1985, 134 pp.
- 21 *25 años en la agricultura de América Latina: rasgos principales 1950-1975*, 1978, 2nd. ed. 1983, 124 pp.
- 22 *Notas sobre la familia como unidad socioeconómica*, Carlos A. Borsotti, 1978, 2nd. ed. 1984, 60 pp.
- 23 *La organización de la información para la evaluación del desarrollo*, Juan Sourrouille, 1978, 2nd. ed. 1984, 61 pp.
- 24 *Contabilidad nacional a precios constantes en América Latina*, 1978, 2nd. ed. 1983, 60 pp.
- s/n *Energy in Latin America: The Historical Record*, J. Mullen, 1978, 66 pp.
- 25 *Ecuador: desafíos y logros de la política económica en la fase de expansión petrolera*, 1979, 2nd. ed. 1984, 153 pp.
- 26 *Las transformaciones rurales en América Latina: ¿desarrollo social o marginación?*, 1979, 2nd. ed. 1984, 160 pp.
- 27 *La dimensión de la pobreza en América Latina*, Oscar Altimir, 1979, 2nd. ed. 1983, 89 pp.
- 28 *Organización institucional para el control y manejo de la deuda externa. El caso chileno*, Rodolfo Hoffman, 1979, 35 pp.
- 29 *La política monetaria y el ajuste de la balanza de pagos: tres estudios*, 1979, 2nd. ed. 1984, 61 pp.
- 29 *Monetary policy and balance of payments adjustment: three studies*, 1979, 60 pp.
- 30 *América Latina: las evaluaciones regionales de la estrategia internacional del desarrollo en los años setenta*, 1979, 2nd. ed. 1982, 237 pp.
- 31 *Educación, imágenes y estilos de desarrollo*, G. Rama, 1979, 2nd. ed. 1982, 72 pp.
- 32 *Movimientos internacionales de capitales*, R. H. Arriazu, 1979, 2nd. ed. 1984, 90 pp.
- 33 *Informe sobre las inversiones directas extranjeras en América Latina*, A. E. Calcagno, 1980, 2nd. ed. 1982, 114 pp.
- 34 *Las fluctuaciones de la industria manufacturera argentina, 1950-1978*, D. Heymann, 1980, 2nd. ed. 1984, 234 pp.
- 35 *Perspectivas de reajuste industrial: la Comunidad Económica Europea y los países en desarrollo*, B. Evers, G. de Groot and W. Wagenmans, 1980, 2nd. ed. 1984, 69 pp.
- 36 *Un análisis sobre la posibilidad de evaluar la solvencia crediticia de los países en desarrollo*, A. Saieh, 1980, 2nd. ed. 1984, 82 pp.
- 37 *Hacia los censos latinoamericanos de los años ochenta*, 1981, 146 pp.
- s/n *The economic relations of Latin America with Europe*, 1980, 2nd. ed. 1983, 156 pp.
- 38 *Desarrollo regional argentino: la agricultura*, J. Martín, 1981, 2nd. ed. 1984, 111 pp.
- 39 *Estratificación y movilidad ocupacional en América Latina*, C. Filgueira and C. Geneletti, 1981, 2nd. ed. 1985, 162 pp.
- 40 *Programa de acción regional para América Latina en los años ochenta*, 1981, 2nd. ed. 1984, 62 pp.
- 40 *Regional programme of action for Latin America in the 1980s*, 1981, 2nd. ed. 1984, 57 pp.
- 41 *El desarrollo de América Latina y sus repercusiones en la educación. Alfabetismo y escolaridad básica*, 1982, 246 pp.
- 42 *América Latina y la economía mundial del café*, 1982, 95 pp.
- 43 *El ciclo ganadero y la economía argentina*, 1983, 160 pp.
- 44 *Las encuestas de hogares en América Latina*, 1983, 122 pp.
- 45 *Las cuentas nacionales en América Latina y el Caribe*, 1983, 100 pp.
- 45 *National accounts in Latin America and the Caribbean*, 1983, 97 pp.
- 46 *Demanda de equipos para generación, transmisión y transformación eléctrica en América Latina*, 1983, 193 pp.
- 47 *La economía de América Latina en 1982: evolución general, política cambiaria y renegociación de la deuda externa*, 1984, 104 pp.
- 48 *Políticas de ajuste y renegociación de la deuda externa en América Latina*, 1984, 102 pp.
- 49 *La economía de América Latina y el Caribe en 1983: evolución general, crisis y procesos de ajuste*, 1985, 95 pp.
- 49 *The economy of Latin America and the Caribbean in 1983: main trends, the impact of the crisis and the adjustment processes*, 1985, 93 pp.
- 50 *La CEPAL, encarnación de una esperanza de América Latina*, Hernán Santa Cruz, 1985, 77 pp.
- 51 *Hacia nuevas modalidades de cooperación económica entre América Latina y el Japón*, 1986, 233 pp.
- 51 *Towards new forms of economic co-operation between Latin America and Japan*, 1987, 245 pp.
- 52 *Los conceptos básicos del transporte marítimo y la situación de la actividad en América Latina*, 1986, 112 pp.
- 52 *Basic concepts of maritime transport and its present status in Latin America and the Caribbean*, 1987, 114 pp.

- 53 *Encuestas de ingresos y gastos. Conceptos y métodos en la experiencia latinoamericana*, 1986, 128 pp.
- 54 *Crisis económica y políticas de ajuste, estabilización y crecimiento*, 1986, 123 pp.
- 54 *The economic crisis: policies for adjustment, stabilization and growth*, 1986, 125 pp.
- 55 *El desarrollo de América Latina y el Caribe: escollos, requisitos y opciones*, 1987, 184 pp.
- 55 *Latin American and Caribbean development: obstacles, requirements and options*, 1987, 184 pp.
- 56 *Los bancos transnacionales y el endeudamiento externo en la Argentina*, 1987, 112 pp.
- 57 *El proceso de desarrollo de la pequeña y mediana empresa y su papel en el sistema industrial: el caso de Italia*, 1988, 112 pp.
- 58 *La evolución de la economía de América Latina en 1986, 1988*, 99 pp.
- 58 *The evolution of the Latin American Economy in 1986, 1988*, 95 pp.
- 59 *Protectionism: regional negotiation and defence strategies*, 1988, 261 pp.
- 60 *Industrialización en América Latina: de la "caja negra" al "casillero vacío"*, F. Fajnzylber, 1989, 2nd. ed. 1990, 176 pp.
- 60 *Industrialization in Latin America: from the "Black Box" to the "Empty Box"*, F. Fajnzylber, 1990, 172 pp.
- 61 *Hacia un desarrollo sostenido en América Latina y el Caribe: restricciones y requisitos*, 1989, 94 pp.
- 61 *Towards sustained development in Latin America and the Caribbean: restrictions and requisites*, 1989, 93 pp.
- 62 *La evolución de la economía de América Latina en 1987, 1989*, 87 pp.
- 62 *The evolution of the Latin American economy in 1987, 1989*, 84 pp.
- 63 *Elementos para el diseño de políticas industriales y tecnológicas en América Latina*, 1990, 2nd. ed. 1991, 172 pp.
- 64 *La industria de transporte regular internacional y la competitividad del comercio exterior de los países de América Latina y el Caribe*, 1989, 132 pp.
- 64 *The international common-carrier transportation industry and the competitiveness of the foreign trade of the countries of Latin America and the Caribbean*, 1989, 116 pp.
- 65 *Cambios estructurales en los puertos y la competitividad del comercio exterior de América Latina y el Caribe*, 1991, 141 pp.
- 65 *Structural Changes in Ports and the Competitiveness of Latin American and Caribbean Foreign Trade*, 1990, 126 pp.

- 67 *La transferencia de recursos externos de América Latina en la posguerra*, 1991, 92 pp.
- 68 *La reestructuración de empresas públicas: el caso de los puertos de América Latina y el Caribe*, 1992, 148 pp.

#### Cuadernos Estadísticos de la C E P A L

- 1 *América Latina: relación de precios del intercambio*, 1976, 2nd. ed. 1984, 66 pp.
- 2 *Indicadores del desarrollo económico y social en América Latina*, 1976, 2nd. ed. 1984, 179 pp.
- 3 *Series históricas del crecimiento de América Latina*, 1978, 2nd. ed. 1984, 206 pp.
- 4 *Estadísticas sobre la estructura del gasto de consumo de los hogares según finalidad del gasto, por grupos de ingreso*, 1978, 110 pp. (Out of print; replaced by No. 8 below)
- 5 *El balance de pagos de América Latina, 1950-1977*, 1979, 2nd. ed. 1984, 164 pp.
- 6 *Distribución regional del producto interno bruto sectorial en los países de América Latina*, 1981, 2nd. ed. 1985, 68 pp.
- 7 *Tablas de insumo-producto en América Latina*, 1983, 383 pp.
- 8 *Estructura del gasto de consumo de los hogares según finalidad del gasto, por grupos de ingreso*, 1984, 146 pp.
- 9 *Origen y destino del comercio exterior de los países de la Asociación Latinoamericana de Integración y del Mercado Común Centroamericano*, 1985, 546 pp.
- 10 *América Latina: balance de pagos, 1950-1984*, 1986, 357 pp.
- 11 *El comercio exterior de bienes de capital en América Latina*, 1986, 288 pp.
- 12 *América Latina: índices del comercio exterior, 1970-1984*, 1987, 355 pp.
- 13 *América Latina: comercio exterior según la clasificación industrial internacional uniforme de todas las actividades económicas*, 1987, Vol. I, 675 pp; Vol. II, 675 pp.
- 14 *La distribución del ingreso en Colombia. Antecedentes estadísticos y características socioeconómicas de los receptores*, 1988, 156 pp.
- 15 *América Latina y el Caribe: series regionales de cuentas nacionales a precios constantes de 1980*, 1991, 245 pp.
- 16 *Origen y destino del comercio exterior de los países de la Asociación Latinoamericana de Integración*, 1991, 190 pp.

# Estudios e Informes de la C E P A L

- 1 *Nicaragua: el impacto de la mutación política*, 1981, 2nd. ed. 1982, 126 pp.
- 2 *Perú 1968-1977: la política económica en un proceso de cambio global*, 1981, 2nd. ed. 1982, 166 pp.
- 3 *La industrialización de América Latina y la cooperación internacional*, 1981, 170 pp. (Out of print, will not be reprinted.)
- 4 *Estilos de desarrollo, modernización y medio ambiente en la agricultura latinoamericana*, 1981, 4th. ed. 1984, 130 pp.
- 5 *El desarrollo de América Latina en los años ochenta*, 1981, 2nd. ed. 1982, 153 pp.
- 5 *Latin American development in the 1980s*, 1981, 2nd. ed. 1982, 134 pp.
- 6 *Proyecciones del desarrollo latinoamericano en los años ochenta*, 1981, 3rd. ed. 1985, 96 pp.
- 6 *Latin American development projections for the 1980s*, 1982, 2nd. ed. 1983, 89 pp.
- 7 *Las relaciones económicas externas de América Latina en los años ochenta*, 1981, 2nd. ed. 1982, 180 pp.
- 8 *Integración y cooperación regionales en los años ochenta*, 1982, 2nd. ed. 1982, 174 pp.
- 9 *Estrategias de desarrollo sectorial para los años ochenta: industria y agricultura*, 1981, 2nd. ed. 1985, 100 pp.
- 10 *Dinámica del subempleo en América Latina. PREALC*, 1981, 2nd. ed. 1985, 101 pp.
- 11 *Estilos de desarrollo de la industria manufacturera y medio ambiente en América Latina*, 1982, 2nd. ed. 1984, 178 pp.
- 12 *Relaciones económicas de América Latina con los países miembros del "Consejo de Asistencia Mutua Económica"*, 1982, 154 pp.
- 13 *Campesinado y desarrollo agrícola en Bolivia*, 1982, 175 pp.
- 14 *El sector externo: indicadores y análisis de sus fluctuaciones. El caso argentino*, 1982, 2nd. ed. 1985, 216 pp.
- 15 *Ingeniería y consultoría en Brasil y el Grupo Andino*, 1982, 320 pp.
- 16 *Cinco estudios sobre la situación de la mujer en América Latina*, 1982, 2nd. ed. 1985, 178 pp.
- 16 *Five studies on the situation of women in Latin America*, 1983, 2nd. ed. 1984, 188 pp.
- 17 *Cuentas nacionales y producto material en América Latina*, 1982, 129 pp.
- 18 *El financiamiento de las exportaciones en América Latina*, 1983, 212 pp.
- 19 *Medición del empleo y de los ingresos rurales*, 1982, 2nd. ed. 1983, 173 pp.
- 19 *Measurement of employment and income in rural areas*, 1983, 184 pp.
- 20 *Efectos macroeconómicos de cambios en las barreras al comercio y al movimiento de capitales: un modelo de simulación*, 1982, 68 pp.
- 21 *La empresa pública en la economía: la experiencia argentina*, 1982, 2nd. ed. 1985, 134 pp.
- 22 *Las empresas transnacionales en la economía de Chile, 1974-1980*, 1983, 178 pp.
- 23 *La gestión y la informática en las empresas ferroviarias de América Latina y España*, 1983, 195 pp.
- 24 *Establecimiento de empresas de reparación y mantenimiento de contenedores en América Latina y el Caribe*, 1983, 314 pp.
- 24 *Establishing container repair and maintenance enterprises in Latin America and the Caribbean*, 1983, 236 pp.
- 25 *Agua potable y saneamiento ambiental en América Latina, 1981-1990/Drinking water supply and sanitation in Latin America, 1981-1990* (bilingual), 1983, 140 pp.
- 26 *Los bancos transnacionales, el estado y el endeudamiento externo en Bolivia*, 1983, 282 pp.
- 27 *Política económica y procesos de desarrollo. La experiencia argentina entre 1976 y 1981*, 1983, 157 pp.
- 28 *Estilos de desarrollo, energía y medio ambiente: un estudio de caso exploratorio*, 1983, 129 pp.
- 29 *Empresas transnacionales en la industria de alimentos. El caso argentino: cereales y carne*, 1983, 93 pp.
- 30 *Industrialización en Centroamérica, 1960-1980*, 1983, 168 pp.
- 31 *Dos estudios sobre empresas transnacionales en Brasil*, 1983, 141 pp.
- 32 *La crisis económica internacional y su repercusión en América Latina*, 1983, 81 pp.
- 33 *La agricultura campesina en sus relaciones con la industria*, 1984, 120 pp.
- 34 *Cooperación económica entre Brasil y el Grupo Andino: el caso de los minerales y metales no ferrosos*, 1983, 148 pp.
- 35 *La agricultura campesina y el mercado de alimentos: la dependencia externa y sus efectos en una economía abierta*, 1984, 201 pp.
- 36 *El capital extranjero en la economía peruana*, 1984, 178 pp.
- 37 *Dos estudios sobre política arancelaria*, 1984, 96 pp.
- 38 *Estabilización y liberalización económica en el Cono Sur*, 1984, 193 pp.
- 39 *La agricultura campesina y el mercado de alimentos: el caso de Haití y el de la República Dominicana*, 1984, 255 pp.
- 40 *La industria siderúrgica latinoamericana: tendencias y potencial*, 1984, 280 pp.

- 41 *La presencia de las empresas transnacionales en la economía ecuatoriana*, 1984, 77 pp.
- 42 *Precios, salarios y empleo en la Argentina: estadísticas económicas de corto plazo*, 1984, 378 pp.
- 43 *El desarrollo de la seguridad social en América Latina*, 1985, 348 pp.
- 44 **Market structure, firm size and Brazilian exports**, 1985, 104 pp.
- 45 *La planificación del transporte en países de América Latina*, 1985, 247 pp.
- 46 *La crisis en América Latina: su evaluación y perspectivas*, 1985, 119 pp.
- 47 *La juventud en América Latina y el Caribe*, 1985, 181 pp.
- 48 *Desarrollo de los recursos mineros de América Latina*, 1985, 145 pp.
- 48 **Development of the mining resources of Latin America**, 1989, 160 pp.
- 49 *Las relaciones económicas internacionales de América Latina y la cooperación regional*, 1985, 224 pp.
- 50 *América Latina y la economía mundial del algodón*, 1985, 122 pp.
- 51 *Comercio y cooperación entre países de América Latina y países miembros del CAME*, 1985, 90 pp.
- 52 **Trade relations between Brazil and the United States**, 1985, 148 pp.
- 53 *Los recursos hídricos de América Latina y el Caribe y su aprovechamiento*, 1985, 138 pp.
- 53 **The water resources of Latin America and the Caribbean and their utilization**, 1985, 135 pp.
- 54 *La pobreza en América Latina: dimensiones y políticas*, 1985, 155 pp.
- 55 *Políticas de promoción de exportaciones en algunos países de América Latina*, 1985, 207 pp.
- 56 *Las empresas transnacionales en la Argentina*, 1986, 222 pp.
- 57 *El desarrollo frutícola y forestal en Chile y sus derivaciones sociales*, 1986, 227 pp.
- 58 *El cultivo del algodón y la soya en el Paraguay y sus derivaciones sociales*, 1986, 141 pp.
- 59 *Expansión del cultivo de la caña de azúcar y de la ganadería en el nordeste del Brasil: un examen del papel de la política pública y de sus derivaciones económicas y sociales*, 1986, 164 pp.
- 60 *Las empresas transnacionales en el desarrollo colombiano*, 1986, 212 pp.
- 61 *Las empresas transnacionales en la economía del Paraguay*, 1987, 115 pp.
- 62 *Problemas de la industria latinoamericana en la fase crítica*, 1986, 113 pp.
- 63 *Relaciones económicas internacionales y cooperación regional de América Latina y el Caribe*, 1987, 272 pp.
- 63 **International economic relations and regional co-operation in Latin America and the Caribbean**, 1987, 267 pp.
- 64 *Tres ensayos sobre inflación y políticas de estabilización*, 1986, 201 pp.
- 65 *La industria farmacéutica y farmoquímica: desarrollo histórico y posibilidades futuras. Argentina, Brasil y México*, 1987, 177 pp.
- 66 *Dos estudios sobre América Latina y el Caribe y la economía internacional*, 1987, 125 pp.
- 67 *Reestructuración de la industria automotriz mundial y perspectivas para América Latina*, 1987, 232 pp.
- 68 *Cooperación latinoamericana en servicios: antecedentes y perspectivas*, 1988, 155 pp.
- 69 *Desarrollo y transformación: estrategia para superar la pobreza*, 1988, 114 pp.
- 69 **Development and change: strategies for vanquishing poverty**, 1988, 114 pp.
- 70 *La evolución económica del Japón y su impacto en América Latina*, 1988, 88 pp.
- 70 **The economic evolution of Japan and its impact on Latin America**, 1990, 79 pp.
- 71 *La gestión de los recursos hídricos en América Latina y el Caribe*, 1989, 256 pp.
- 72 *La evolución del problema de la deuda externa en América Latina y el Caribe*, 1988, 77 pp.
- 72 **The evolution of the external debt problem in Latin America and the Caribbean**, 1988, 69 pp.
- 73 *Agricultura, comercio exterior y cooperación internacional*, 1988, 83 pp.
- 73 **Agriculture, external trade and international co-operation**, 1989, 79 pp.
- 74 *Reestructuración industrial y cambio tecnológico: consecuencias para América Latina*, 1989, 105 pp.
- 75 *El medio ambiente como factor de desarrollo*, 1989, 2nd. ed. 1991, 123 pp.
- 76 *El comportamiento de los bancos transnacionales y la crisis internacional de endeudamiento*, 1989, 214 pp.
- 76 **Transnational bank behaviour and the international debt crisis**, 1989, 198 pp.
- 77 *Los recursos hídricos de América Latina y del Caribe: planificación, desastres naturales y contaminación*, 1990, 266 pp.
- 77 **The water resources of Latin America and the Caribbean - Planning hazards and pollution**, 1990, 252 pp.
- 78 *La apertura financiera en Chile y el comportamiento de los bancos transnacionales*, 1990, 132 pp.
- 79 *La industria de bienes de capital en América Latina y el Caribe: su desarrollo en un marco de cooperación regional*, 1991, 235 pp.
- 80 *Impacto ambiental de la contaminación hídrica producida por la Refinería Estatal Esmeraldas: análisis técnico-económico*, 1991, 189 pp.



- 81 *Magnitud de la pobreza en América Latina en los años ochenta*, 1991, 177 pp.
- 82 *América Latina y el Caribe: el manejo de la escasez de agua*, 1991, 148 pp.

**Serie INFOPLAN: Temas Especiales del Desarrollo**

- 1 *Resúmenes de documentos sobre deuda externa*, 1986, 324 pp.
- 2 *Resúmenes de documentos sobre cooperación entre países en desarrollo*, 1986, 189 pp.

- 3 *Resúmenes de documentos sobre recursos hídricos*, 1987, 290 pp.
- 4 *Resúmenes de documentos sobre planificación y medio ambiente*, 1987, 111 pp.
- 5 *Resúmenes de documentos sobre integración económica en América Latina y el Caribe*, 1987, 273 pp.
- 6 *Resúmenes de documentos sobre cooperación entre países en desarrollo, II parte*, 1988, 146 pp.
- 7 *Documentos sobre privatización con énfasis en América Latina*, 1991, 82 pp.
- 8 *Reseñas de documentos sobre desarrollo ambientalmente sustentable*, 1992, 217 pp.

United Nations Centre for Regional Development Nagoya Japan



# REGIONAL DEVELOPMENT DIALOGUE

An International Journal Focusing on Third World Development Problems

## PAST ISSUES

Industrial Transformation and Regional Development in the Pacific Rim (Summer 1992), guest editor, Takao Fukuchi

Urban Land Policies and Planning Systems (Spring 1992), guest editor, Malcolm Grant

Water-Use Conflicts in Asian-Pacific Metropolises (Winter 1991), guest editor, James E. Nickum

International Migration: Perspectives from Three Continents (Autumn 1991), guest editors, Tomas Hammar and Pang Eng Fong

Cities, Hills, and Hillside: Revitalization of Medium-Sized Cities (Summer 1991), guest editor, Reinhard Goethert

TNCs, Industrialization, and Social Restructuring in the ASEAN Region (Spring 1991), guest editor, Manuel Castells

Multilevel Development in Pacific Island Countries (Winter 1990), guest editor, R. Gerard Ward

Geographic Information Systems and Regional Planning (Autumn 1990), guest editors, Richard K. Brail and Britton Harris

Emerging Urban-Regional Linkages: Challenges for Industrialization, Employment, and Regional Development (Summer 1990), guest editor, Terry G. McGee

Urbanization and Population Distribution Policies in Asia and the Pacific (Spring 1990), guest editor, Niles Hansen

## FORTHCOMING ISSUES

Urban Development and Transportation in Asian Metropolises (Autumn 1992), guest editors, Kazuaki Miyamoto and John A. Black

Microplanning for Sustainable Development (Winter 1992), guest editors, Haji Zainuddin bin Muhammad, Luis Ainstein, and R. A. Obudho

**Annual subscription:** Developing countries — US\$30; Developed countries — US\$50

**Address:** United Nations Centre for Regional Development, Nagoya 1-47-1, Nakamura-ku, Nagoya 450, Japan; Telephone: (052) 561-9377; Telefax: (052) 561-9375; Telex: J59620 UNCENTRE; Cable: UNCENTRE NAGOYA