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Comments to the Document

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

by Ann Markusen and Clélio Campolina Diniz

Latin American countries internationalized their economies as an alternative way to achieve the development and growth that did not seem possible within the framework of the import substitution model. Protectionist policies were very useful to create a significant productive base. However, during the 1980s these policies seemed to lose their capacity to offer high and sustained growth, and to close the gap with developed countries.

Globalization is a worldwide phenomenon that cannot be reversed and neither would it be convenient to do so. There are many factors that make it impossible for a country to isolate itself economically and to ignore the community and international markets. These factors include the formation of economic blocks, influence of technology, progress in communications, and the impact that the evolution of markets in one country has on the rest of the world.

The central point cannot be whether or not countries act within a global framework. This is not a decision that can be modified in isolation. The most fundamental issue is how countries and regions carry out an insertion process in the world.

The Impact of Globalization

In the very interesting document presented by Markusen and Campolina Diniz, in my opinion they correctly emphasize the existing relationships between the globalization process and the transformations that have taken place in regional and economic terms. I wish to broaden this analysis, however, and also

include some effects that I see as extremely positive for the integral development of countries, and that condition the political, economic and social future of Latin America.

The Economic Realm

The globalization and internationalization of economies entails great risks, but also offers enormous opportunities. These processes have promoted a change in vision in countries. They have provided incentives for fundamental modifications in firms, as companies have been forced to improve competitiveness and adopt international parameters as their frame of reference. The adoption of new technologies, knowledge of the international environment, the importance of acquiring education and training of human resources, and the changes in firm management are all factors that have emerged from the need to achieve insertion into world markets.

The Political Realm

However, the impact of globalization is not limited exclusively to the business realm. Environmental preservation, the need to strengthen democratic systems, the battle against corruption, the importance of certain social indicators, and respect for human rights are all elements that Latin American countries have had to include in national policies. Even if all of these factors have been present in government plans in recent decades, globalization has helped to bring about a change in national visions with respect to these matters, and has forced governments to adopt positions that meet international standards.

The Regional Realm

It is evident that globalization has contributed to creating supranational political and economic structures. It has also reduced the margin for maneuvering for States and central governments. However, at the same time it has given new value to individual performance, both of people and of firms.

Of course, this revaluation does not mean that national public policies are not as important. Along with institutional strengthening and the building of the societal fabric, these factors are still fundamental in order to provide incentives for development, eliminate social inequities and to create an adequate environment that empowers individual actions.

At the same time, the regional realm has been revalued as the result of internationalization, of state reform, and the need to reaffirm cultural identities. Transformations in the productive apparatus are more intense at the local level. The tendency towards political, fiscal and administrative decentralization has been accentuated. Democratic and participatory systems have reinforced the role of communities, and

awareness has been raised about the need to act in regions to build an environment that facilitates confronting the new challenges while conserving the particularities of each geographic zone.

Paradoxically, the strengthening of democracy, the revindication of rights, the awareness of responsibilities and the strengthening of participation of social organizations are all priority issues in regions, in contrast to the weakening of democratic frameworks for global decision-making.

The Dynamics of the Impact of Globalization

As mentioned previously, globalization has already had a great impact in the political realm. Without a doubt, it has contributed to democratizing politics, increasing citizen participation and generating a collective consciousness as regards human rights. The communications media and the speed with which information on world events is disseminated have played a fundamental role. Cases of corruption or the disrespect of fundamental rights in a country immediately generates the world's disapproval, and countries can be judged internationally.

In the economic realm, in particular in the productive world, globalization has generated important transformations despite the heterogeneity that still exists, and the coexistence of forms of modern organization alongside nearly feudal forms of production.

Unfortunately, and as mentioned in the presentation that I am commenting on, there has been a much more minor impact in the social realm. The reason is because this demands cultural and institutional transformations of great magnitude. Explicit social policies are also required to foment universal access to basic services, as well as very complex policies for redistribution. In this respect, the dynamics of globalization are much slower but some basic principles will still be imposed in the end. Social development is not only urgent from an ethical perspective and in order to insure stability and feasibility, but also because it is indispensable to the permanence of a competitive environment, for the broadening and sophistication of demand, and to assure equity in the conditions of international competitiveness.

Globalization and Regions

Unfortunately, and this is also an irreversible fact, Latin American countries have entered the so-called "global village," without the necessary equipment to insure that they benefit from competitiveness and the

extension of markets in an integral manner. This is what is required to share those benefits with the entire population and all regions.

As Markusen and Campolina Diniz have pointed out, it is no surprise that investments, increases in productivity and the transference of technology have all occurred with greater intensity in the areas with relatively higher development levels. However, at the same time it cannot be proven that protectionism and isolation would have meant less backwardness in the regions. It is a fact that regional inequalities have been gradually generated over at least the last 50 to 60 years.

Role of Policies and National Planning

In contrast to points presented in the main presentation, I believe that public policies for regional development have not been weakened or suppressed. I think that what is happening is that the regions are the target of a new type of public policy, based on decentralization and competitiveness.

First, centralized planning has evolved into policies that promote the autonomy of cities and regions, and seek to deepen decentralization processes. The importance of involving local actors in decision-making has been recognized, and the definition of priorities that are considered the most relevant for the region. It is fundamental that communities actively participate and that they feel that they are defining their own destinies within a global framework, but with plans they have elaborated with political will, based on their own idiosyncrasies, and not imposed by technocrats in the centers of power.

The legitimization of the local realm implies great challenges. It requires strengthening the social fabric, providing incentive for real participation of the main regional social agents and assuming responsibilities not only for the definition of development strategies, but also fiscally. Although localities receive a portion of the national budget, they also need to evaluate their internal financing capabilities, comply with fiscal balancing goals and pay more taxes.

The role of national authorities has changed. They continue to be important to the extent to which national governments establish proposals for the country, assign resources for national investments, establish redistributive policies and comply with the role of facilitator of private activities. They also have an important role to play in the dissemination and creation of consensus regarding common goals, but they should always keep in mind that regions are autonomous, particularly in countries where governors and mayors are elected. This means these officials have a greater responsibility to their electorate than to the national executive power.

Globalization and internationalization has given more relevance to policies that seek to increase competitiveness of a country and its productive sector. In economies such as the Latin American ones, the free play of market forces has not been enough to insure an adequate and efficient channeling of resources. Even developed countries still promote policies for competitiveness to one degree or another. The increase of competitiveness should form part of growth strategies, and should not be the privilege of one sector or of the government. It should involve all economic and social agents and of course, the regions themselves.

As a central element of public policies and the performance of private activities, competitiveness facilitates the definition of investment requirements, it promotes efficiency, and it allows capitalizing on synergies and promotes the execution of projects with greater multiplying effects on growth and regional development.

It is worth emphasizing that competitiveness is not a strictly economic factor, although this is the realm in which it is primarily manifested. Other factors are part and parcel of competitiveness and the dynamics of other countries such as politics, culture, the environment, social, and civility.

In terms of this proposal, each region must find its place and establish its own goals, in accordance with its own characteristics and productive vocation.

Productive Chains as an Integrating Element for Regions

The development of countries demands that competitiveness policies have multiplier effects and should not be limited to simply improving the environment for one single sector or for a few products without an export future. It is imperative to try to make complete productive processes competitive, in other words, to make the country's economic activity competitive and modernize all links in the productive chain and all activities related to production. This means policy design should include actions that improve the technical aspect of production of raw materials, intermediate goods, final products, logistics, commercialization and financial services, among others.

I propose the application of integral strategies based on the new concept of national productive activity. This is understood as a complex process of productive chains, closely related with the economic, social, political and institutional environment.

This concept implies efficiently articulating the chains of aggregated value and their support sectors. It also implies urban and rural productive activity, the articulation of regions with distinct productive vocations but interrelated as well, the development of a physical infrastructure that maximizes benefits for the chain as a whole, the accumulation of human capital and the strengthening of communication and work coordinated between public institutions and the private sector.

This vision implies determining the existing obstacles and opportunities, starting with raw materials through the commercialization process. The socialization of the concept permits coordinating diverse regions around a common goal, rationalizing public and private investment and providing inter-institutional cooperation.

In the focus on productive chains it is fundamental that we learn to practice cooperation in the midst of competition. It also requires finding a balance: between individual striving for excellence and the need to give up profits in the short term, and between maximizing benefits for just one link of the chain when faced with the possibility of making substantial progress in competitiveness throughout the entire chain.

Many of the inequities in regional development are due to the lack of an integral vision. It is not enough to establish incentives without a clear global goal, and a clear role that the region should play in a national context. Without this clear vision, the economic activities generated will be fragmentary in nature, without multiplier effects, isolated from the rest of the country and difficult to link internationally.

Strategies to Confront Regional Inequalities

Systems of Emerging Cities

I completely agree with the opinions in the Markusen and Campolina Diniz presentation, in the sense that there should be explicit policies to strengthen cities or regions that traditionally have not been centers that attracted investment and of productive activities. The investment in road infrastructure, the formation of educational and research complexes, support for small and medium enterprises are all valid mechanisms to promote development and regional growth.

However, it is important to call attention to the need to take advantage of the vocation and prior equipping of regions. First, it is absolutely fundamental to guarantee efficiency and efficacy of investment, and avoid creating biases from the perspective of the local community that promote activities that have no future, and that do not generate multiplying effects. If these criteria are not adhered to, it will lead to the

creation of “white elephants,” as we say in Colombia, or the creation of the need to permanently subsidize activities that have no impact, or even worse, that reduce a country’s global competitiveness.

Secondly, the need to respect the international standards that globalization imposes from a long-term perspective must be considered. For example, it is not advisable to assign resources to promote the production and export of products that cannot be sold in a free market environment, or to promote activities based on environmental degradation.

Thirdly, I must reiterate the importance of starting with regional vocations and building on existing advantages, even though these are not specifically related to the international market. There are niches in national markets that can be covered by regions. The development of tourism is one example, or distribution centers in key areas because of their locale. Multimodal transport is another example: in the Colombian case, the Magdalena River which crosses the country can generate important economic activity in neighboring zones.

The utilization of natural resources merits special emphasis, as Latin America is particularly rich in these resources. The paradigms that base regional development on modern infrastructure, on the existence of high technology industries and on highly trained human capital must be thrown out. There is no sense in devastating ecologically rich areas that can be utilized for ecotourism or to guarantee conservation, in exchange for cooperation and support from developed countries with lesser biodiversity. This can be done in concordance with the importance that the international community places on environmental conservation.

Social Policy

Globalization, greater market freedom and the reduction of state intervention in private activities all form part of the growth strategies of countries. They are an option to broaden markets and attract investment. They represent growth strategies and as such, opportunities to increase the income of countries and regions.

However, this does not mean that active social policies are not required. The combating of poverty, universal access to basic services and regional inequalities requires specific strategies that are not exclusive. On the contrary, these policies should complement policies for economic growth.

Perhaps the problem lies more in the lack of political will to undertake required reforms rather than budgetary limitations. It is also due to the difficulty of fostering social pacts that promote solidarity, of protecting social investment of resources and creating the consensus needed to assure that collective interests have priority over special interests of certain sectors, social agents or regions.