



## Chapter 4

# An agenda for the global era

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The analyses presented in preceding chapters will serve as a basis for the following examination of some of the elements that will play a fundamental role in the development of a better international economic, social and environmental order. The basic assumption underlying this proposal is that Latin America and the Caribbean must adopt a positive agenda for the construction of a new international order and make a firm commitment to its implementation. This view is founded upon an essential lesson of history: that efforts to simply resist processes whose roots run as deep as those of the current globalization process, as well as the negative agendas that emerge out of such efforts, will eventually fail. Finding ways to build a sounder form of globalization and to achieve the best possible position within that process are, consequently, the best option.

The agenda to be proposed here seeks to overcome the shortcomings of existing institutions. These institutions have, first of all, exhibited a disturbing inability to provide a sufficient supply of global public goods. This failing is compounded by adverse distributional trends at the global level and the absence or weakness of institutional systems for ensuring international solidarity. All of this indicates that the globalization process requires a new institutional framework in which a more efficient management of global interdependence can be combined with the introduction of firm, clearly defined principles of international solidarity. Only then will it be possible, as stated in the United Nations Millennium Declaration, “to ensure that globalization becomes a positive force for all the world’s people” (United Nations, 2000a).

There are a number of major obstacles that will have to be surmounted in order to build a new global order. The first is the absence of a set of shared principles that are embraced by all the major players. The second is that, given the asymmetrical power relations found in global society, the various actors differ in their ability to influence this process. The third is the difficulty of forming international coalitions capable of offsetting those inequalities, whether through developing-country partnerships or international alliances of social sectors which feel that their interests are being harmed by the globalization process. In addition to all the above, there is the central paradox of the world of today, as discussed in chapter 1: the gap between global issues and what continue to be essentially national and local political processes.

The challenges involved in building a new institutional order are therefore enormous. The first section of this chapter sets out four basic principles for the creation of a better world order: shared objectives; rules and institutions that respect diversity; complementarity of national, regional and international spheres of activity; and equitable participation coupled with appropriate rules to uphold international governance. The second section draws together the elements of various proposals regarding national strategies for dealing with globalization: macroeconomic stability in a broad sense, the attainment of systemic competitiveness, environmental sustainability and active social policies. The third section looks at the crucial role played by regional actors in a globalized world. The fourth and final section discusses some of the main issues that ECLAC feels should figure on the global agenda: the provision of public goods; the correction of the global order's asymmetries in the areas of finance and macroeconomics, production, technology and factor mobility; and the consolidation of a rights-based international social agenda.

In addition to providing complementary analyses that refer specifically to Latin America and the Caribbean, the chapters contained in the second portion of this book provide a detailed examination of some of the elements of this agenda.

## **I. Fundamental principles for the construction of a better global order**

### **1. Three key objectives: supply global public goods, correct international asymmetries and firmly establish a rights-based global social agenda**

The globalization process has highlighted the need to provide certain “global public goods,” such as the defence of democracy (and, hence, of civil and political rights), peace, security (including the war on terrorism), disarmament, international justice, the struggle to do away with internationally organized crime and corruption, environmental sustainability, the effort to combat and eventually eradicate pandemics and to increase cooperation in the field of health and sanitation in general, the worldwide war on drugs, the accumulation of human knowledge, cultural diversity, the defence of public spaces held in common by all, global macroeconomic and financial stability, and, more generally, the development of an appropriate institutional structure for the management of economic interdependence (Kaul, Grunberg and Stern, 1999).<sup>1</sup> There is a huge gap, however, between the recognition of this fact, on the one hand, and, on the other, the weakness of the existing international supply structures for these goods and the amount of resources allocated for this purpose.

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<sup>1</sup> The dividing line between “public goods” in the traditional sense of the term (goods whose consumption is non-exclusive) and those with strong externalities is somewhat blurred, and this list therefore includes some goods (e.g., public spaces, many forms of cultural expression and human knowledge) which do not fit the classic definition of public goods.

Support for the international organizations needed to supply or coordinate the provision of global public goods is therefore essential. The emphasis here should be on the coordination of supply rather than on supply functions as such, since in many cases the regional level may be the most appropriate one for the provision of public goods. Another reason for focusing on the regional level is because the concerted efforts of non-governmental organizations and the private sector must be brought to bear on this task. This is why, as a general rule, the provision of global public goods is accomplished through the efficient operation of *networks* of various types of organizations rather than being carried out by individual agencies.

The need to provide sufficient financing for the supply of global public goods has been underscored by a number of recent reports (United Nations, 2000b; Zedillo and others, 2001a). It is important here to differentiate between these kinds of contributions and official development assistance (ODA), since all countries should play a part in financing global public goods based on the principle of “common yet differentiated responsibilities”, as formulated in the Rio Declaration on Environment and Development issued at the United Nations Conference on Environment and Development (also known as the Earth Summit) in 1992.

The supply of public goods is not the only item on the international agenda, of course. It must be backed up by the accomplishment of two complementary tasks: overcoming the asymmetries of the global order, and formulating a rights-based international social agenda. These tasks could be included on the public-goods agenda, but doing so would create confusion, because, in the final analysis, they have to do with the equitable distribution of essentially *private* goods. Indeed, the provision of public goods and redistribution are classic, but quite different, duties of the State. Moreover, the elimination of international asymmetries and the formulation of a rights-based social agenda involve different spheres of activity, since the former focuses on rectifying disparities between *countries* whereas the latter focuses directly on individuals.

In order to surmount asymmetries at the global level, it is important to realize that, in the presence of widely differing positions such as those found in a hierarchical international system, attempts to apply equal terms in order to set up a level playing field will only serve to heighten existing inequalities. In the light of the considerations discussed in the preceding chapter, it becomes clear that the global agenda must include action on three different fronts. The first is to enhance the transmission of growth impulses from developed to developing countries via international trade and technology transfer. The second is to work through international lending agencies to give developing countries more breathing space for the adoption of countercyclical macroeconomic policies, help reverse the international concentration of credit and expedite the financial development of these countries. The third is to make sure that the global agenda places just as much emphasis on the international mobility of labour as it does on the international mobility of capital.

If an international social agenda is to be established, every member of the global society must be acknowledged as a citizen of the world and, hence, as possessing certain *rights*. The most cogent expressions of these rights are found in international declarations on civil, political, economic, social, cultural and labour rights, on the rights of women, children and different ethnic groups, and on the right to development.<sup>2</sup> The commitments made by countries at world summits, some of which are accorded special recognition in the United Nations Millennium Declaration, complement those instruments to a great extent. These instruments also reflect a recognition of the fact that the

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<sup>2</sup> The right to development was enshrined in United Nations General Assembly resolution 41/128 of 4 December 1986. This resolution defines the right to development as “a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom, ...” Sengupta (2001) focuses on the components of justice and equity inherent in this concept and on the importance of making sure that countries’ growth rates are not only reasonable but also sustainable and are not achieved at the cost of human rights or a decline in opportunities for personal fulfilment. See, in this regard, Artigas (2001).

responsibility for fulfilling their provisions is primarily borne at the national level. It is to be expected, however, that compliance with international commitments will be a gradual process, since this is the only way that it can contribute to the construction of a true world citizenry. The tensions existing between cultural identity and globalization will inevitably affect this process, and a way therefore has to be found to reconcile the principles of equality on which human rights declarations are based with the “right to be different”.

These three central objectives of the global agenda reflect the fact that, in an interdependent world, the rights of all depend, in the final analysis, on the existence of a “global social covenant”. Embracing this widely accepted principle of nation-building implies an awareness of the fact that economic affairs cannot be separated from the social and political fabric and that, therefore, if nations are to survive and prosper, market forces must function within the framework of an institutional order based on broader, more inclusive social values and aims.

The existing international order suffers from serious shortcomings in terms of its capacity to achieve these three objectives. The United Nations is the appropriate institutional framework for a dialogue about ways of ensuring the global coherence of the system and of filling the voids that exist in relation to international cooperation. Decision-making authority and executive capacity in certain fields are, however, held by a wide range of specialized agencies that work not only at the global level but in the regional and national arenas as well.

## **2. Global rules and institutions that respect diversity**

The essentially national and local nature of policy making has profound implications for the international order. The globalization process notwithstanding, the primary setting for the exercise of democracy will continue to be nations and local communities for a long time to come. The focus for global institutions should therefore be on acknowledging interdependence and managing it proactively. Ultimately, however, these institutions rely on national responsibilities and policies, as sovereignty continues to be a feature of the nation-State.

One of these principles’ implications is that it is futile to promote democracy unless national representative and participatory processes give the people a say in the formulation of economic and social development strategies (Ocampo, 2001). This is why respect for diversity —within the bounds of interdependence and, thus, of the common good of “cosmopolitan society”— is a crucial element of any democratic international order.<sup>3</sup>

This view fits in with the idea that institution-building (institutional capital), social consensus (social capital), the development of human capital and technological capacity (knowledge capital) are essentially endogenous processes. It also reflects the belief that there is not just one “right” path to development and integration into the global economy. There are a range of different options depending on the political and institutional history of each country and the differing challenges and requirements to be met (Albert, 1992; Rodrik, 1999a and 2001b; ECLAC, 2000a).

This principle is embodied in the more recent thinking on cooperation for development, which emphasizes that its effectiveness will depend on there being a sense of national policy ownership. In fact, this principle has won acceptance as a basic guideline for the design of ODA and the policies of international lending agencies (OECD, 1996; World Bank, 1999; and, on conditionality, IMF, 2001). However, quite frequently, it is ignored in practice. Indeed, an effort is often made to “compel” ownership of the policies that international agencies feel are appropriate (Helleiner, 2001). Even so, the importance of ownership is one of the overarching rules governing

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<sup>3</sup> The reader will recall Kant’s call for the formation —based on a covenant among States— of a cosmopolitan society. Kant was one of the first philosophers to propose that the social contract be extended to include States, provided that they complied with the “republican clause”, i.e., guarantee individual rights and freedoms, the division of power, the supremacy of the law, and a representative system of government.

the operations of international agencies. Their role is to support national decision-making, not take its place.

### **3. Complementarity of global, regional and national institution-building**

In the absence of suitable institutions, globalization is proving to be a disintegrative force. At the national level, some regions, production sectors and social groups are coming out as “winners” and others as “losers” in the intense Schumpeterian process of creative destruction now being witnessed worldwide (ECLAC, 2000a). This process is not only increasing each country’s internal heterogeneity but, at the same time, is also undermining the State’s ability to ensure its cohesiveness. The powerful centripetal forces which the global economy has been generating for several centuries now (Prebisch, 1987) impel developing countries to focus on carving out a foothold in industrialized markets and competing among themselves to attract footloose investments. Under these circumstances, integration efforts aimed at forming larger economic units are relegated to a position of secondary importance. A virtuous circle of complementary global, regional and national institution-building is needed in order to cope with these forces.

International debate has gradually given rise to a broad consensus as to the fundamental role of national strategies in determining how successful a country will be in forming linkages with the world economy. Such strategies are also essential in order to handle the disintegrative forces being generated by globalization within each nation. Moreover, as noted earlier, they continue to be the main vehicle for democracy in the global era.

Without a suitable international framework, however, the supply of global public goods will inevitably be insufficient and this, in turn, will hinder national development. What is more, unless a frontal attack is launched against the strong tendency towards inequality at the international level which has been in evidence for the past two centuries, national efforts may prove relatively ineffective. More specifically, within the context of a developing world whose overall growth prospects continue to be a source of dissatisfaction, the heterogeneity existing across countries and between “winning” and “losing” social groups and production sectors may intensify.

Action at the regional and subregional levels plays a critical role as a midway point between the global and national orders. This arena for what ECLAC has termed “open regionalism” (1994) has, however, either been ignored or regarded as a negative element in many of the central proposals being made regarding international economic and social reform. There are, however, at least four arguments that attest to the importance of this intermediate sphere.

The first is the complementarity existing between global and regional institutions in a heterogeneous international community. The advocacy of democracy, peace and disarmament are all examples of instances in which, given the existing degree of international heterogeneity, it is best to base the provision of the corresponding public goods on a combination of world and regional organizations. The protection of strategic ecosystems and many spheres of economic activity—such as macroeconomic policy coordination and others that will be touched upon later—are other cases in point.

The second argument refers to the extremely unequal size of the actors involved in global processes. In political terms, this means that, within the global order, the smaller countries will be able to make their voice heard (or heard much more clearly) only if it takes the form of a regional voice. This has to do not only with the development of rules and standards, but also with the defence of their interests under existing rules and standards. In fact, the paradox of the global system is that global rules are most important for small countries, which are, however, precisely the ones that have the least influence over their formulation and defence. Meanwhile, the most

influential actors try to avoid making commitments or to compel other actors to accept their rules. These problems can only be solved if the smaller countries organize themselves.

The third argument, which is closely tied in with the first two, is that regional and subregional institutions enjoy a greater sense of ownership. There are opponents to this view as well, of course, who contend that regional and subregional institutions are less powerful than their individual members. The validity of these arguments will therefore depend on the depth of the corresponding regional agreements, which is what ultimately determines their effectiveness.

As the world becomes increasingly interdependent, the scope of autonomy has shifted to subregional or regional levels in some areas. This is what has been happening in the case of macroeconomic policy. It is also the case with the regulation of competition and of public utilities when transnational corporations enter the market. In all these fields, the regional arena is becoming the crucial one for the exercise of some degree of true autonomy, and it is possible that this will increasingly be the case as time goes on.

The main conclusion to be drawn from this analysis is that global public goods should be provided by a network of world and regional institutions, rather than by one or a few international institutions. A system of this type can be made to function efficiently and may prove to be more balanced in terms of power relations. In fact, this is the most advantageous system for the less powerful countries within the global order.

The construction of a truly new international architecture is founded upon the overall effect of global and regional institutional reforms. Unfortunately, many of the proposals put forward in recent years regarding the financial and, above all, social aspects of the international architecture focus almost entirely on adapting national structures to the global era. In other words, these proposals are looking at the *national* rather than the international architecture, and this is precisely their main weakness.

#### **4. Equitable participation and appropriate governance**

The insufficient degree to which developing countries participate in international economic institutions has been a controversial issue in recent years. In some cases—as in the formulation of financial rules and standards—they play little or no role at all. In others, the role they play is not commensurate with the size of their economies, much less that of their populations; this point has been raised, in particular, in connection with their voting power in some institutions. In still other instances, even though decisions are made by consensus, agreements are reached on a different basis; this argument has been made in relation to the world trading system, for example. In addition, a number of experts have pointed out that the cost of active participation in a complex world order may be prohibitive for the poorest and smallest countries.

These circumstances demonstrate the importance of ensuring adequate participation in decision-making at the international level. Achieving this will require positive discrimination in favour of poor and small countries on the part of the international community. As discussed in the preceding section, it will also require an effort on the part of the smaller countries to organize themselves at the regional or subregional level.

Another point to be made here is that preference should be given to institutional schemes having the largest possible number of active participants. Although groups formed by countries that share a particular interest or specific purpose may contribute to consensus-building, such groups should channel their views through established mechanisms rather than taking their place.<sup>4</sup>

The adoption of appropriate rules of governance is another essential element. Principles developed at the national level in relation to democratic and corporate governance can serve as the

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<sup>4</sup> See, for example, Culpeper (2000) regarding the proliferation of groups or associations dealing with financial issues.

foundations for building and improving international institutions (Marfán, 2002). There is no single formula for accomplishing this, since constitutions, laws, rules and regulations, and traditions differ in each historical context and evolve over time. It can be said, however, that the most effective and legitimate forms of governance are based on shared principles. These principles do not, moreover, develop spontaneously, and an explicit effort must therefore be made to institutionalize them.

Four principles of good governance can be outlined here. The first is for governmental functions to be carried out by a body with executive powers rather than by an assembly. The second is that the civil rights of the governed take precedence over rules and regulations established by the various levels of government. Consequently, the rights of minorities should be clearly established, while bearing in mind that their identification and recognition as fundamental rights are the end result of a learning process. The third principle is that the authorities should regularly give an accounting of what they have done to safeguard the interests of the community and uphold the rights of all its members. Transparency, timely disclosure and, more generally, accountability are essential components of this community process. The fourth principle is that the authorities should submit to the scrutiny of independent bodies and to outside audits that will provide confidence among minority groups. These groups do not govern, but they do have the right to oversee the actions of those who do hold power. Furthermore, the bodies in charge of enforcing individual rights should have the power to penalize wrongdoing.

A good example of the application of these principles is provided by political governance in a representative democracy, where executive power is exercised by representatives who have been elected by the majority. It is the duty of this branch of government to uphold the fundamental rights of citizens as set down in the Constitution and other laws that apply equally to all citizens and to provide a regular accounting of the ends and means by which the government functions. Oversight of its acts and its enforcement of citizens' rights and of the law are carried out by independent agencies. An important part of this function is the auditing performed by the principal parliamentary minority (the opposition).

Another example can be found in corporate governance. In this case, majority shareholders control the firm's board of directors and management. The dispersion and varying interests of minority stakeholders, on the other hand, make it difficult for them to organize themselves effectively. Good corporate governance seeks to prevent the shareholders that hold a controlling interest from obtaining a disproportionate share of profits or other benefits relative to the size of their stake. To achieve this, executives and members of the board are required to comply with certain rules concerning transparency and timely disclosure and with regulations that set out their responsibilities. In addition, there are independent oversight agencies (including outside auditors) and in-house auditing committees (usually formed by members of the board elected by minority shareholders). These bodies complement the work of regulatory agencies and the judiciary, which have the power to penalize wrongdoing.

The governance of the globalization process could be substantially improved by adherence to these same principles. The large nations are obviously the leaders of the globalization process and hold a dominant position in the major international financial institutions, in which voting power is based on capital contributions. The resemblance ends there, however, since the other principles of governance are not clearly established. For example, it is not certain that the major nations' control over the process is legitimized by their respect for the rights of all countries. Nor is there a universally accepted institutional structure for upholding the rights of less powerful nations. In fact, quite often there is not even a clear idea of what those rights are.

The application of these principles to improve the governance of the globalization process will therefore entail according priority to the fundamental rights of developing countries (especially the smaller ones), institutionalizing accountability and increasing oversight by bodies that will inspire the confidence of all the parties concerned. This approach involves placing certain limits on

the power of the most influential countries, since this is the only way to improve the governance of the globalization process. It will also lead to a greater commitment to the global institutional structure on the part of developing countries by increasing their sense of ownership.

## **II. National strategies for dealing with globalization**

### **1. The role and basic components of national strategies**

As has been discussed at length in the literature on institution-building in recent years, in today's global era, any development strategy must be found upon a solid, democratic social covenant to ensure its political stability; non-discretionary local systems and modes of behaviour that provide security as to contract performance; and the formation of an impartial, relatively efficient State bureaucracy. These are also, of course, basic components of a pro-investment environment as well.

These general sorts of institutional elements are not sufficient in themselves, however. They are the backdrop for the development process, but they do not account for the specific forces that drive growth in developing countries or, in many cases, that lead to the depletion of growth impulses.<sup>5</sup> National strategies for today's global era should incorporate at least four core elements: (a) macroeconomic policies designed to reduce vulnerability and facilitate productive investment; (b) strategies for developing systemic competitiveness; (c) a keen awareness of the priorities of the environmental agenda, which, by its very nature, is essentially global in scope; and (d) highly active social policies, especially in the fields of education, employment and social protection (ECLAC, 2000a, 2000b 2001b; ECLAC/UNEP, 2001).

There are no universally valid models in any of these areas. Thus, the institutional learning process and, most importantly, democracy have a broad sphere of action in which to function. One of the most serious mistakes made in the last quarter of the twentieth century was the promotion of a single "solution" in each of these fields based on the principle of full market liberalization. The tendency to equate successful integration into the globalized world with economic liberalization overlooks the fact that many equally successful strategies have *not* been based on all-out market liberalization but instead on various ways of forming "virtuous-circle" linkages between the State and the market. It would be just as mistaken, however, to take the opposite approach and try to resuscitate models which were successful when the world economy was less integrated but which thus correspond to stages in the development of the world economy that are now clearly a thing of the past.

### **2. Macroeconomic strategy**

The experiences of Latin America and the Caribbean during the final quarter of the twentieth century demonstrate that all forms of macroeconomic disequilibrium are economically and socially costly. A number of lessons can be drawn from these experiences. First, macroeconomic discipline is essential, but it should be defined in a much broader sense than it generally has been in economic discourse in recent decades, which has focused attention on fiscal balances and low inflation. This narrower view overlooks many important dimensions of macroeconomic stability, such as balance-of-payments sustainability, the soundness of national financial systems, and the stability of real variables such as economic growth and employment. Macroeconomic management should be directed towards avoiding unsustainable public or private deficits, guarding against financial imbalances in flows or in the way balances are structured, controlling inflation and curbing any instability in real economic variables.

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<sup>5</sup> To use the terms employed by Maddison (1991), these factors are associated with the "ultimate causality" rather than with the "proximate causality" of economic growth. See also Ocampo (2002a).



In order to achieve all these objectives, some important policy choices will have to be made and, for these purposes, there is no simple way of defining stability or any universally valid system of macroeconomic management. In a volatile international environment, some degree of flexibility in macroeconomic management has to be combined with suitable regulations. Recent events leave no doubt as to the fact that, in the long run, macroeconomic authorities' credibility can be strengthened more effectively through prudently managed flexibility than through the adoption of overly rigid rules.<sup>6</sup>

Within this framework, one of the authorities' key objectives should be to lengthen the time horizon for macroeconomic management in order to take in the whole of the business cycle and support dynamic long-term growth. Encompassing the entire cycle will provide the necessary scope for the adoption of countercyclical macroeconomic policies that can help forestall unsustainable booms and afford sufficient flexibility in dealing with external crises. The option of employing countercyclical policies is quite limited without the support of international institutions, however, and this has consequently become one of these institutions' basic functions in the current phase of the globalization process. The short- and long-term objectives of macroeconomic policy are, to a great extent, complementary—since more stable economic growth is one of the strongest incentives for fixed capital investment—but they can also confront policy makers with some difficult choices.

Based on these principles, fiscal policy should be designed using a pluriannual horizon. It should also be based on long-term guidelines for ensuring a structural fiscal balance that allow moderate, temporary surpluses or deficits for countercyclical purposes or, alternatively, set an explicit target for the ratio between the public debt and GDP. The active use of stabilization funds (or equivalent instruments) can be the most effective way to build up surpluses during booms that can then be used to contend with crisis situations. The desirable level and structure of public revenues and expenditures will, in the long run, depend on what kind of demands each society's fiscal covenant places on the State (ECLAC, 1998c). In countries with very low tax burdens (as is true of a number of Latin American nations), taxes can be increased to finance the core functions of the State, especially in social sectors. In fact, as recently stated by the World Bank (2002a), the tax burden and levels of public expenditure in the developing world tend to be low in comparison to those of developed countries.

Monetary and exchange-rate management are, of course, closely related. Some degree of flexibility in the exchange regime is essential for countercyclical monetary management (i.e., for the application of restrictive policies during booms and expansionary ones during the downswing in the cycle). The desirable degree of flexibility will be greater in the larger economies that have well developed capital and exchange markets. It may be wise to allow the exchange rate to appreciate in order to soak up excess foreign exchange during booms, while a depreciation may be needed to spur the production of tradables during crises and to provide enough breathing room for reactivation-oriented fiscal and monetary policies.

In financially open economies, the prudential regulation of capital flows, either through the use of reserve requirements or taxes on external borrowing or by means of direct regulation,<sup>7</sup> is an extremely useful supplementary tool for avoiding excessive external borrowing during booms and to prevent liability structures from becoming skewed towards short-term obligations. In more closed economies, caution should be used in opening up the capital account. In fact, if a country does not have a solid financial system, there is really no convincing argument for opening it up at all. Stronger prudential regulation and supervision is one of the pillars of any sound macroeconomic policy, since its core function is to prevent unsustainable financial structures from being spawned during economic booms.

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<sup>6</sup> This may, in fact, be the major lesson to be learned from Argentina's experiences over the past decade.

<sup>7</sup> Direct regulatory tools include rules on borrowing by public-sector agencies at all levels, direct restrictions on certain types of private flows (short-term borrowing, portfolio flows or external borrowing by non-tradable sectors).

In the long run, economic growth hinges on a combination of sound fiscal systems that provide the necessary resources for the public sector to do its job, a competitive exchange rate, moderate real interest rates and the development of a deep financial market. Macroeconomic policy should be focused on ensuring the first three elements. The last is a complementary process.

The key objective of financial deepening is to provide suitably priced investment finance with sufficiently long maturities. In the absence of a well developed financial market, many investors (particularly the larger ones) will turn to international lenders, thereby substituting exchange risk for maturity risk. Use of this escape valve therefore entails serious hazards, as well being beyond the reach of smaller firms. The liberalization of financial systems in Latin America and the Caribbean has not deepened financial markets or reduced the region's high intermediation costs as much as had been expected. Consequently, the public sector still has an important role to play in promoting the emergence of new intermediaries and financing mechanisms (e.g., pension and investment funds, bond and mortgage markets, and hedging systems) or in arranging for the direct provision of such facilities by well-run development banks.

The existence of this unsatisfied demand for investment finance is compounded by the absence of suitable financial services for micro- and small enterprises and for the poorer households. This situation creates a greater demand for direct or indirect public intervention. Low national savings rates are another constraint on investment financing in Latin America and the Caribbean. Efforts to increase public-sector saving, the creation of corporate savings incentives (especially to encourage firms to retain profits) and special mechanisms to foster household saving (for retirement, in particular) may be useful means of raising national savings rates (ECLAC, 2001b, Chap. 4).

### **3. Building systemic competitiveness**

A dynamic transformation of production structures should not be viewed as a reactive phenomenon that automatically follows from good macroeconomic management, but rather as an active and essential component of any development strategy, even at this juncture in the globalization process (Rodrik, 1999a; ECLAC, 2000a). The core objective of these strategies should be to build systemic competitiveness. This concept, whose first formulations date back to work done by ECLAC over a decade ago (ECLAC, 1990; Fajnzylber, 1990),<sup>8</sup> is based on three main elements. The first is the role of knowledge as the foundation for competitiveness, since it is the only factor that enables countries to produce goods and services capable of “making the grade” on international markets while protecting and increasing their citizens’ real incomes. The second is the idea that competitiveness depends less on individual firms than on the performance of each sector as a whole, its interaction with input-supplying sectors and, ultimately, the smooth operation of the entire economic system. The third is that, given the serious imperfections existing in technology markets and strong externalities among economic agents associated with the systemic nature of competitiveness, the development of sound technology markets and production linkages is in large part the outcome of the deliberate efforts of the State, business associations and, particularly, of collaborative initiatives undertaken by the State and private sector to create a virtuous circle that will bolster the system’s competitiveness.

The three basic components of this strategy are: (i) the creation of innovation systems to speed up the accumulation of technological capacity; (ii) support for changes in production structures and the formation of production linkages; and (iii) provision of quality infrastructure services. The creation of adequate social safety nets and sustainable environmental management are important complements to this effort. These elements concern different spheres of activity, however, and will be considered later on in this document.

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<sup>8</sup> These concepts also contain elements developed concurrently by other authors: see, in particular, Porter (1990).

Given the key role of knowledge, any competitiveness strategy must be based on increased investment in education, vocational and business training, and science and technology. This process, whose aim is the creation of dynamic innovation systems, should be led by the State, but the private sector should also be actively involved. These efforts should focus on increasing the capacity of all actors to absorb knowledge and on developing appropriate mechanisms for the transfer and adaptation of technology and business skills, especially to medium-sized and small firms. Business associations and incentives for various forms of collaboration between these associations and providers of educational and vocational training play a fundamental role in this effort. Innovation systems should be strengthened at all (i.e., local, national and, to a growing extent, regional) levels.

In view of the intrinsic importance and cross-cutting nature of new information and communication technologies, efforts to promote their active use throughout the economic, social and even political (e-government) systems are of vital importance. Access to a quality telecommunications network and to competitively priced information and communications equipment is one of the pillars of this endeavour. Other mainstays include the production of software, incorporation of technology into production and trade, and the formation of business networks that make effective use of new technologies. The incorporation of new technologies into the educational and health-care systems requires special State support and community mechanisms to give low-income sectors access to them, since the threat of a “domestic digital divide” (produced by disparities between different social sectors’ access to new technologies) is a much more serious threat in Latin America and the Caribbean than the international digital divide.

Economic growth necessarily entails an ongoing process of changing production patterns in which some branches of production lead growth while others lag behind. This process is not necessarily automatic or harmonious, since the expansion of new sectors involves the development of a complementary set of activities based on a technological learning process, the establishment of commercial networks and significant coordination costs (Hirschman, 1958; Chang, 1994; Ocampo, 2002a). The diversification of the production structure must therefore be an explicit priority of any competitiveness strategy. This idea has been expressly recognized in the industrialized world, where the process has become virtually synonymous with the development of cutting-edge technologies. It also enjoyed wide acceptance in the past as a component of State-driven industrialization strategies in developing countries, and it is an essential element of the most successful developing economies, especially those in East Asia. Diversification strategies have been discarded in most countries of the region, however.

Within the context of the globalization process, the diversification of production has three priorities. The first is the diversification of the export base and of target markets. This calls for a very active form of commercial diplomacy aimed at securing stable access to external markets, as well as the development of a competitive, high-quality service infrastructure—in the areas of finance, insurance, promotion and certification—to back up exports of goods and services. In this endeavour, one obvious priority is to increase the region’s share of world trade in technology-intensive goods and services.

The second priority is to develop programmes to broaden the linkages of activities oriented towards the international market or dominated by transnational corporations. The weakening of such linkages is one of the most problematic aspects of recent trends in the region. For this reason, “linkage policies” designed to increase the value added in export sectors and/or sectors with a high proportion of FDI should be adopted as a forward-looking priority. Among these linkages, those associated with the provision of technology-intensive services are of special importance. These policies would, in practice, amount to a shift away from a policy aimed at maximizing the quantity of exports and FDI to a policy aimed at improving their quality.

The third priority is to support the formation of production clusters in particular locations. This process is a response to the growing dynamism of local spheres of economic activity in the global era. It is particularly important for steering small and medium-sized enterprises towards production for the international market or linkage with export sectors (ECLAC, 2000a, vol. III, chap. 3).

The other core aspect of competitiveness policy is the provision of *quality infrastructure services*. In a number of countries, various public-private partnerships have succeeded in making significant progress in this regard, particularly in telecommunications, port services and maritime transport, and —to a lesser extent and with wider discrepancies from one country to another— in energy services (electricity and gas) (ECLAC, 2001a, Chap. 5). It must be acknowledged, however, that private participation in these sectors has been accompanied by serious regulatory gaps and, in some cases, has burdened the State with contingent liabilities that do not always have a sound rationale (ECLAC, 1998; 2000a, vol. III, chap. 5). The main problems in terms of infrastructure continue to be found in land transport, including both railways and roads. Shortcomings in both the quantity and the quality of road networks are particularly severe. Accordingly, substantial improvements in road infrastructure, the correction of regulatory gaps and the rationalization of the management of contingent liabilities should be given priority, as should improvement of the efficiency of State enterprises in areas where the State continues to provide services directly.

Progress on all these fronts will require major institutional and organizational efforts to formulate and implement active competitiveness policies, since the pre-existing systems of government intervention in productive development were dismantled or severely curtailed in most of the countries of the region during the economic liberalization phase. Such systems would, in any case, be ill-suited to the new environment. In this area, as in others, it is necessary to “invent” new institutions, whose management will no doubt require an intensive learning process.

The possible models for these institutions are certainly not uniform, since they depend on the specific characteristics of each situation. A public-private partnership is essential to fill the information gaps found in each of these sectors (i.e., the former’s limited microeconomic information and the latter’s insufficient familiarity with global and cross-sectoral processes). In other words, institutional design must take into account both the “forest” and the “trees”. The instruments to be developed for this purpose should be based on checks and balances that establish a clear link between incentives and results (Amsden, 2001) and thereby preclude rent-seeking behaviour on the part of beneficiary firms.

This endeavour should comprise various combinations of horizontal and selective instruments, depending on each country’s institutional context, to be chosen on the basis of shared strategic visions of the directions to be emphasized in joint public-private efforts. This is less an exercise in “picking winners”, as it is commonly called, than an effort to identify opportunities and direct the actions needed to ensure that some of them bear fruit. This type of strategic exercise is one in which all private investors engage on a regular basis. It is hard to understand why some schools of economic thought consider it illegitimate to carry out such an exercise in relation to a particular territory, whether it be a town, a country or even a subregion or region.

#### **4. Environmental sustainability**

The agenda for environmental sustainability has gradually made its way into the institutions, public policies and business practices of the countries of the region. While it is not yet, in the fullest sense, an integral part of the development process, the progress achieved thus far constitutes a much better institutional and social foundation than the one available 10 years ago, when the United Nations Conference on Environment and Development was held in Rio de Janeiro. The concept of sustainable development has also been gradually incorporated into educational systems, and the change in society’s perception of environmental issues has strengthened citizens’ awareness and

commitment. The primary hurdles that remain in this area have to do with institutional and financial considerations and with the perception by business circles in the region of environmental sustainability as a cost rather than an opportunity.

With respect to institutional mechanisms, steps should be taken to set up clear and consistent regulatory frameworks and to achieve a stable level of public expenditure with a view to generating significant synergies with international financing and private investment. On the basis of existing management methods, the time has come to develop a new generation of more effective and prevention-oriented instruments for the integration of economic and environmental considerations. This process should primarily involve the use of economic instruments to provide adequate incentives to meet sustainability goals and to promote a greater use of clean production technologies by small and medium-sized enterprises. One of the most promising lines of action in this area is the creation of genuine domestic (and regional) markets for environmental services, following the pioneering example of the Kyoto Protocol's clean development mechanism. Such instruments have the dual purpose of generating incentives to minimize environmental costs (the central objective of economic instruments), while at the same time channelling resources to the actors that are best able to provide environmental services most efficiently.

A more active sustainable development strategy will require the allocation of more government resources. One options is to introduce "green taxes," as has been done in some industrialized countries. While great strides have already been made, the further reduction of government subsidies for polluting industries is also important.

Furthermore, current frameworks must be adapted to integrate explicit environmental policies with the implicit ones associated with sectoral economic policies and the patterns of structural change they entail. In view of the regressive trend in energy efficiency taking shape in the region (see chapter 9), such integration and the use of this array of instruments should give priority to the reversal of that trend.

The formation of effective linkages between the economic and environmental agendas also requires a shift from a reactive agenda to one that takes a proactive approach to the relationship between environmental sustainability and economic development. This involves, first of all, identifying the opportunities offered by the global environmental agenda, especially as regards the possibility of becoming net providers of global environmental services, primarily in connection with the climate change and biodiversity agendas. The opportunities afforded by the clean development mechanism at the international level are particularly noteworthy in this regard. This proactive approach also entails taking advantage of opportunities to expedite scientific and technological development through the sustainable use of biotic resources, a better understanding of the region's natural resources and the development of its own technologies for tapping these resources in sustainable ways.

In addition, this approach involves the active use of foreign investment as a channel for the transfer of clean technologies, the exportation of goods and services having a high environmental content—organic agricultural products and ecological or environmentally certified tourism—and the promotion of the international certification mechanisms increasingly demanded by developed-country consumers. In fact, foreign investment and export activities in the region are proving to be the areas that have made the most progress in incorporating clean technologies.

Types of production that rely on an abundant supply of natural resources but are slow in leading to the diffusion of technical progress are being eclipsed by economies that are successfully developing knowledge-based forms of production. It is therefore necessary to redirect the region's model of competitiveness towards new activities and towards an increase in the value added by natural resource-intensive activities. This requires the promotion of industrial activities and complementary services, including those that will increase the sustainability of primary activities.

Because of the territorial specificity of environmental management functions, strong operational links with local authorities need to be forged. Solving high-priority environmental problems in such areas as water resources management, solid waste disposal, ecological land use and urban management requires the decentralization of environmental policies and instruments and a more balanced distribution of public expenditure and private investment at the district and local levels. It is at the local level that the commitment between the State and the citizenry is expressed most clearly. Hence the importance of continuing to promote social consensus-building in relation to the environmental agenda, particularly within the context of provincial and municipal sustainable development councils and the local Agenda 21 framework. Forums of this sort can become powerful tools for organizing public affairs and mobilizing additional resources for the promotion of environmental sustainability at the subnational level.

## **5. Social strategies in an era of globalization**

Globalization has increased the demands of international competitiveness and strengthened the interrelationship between competitiveness and employment. It has also given rise to new social risks. On the social front, national globalization strategies should therefore focus on three areas: education, employment and social protection. Progress in these three areas is a prerequisite for equitable participation in the global era. Moreover, such progress is essential for the implementation of a rights-based international agenda at the national level.

Advances in these three areas are mutually reinforcing. Education is the primary means of halting the intergenerational reproduction of poverty and inequality. At the same time, globalization has increased the need for human resources capable of engaging in new modes of production, competition and coexistence. Employment is at the heart of social integration, as an aspect of social fulfilment and as a source of income, and it therefore determines individuals' ability to gain access to basic consumer goods and thus avail themselves of their basic rights. Such access is crucial in the absence of society-wide safety nets. Among the risks faced by the population are those associated with macroeconomic volatility, the adaptation of new technologies and ways of organizing work, and the elimination of jobs in many sectors as a result of international competition.

In *education*, national efforts should focus on reducing disparities in attendance and achievement between income levels and between rural and urban areas at all levels of education (pre-school, elementary, technical, university). Efforts to achieve greater equity should therefore focus on achieving universal coverage, preferably up to the end of secondary school, while reducing differences in the quality of the education provided to the various socio-economic groups.

In developing their educational systems, the Latin American and Caribbean countries face both traditional challenges and challenges related to new technologies. Meeting them will require a diversified package of policies, which each country must tailor to fit its own characteristics and objectives. Public education expenditure must also be increased, of course, with the general objective being to reach levels similar to those found in OECD countries: 6% of GDP. To improve educational continuity, governments must give priority to increasing the coverage of pre-school education, which is still comparatively limited; expanding secondary-education coverage and graduation rates; increasing the availability and range of technical and professional educational options; and achieving greater consistency between technical/vocational and higher education, on the one hand, and the requirements of the job market and competitiveness, on the other. These efforts should be supplemented by targeted compensatory measures designed to have long-lasting effects in areas in which educational performance is poor; more relevant curricula; large-scale use of new technological resources; and the empowerment of communities to assist in furthering educational goals.

Social inclusiveness requires the development of new approaches to learning. Today, these approaches mainly involve access to knowledge, networking and the use of information and

communications technologies. Educators need to make better use of the cultural and educational audiovisual industry by harmonizing cultural programming in the media with schooling, so that the two will reinforce each other. Urgent steps should be taken to ensure that students in poor rural and urban areas can learn to use interactive media that are not available to them at home, since school is the ideal environment for ensuring, distributing and democratizing their use. The modernization of educational tools is not enough, however. It is even more important, in conjunction with these new tools, to develop higher cognitive functions by orienting the learning process towards problem identification and problem-solving, an increased capacity for reflection, creativity, the ability to distinguish between what is relevant and what is not, and planning and research skills, since these functions are vital in an information-saturated world. Progress also has to be made in the design and use of portals (educational content) and in the training of educators (teachers, administrators and families).

In this era of globalization, the primary challenge in the area of *employment* is to prevent the expansion of world trade from resulting in the violation of workers' basic rights or in the downward convergence of wages and working conditions in countries at different levels of development. The Declaration on Fundamental Principles and Rights at Work and its follow-up reaffirms the member countries' commitment to such fundamental rights as freedom of association and the right to collective bargaining, the prohibition of forced or slave labour, progressive abolition of child labour and non-discrimination.

The creation of new jobs is sustainable only when the economic activities concerned are competitive in the long term. This means that productivity must be enhanced. As a means to this end, comprehensive strategies must be devised to increase investment in human resources and ensure that gains in competitiveness are not based primarily on the reduction of labour costs or the concentration of wage increases in the most dynamic or well organized sectors. Productive restructuring and increased labour mobility make it necessary to give workers opportunities to learn how to adapt to new conditions in order to increase their employability. Countries will therefore have to invest in worker retraining based on a new approach and, possibly, a different institutional framework. The development of basic competencies, rather than specific skills, will give workers a knowledge base that will enable them to adapt more easily to the demands of new jobs. Since informal activities, micro-enterprises and small businesses play a major role in generating employment, they should be given access to factors of production (capital and land) and to the tools they need to modernize their operations (managerial and technological know-how), and programmes should be set up to help them gain access to dynamic industrial networks.

To these ends, ministries of labour should espouse a labour policy that places more emphasis on self-regulation by social actors (social dialogue) and encompasses the large groups of workers who remain outside modern sectors (unemployed and informal-sector workers). In addition, they should be repositioned in political and administrative terms so as to give them a place in economic cabinets and to restore, in many cases, their role in setting the direction for labour policy.

The development of *social safety nets* should be guided by the principles of universality, solidarity, efficiency and integrality (ECLAC, 2000a). Progress cannot be made towards universality unless the sharp inequities in access to services and in their quality are corrected. Solidarity should be ensured through a combination of compulsory contributions, public transfers, and cross-subsidies between different income strata and risk groups.

Social safety nets are seriously flawed in terms of both coverage and the new risk structure associated with globalization. The countries of the region, with their chronic shortcomings in the coverage of traditional risks (illness, old age, disability and death, as well as nutrition, housing and education), now face the additional burden of protecting their populations from the effects of such risks as labour and income vulnerability.

Sharp business cycles and the rigidity of real wages—which has been heightened by measures for curbing inflation—have made wage earners more vulnerable to the effects of the business cycle. Since many of the existing social safety nets were designed to serve the needs associated with wage-based employment, it has now become necessary to develop a system of social protection whose coverage extends beyond the formal sector and to create more comprehensive unemployment insurance schemes. Of course, job creation policies will remain crucial in this context. As the experience of some European countries demonstrates, social protection policies should focus on boosting employment as a means of helping to ensure universal social protection. In emergency situations, it is necessary to develop special employment and poverty alleviation programmes for vulnerable sectors, based on permanent institutional arrangements that allow such measures to be implemented quickly and that link them to other objectives such as job training, infrastructure provision and territorial development.

Because of the extent of informal-sector employment and unemployment, the coverage of traditional social safety nets is limited, as is the usefulness of wage-linked contributions as a source of funding. Accordingly, emphasis should be placed on the implementation of systems based on citizenship rather than on employment. Reforms in general, and reforms in the social security system in particular, should introduce combined and complementary insurance mechanisms that reflect the diversity of employment relationships. These types of arrangements will also promote labour mobility and provide protection against external shocks.

The quantity and quality of the social safety nets that can be funded by mandatory contributions, general taxes or a combination of the two depend on each country's current level of economic development and on its fiscal covenant, which embodies political and social agreements about the level of well-being that should be guaranteed to its citizens. The fiscal outlook is not static. Thus, a fiscal covenant for the protection of citizens' rights can include an element of progressivity whereby public contributions for social protection and poverty reduction can be increased at the margin. Moreover, an inclusive system of social protection must place special emphasis on the views of target groups and provide for a constant flow information to the public regarding opportunities for and means of accessing social safety nets and for taking part in decision-making.

### **III. The key role of action at the regional level**

Latin America and the Caribbean has progressed further in terms of regional integration than any other region in the developing world. In recent times this was largely a result of the political impetus that built up around the issue of integration in the late 1980s and early 1990s. Unfortunately, this momentum has waned in the last few years. In addition, the institutional structure remains fragile and the convergence of existing agreements towards the formation of larger areas and the consolidation of customs unions are tasks yet to be accomplished. It is therefore imperative for the countries to renew their political commitment to regional integration. Such a commitment would not be incompatible with broader trade negotiations, such as those directed towards the formation of the Free Trade Area of the Americas or global negotiations. Nonetheless, if regional integration processes are to remain relevant within the context of a hemispheric free trade area or the globalization process, they will need to be deepened in the future.

The momentum displayed by the regional integration process of the late 1980s was a paradoxical phenomenon in the sense that, according to the more orthodox doctrines, integration was (and still is) a force that distorts trade flows. Contrary to those views, however, the evidence suggests that integration tends to create rather than divert trade flows. Moreover, the flows it generates tend to be of a high quality (ECLAC, 1998b). This is borne out by the tendency of regional flows to have greater technological content and to create more production linkages. One of



the main advantages of these processes is that countries with similar levels of development can take advantage of specialization economies for intra-industry trade. Another advantage is that lower transaction costs allow smaller firms to participate in intraregional trade, especially between neighbouring countries. This helps to counter the traditional tendency for external trade operations to be monopolized by larger firms within each sector of production or trade.<sup>9</sup>

In consequence, regional markets can provide an excellent training ground for firms—especially smaller enterprises—to learn to deal with the external markets and can therefore help new firms and sectors to venture into export activity. A further benefit of such integration processes is that they provide an opportunity to harmonize a wide range of differing rules and thus reduce the associated transaction costs, thanks not only to geographical proximity but also to the similarity of institutional traditions.

This positive vision of integration is borne out by the increase recorded in intraregional trade, especially within South America, between 1990 and 1997, when the augmented flows consisted primarily of manufactures, and particularly goods with a high technology content. Recently, however, these trade flows have been hurt by macroeconomic instability in the region. In fact, they have proven to be highly elastic in response to abrupt business cycles in a number of the countries, especially in South America (ECLAC, 2001).

Macroeconomic cooperation has thus become essential in order to consolidate trade integration processes. In this respect, progress has been made in all the existing subregional schemes, and these initiatives should continue to move forward from the discussion and exchange of information and the adoption of common macroeconomic rules towards the institutionalization of peer review for preventive purposes and the design of stricter forms of macroeconomic coordination. Such mechanisms may eventually lead, in some cases, to monetary unions. In tandem with these efforts, the prudential regulation and supervision of national financial systems also stands to benefit from progress in the exchange of information, peer reviews and the development of common standards.

ECLAC has also argued (2001b) that efforts must be made to develop regional and subregional financial institutions. Latin America and the Caribbean already have major assets of this type, including a wide network of multilateral development banks made up of the Inter-American Development Bank, the Andean Development Corporation, the Central American Bank for Economic Integration, the Caribbean Development Bank and the Financial Fund for the Development of the River Plate Basin (FONPLATA). The Latin American Reserve Fund has built up a stock of experience which could serve as a basis for using regional resources to provide an increased level of exceptional financing for countries in severe economic difficulties. This could be accomplished either by significantly increasing the Fund's resources and membership or by means of mutual support agreements (swaps) between central banks.

In addition, the expansion of trade generates an increased demand for the harmonization of the different regulatory schemes. These systems comprise technical standards, including phytosanitary requirements, customs codes, and government procurement and servicing regulations. Several of these areas have already seen some progress. It is important to move forward in other areas, however, most notably in relation to rules on competition and on the regulation of public utilities. With respect to rules on competition, the European experience provides grounds for the belief that, as common markets and an active process of intraregional investment are consolidated, agreements on competition issues and, eventually, the adoption of a common policy on competition may have distinct advantages over unfair competition rules applying solely to external trade. A framework of this nature would, among other things, make it possible to deal more effectively with potential unfair practices by transnational corporations.

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<sup>9</sup> See Berry (1992) for an account of this.

Since high-technology goods account for a large percentage of intraregional trade, it is important to take joint action to promote the development of the corresponding sectors in ways that will avoid the rigidities of the old (and largely unsuccessful) sectoral complementarity agreements. Such measures should seek to generate regional and subregional innovation systems and should include the development of broader schemes for cooperation in education, research and technical development. They could also provide a suitable framework for strategic alliances in the areas of research and development or for the formation of new production clusters made up either of domestic firms in countries that are members of a regional or subregional agreement or of these firms and transnational corporations. A key element in this process would be the establishment of regional funds to facilitate these efforts, following the lead of the Science and Technology Fund created at the initiative of Brazil during the South American Summit held in Brasilia in 2000. Funds of this type should also serve to accelerate the transfer of technology to less developed countries.

In the area of physical infrastructure, in addition to harmonized standards on transport, energy and telecommunications, infrastructural and regulatory networks need to be geared to the demands of regional integration. This kind of approach necessarily entails action at a supranational level. An interesting example in this respect was the creation in 1994 of the Association of Caribbean States to promote greater cooperation in the subregion. The physical integration plans agreed upon at the South American Summit of 2000 and the Puebla-Panama Plan are other indications of progress in this area. A number of border-area development plans are also underway that represent a further example of the major shift in spatial perception brought about by integration. This type of approach is also gradually being introduced in initiatives for the promotion of the sustainable development in the management of shared ecosystems (e.g., the Amazon, the Caribbean Sea, the Andean ecosystem and the Meso-American corridor) and shared river basins.

The uniqueness of the Latin American and Caribbean region stems not only from its natural resource wealth and the global importance of the environmental services it provides, but also from the global hazards inherent in the region's rapid environmental deterioration. It is extremely important for the countries that have taken the lead in the negotiations regarding the region's contribution to the two most significant issues on the world sustainable development agenda—climate change and biodiversity—to maintain that position. A clear example of this is the region's role in the international negotiations on the development of the clean development mechanism provided for in the Kyoto Protocol, which could, in addition, generate income for the region.

Special mention should be made of the potential valuation of the environmental services generated by the region's ecosystems. Projecting the region's uniqueness, consolidating the regional effort to protect strategic ecosystems and obtaining worldwide support for this initiative represent the starting point for a regional agenda based on the objective of safeguarding the stability of the most important and valuable ecosystems from a global standpoint.

The existing structure of the region's environmental institutions needs to be gradually reformed, beginning with the consolidation of the role of the Forum of Environment Ministers and the environmental programmes associated with subregional integration schemes, such as the Central American Environment and Development Committee, the Amazon Cooperation Treaty, the environmental agreement of the Andean Community and the Programme of Action for the Sustainable Development of Small Island Developing States in the Caribbean. Efforts must be made to achieve greater coherence in the economic, social and environmental dimensions of these programmes and to develop an agenda that integrates relevant sectoral policies and brings about a convergence of regional and subregional stances in global debates on sustainable development.

In the social sphere, numerous agreements have been reached by the different subregional integration schemes, as well as a number of broader instruments,<sup>10</sup> but the implementation of these provisions is very limited (di Filippo and Franco, 2000). In this respect it appears preferable to set more limited and concrete objectives whose attainment will have a more thorough-going impact. Two areas are particularly important in this respect. The first is support for labour migration. To facilitate the migration of workers and to ensure adequate protection for them and their families, it will be essential to devise means of transferring social security coverage, particularly in the case of health and retirement benefits, from one country to another.

The second is the area of education. Progress can be achieved in this domain by generating regional exchanges and creating networks of experts, governments and organizations that can operate either by electronic communication or in face-to-face meetings. These contacts would allow experts to discuss and share best practices, successful and imaginative experiences, the strengths and weaknesses of reforms, teaching modalities, school computerization programmes and so forth. It is also important to undertake joint measures to generate educational content, software, portals and textbooks; compare educational achievements; set standards by levels; establish criteria for assessing professional qualifications; and implement in-service teacher training programmes. In addition to contributing to the development of the region's education systems, these initiatives would facilitate the establishment of regional accreditation systems and contribute to the reciprocal recognition of professional qualifications. It is also important to "educate for regional integration" and thus increase people's awareness of the fact that they belong to a region that has shares a culture, a history and perhaps a common fate. Basic education is the ideal sphere in which to instil an awareness of regional identity and put an end to xenophobia.

A final point to be made here is that the "democratic clauses" included in integration agreements, the various forums for the region's Heads of State, and the nascent subregional and Latin American parliaments together provide the cornerstone for a broad agenda of political integration that is as yet in its infancy.

#### **IV. The global agenda**

Globalization is a multidimensional process. A detailed examination of some of its dimensions—such as its political or cultural aspects, for example—goes beyond the bounds of this study, however. The analysis of the global agenda presented in this section and in part II is not, therefore, intended to provide a comprehensive treatment of the subject. As a case in point, the discussion on global public goods focuses on just two—the international macroeconomic order and sustainable development—out of a wide range of subjects referred to in the introductory portion of this chapter. The importance that ECLAC places on the correction of international asymmetries, on the other hand, justifies a more detailed consideration of this issue's three main dimensions: financial and macroeconomic aspects, production and technology, and the international mobility of labour. The chapter concludes with a series of observations regarding the development of a rights-based international social agenda.

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<sup>10</sup> There are, in fact, agreements on individual and collective guarantees for migrants, modalities of representation of corporate interests (businesspeople, workers, professionals, consumers), labour mobility and provision of health services in border areas, standardization of educational and professional credentials, and validation of pensions.

## 1. Provision of global macroeconomic public goods

In recent years there has been a growing awareness of the fact that international financial and macroeconomic stability is a global public good which generates positive externalities for all international market participants and precludes negative externalities associated with contagion, whether from “irrational exuberance” (to use the term coined by Alan Greenspan, Chairman of the Federal Reserve Board), or from financial panics and recessionary impulses in general.

Hence the importance of taking global action on a number of fronts. The first is to build institutions capable of ensuring the global coherence of the major economies’ macroeconomic policies. The lack of mechanisms for fully internalizing the effects that those policies have on the rest of the world is one of the main defects of the existing international order. When policy inconsistencies are manifested in the volatility of exchange rates for the major currencies, they generate additional adverse spillovers for developing countries. IMF should play a central role in efforts to coordinate the major economies’ macroeconomic policies. The scope of such an initiative will extend beyond the bounds of the dialogues being conducted in more restricted arenas, such as the G-7 forum.

The second front is macroeconomic surveillance of all economies with a view to prevention and the formulation of codes of good practice for macroeconomic management (in particular with regard to fiscal and monetary policy, public and external debt management, and management of international reserves). A great deal of headway has been made in recent years, and this is reflected in the greater emphasis that the Fund is placing on prevention in its Article IV consultation process, on monitoring financial markets and on constructing vulnerability indicators or early warning systems.

Work on the formulation of international standards for the prudential regulation and supervision of financial markets and on the provision of market information has also been moving ahead. Although this is clearly a third line of action for ensuring international macroeconomic stability, efforts in this area have come under criticism on a number of counts: (i) the lack of participation by developing countries in the formulation of such standards; (ii) the tendency to standardize such regulations without taking into account differences in the individual countries’ regulatory traditions and absorption capacities; (iii) the attempts made to tie IMF financial assistance to compliance with codes and standards about which no international consensus has been reached; (iv) the limited attention devoted to such topics as the regulation of institutional investors operating in developing countries, direct regulation of highly leveraged activities, and operations in derivatives markets; and (v) the failure to devote sufficient attention to the regulation of rating agencies, whose evaluations have proven to be highly procyclical and have come under severe criticism. Thus, as the process of designing international standards proceeds, steps must be taken to rectify these situations.

An even more complex issue is the lack of initiatives for the design of international standards in respect of capital flows to developing countries. Because of the residual nature of these markets in global terms, they are not a central regulatory concern for the industrialized countries. Their regulation therefore tends to be covered by general standards that could have the effect of drastically reducing flows and/or raising borrowing costs unduly. The idea of giving rating agencies a major role in the industrialized countries’ regulatory systems by extending the application of a rule now used for institutional investors to include commercial banks could create similar difficulties, given the procyclical nature of risk ratings. These issues have been widely debated as part of the discussion of the Basle Committee banking reforms. Care should therefore be taken to ensure that any new regulatory measures that are adopted do not exacerbate the existing system’s discrimination against capital flows to developing countries (Reisen, 2001; Griffith-Jones and Spraat, 2001).

Although, strictly speaking, it does not correspond to the definition of a global public good, international cooperation in relation to issues of taxation is of growing importance, since the tax system is necessarily involved in obtaining a sufficient volume of public resources to finance the provision of an adequate supply of national, regional and global public and *merit goods* (Zedillo et al., 2001; FitzGerald, 2001). Competition for footloose investment has tended to result in the reduction of capital taxes and this, in turn, has either diminished the public sector's ability to generate resources or driven up the direct or indirect tax burden for less mobile factors of production, especially labour. Given these circumstances, steps should be taken to promote information-exchange agreements among tax authorities, double-taxation accords and other agreements of a broader scope aimed at avoiding tax competition, coordinating measures to combat tax evasion and, eventually, harmonizing tax systems. The treatment of offshore centres warrants particular attention in this respect.

The international institutional structure in this field is virtually non-existent. Consequently, in addition to new agreements, it may be necessary to create a new organization to foster international tax cooperation. Subregional or hemispheric agreements and the expansion of cooperation activities already being pursued by OECD with non-member countries are intermediate options that should also be explored.

## **2. Sustainable development as a global public good**

The 1992 United Nations Conference on Environment and Development was clearly a milestone in the formulation of a global agenda for sustainable development, since it marked the birth of a political consensus of the highest level. This was the beginning of the transition towards a new international environmental regime based on a new generation of environmental conventions and a global programme of action. Agreement was also reached at that time on new principles that would provide a more equitable foundation for international cooperation. Although the international community took up these agreements enthusiastically, this initial momentum began to wane as the decade wore on. Yet 10 years after this conference was held, the principles that were defined there are still very much alive. The World Summit on Sustainable Development to be held in Johannesburg in 2002 should open up new opportunities for making the global agenda more cohesive, strengthening its implementation and forming operational linkages with regional and national agendas.

Some of the most critical items for inclusion on the global agenda which are now being discussed at the international level (United Nations, 2002a; ECLAC/UNEP, 2001) are, first of all, the need to modify unsustainable consumption and production patterns in both developed and developing countries. In this connection, energy efficiency is certainly one of the core issues on the agenda. Clearly, one of the goals here has to be the formation of a world alliance for the use of renewable energy sources and clean, energy-efficient conventional technologies. The Kyoto Protocol is the ideal multilateral instrument for driving this strategy forward. The recent agreements reached at Bonn and Marrakesh, which elaborate upon the Protocol, give reason for cautious optimism regarding the implementation of the clean development mechanism, which, with one prominent exception, has received the support of the entire international community. This mechanism represents the first material expression of a market for global environmental services which should be expanded upon in this and other fields in the future. The negotiation of energy agreements should form part of a broader range of activities designed to promote eco-efficiency and the use of clean technologies at the global level. Progress in this area can be furthered by commitments on the part of transnational corporations to help work towards these goals, the extension of voluntary international standards (ISO 14000), technology transfers to developing countries, and assistance for small and medium-sized enterprises.

Another important sphere of action is the sustainable management of ecosystems and biodiversity. In this case the idea would be to form a global partnership to build a stronger worldwide commitment to the *in situ* conservation of biodiversity and the relevant ecosystems. The efforts of such a partnership, which would be based on quantitative targets and specified means for achieving those aims, would be guided by the core objectives of the Biodiversity Convention. In order to ensure the effective implementation of these initiatives, a multinational clearing house and fund should be set up to finance the conservation and restoration of ecosystems and to identify the global environmental services generated by priority natural ecosystems. This will also entail generating synergies among multinational and regional instruments and conventions dealing with the protection and sustainable use of biodiversity and ecosystems. In relation to the issue of genetic resources, the Cartagena Protocol on Biosafety should be ratified, and approved mechanisms should be employed to assess the possible risk to biodiversity posed by the introduction of genetically engineered living organisms.

Such mechanisms can only be developed if adequate financing for sustainable development can be ensured. To this end, operational strategies are needed for mobilizing global resources to address global problems based on the principle of common yet differentiated responsibilities. The possibility of imposing international levies on environmentally harmful activities that are global in scope should be explored; the revenues obtained from such levies could be paid into special funds that could then be used to find multilateral solutions for those problems. Another possibility would be to apply instruments similar to the clean development mechanism in other fields of activity. This approach could be used to develop genuine global markets for environmental services based on a flexible interpretation of principle 16 of the Rio Declaration on Environment and Development (the “polluter pays” principle) that would permit mitigation actions to be carried out in geographical locations other than the pollution site.

Education, research, development, technology transfer and adaptation, and access to information will play an increasingly vital role in the achievement of sustainability. In Given the existing evidence of the world’s increasing ecological fragility owing to cumulative environmental damage on a variety of scales, the precautionary principle is taking on new meaning. Environmental protection efforts are no longer enough; the need for adaptation and mitigation and, above all, for scientific and technological developments to meet new challenges is constantly on the rise. Within this context, mechanisms for protecting intellectual property—including both formal knowledge and informal traditional knowledge—are of particular importance.

The foregoing considerations underscore the need for greater coherence and compatibility between the international trading system (including the protection of intellectual property) and the cause of sustainable development. The declaration issued at the fourth WTO Ministerial Meeting at Doha (November 2001) represents a major stride forward in this respect, since it explicitly acknowledges the need to analyse the interrelationship between WTO rules and multilateral environmental accords. It states in no uncertain terms that countries that wish to adopt measures to protect human, animal or plant health and/or the environment may do so provided that the provisions in question do not constitute discriminatory trade practices or hidden protectionism. In addition, it identifies priority issues for consideration by the WTO Committee on Trade and Environment, including the analysis of environmental measures' impact on market access, particularly in the case of developing countries; provisions referring to the agreement for the protection of intellectual property; and environmental labelling.

### 3. The correction of financial and macroeconomic asymmetries

Apart from the “systemic” issues relating to global macroeconomic and financial stability which have been discussed in earlier sections, international financial reform efforts should focus on correcting basic financial and macroeconomic asymmetries in the international economic system. This task should be addressed on a comprehensive basis that includes macroeconomic surveillance, the regulation of capital flows, the provision of liquidity during crises, the design of multilateral schemes for dealing with debt overhangs, measures for strengthening multilateral development banks and the achievement of a new consensus regarding the scope of the conditionality applied to official international resources. The aims of this comprehensive effort should be to reduce the segmentation and volatility of developing countries’ access to international financial resources and to provide more scope for the adoption by developing countries of countercyclical macroeconomic policies.

A comprehensive approach of the nature suggests that macroeconomic surveillance actions taken by IMF and complementary regional institutions (see section III) should be explicitly oriented towards prevention, i.e., towards preventing the accumulation of imbalances and high-risk debt profiles during economic booms. Programmes undertaken by IMF in conjunction with multilateral banks and with the Bank for International Settlements to support the formation of more solid financial systems in developing countries is a key component of this task. Clear incentives should also be provided for compliance with strict, preventively oriented macroeconomic and financial standards, particularly with regard to automatic access to IMF contingent credit lines during crises. For development banks, this approach will entail the design of credit lines for the express purpose of encouraging developing countries to adopt countercyclical forms of economic management.<sup>11</sup>

From a regulatory standpoint, the main objective should be to reduce the risk associated with operations involving countries whose net borrowings (especially of short-term resources) are disproportionate to the size of their economies and financial sectors. The object here is to discourage high-risk financing at its source. This may require the application of special standards to financial operations with developing countries, rather than the general types of standards that have been designed with a view to industrialized markets. More specifically, rating agencies’ risk assessments should not be used for regulatory purposes; these agencies should, however, be regulated themselves and should be required to rate sovereign risk on the basis of objective, publicly known criteria.

Developing countries should, for their part, maintain full autonomy in the management of their capital accounts. International financial agencies should analyse regulatory experiences in this area very carefully and should encourage countries to take steps to constrain external borrowing during booms whenever it becomes apparent that these booms or current account deficits are unsustainable.

Meanwhile, IMF should gradually evolve into a quasi-lender of last resort at the international level. This entails the use of special drawing rights (SDRs) as its main financial instrument. The additional demand for Fund resources during crises should be met with temporary issues of SDRs rather than by means of existing special arrangements to borrow, which are made available at the discretion of a handful of industrialized countries. In the long run, SDRs should be used as a multilateral tool for meeting additional liquidity requirements associated with the growth of the world economy.

In implementing adjustment programmes during crises, the authorities should take account of how they will impact the most vulnerable sectors of the population. The application of this

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<sup>11</sup> One of the possible options here would be lines of credit in which national counterpart funds are “saved” in the banks during booms and are then disbursed, together with the banks’ contributions, during crises. Another would be the disbursement during crises of lines of credit having accelerated amortization clauses based on specified macroeconomic variables.

principle, which has gained growing international acceptance in recent years, should extend beyond the creation of social safety nets to include the design of macroeconomic adjustment policies themselves. This approach will help ensure a policy mix having the least possible social impact on the poorer sectors of the population (United Nations, 2001a).

Dealing with problems of moral hazard requires preventive macroeconomic surveillance and a sound regulatory scheme. An additional element that is not yet part of the international order would be a suitable mechanism for handling debt overhangs. Although such schemes may be used to manage liquidity problems, there are other more effective tools that have been used in the past for this purpose. One approach is for the regulatory authorities in industrialized countries to bring pressure to bear on banks to keep the relevant countries' lines of short-term credit open. This should, in any case, be the aim of IMF emergency financing. In fact, in the absence of a good emergency financing scheme, problems of illiquidity may turn into problems of insolvency. This is why debt workout mechanisms should be seen as a supplement rather than as a substitute for emergency financing, whose main purpose is the management of solvency problems.

The chief components of this new mechanism should be: (i) collective action clauses to facilitate negotiations with creditors; these clauses should be universally applied to avoid creating a new factor of discrimination against developing countries; (ii) an internationally sanctioned (perhaps by the Fund) standstill mechanism; (iii) voluntary negotiations among the parties regarding public and private external liabilities; these negotiations could be backed up by mediation—and perhaps international arbitration—mechanisms administered either by a new agency or by a panel of experts convened by IMF; (iv) preference in the restructuring process for private financing extended during crisis periods and, in some cases, a requirement that additional resources be provided; and (v) credit from multilateral lending agencies during the renegotiations and the period immediately following their conclusion. In this last case, the focus should be on expediting the countries' re-entry into private capital markets; the most suitable instrument for this purpose may be a system of guarantees backed up by a special fund to be managed by the major development banks.<sup>12</sup>

Maintaining a strong multilateral development banking system is another component of this strategy. These banks have proven to be essential not only in guaranteeing financing to countries lacking access to financial markets, especially the poorer nations, but also in providing long-term financing to middle-income countries when credit on private markets dries up. The countercyclical role played by multilateral lenders—which includes support for programmes to protect the most vulnerable sectors of the population during crises—should not be confused with the provision of liquidity, which is the central objective of IMF actions. A more active use of guarantees to leverage private resources during these periods may be the best course of action. Multilateral banks perform a number of other functions as well: the promotion of innovative activities, especially in relation to social development and private participation in infrastructure projects; support for financial deepening in developing countries and for national development banks' efforts to promote that process; technical assistance in general; and support for the provision of global public goods in coordination with United Nations bodies.

The final element in this integral approach is a new international agreement as to the scope of conditionality. The aim here is to provide a strong foundation in international practices for macroeconomic and development policy ownership. Some progress has been made in this respect, as indicated by the analysis and discussion of this question that occurred within the Fund in 2001. As noted earlier, however, new forms of conditionality sometimes lurk behind words of support for the concept of ownership. Hence the importance of an explicit international agreement on this question. Given the tendency for homogenous views to predominate within international lending agencies, a public debate regarding their visions of development is an essential control mechanism

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<sup>12</sup> For a more exhaustive discussion of this topic, see UNCTAD (1998 and 2001), Krueger (2001) and Machinea (2001).



and an important exercise in order to make the diverse range of development options a reality (Stiglitz, 1999). Even with such a debate, however, a greater plurality of views within these institutions may well be necessary in order to counter the strong inclination towards institutional homogenization exhibited by these agencies during the past two decades.

#### **4. Overcoming production and technological asymmetries**

The transmission of production and technological impulses from the industrialized world to developing countries involves two basic processes: the gradual transference of raw material production, mature industries and demand for more standardized services to developing countries; and technology transfer and developing countries' increasing participation in its generation and in higher-technology branches of production. The international trade agenda should be directed towards the first of these aims, but in the long run, it is the second type of process that will lead to the actual elimination of international asymmetries.

The main items on the trade agenda are well known (UNCTAD, 1999a, Third World Network, 2001; World Bank, 2002b). The first is a broad liberalization of world agricultural trade that includes a phase-out of export subsidies, a substantial reduction in the sizeable production subsidies provided in industrialized countries, the lowering of tariffs on these products and the gradual elimination of the tariff-quota system (which, in practice, amounts to a system of quantitative restrictions). The second is the successful dismantlement of the Multifibre Agreement provided for in the Uruguay Round agreements, together with the reduction of tariff peaks and tariff escalation based on processing levels. The third is the industrialized countries' liberalization of the supply of labour-intensive services (e.g., construction and tourism) in order to permit temporary migration by all categories of labour for the provision of those services. The fourth is the establishment of stricter multilateral antidumping disciplines and guarantees for full observance of the ban on voluntary export restrictions agreed upon in the Uruguay Round.

In addition to these priority objectives, steps need to be taken to ensure broader participation by developing countries in the design of technical standards of all sorts and to facilitate a wider use of WTO dispute settlement mechanisms, whose development was one of the most important improvements made in the multilateral order during the 1990s. Because of the high cost of maintaining negotiating teams and of using the institutional mechanisms that have been established, all of this depends on the proper organization of the smaller and poorer countries' teams, on the existence of legal instruments to backstop dispute settlement procedures involving these countries and on the provision of multilateral resources to finance these procedures.

Above and beyond all these considerations, the international community must realize that strategies for creating systemic competitiveness are a key component of development processes. To this end, the Uruguay Round maintained certain degrees of freedom for import substitution (by means of specified levels of protection and the infant industry principle) and for adjustments in such industries to cope with competition (safeguards), but it significantly reduced the scope of action for middle-income countries' export promotion policies. Disciplines were established for export subsidies and trade-related investment measures were prohibited (performance agreements and local content rules), which reduced the range of discretionality in the active promotion of "infant export industries" and export diversification in general. As in other fields, as a general rule the agreements tend to allow the types of subsidies most commonly used by industrialized countries (subsidies for technology, regional development, environmental protection) while restricting those most frequently employed by developing countries (free trade zones, direct subsidies for export activities, performance agreements). Although the conversion of incentives to bring them into line with the results of the Uruguay Round should continue to be a priority for developing countries, the discussion of policy options available to the countries, especially for diversifying their exportable

supply, should be accorded a high priority in the Development Round that began in Doha in late 2001.<sup>13</sup>

Multilateral talks on trade in goods and services are being pursued in Latin America and the Caribbean concurrently with a number of other negotiation processes that are being conducted with industrialized countries by the region as a whole, by subregional blocs and on a bilateral basis. Negotiations with the United States and Canada and the talks being held with the European Union are cases in point. These processes are particularly important because they are directed towards going beyond the bounds of the preferential schemes existing for various subregions (which, by definition, do not constitute permanent commitments) in order to ensure untrammelled access to the major industrialized markets. These negotiations also cover other issues, most notably the protection of investment and intellectual property.

In line with the above considerations, the agreements emerging from these negotiations should guarantee the priority trade objectives discussed here, while also maintaining the developing countries' autonomy to adopt active competition policies focusing, in particular, on the diversification of the export base. Issues relating to the protection of intellectual property will be discussed in a later section.

The Free Trade Area of the Americas is the most ambitious initiative in this area, since its goal is to create the world's largest zone of this type. In addition, it will encompass countries of widely varying levels of development and size. From a strictly commercial standpoint, since the average tariff levels of the United States are already quite low (under 2% as of 2000) and nearly three fourths of the region's exports enter the United States market duty free (ECLAC, 2002), the greatest potential gains for the Latin American and Caribbean countries would be the rollback of tariffs on some heavily protected products (agricultural produce, textiles and wearing apparel, in particular) and, most importantly, the elimination of non-tariff barriers, such as the discretionary use of antidumping provisions.

The inclusion of means of dealing with the widely varying levels of development and sizes of the economies covered by this agreement will be essential, both during the transition period and once it is fully implemented. In the first case, a decisive element will be the provision of technical assistance and funding for the reengineering of production activities so that they can meet the challenges posed by the agreement. In the second, it is important for the countries of the region to maintain the necessary autonomy to adopt active competition policies.

The evidence presented in the preceding chapters indicates that free trade is not in itself enough to guarantee convergence of the countries' levels of development. Past experience suggest that at least two other types of policies are also necessary. Both, it should be said, have played a significant role in the past in bringing about the convergence of income levels in industrialized countries and in the most comprehensive integration process undertaken by the United States with a Latin American economy (i.e., the case of Puerto Rico) (see box 4.1). The first is a policy to promote greater international mobility for labour. This subject will be discussed later on. The second is a policy of transferring resources from the more advanced regions to the less developed ones for the express purpose of bringing about a convergence of development levels. In the case of Puerto Rico, this policy also included generous tax incentives for investment in the island.

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<sup>13</sup> Article 10.2 of the Declaration of Doha "Takes note of the proposal to treat measures implemented by developing countries with a view to achieving legitimate development goals, such as regional growth, technology research and development funding, production diversification and development and implementation of environmentally sound methods of production as non-actionable subsidies...". Strictly speaking, the only major restriction in the Uruguay Round agreements is the provision relating to the "diversification of production" and, more specifically, of exportable supply, since subsidies for the other purposes identified therein are broadly authorized in the Marrakesh Accords.

## Box 4.1

**ECONOMIC LINKS BETWEEN PUERTO RICO AND  
THE UNITED STATES MAINLAND**

The economies of Puerto Rico and of the United States mainland are closely integrated. Puerto Rico shares a common citizenship, defence force, currency and market with the United States, and there is free movement of goods and factors of production between the two. Unlike a sovereign State, Puerto Rico's government does not engage in activities such as coining money or levying duties on imports or exports. It thus forms an economic union with the mainland.

The basic pillars of the development strategy, known as Operation Bootstrap, that Puerto Rico launched in the 1940s were tax incentives, tax credits against federal taxes on income earned by United States corporations in the island (section 936 of the United States Internal Revenue Code, which is now being phased out) and guaranteed free trade with the mainland. Encouraged by these tax incentives, many corporations operating in Puerto Rico chose to retain their profits and deposit them with financial institutions on the island, thereby providing an important source of liquidity for financial intermediaries. A decade ago, 936 funds—as they are called—amounted to about US\$ 10 billion and represented around one third of total commercial bank deposits. By the year 2000, 936 funds made up approximately 5.9% of total commercial bank deposits.

Federal transfers have also played a key role in Puerto Rico's economy, although their relative size has been declining over time. In 2000, total federal transfers comprised 20% of GDP. Transfers to persons amounted to US\$ 5.5 billion, or 14.3% of personal income (down from 22% of personal income in 1990). About 60% of these transfers were earned benefits, including veteran's pensions, Medicare and social security payments. Grants, which primarily consist of payments made under the food stamp programme, amounted to 39% of federal transfers to persons.

In addition to trade and capital flows, labour also moves freely between Puerto Rico and the mainland, with thousands of Puerto Ricans commuting seasonally. In 1950, Puerto Rico's resident population amounted to 2.21 million, and 226,000 Puerto Ricans who had been born on the island were living on the mainland. By the year 2000, these figures had risen to 3.8 million and 1.2 million, respectively.

Operation Bootstrap spurred robust industrial growth which transformed Puerto Rico's agricultural base into a manufacturing- and services-driven economy. Between 1950 and 1990, the island's GDP grew by 4.4% a year, and the manufacturing sector's share of total output expanded from 22% to 39%. Convergence with the mainland's living standards has, nonetheless, been partial. By 1990, per capita income in Puerto Rico (US\$ 6,000) was almost half that of Mississippi's, the state of the Union with the lowest income; this was, nevertheless, an improvement over 1950, when Puerto Rico's per capita income was 39% of that of the lowest-ranking state. As of 2000, however, per capita personal income in Puerto Rico (US\$ 10,150) was still close to half that of Mississippi's.

The European Union has clearly been the international arena in which this principle has been upheld most forcefully, thanks to the Union's social cohesion policy. It is symptomatic of the political philosophy underlying these accords that the deepening of economic integration processes seen during the final decade of the twentieth century was accompanied by the increased use of an explicit policy of cohesion (Marín, 1999). What is more, this policy now also embraces the Central European countries that hope to join the Union. The possibility of setting up a cohesion or integration fund to provide the necessary backing for hemispheric agreements was put forward by a

number of Heads of State at the Summit of the Americas held in Quebec in April 2001<sup>14</sup> and therefore warrants special attention.

The expansion of the World Trade Organization's negotiating agenda to include new issues has been the subject of a great deal of debate. ECLAC fully acknowledges the need for a firm commitment on the region's part to the international environmental agenda, the enforcement of fundamental labour rights and principles, and the International Covenant on Economic, Social and Cultural Rights. It also, however, shares the view that such commitments pertain to other spheres of international action and should not be linked to commitments relating to international trade.

A multilateral investment agreement could help to simplify the complex network of bilateral and regional accords that have been signed in the past few years, but it would need to meet three basic requirements: its scope would have to be confined to protecting investment; it would have to maintain the developing countries' autonomy in regulating their capital accounts for macroeconomic purposes; and it would have to maintain their autonomy in adopting active policies on FDI, including policies designed to improve the linkages between FDI and national production. It would also be useful to work towards a global competition agreement that would rein in the strong trend towards international concentration in some branches of activity, as well as the anti-competitive practices of some large transnational corporations.<sup>15</sup> In the long run, a mechanism of this type might also serve as a framework for the development of substitutes for more discretionary forms of intervention (such as antidumping provisions). It is not certain, however, that WTO would be the most suitable framework for the conclusion of multilateral investment or competition agreements, and it is even more debatable whether it would be the appropriate agency to implement agreements in these fields. It may well be preferable to create a new international organization which, in addition to agreements in these two areas, could also be responsible for implementing agreements on intellectual property and trade-related investment. WTO could then focus its full attention on the regulation of trade in goods and services.

Another controversial aspect of the Uruguay Round agreements has been the application of multilateral intellectual property disciplines to all WTO members. While this agreement may appear to be essential to ensure the provision of a global public good (the creation of knowledge), the fact remains that this is being accomplished through the concession of a temporary monopoly, i.e., by defining what is potentially a public good as a private good. Since technological development is the activity that is most highly concentrated in industrialized countries, this form of protection—and the redistribution of resources that it entails—reinforces one of the basic asymmetries existing in the international economy.

Given the high cost that this mechanism may have for developing countries, the World Bank (2002b, Chap. 5) has recently stated that its benefits for low-income countries are not clear and that the agreement's implementation should therefore be conducted gradually and should be geared to each country's level of development. Middle-income countries certainly do derive benefits from greater protection of intellectual property for appellations of origin, for intra-industry trade that relies on trademark protection, for cinematography and television, for software and in a number of other cases. This type of protection is also important in providing guarantees for foreign investment and as a means of ensuring that consumers will have secure access to a wide range of products. At the same time, however, the protection of intellectual property raises the cost of technology and

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<sup>14</sup> The President of Mexico made particular reference to the possibility of a cohesion fund, and a number of prime ministers from the Caribbean drew attention to the importance of having an integration fund. The Government of Ecuador, which is currently responsible for coordinating the negotiations, later proposed that a fund be established to promote competitiveness.

<sup>15</sup> A *de minimis* clause could be introduced to stipulate that the relevant agreement applies only to firms that have international market shares above a given percentage.

may block technology transfers if the country affording such protection does not produce the good or use the technology in question.

The agreements reached at the fourth WTO Ministerial Meeting represent a major stride forward in the definition of one of the cases —public health— in which the net effects of the protection of intellectual property can be quite harmful. The main problem in this case is that protection can drive up consumer prices so much that large sectors of the population cannot afford the goods or services in question. This case serves to illustrate a broader principle: that the public good represented by knowledge should, under certain circumstances, prevail over the private good whose intellectual property is protected.

This opens the door for a broader discussion of fields in which the public good represented by knowledge should predominate. Some of the most obvious cases are those in which potentially patentable knowledge is scientific knowledge in a strict sense (certain types of knowledge about genetics are one good example) or in which access to certain types of knowledge is the basis for the acquisition of new knowledge (this principle is recognized, for example, in the International Convention for the Protection of New Varieties of Plants, which guarantees access to protected varieties for use as breeding stock for the development of other new varieties). Actually, inasmuch as technological development is the result of a cumulative learning process and relies heavily on acquired experience in the production domain, this last case is part of a larger set of instances which include secondary innovations derived from the adaptation of technology and reverse engineering.

The problem that arises in such cases is all the more serious when a country's priorities in terms of the diversification of its production activities conflict with the protection of intellectual property owned by firms that do not produce the protected good or use the protected technology in that country. In such instances, the protection of intellectual property stands in the way of the country's development objectives. In such cases, as in that of public health, a new consensus has to be reached regarding the limitations that should be placed on the protection of intellectual property or more comprehensive regulations will have to be designed regarding the use of compulsory licenses or the exhaustion of intellectual property rights (see chapter 7).

Another series of problems have to do with aspects of the intellectual property rights agenda that are of interest to developing countries but that have not been properly applied or set down in agreements. One such problem is raised by the need for effective technology transfer mechanisms and means of ensuring greater participation by developing countries in the generation of new knowledge. WTO should accord priority to devising these kinds of mechanisms and instruments, since they are needed to counterbalance the adverse distributional effects at the global level produced by the protection of intellectual property. Another problem refers to the relationship between the protection of intellectual property and the Biodiversity Convention and to the protection of traditional knowledge, including folklore. These considerations also draw attention to the pressing need for the countries of the region to take an inventory of the resources they wish to protect at the international level in order to defend their cultural, intellectual, genetic and geographic heritage.

## **5. Full inclusion of migration on the international agenda**

The full incorporation of the issue of migration on the international agenda is another essential element in the formation of an international system capable of overcoming the asymmetries of the global order. There is no theoretical justification whatsoever for liberalizing goods, services and capital markets while continuing to apply stringent restrictions to the international mobility of labour. Moreover, asymmetric market liberalization clearly has a regressive impact at the global level, since it works to the benefit of the more mobile factors of production (capital and skilled labour) and to the detriment of the less mobile factors (unskilled labour). This constraint also nullifies one of the mechanisms which historical studies identify as

having played a fundamental role in the convergence of income levels in today's industrialized countries (see chapter 3). In addition, placing greater restrictions on the mobility of unskilled labour selectively siphons off human capital from developing countries, tends to accentuate skills-based income inequalities, and sets the stage for one of the most harmful industries in the world of today: the smuggling of migrants and other persons. Apart from its significance as an economic factor, migration is a very important source of mutual cultural enrichment and contributes to the formation of a cosmopolitan society.

One of the priority items on the international agenda should therefore be to forge agreements that will increase labour mobility and strengthen the governance of international migration. The main objective here should be the conclusion of a global agreement on migration policy. The scope of existing instruments is, for the most part, quite limited. The broadest instrument of this type (but one that is still awaiting ratification) is the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families, which was approved by the United Nations General Assembly in 1990. The importance of securing the ratification of this convention lies in its reaffirmation of fundamental guarantees for the human rights of migrant workers and their families, including those who lack proper documentation. It also provides States with a legal instrument that facilitates the development of a uniform system of national legislation.

A closely related element is the reduction of the risks associated with discrimination and xenophobia through ratification of the relevant international instruments and compliance with the plan of action signed at the World Conference against Racism, Racial Discrimination, Xenophobia and Related Intolerance held in Durban, South Africa, in 2001.

Broadening the commitments made in regard to temporary mobility of workers within the framework of the WTO General Agreement on Trade in Services is another important objective. As stated earlier, one of the priorities in this area is to secure greater commitments on the part of industrialized countries with respect to services that are intensive in low-skilled labour, in which developing countries may have comparative advantages.

There is no question about the fact that migration issues should be included on the hemispheric agenda, in multilateral agreements reached between the Latin American and Caribbean region and the European Union, and in regional integration processes. There is also a wide range of bilateral conventions and negotiations that can help to increase the opportunities for international migration. One promising example is the recent commencement of a dialogue between Mexico and the United States on this subject. All of these multilateral and bilateral agreements should seek to increase temporary and permanent labour mobility and to move forward on issues closely related to migration, such as social security and the recognition of individuals' academic and professional or vocational qualifications.

In addition to their efforts to do away with xenophobia and discrimination and to guarantee immigrants' rights, host-country governments should take steps to help migrants become fully integrated into society. This is, in fact, essential in order to ensure the social cohesion of societies in which there are a large number of immigrants. To this end, States should set up mechanisms to facilitate immigrants' access to, among other things, public education and social services in order to ensure their integration and help give them greater economic and social rights. The other side of the coin is for immigrants to respect and integrate themselves into their host culture and to fully comply with the host country's laws.

The home countries of migrants can also benefit from this process in various ways. First of all, they receive remittances, which have become an important source of capital flows for many countries of the region. Reducing remittance transfer costs, promoting programmes that provide emigrants with means of contributing to their home communities and using these resources in productive ways are some of the types of action that could be taken on this front. Links with emigrants can also be used to give their home countries the benefit of their scientific, professional

and entrepreneurial skills, as well as to create a market for idiosyncratic products. The countries of the region should also recognize the right of emigrants to take part in their home countries' political processes.

Finally, it is the responsibility of home and host countries to work together to combat the smuggling of migrants. Their efforts in this area should include communication programmes in communities of origin to warn the population of the dangers of such practices.

## **6. Economic, social and cultural rights: the foundations for global citizenship**

One of the main advances associated with the globalization process in recent decades has been the worldwide propagation of values or principles such as respect for human rights, equity, democracy, respect for ethnic and cultural diversity, and environmental protection. Some of the most important principles relating specifically to social development are those set forth in the International Covenant on Economic, Social and Cultural Rights, whose signatories are committed to guaranteeing their citizens a set of goods and services regarded as essential in order for them to lead decent lives. The Covenant identifies the formulation of an international social agenda with the recognition of all members of global society as citizens and, hence, as possessing certain rights. Viewed from another vantage point, the goods and services required to obtain a basic level of well-being are both rights and commodities —“merit goods,” to use the terminology of welfare economics. And as such, the societal regulation of these goods is a necessary element in guaranteeing their supply, verifying the progress made in their development and ensuring that claims on such goods are enforceable (ECLAC, 2000a). This process should be regarded as the core element of a holistic anti-poverty programme.

Economic, social and cultural rights, together with civil and political rights, form an indivisible, interdependent whole. It is recognized, however, that the exercise of economic, social and cultural rights is not automatic and that their progressive enforcement will require a determined economic and political effort. This effort is reflected in democratic processes aimed at determining what level of nutrition, health care, education, housing and other rights/merit goods can be supplied on a sustainable basis to all citizens, what (public, private or mixed) mechanisms should be used to supply them, and what level of public resources will be needed to do so.

This necessarily entails a political process leading to the formation of national —but increasingly global— social and fiscal covenants in which access to such goods is seen as the result of a political decision regarding the allocation of resources for guaranteeing citizens' civil rights. These covenants should be shaped by a political debate on the role of the State and the relationship between economic policy and social development —a debate that can ultimately result in a consensus on the relevant priorities and the feasible pace of progress towards the gradual achievement of those rights/merit goods.<sup>16</sup>

Upholding these rights continues to be an essentially national responsibility, however. No clearly defined, stable international policies or mechanisms have yet been devised that would allow countries' aspirations or accomplishments to transcend their national boundaries. Moreover, guaranteeing such rights is the job of the State and does not explicitly involve other important agents, such as business enterprises. Yet another consideration is that there is thus far no clear incentive for the enforcement of these rights, nor methods to ensure their application.

Consequently, the enforceability of economic, social and cultural rights needs to gradually move from regional and national evaluations to a much more clearly defined political enforceability

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<sup>16</sup> One of the priority courses of action in this regard is the compilation, dissemination and analysis of information on the status of economic, social, cultural and other rights and the fulfilment of goals agreed upon at world summits with a view to determining priorities, creating a culture of responsibility and bringing about policy changes.

within the context of international forums and, most importantly, representative national forums where international assessments of the countries' fulfilment of their commitments can be discussed. This type of evaluation should be a comprehensive one that includes not only these rights, but also other internationally recognized social rights (the Fundamental Principles and Rights at Work agreed upon within the framework of ILO, the rights of children, women and ethnic groups) and the commitments made at world summits dealing with closely related issues. This political enforceability can gradually lead, under certain conditions, to a legal enforceability within the context of the corresponding national and international courts. The commitments undertaken and their enforceability must at all times be commensurate with each country's level of development and, in particular, its ability to achieve target levels that can be effectively guaranteed for all its citizens, thus avoiding the emergence of voluntarism or populism.

Given the sharp inequalities and asymmetries of the global order, an essential element in the material expression of such rights is the fulfilment of the ODA commitments made within the framework of the United Nations (0.7% of industrialized countries' GDP, with a minimum of 0.15%-0.20% of GDP going to the least developed countries) and adherence to the basic guidelines agreed upon by the international community (i.e., the priority of the effort to combat poverty, and ownership of economic and social development strategies). Within this context, development cooperation should be regarded as a means of supporting rights-based efforts to build democracy, promote civil and political rights, and eliminate poverty. International undertakings such as the "20/20 initiative" are an important step in this direction.<sup>17</sup> Since a global effort of this magnitude will clearly take quite some time to complete, regional or subregional integration programmes can serve as a much-needed intermediate stage in the process.

The responsibility for upholding rights and for their development and application transcends national boundaries and the purview of the State, however. Partnerships will therefore have to be formed with many different actors. The United Nations' awareness of this fact has led it to formulate the Global Compact, which calls upon the entrepreneurial sector in all countries to uphold human rights in business practices and to support suitable public policies on human rights, basic labour rights and environmental protection.<sup>18</sup> This type of initiative, and others undertaken on the part of civil society, can contribute to the consolidation of a genuine rights-based culture, which is the very essence of global citizenship.

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<sup>17</sup> For an evaluation of this initiative as it relates to the countries of the region, see Ganuza, León and Sauna (2000).

<sup>18</sup> See [www.unglobalcompact.org](http://www.unglobalcompact.org).