Latin American Patterns of Globalization & Regionalization

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Globalization and regionalization, combined with structural adjustment and privatization, have not helped Latin America's world market position or domestic socio-economic situation. This conclusion is documented by María Elena Cardero García, Professor of International Economics in the National Autonomous University, Mexico. She also calls for rethinking development cooperation among Latin American countries and all developing countries. The aim is to achieve "a presence on the world map" based on their real weight, and to avoid the destabilization that would result from growing poverty and marginalization.

GENERAL TRENDS OF GLOBALIZATION AND REGIONALIZATION

The definition of globalization is still controversial. However, for purposes of this article, let us agree that it implies changes in the way production is organized as required by the general dismantling of trade barriers and the free mobility of financial and productive capital, in the context of accelerated technological change.

Rapid integration of national economies into the global market is another especially conspicuous feature of the process. In particular, technological development in the sphere of information science has been one of the basic vehicles for speeding the process. Information is so ubiquitous that it pervades all sectors of the economy and is an important input for bringing about production, distribution and consumption.

Large transnational enterprises are among the main protagonists of these changes, not only because of their impact on the production process, but also because of their decisive influence on political affairs within States. Because of the magnitude of the resources with which they influence economics and politics, one school of thought holds that power over fundamental economic decisions is shifting from nation-States to stateless corporations.

Some analysts see these enterprises as strongly rooted in the domestic markets of their home countries, where more than half of their added value is generated. But even those analysts see the power of transnationals growing in developing countries, where they sometimes come to dominate the economic, monetary and fiscal policy of the receiving country.

Globalization has not been a neutral process. Its growth has not had an equal effect everywhere that would result in improved living conditions for peoples in all, or at least the great majority, of the countries involved. On the contrary, at the global level the distribution of the fruits of growth among rich and poor countries is more polarized today, with a ratio of 60 to 1, than it was in 1960, when the ratio was 30 to 1. In 1991 more than 85 per cent of the world's population received barely 15 per cent of the world's income.

In many ways, this globalization has been disharmonic, asymmetric and inequitable within individual countries and between countries, obviously with different levels of intensity and with different effects. Among the most evident aspects of this disharmony, rates of economic growth have become dissociated from the creation of new jobs, even in the most industrialized economies. Unemployment has become a social problem which weighs heavily on the public budgets of these countries and prevents them from implementing policies that would correct their governmental deficits. Social inequality has become more prevalent, even in societies which did not have marked disparities in the distribution of the fruits of growth. As a result, pockets of poverty similar to those of the third world have appeared in these countries.

In many ways, globalization has not been a neutral process, but disharmonic, asymmetric and inequitable within individual countries and between countries. The distribution of the fruits of growth among rich and poor countries is more polarized today, with a ratio of 60 to 1, than it was in 1960, when the ratio was 30 to 1.

Added to the foregoing is an increasingly recurring financial instability which was not properly foreseen by international financial agencies. This has become more and more pervasive, dragging a growing number of countries along with it.

By setting off a struggle for world markets, globalization has generated the "be included at any cost" syndrome. In general, this competition takes place in two ways. First, through the permanent reduction of wages to even below the Asian level found in China and India. Second, through collective effort to increase productivity, achieve productive reconversion, invest in human capital, create skilled jobs and raise wages, at least for more highly skilled jobs.

In the short range, regionalization is seen as a seemingly more accessible option for entering the globalization process, but only between a few countries so as not to incur the high costs required by globalized competition. However, regionalization is also not exempt from asymmetries and inequities within the nations that constitute new regions.

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Nor has regionalization been exempt from asymmetries and inequities in foreign trade. Many regional synergies are based on principles of "inward" strengthening, the avoidance of new flows of trade rather than their creation, and an inequitable and exclusive treatment of non-participants, not only in the economic but also in the political sphere.

GLOBALIZATION AND REGIONALIZATION IN LATIN AMERICA

In little more than 15 years, Latin America has been forced to enter the process of globalization and regionalization. In most countries of the region, there has been an accelerated global and financial opening, most State enterprises have become privatized, important advances have been made in balancing budgets, and the deregulation of the economy has been accelerated. The results of this process in the economic sphere, in the repositioning of Latin America in the world economy, measured by its international competitiveness and in social aspects, have not been encouraging.

MACROECONOMIC PERFORMANCE

At the macroeconomic level, the region has achieved only a meagre performance as a result of the globalizing and regionalizing effort. The debt crisis in the early 1980s initiated a harsh adjustment process. It was marked by a decrease in the flow of financing from abroad, a reduction of the regional rate of investment, and an "overadjustment" designed to deal with payment commitments to other countries. Between 1982 and 1990, the countries of Latin America and the Caribbean made a net transfer of resources to other countries, as a result of interest and accumulated remittances, of $218 billion, equivalent to 3.2 per cent of the region's annual GDP. That fact implied that these countries' performance had clearly been far below its potential productive frontier, with marked underutilization of productive and human resources. The result was an average growth of only 1.2 per cent per year, lower than the increase in population. Therefore, there was a reduction in the per capita GDP and domestic demand was virtually stagnant, until 1990.

As a result of an improvement in the

most important variables of the international context, between 1991 and 1994 the region received a capital influx of $207 billion. This yielded a net transfer of $79 billion, averaging 1.5 per cent of the GDP from 1991 to 1994, and made it possible to finance the growing commercial and current-account deficits. In addition, the foreign interest rate went down, debt service decreased, and exchange rates stabilized somewhat. These combined factors enabled the Latin American subcontinent to achieve moderate rates of growth in productivity (3 per cent per year between 1990 and 1996). An increase on the order of 4.5 per cent is being estimated for 1997. That is to say, levels lower than the region's historic performance (5.5 per cent per year between 1945 and 1980) and lower than what the Economic Commission for Latin America and the Caribbean (ECLAC) considers necessary for overcoming the existing technological and social lags (6 per cent per year).

This new input of resources was translated into growth not in productive investment and production, but predominantly in consumption. It accentuated countries' vulnerability to changes abroad, compelling them to neutralize the entry of foreign currency by raising interest rates. This made productive investments more expensive, revalued currencies and limited autonomy in monetary policy. It reduced the competitiveness of exports and of local substitutes for imported products. Economic restructuring became more difficult to achieve.

INSERTION INTO THE INTERNATIONAL SYSTEM

Today for Latin America, globalization means a change from the pattern of earlier years, which was skewed toward substitution of domestic products for imports. Instead, the new pattern is to promote growth in the external sector as the engine that provides the motive force for growth.

The Latin American group of countries made an effort to increase exports and achieve an opening to the outside world. The result is that the region's exports grew faster than world exports overall. However, this was not reflected in a substantive improvement in the countries' economies or social welfare. In the external sector, regional exports between 1990 and 1994 increased at an annual rate of 7 per cent, but the regional product only increased by 3.4 per cent. Much of this export dynamic is now functioning as a new export "enclave" which is growing stronger, thanks to an intensive input of semi-finished products and capital goods being assembled for reexport. This explains why the growth in imports is considerably greater than the growth in exports and why the growing deficits in the balance of trade must be covered by inputs from direct foreign investment, in portfolio, or by indebtedness.

As a result of this reorientation towards the outside world, largely based on the intensive exploitation of natural resources, the percentage of the GDP represented by exports has increased from 14 per cent in 1980, to 21 per cent in 1990, and 25 per cent in 1995 (ECLAC 1996). However, the percentage of foreign sales represented by basic commodities—food, non-food agricultural products, metals and mineral fuels—continues to exceed the figure for the developed countries, while their value is constantly eroded by the variability of prices and the deterioration of the terms of trade.

Though Latin America's international competitiveness has improved, as measured by its insertion into the most dynamic markets of the OECD countries, it is still very low in comparison with the level reached by other countries. For the nations belonging to the Asociacion Latinoamericana De Integracion (ALADI)[1], the proportion of manufactured products among exports to OECD countries increased from 23 per cent in 1980 to 48 per cent in 1993. However, this performance is poor in comparison with the penetration achieved by Korea, Hong Kong, Singapore and Taiwan. These East Asian countries have targeted their exports in the most dynamic import categories of OECD, increasing their sales of manufactured goods to the outside world from 84.7 per cent of their total exports in 1980 to 92 per cent in 1993.[2]

To face the challenges of these years of accelerated globalization, groups of Latin American countries made political decisions to form regions which would give them greater negotiating strength in the international competition for markets and capital. This led to the establishment of several regional markets (Mercosur, the Andean Pact, the Central American Common Market) and bilateral trade liberalization agreements. In practice, these arrangements are ultimately competing with one another in the search for better positioning in international competition. In many cases, they involve a struggle for market niches where transnational corporations have already planted their flags.

RESOURCES FOR DEVELOPMENT

Internal savings have become a growing cause for concern. The low level of savings in the region has resulted, in large measure, from the enormous effort being made to send surpluses abroad in order to cover debt service and make repayments of capital. This generates a high degree of dependence on external investment, which makes the financial variables extremely fragile.

Advances in macroeconomic stabilization do not seem to have created a satisfactory environment for internal savings. The high rates of interest prevailing within many countries make foreign portfolio investment attractive when they are used as instruments to cover the "rate-of-exchange risk" and to stabilize the growth of prices, but they discourage national investment.

In practice, there has been a tendency for internal savings to decrease, while the flow of external investment increases. This input of capital generates a "wealth" effect which is manifested in a consumption bubble beyond the true capacity of the economy and which immediately increases the balance-of-trade deficit. Furthermore, the growth in public savings seems to compete with private savings, since if the former increases, the latter has diminished.

Savings are probably related to the level of per capita income, its rate of growth and its distribution. But what is evident is that even temporary increases in income have a more positive effect on increases in consumption than on increases in savings. This probably arises because consumption has been repressed as a result of the drop in per capita income levels. The increasing vulnerability and unreliability of Latin American countries' financial systems also seems to discourage internal savings.

Measures intended to limit the input of speculative capital, as in the cases of Chile and Colombia, appear to have had a positive and less destabilizing effect on national economies than where these have not been applied. The combination of low or zero certainty about exchange rates, the sterilizing effect that retards the convergence of interest rates, and financial liberalization has resulted in measures which have little effect in achieving greater stabilization.

WHO HAS BENEFITED FROM GROWTH?

Income distribution during the stage of "inward" growth, especially the late 1970s, was characterized by concentration of resources due to the dynamic economic performance of those years. The absolute number of poverty households was reduced, even though marginalization and impoverishment were intensified on the fringes of poverty.

In the stage of structural adjustment and opening, the fragile balance of employment that had been successfully maintained during the preceding stages was upset. Real wages decreased, open unemployment expanded and the proportion of jobs in segments of lower average productivity increased. All of this was combined with the effects of inflation and the increase in capital gains derived from financial speculation or deregulation in many countries. With the exception of Colombia and Uruguay, this stage brought a far-reaching regressive redistribution of income in the region's countries, which was impossible to counteract during the growth cycle initiated in the 1990s.

The transformations undertaken during the 1980s made provision for inevitably high social costs. The hope was that the reforms achieved would spur a new form of growth, with increases in productivity, and that this would energize the economy as a whole and possibly bring greater employment. Up to now, growth has experienced some dynamism, but not in the permanent, productive and well-paid jobs sought by a growing population.

In 1990, 39 per cent of the region's households were below the poverty threshold, as compared with 35 per cent in 1980. The exacerbation of poverty was more marked in the urban areas, where it increased from 25 per cent to 34 per cent of households. Growth in recent years has not brought any improvement in levels or quality of employment. According to the International Labour Organisation, 84 out of 100 new jobs created in the first half of the 1990s were in the informal sector, to which 56 per cent of employed persons in the region belong. Between 1995 and 1997, when most countries of the region achieved an annual average growth of 3 per cent to 4 per cent, open unemployment increased, while employment in activities with a low output per person also increased. This gives reason to suppose that poverty and income distribution remained unchanged and even grew worse. Only Chile, starting with sustained and high growth, has been able to reduce poverty significantly, though the intensified concentration of income continues.

In Brazil and Mexico, a large proportion of new jobs does not seem to require high levels of experience or technical training. Wages for these new jobs are lower than those earned by people who lost their jobs, and more than half of the new jobs are designed for young people and women.

Thus, the adjustment in the region's labour market came about more through increases in underemployment and employment in low-productivity occupations than through open unemployment. At least the largest Latin American countries—Argentina, Brazil and Mexico—are developing a new employment structure, highly heterogeneous with regard to types of work and wages, low in productivity, with a precarious income and, in the case of Brazil and Mexico, an increase in female participation.

The industrial sector's share of employment, which had been between 15 and 20 per cent, has been going down. Employment has increased in the commercial and service jobs generally held by more than half of the economically active population. These trends reflect the reduction in industrialization and the growing introduction of women into the labour market. In some countries, despite the enormous drop in the contribution of agriculture to the national product, employment in the agricultural sector is still significant, representing up to one quarter of the total.

In this context, wages are determined strictly by efficiency and profitability, and, in the absence of real increases in productivity and competitiveness, all principles of equity are abandoned.

CHANGES IN THE POLITICAL SPHERE

The accelerated changes that have taken place in less than 15 years have not been an easy or welcome process for the region. These changes have arisen not so much from internal circumstances as from multiple changes in the international context; the cause has been not so much an initiative taken by governments as an initiative taken by world organizations and large transnational enterprises.

The appearance of new international participants calls into question the dominance of sovereign States over the international relations of their countries. They have been particularly exposed to the power of transnational enterprises, whose combined assets represent one third of the world's production. Developing countries that try to attract this foreign investment do not want to discourage it; this inhibits the possibilities of levying taxes that might place limits on them, sharing in the costs of growth, demanding adequate wages or seeking appropriate regulations for the benefit of workers.

Changes have been rapid, leaving institutional vacuums. Under the previous pattern of development, there were alliances between the State, entrepreneurs and workers, which have now been surpassed. A large number of structures, institutions and social agreements have gone into disuse or disappeared. The old partners have not created transitional or new ones, and the construction of alliances is still inconclusive or ambiguous. Institutional development has lagged, imprinting marks of weakness on the democracies of these countries.

In addition, as a result of the new type of relationships, the State is losing its ability to act as the fundamental arbiter of social conflict. It has regressed to the roles it played in the last century and has assumed that "the invisible hand" of the market will, by itself alone, solve the problems of poverty and inequality. In any case, it has concerned itself solely with local issues of extreme poverty. Many of the political parties created long ago as vehicles of citizen participation have abandoned some of their democratizing and participatory goals. They have become mere instruments for attaining power, often paralysing democratic progress in exchange for temporary or regional political positions. This has brought no substantive advances for the region's fragile democracies.

SOUTH-SOUTH COOPERATION

The challenge to the region in the new international context of globalization is to achieve development which is competitive, efficient, equitable and pervasive. This undoubtedly involves a great many efforts, including slowing the pace of globalization to permit incorporation of the social groups that have lagged farthest behind. Attention to economic and social balance, to social cohesion, remains a priority objective. The sectors which have lagged furthest behind are the ones which always mark the pattern of general development.

Pursuing an active social policy for this purpose is surely indispensable. Without such a policy, the changes which lead to a better income distribution or to growth will not take place, even in the most dynamic countries. The fight against poverty is not the exclusive responsibility of the social policies of the State; this struggle is multifaceted and requires action by all those engaged in social and economic activities. Economic growth and increased employment are not enough; measures relating to other areas, such as education, taxation and community participation, must be included. The dysfunctionality of globalization must be corrected by incorporating the lagging sectors. This calls for ad hoc policies to provide palliatives for poverty, but also for mechanisms to prevent the exclusion of those sectors and promote their effective contribution to growth.

What is needed, therefore, is a different focus in the relationship between the State and society. It should emphasise decentralization, innovative forms of citizen participation, the creation of a social authority that works on terms of equality with the economic authority (ECLAC 1997), and greater coordination between the various sectoral agencies and programmes.

In the sphere of state intervention, it is necessary to improve the quality of the actions taken by the State, strengthen the system for administering justice, improve the allocation of social expenditures and devise policies which will put a brake on monetary violence, destabilization and the financial fragility of the economy.

Until now, it has been thought that cooperation should flow from North to South. Put another way, the countries of the South have sought out the North in order to become integrated into this globalization. There has been rhetoric about South-South cooperation, but in practice its development has been modest; when it has occurred, it has been fairly restricted.

This weakness once again draws attention to the need to think about new South-South cooperation. It should aim at solving specific problems of poverty, unemployment, marginalization, sustainable development, recovery of natural resources, and transfer of specialized knowledge and experience. This proposal is in fact nothing new, but it is undoubtedly more urgent and more viable today than before. The bipolar world which we knew has ended, and there is a tendency towards exclusion of the South from the emerging new geopolitical configuration.

In the new international environment, conflicts seem to occur more within States than between States. Power was traditionally exercised by military and economic sources; now, other sources are added, such as the creation,

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transmission and exchange of information and knowledge. This introduces a new concept of the rule of "soft power".[3]

New actors on the international scene, such as nongovernmental organizations, are pressuring governments to maintain respect for human rights, preserve certain animal species or natural resources, and defend interests relating to human security. Sometimes their pressure is made possible by the support they receive from the very governments they are pressuring, as well as from private groups.

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In the short term, official development assistance seems to be virtually nonexistent. When it does exist, it remains more closely linked to the needs of the donor countries' markets than to those of the recipients. Foreign investment has been concentrated among the developed countries, in a sort of circle of relocation of capital and trade between them, and increasingly excludes the countries that are lagging behind.

In this context, the South must seek a presence on the world map based on its own weight, the size of its population, and the destabilization that would result from continuing and aggravating the present situation of growing poverty and marginalization. This search should not be made on the basis of the North's needs, nor by abandoning the South's own needs.

In multilateral forums such as the United Nations and the World Trade Organization, the South should be better organized. In order to gain real and appropriate attention for the problems of poverty, it should make its demands more articulate and coherent and its presence more effective.

Intra-South cooperation can and should shift its focus. It is time to rethink the kinds of social and political commitments that were involved in the traditional cooperation movements of the 1950s through 1970s. New models of cooperation are needed to strengthen bonds within and between the regions of the South. They should be based on identifying problems which are characteristic and common in the South, exchanging knowledge about ways of dealing with them, and creating and disseminating new knowledge aimed at providing solutions.

This new dynamic of cooperation should actively incorporate private participants, agricultural producers, miners, private companies, consumers, universities and research centres. Their needs and priorities should be the basis for deciding how to cooperate, and in what

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activities. Promoting new models of cooperation is one of the most important aspects of this new form of intra-South cooperation. It implies decentralizing decisions on the basis of the needs of communities and participants. And it implies that governments will facilitate cooperation and keep it flexible, and redistribute resources in order to improve the standard of living of the majority of the population. ■

Notes

1 Not including the countries of Central America and the Caribbean.

2 In the case of Mexico, the proportion of manufactured goods not based on natural resources increased from 25% to 68%, even though petroleum continues to account for 15% of Mexican exports to OECD. An important factor in Mexico's case is the share currently contributed to this high percentage by *maquilladora* production.

3 This concept of "soft power" is the art of disseminating information in such a way as to attain the desired results through dissuasion, not coercion. In this sense, power is exercised through the use of networks of alliances.