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STATEMENT BY MR. GERT ROSENTHAL, EXECUTIVE SECRETARY OF ECLAC, ON THE OCCASION OF THE PRESIDENTIAL SUMMIT OF THE RIO GROUP

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(Santiago, Chile, 15 October 1993)

Presidents,
Ministers,

I am extremely grateful for the honour of participating in this meeting of Heads of State and having the opportunity for making a modest contribution to its debates. I have been asked to give some guidelines and ideas about the various economic items on the agenda. I shall try to respond from three interrelated perspectives: first, the recent performance of the region's economies; second, the evolution of the international economy; and, lastly, the significance of recent economic integration agreements. I shall, of course, refer only to some crucial aspects, in order to show what use ECLAC believes the countries assembled here can make of intraregional cooperation as a genuine option for promoting their development.

1. Evolution of the region's economies in 1993

The first perspective I should like to take is that of the recent evolution of the majority of the region's economies. We have just published the Economic Panorama of Latin America, corresponding to the first half of 1993, which has been transmitted to you. It shows that, for the third consecutive year, the bulk of Latin America's economies are continuing in a phase characterized by the expansion of economic activity at an average rate of 3.5%, relative price stability, alleviation of the debt burden and a massive inflow of foreign capital (over US$ 50 billion).

This performance, like the proverbial half full or half empty glass, can be interpreted in two ways. For the optimists, it is a commendable achievement, especially if we take into account the continued sluggishness and uncertainty of the international economy, only partly offset by the maintenance of low international interest rates. For the pessimists, the growth is inadequate and, even then, is being achieved by means of a massive inflow of capital —public and, above all, private— which cannot be guaranteed to continue over time.

We can see from the empirical evidence that, on the one hand, the new operational foundations of the region's economies are growing stronger and most countries are now in a better position than a few years ago to defend themselves from adverse factors arising in their external sector. On the other hand, economic growth rates remain, on average, lower than those achieved in the 30 years immediately following the Second World War. Since 1990, the principal multilateral agencies have been predicting annual growth rates of around 5% within the next one to two years. As time goes by, however, this elusive goal is still out of reach and, with a few exceptions, we still have growth rates closer to 3%.

Hence the fear that, in many countries, adjustment is becoming endemic. For those countries, the only way to preserve and consolidate the major gains achieved in the area of stabilization is, precisely, to impose restrictive policies that result in moderate growth rates. This poses a dilemma when it comes to formulating economic policy. (Another dilemma is that of managing monetary and exchange rate policy in a situation of massive capital inflows.) Of course, this situation is preferable to that of the 1980s, characterized by soaring inflation rates, economic stagnation and a net negative transfer of financial resources, but the current rate of economic growth is clearly inadequate to remedy the social deficiencies that have accumulated over recent years. In other words, the difficulties inherent in adjustment are still being felt in the region.

We believe that this makes the present short-term situation particularly tricky. There are those who think that we are in a slow but steady process of transition, of reintegration in the international economy on new terms. ECLAC has tended towards this view, given the intensity and scope of the internal adjustment efforts made by Governments and civilian societies, despite the high social cost that these have generally entailed. There are others, however, who think that there is no guarantee that there will not be further setbacks, especially if the international situation changes for the worse or if interest rates in the main developed economies suddenly rise again.

2. Evolution of the international economy

Which of the two scenarios actually materializes will largely depend on the evolution of the international economy. I would not like us to be accused of always labouring the same point by recalling the old debate about the relative importance of external factors, as opposed to internal ones, for explaining the performance of regional economies. Our own institution coincided with the Governments of the region in their recent efforts to stress the proper use of internal public policies to improve their countries' integration in the international economy. The argument that better economic management could yield major progress in economies' overall performance may have been worth considering in the 1980s.

Nowadays, this argument is less convincing. Every country, to one degree or another, has taken what could be described as daring measures in the areas of trade liberalization, deregulation, fiscal adjustment, realignment of relative prices and redefinition of the boundary between public and private activities. Generally speaking, economies are much more open to international trade and, to some extent, their fate depends more than before on the behaviour of their respective external sectors.

It is ironic that, after the efforts made and now that many countries of the region are better placed to compete on international markets, growth in the developed countries is slow and uncertain. Their Governments too are facing economic policy dilemmas, in that they have to reconcile the goal of economic recovery and job creation with that of containing and maybe reducing fiscal deficits. Competition for scarce markets is resulting in growing protectionist pressures; competition for limited resources has so far been reflected in a reduction of official cooperation, especially bilateral cooperation, and in the future could result in rising interest rates in international financial markets. Given this somewhat rarefied external environment and the need to improve it, the Governments of the region have had every reason to give top priority to the early conclusion of the GATT multilateral negotiations. They will also have to add to their list of concerns the fact that labour relations and environmental regulations are becoming potential instruments for the restriction of trade.

3. Regionalism and multilateralism

None the less, despite the persistent efforts of Latin America and the Caribbean to set up a more open and transparent trade regime, neither the conclusion of the Uruguay Round nor the recovery of the main industrialized economies is yet in sight. It therefore seems desirable to pursue the same objectives being sought through multilateral negotiations with a smaller group of the countries with which we maintain trade relations, beginning with our own region. That is the rationale for the new integration agreements, both intraregional ones and the Free Trade Agreement between Canada, the United States and Mexico. In contrast to the prevailing attitudes towards such agreements in the 1960s, they are now considered compatible with and complementary to the broader goals of the Uruguay Round.

Indeed, trade among the countries of the region has grown significantly in recent years, rising from 12.7% of total exports in 1990 to 16.5% in 1992. Reciprocal investments have also risen considerably. This increased economic interdependence is not solely attributable to formal integration agreements; it also reflects trade liberalization in general, deregulation processes, greater macroeconomic stability, and the traditional tendency of like-minded countries —often neighbouring ones— to exchange goods and services. Moreover, in the past year, intraregional trade partially offset the sluggishness of Latin American and Caribbean exports to the rest of the world. Ultimately, the value of intraregional trade was well over US$ 20 billion in 1992.

The assertion that integration agreements within Latin America can be compatible with the goal of enhancing international competitiveness presupposes at least three conditions that concern the scope and permanence of liberalization.

The first is a wide-ranging liberalization of markets; in other words, the use of negative lists of goods and services excluded from the regime, instead of positive lists of goods and services to which the free-trade regime applies.

The second is an integration process governed by stable rules, including precise and transparent standards on safeguards, countervailing duties and dispute settlement; the agreements discussed within the Uruguay Round should serve as a frame of reference for integration agreements.

The third involves broadening the geographical coverage of integration agreements and facilitating their convergence, to take full advantage of their potential and to avoid certain economic costs, such as the polarization of investments or contradictory agreements that could cause uncertainty.

For this last purpose, it is necessary, first, to ensure that existing integration agreements, especially bilateral ones, flexibly provide for the accession of new members; second, to harmonize standards, on the basis of experience at the multilateral level; and third, to extend national treatment to all investments of intraregional origin.

Integration is also related to macroeconomic management. As stabilization is consolidated throughout Latin America and the Caribbean, less weight will be given to arguments in favour of restricting preferential trade liberalization agreements to pairs of countries which have made the most progress in terms of internal and external balances and which therefore offer a stable, predictable and coherent economic environment. As more countries advance along the path of stabilization, it will be possible to reach more ambitious integration agreements among a larger number of countries; in other words, to multilateralize the process.

The ideas summarized here are discussed in detail in a recent ECLAC document, which will soon be presented to the region's Governments. In that document, we advocate what we call "open regionalism": a growing economic interdependence fuelled, on the one hand, by investment and market forces in a context of openness, deregulation and globalization, and on the other, by preferential trading agreements. When the two processes are mutually compatible and reinforce each other, integration will not only enhance international competitiveness, but will also lessen the risks of an uncertain international economy.

In conclusion, economic integration, within Latin America and within the hemisphere - is clearly an option for achieving the broad objectives of development. If we fail to take advantage of it, we will incur an opportunity cost. If the North American Free Trade Agreement were not ratified, the effect for Latin America -

and not just Mexico - would be equivalent to the failure of the Uruguay Round, if we consider that, whatever the eventual costs and benefits for each of the parties, it would show that protectionist sentiments in some countries carry more weight than economic wisdom. The countries of the region must not allow themselves to be caught up in similar sentiments; instead, they must persevere in their efforts to secure the early conclusion of the Uruguay Round, the ratification of NAFTA and the consolidation of open regionalism in Latin America and the Caribbean.

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