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Comment to the Document

“The Differential Competitiveness of Latin American Regions:
Opportunities and Constraints”

by Ann Markusen and Clélio Campolina Diniz

First of all, I would like to express my gratitude for the opportunity I have been given to comment on this paper dealing with the development of regional economies – a topic that is very important to me as Governor of the Argentinian province of Salta.

Secondly, I would like to congratulate Ann Markusen and Clelio Camplona Diniz for their initiative in studying this topic and presenting such a well-written, well-organized and well-researched work.

For simplicity’s sake, my comments will follow the structure of the work itself.

I- Integration and Exclusion: the two faces of globalization:

Given the arrival in the past two decades of the phenomenon of globalization and the progressively greater opening of most Latin American economies, this section considers the implications of these processes in these countries – particularly their effects on our regional economies. The basic result is the integration of countries and regions in the global market. I agree with the authors and consider it a very important point that the ability of a region to attract capital depends on its local attributes: geographical location, entrepreneurial capacity, labor markets, infrastructure and governmental and civil institutions. I share their opinion that regions with comparative and competitive advantages in these areas will benefit most from globalization.

II- The Spatial Framework of Reference:

This section contains an excellent summary of the different theoretical currents of thought on regional economic development, how these have changed and their ability to predict balanced or polarized regional development only in certain regions. The result of this analysis is pessimistic in the sense that although lower costs are always an important variable when choosing a region for investment, in practice, greater international economic integration always tends to favor the richest regions. The authors

acknowledge that there are exceptions to this rule and in my opinion this problem can be avoided inasmuch as relatively less developed regions can offer the local attributes that the authors list in the preceding section. On the basis of the experience in my province, I think we have been able to escape this rule and achieve significant economic growth thanks to our comparative advantages. We have, however, had to reinforce these advantages and favor private investment, thus providing a climate of institutional and economic stability.

Section III contains a study of the performance of the two past decades of business and growth in Latin America under a regime of “neo-liberal policies”.

Section IV continues the analysis, highlighting the cases of Mexico, Argentina, Chile and Brazil, while section V analyzes the causes of economic reconcentration. The authors affirm that with few exceptions globalization has increased regional disparities in these countries and has always favored the most developed centers, where urban poverty has, in turn, increased as a result of migratory flows from poor regions to rich ones.

For obvious reasons, I will comment only on the Argentinian case, with which I am of course most familiar.

The authors describe the Argentinian case as the one in which neo-liberal economic reforms have had the most negative impact. They claim that questions of fairness, regional inequality and social justice have been left entirely by the wayside.

They also argue that privatizations and factory closures were carried out without consideration for human resources and capital. In short, they present the Argentinian case as an example of complete failure. It is here that my own opinion is diametrically opposed to that of the authors. First of all, they use the terms “globalization” and “neo-liberal policies” as synonyms. Although they set out to explain the negative results as the result of globalization, in the end it seems that neo-liberal policies were the cause of all ills.

It is important to fully understand that Argentina underwent fundamental changes in the nineties. The country abandoned a closed economy with a strong public sector presence for a capitalist market economy and a responsive, modern state. Argentina did not de-industrialize; rather, its industry became integrated in the international scheme of division of labor. The closure of certain clearly inefficient and uncompetitive industries can also be interpreted as a way of freeing up resources for more efficient sectors.

In the case of privatizations, we went from public enterprises that generated large public deficits and provided poor public services to modern private companies capitalized by an impressive flow of investment during the 90s.

Social conditions were not worse than in the 80s. The sectors with the least resources benefited from access to credit and the advantages of a stable economy free of inflation. Although in relative terms, ground was lost in terms of distribution of income, real income increased for all segments of the population. This was a natural result of a growing economy.

Obviously, this process implied an increase in the unemployment rate during the transition period: hidden employment generated by public enterprises was revealed and there was a considerable increase in labor supply due to greater participation by women. If Argentina had continued with the same economic policies after 1999, the problems described above would have been less serious.

The implementation of these policies cannot be considered the cause of Argentina's ultimate crash; rather, the crash was the result of discontinuing them. One has only to compare Argentina in the 90s with the country today: an economy closed to the world by holding back exports and limiting imports; restrictions on the inward and outward flow of capital; lack of access to international credit caused by default on public debt; a country where devaluation has swelled the ranks of the poor by 7 million people so far this year; and, much more important than any of the aforementioned causes, a country where the return of inflation has worsened the distribution of income.

Furthermore, regarding the study of how greater opening to the exterior and globalization have increased regional disparities, I think that this is not the fault of globalization in itself, but rather of incorrect development policies that were already in place. The problem with globalization is that it magnifies the scale of all variables, thereby also increasing the scale of problems. In the case of Salta, we have benefited from a significant flow of investment to the hydrocarbons, mining, agriculture, livestock and tourism sectors. We believe we have benefited from opening up and not been harmed by it. And we have implemented policies to make this happen.

THE PRECEDING SECTION WILL BE ACCOMPANIED BY EXPLANATORY GRAPHICS IN POWER POINT.

Sections VI and VII, respectively, deal with the problem of the opportunities and limitations of local economic development and the proposal by the authors of new regional development policies for Latin America. Some of the authors' proposals seem to me very useful to consider when designing development policies:

- 1- Central governments must include regional objectives and tools in national development objectives.
- 2- Central governments must make federal agreements with regions in order to commit themselves to development objectives.
- 3- The use of infrastructure investment as a contribution to regional development and economic decentralization. For example, in my province, the Bioceanic Corridor Project (Proyecto de Corredor Bioceánico) has been essential, giving us access to the Pacific, large savings in transportation costs and access to new markets. More infrastructure projects of this kind would certainly contribute to greater economic development in the north of Argentina.
- 4- Decentralization of education as a tool for creating regional poles of human capital and innovation. In our countries, specialized education is commonly centralized, or else regions compete with each other, offering the same educational services.
- 5- Central governments must resist pressure from the richest areas in terms of provision of public goods, services and infrastructure and must accept a certain degree of redistribution in these areas.

Regarding the chances of successfully implementing policies of this kind, Latin American countries are always restricted by questions of balance and fiscal discipline, since naturally, we could not otherwise receive foreign credit. This is why I feel it is essential that we focus our efforts on designing policies with the smallest possible fiscal cost and which are compatible with the objective of achieving fiscal long-term fiscal solvency. For example, in the province of Salta, I have put in place active economic development policies that bear no fiscal costs of any kind (Provincial Investment Fund). It would also be desirable that these policies were not highly discretionary in order to avoid arbitrarily favoring one region above another. Unfortunately, in Argentina in the 80s we suffered the dire consequences poorly designed, capricious development policies with heavy fiscal impact. We must correct past errors in this regard.

In conclusion, I would like to point out the essential role of multilateral credit agencies, such as the IDB, in financing regional development policies for Latin America, such as those described above. Fortunately, we have the full support of this institution in our handling of this problem.

Once again, I thank the authors for their valuable contribution. Thank you.