

Re-thinking Economic Policy

THE MODEL OF EXPORT : CHILE AND

COMPETITIVENESS

by Sergio Bitar

Born in 1940, trained as a civil engineer in Chile, Sergio Bitar has studied in Paris and holds a master's degree from Harvard University. He has been a professor of economics at the University of Chile and a professor and research fellow at its Department of Industry, a period (1971-72) during which he worked on transnational corporations and the Chilean Industrial Strategy and was a member of the secretariat of the President's Economic Committee. He had been the head of the planning division of the Chilean Development Corporation (CORFO) and was President Allende's Minister for Mining. After the *coup*, he became a visiting fellow at the Harvard Institute for International Development, doing research on the political economy of the Unidad Popular Government. He is currently the Vice-President of the Party for Democracy. He is also the author of various books and essays on Chilean and Latin American development, in addition to an account of his experience as a prisoner of the military regime. He serves as a consultant on international economics for the United Nations' Economic Commission for Latin America (ECLA), and the Sistema Economico Latinoamericano (SELA). In Chile, he is a member of the private research institution, Centro Latinoamericano de Economía y Política Internacional (CLEP).

INTRODUCTION

We must have a middle term perspective in order to facilitate the economic growth of the country and to have a better idea of the role which the progressive political forces are called upon to play during the course of this decade. The debate about the transition is virtually exhausted and some tasks of great scope and importance regarding the consolidation of democracy are still pending. It is more a problem of putting into application than the design of policies. In that debate and in the implementation of the final programme, we have an important role to play. Today we must perform the new task of reflecting on the road to the future, with a national vision.

Thus, for instance, in the economic field, going beyond the mere preservation of the macro-equilibrium is required—as this is a necessary condition, but not a sufficient one,

to promote a sustainable and equitable development in the long term.

Our international positioning as a country calls for the display of an effort more integral and complex within the economic and political ambit, which entails a thorough debate within the country. A long term plan that ensures the participation and collaboration of the different sectors and social agents, is an indispensable factor in achieving democratic stability.

The internationalisation of the world economy is a trend that acquires greater force with the passage of time. This poses the question as to the modality which is more suitable for the insertion of a small country like Chile in the global economy.

We have not tackled this challenge in a proper manner. Within the framework of a world economy which becomes more

globalised, super-nationalised and transnationalised with the passage of time, it is less difficult to design and promote a progressive project in a big country rather than in a small one. The small size of our economy imposes a narrow limit on our potential for diversification. It compels us to be specialised in some sectors, unlike in the case of Brazil or Argentina or Mexico.

What political, institutional and structural requirements are needed for an economic strategy of inserting a small country within the global economy in a way that reduces the degree of vulnerability of that country?

We know that the course cannot be the result of the mechanical interaction of the forces of the market. One has to search for it and, indeed construct it. For example, we have the Finnish strategy of the last 40 years of ensuring the adequate management of economic, technological and political variables.

In the beginning of the 90's our country finds itself in a situation which undoubtedly offers it many opportunities. But this must not make us triumphalist regarding our reality and potentialities, as the difficulties and mistake continue to be grave and numerous. The image created by the right-wing propagandists in the sense that we are the best in Latin America, may lead us towards a harmful complacency by instilling into us an unfounded sense of our own superiority in a context where a majority of the Third World countries are taking important steps in the same direction we have been taking. Any

What political, institutional and structural requirements are needed for an economic strategy of inserting a small country within the global economy in a way that reduces the degree of vulnerability of that country?

comparative analysis of the policies in force in the region leads us to the conclusion that there exists throughout Latin America a growing strategic concurrence with regard to economic issues.

It is equally important to debunk the myth that the economic policy of the authoritarian regime has bequeathed us a quasi-developed country. This affirmation has been repeated so much that it has ended up by gaining a certain credibility. The truth is that the income per inhabitant in Chile is hardly more than two thousand dollars a year. This is less than one third of the GNP per capita of certain countries of South-East Asia and hardly one tenth of the GNP per capita of Western Europe. On the other hand, the distribution of income and wealth is substantially more inegalitarian in Chile as manifested by the enormous social and economic inequalities that continue to affect our population and erode the competitiveness of one of the most important resources fundamental human capital.

A progressive alternative, must project a message that is optimistic. It should be capable of realising the enormous potential and opportunities found in Chile. But at the same time, it must aim to change the existing national economic reality, with its insufficiencies and poverty.

It is probable that inside our polity there are those who would give priority to what may be regarded as a Utopia i.e. "the socialist project" for Chile. But the way I see it, the main pre-occupation must be the task of coming up with a progressive strategy which has the support of the majority of the population and can create the foundations of a dynamic economy with increasing equity in the context of the neo liberal offensive and its negative effect.

INTERNATIONAL INSERTION AND PRODUCTIVE STRUCTURE

It is frequently being said that the dynamism of the Chilean economy must sustain itself by increasing exports and that this would lead into an improvement of the conditions of life of the population. I disagree with that notion. The crux of our proposal and strategy must consist, rather, in the search for a sharp increase of competitiveness. Solely from this perspective it will be possible, in my opinion, to plan more integral and efficient policies to ensure among others, a permanent expansion of our exports.

The more pertinent question, then, is how we should elevate in a sustained manner the competitive capacity of the Chilean economy and not just how we should promote exports,

because the latter flows automatically from the former. Only if one adopts the angle of competitiveness, is it possible to plan integrated economic policies.

In our milieu a simplistic and obsolete vision prevails regarding the true significance of competitiveness. At the closing stages of the 20th century, it cannot be reduced to a mere question of finding cheap products and cutting down the production costs. On the other hand, it has to be associated, principally with-

- * The innovation, opportunity and flexibility of the offer,
- * The diversification of products and services and
- * Segmented markets with different degrees of dynamism.

The competitiveness is more connected to the way in which the consumer perceives the satisfaction of his needs than with the manufacture of set products at the lowest price possible.

It is essential that we assimilate the changes that have taken place lately by way of consumption of products and services, as they are crucial in making our economy more competitive and dynamic. If we focus on homogeneous products competing in the world markets and on the price, we will commit the error of trying to strengthen an exporting scheme based on the exploitation of natural resources and the advantage of cheap labour.

It is probable that inside our polity there are those who would give priority to what may be regarded as a Utopia i.e. "the socialist project" for Chile. But the way I see it, the main preoccupation must be the task of coming up with a progressive strategy which has the support of the majority of the population and can create the foundations of a dynamic economy with increasing equity in the context of the neo liberal offensive and its negative effect.

Such a set up will be incapable of inducing a stable growth and can become exhausted prematurely.

Without ignoring the advances achieved within this ambit, we are still far from coming up with a strategic project capable of sustaining and enhancing the competitiveness of the Chilean economy. On the contrary, it is evident that the experts are Sustained through the super exploitation of natural resources.

In future we are faced with the disjunctive of whether we adopt a strategy related with what has been followed by the South East Asian countries recently, marked by the almost absolute deficiency of resources and natural advantages, or whether we rather tend to a model set up in the abundant availability of natural resources. It seems clear, having realised the nature of our economy, that countries like Chile will not embark upon models of South-East Asian type, in the style of those of Singapore, Korea or Taiwan. We must recognise that the latter leave us a great lesson in the sense that it is possible to take enormous technological and productive leaps, on the basis, almost exclusively, of the quality of the human resources and the management.

The adoption of this alternative puts us face to face with new questions. In which subjects are we to be specialised? What is the relationship between modernisation of the productive structure and international competitiveness? It seems to me that relationship exists and competence and internationalisation are not limited to the pure exchange of wealth. I consider that the country is trying to implement an excessively commercialist scheme of international insertion. But in today's context we need to have a structure that is much more productive in order to make better and thorough use of the opportunities available.

This means according priority to technology and establishing more and more links between national enterprises and foreign corporations, in selected areas.

COMPETITIVENESS AND INFRA-STRUCTURE

In the long term, the expansion of the economy depends on the extension and improvement of our infrastructure.

In this very crucial aspect, relying on the market is not sufficient. The market does not automatically satisfy the requirements of a

structure is clear. The programme which the government has proposed recently includes many significant steps, although it does not address properly the need for energy security, the present system of private enterprises and weak public regulations.

Today we need more advanced technology particularly in areas such as telecommunication and computation. Contrary to what is believed by many, the system of telecommunication in Chile shows many deficiencies.

The fact that our telecommunication system is deficient proves that mere privatisation is not a magical recipe to cure inefficiency. Collaboration between the public and private sectors and a better regulation of these activities are also indispensable.

The improvement and the expansion of the infrastructure also depends on the development of human capital i.e. improved performance on the part of the work force in these installations. We need to expand the educational opportunities and facilities substantially. They are crucial tools to promote not only competitiveness, but also social mobility and the democratisation of the power structure. Education plays a major role in creating people who will safeguard democracy. The bad quality of the basic teaching received by the great majority of the Chilean children, the pulverisation of the university system, the debility of our system of research and the inadequate investment in technology are manifestations of underdevelopment into which we continue to be plunged and of the scope of the task before us today. This includes the installation of our centres of technological investigation in areas where we have a comparative advantage such as metallurgy, biotechnology, management, computation and also the narrowing of the interaction between enterprises, research and national engineering.

Inside the enterprises, on the other hand, a transformation of the labour relations must take place. The sustained growth of productivity assumes the active participation of the workers in the decision making on quality, innovation of processes, saving design of products and plans of investment.

The strikes and labour agitation that the country has witnessed and undergone recently at various public enterprises prove that the dictatorship maintained an authoritarian and anachronistic conduct that excludes the participation of the workers and inevitably leads

It is essential that we assimilate the changes that have taken place lately by way of consumption of products and services, as they are crucial in making our economy more competitive and dynamic.

We then have to sustain ourselves through the exploitation of natural resources, yet to use that base as a springboard for promoting a sustained and substantial improvement of the competitiveness of the Chilean economy would be enormous. The experience of the Nordic people may become more useful, and, contrary to what is protagonised by the Asian tigers, their development had as pivot the use of natural resources.

dynamic economy. On the contrary, at the stage of boom of neo-liberalism, great insufficiencies were seen in Chile as regards transport, for example. These insufficiencies are the result of low-level investment in the 80's. They can be transformed into bottle-necks and affect the Chilean export sector in the near future.

The need to carry out a substantial improvement and modernisation of our infra-

We need to expand the educational opportunities and facilities substantially. They are crucial tools to promote not only competitiveness, but also social mobility and the democratisation of the power structure. Education plays a major role in creating people who will safeguard democracy.

to conflicts between the management and the trade unions. Within this setting, it is impossible for a climate of co-operation (on the basis that the management and the workers have great interests in common) to prevail.

The search for a systematic improvement of the competitiveness requires the progressive and flexible identification of new areas of specialisation. Our challenge consists in producing commodities of higher quality than the rest of the developing countries. Thus we can be among the first in making use of the "niches" that open themselves in the world economy for countries with resilient economies.

On the other hand, our productive structures reveal an excessive imbalance between enterprises and regions. The regional imbalance obstructs the potential for growth and innovation of the country just as excessive centralization has become a grave obstacle for the more active participation of our human groups and enterprises. Obviously, this situation must be changed. On the other hand it was the large scale enterprises which have made most advances in increasing productivity. Labour intensive low and medium scale enterprises have not done well in this regard. It is necessary, therefore, to give vigorous support to this sector by providing them credit facilities and the creation of new centres of research and technological diffusion.

INTERNATIONAL INSERTION AND INITIATIVE OF THE AMERICAS

A key element deciding the economic future of Chile is the link with the United States. But the deepening of our relations with Latin America is also equally important.

It seems to me that we are not sufficiently conscious of the repercussions of the agreement of free trade with Washington. In this sense, I consider it indispensable to define some criteria regarding our relations with the United States. In doing this we must take into account our relationship with Latin America. In my opinion, what is advisable is a policy that implies the discarding of the attitude of promoting advances on both fronts privileging one over the other; of regarding these two as mutually exclusive.

I have the impression that disproportionate expectations have been created regarding the possibilities of a quick and advantageous agreement with the United States. The importance of the document which is signed at last between the parties is considerable, but this shouldn't be exaggerated. After all, 85% of current Chilean exports pay a tariff of only 2.2% for entering the U.S. market.

The negotiations with the United States will be tougher than imagined by some. Concerning the protection of the environment, (our own legislations are inadequate and are generally ignored), a series of requirements will be imposed on us. Foreseeably, the same thing will take place with patents and intellectual property. Severe restrictions on matters regarding labour are also possible to anticipate.

It seems unlikely, on the other hand, that these negotiations, would be concluded before June of 1993, the date on which the term of validity of the facilities granted by the U.S. congress to accelerate the signing of agreement (fast track) will expire. We would be committing an error if, on the point of a presidential election, we try to speed up the signing of the agreement, as it must never be negotiated in a hurry.

Likewise, it is probable that we are undervaluing the potential of a market integrated in Latin America, because the memory of the "lost decade" of the '80's is still haunting us. The rapid advancement towards a zero tariff, in the middle of the decade, will unleash the important dynamics of trade and investments within the region.

More priority must also be accorded to the question of Chilean institutional structure for the management of international economic relations. The management of international economic relations show a certain dispersal. The economic relations with the United States are maintained by the Ministry of Housing. Predominant is the role they play in the management of the links with other important associates of Chile. The relations with the multilateral organisations continue on the other

Inside the enterprises, on the other hand, a transformation of the labour relations must take place. The sustained growth of productivity assumes the active participation of the workers in the decision making on quality, innovation of processes, saving, design of products and plans of investment.

hand and the Chancellery is not involved very much in them. For Chile, it is a separate division.

Therefore, there is an obvious need to coordinate the efforts of these institutions and to adapt these institutional structure to the requirements established by the transnationalised economy at the end of the 20th century.

FINANCIAL ASPECTS OF INTERNATIONAL INSERTION

The global rate of saving of the Chilean economy is presently 17% of the PIB. To make the economy grow at a stable rate exceeding 5%, an inescapable requirement to overcome the extreme poverty, we have to raise that rate over 20%. That entails a great internal effort to increase savings that involves enterprises and persons. Only thus we will succeed in the modernisation of our production structure.

promote the flow of middle and long term investment.

Among the themes that require urgent reflection is that of the AFP. The resources in the funds of income, by their own nature, are intended for the financing of middle and long term investments. Would it be apt to authorise the transfer of at least some fraction of those resources out of the country or is it preferable to keep all the resources in the country?

Another important theme is the legislation of the Central Bank as regards foreign exchange. There is hardly any country in the world where the private individuals have the freedom that prevails in Chile to bring foreign exchange without the necessity of justifying their origin. Such a degree of opening up to facilitate illegal activities as laundering drug money. It also prompts the inflow of speculative capital that artificially brings down the price of the dollar, jeopardising the exporters and complicating the management of the monetary policy at the Central Bank.

changing its criteria for the assignment of credit resources. In effect, the fight against the poverty and the cutting down of military costs are two of the priority objectives of that institution. It is anticipated that explicit support for democracy will become part of this criterion soon.

It is essential to evaluate these new tendencies with the objective of planning the best method of acquiring external finances that would be more in accord with our national objectives.

THE STRATEGIC VISION

We must be capable of anticipating to a greater degree the evolution of the international context in which we have to operate. One of the biggest questions is whether the United States is considered a hegemonic power only in the military sphere, or whether, in the face of the deteriorating and virtual disintegration of the Soviet Union, it will succeed in imposing its hegemony in all areas. Naturally, if the possibilities point out overwhelmingly towards the second alternative, we would have to know how to situate ourselves in that new context. Our strategy as a country would have to be clear if there are indications that there exists more space for international multipolarity.

But perhaps the principle question that we have to consider at this juncture is whether the present model of growth, sustained by the exploitation of natural resources and in cheap labour, is compatible with a political system of deepening democracy in a society that is more developed than it was 15 years ago. It seems evident that the reply is negative, because the maintenance of that model can result in a loss of dynamism of growth, besides generating an excessive concentration of power in small economic groups and a very unequal distribution of the surplus which does not turn out to be compatible with the democratic process.

Being aware of that tension makes the design of a project of international insertion that gives equal priority to growth and equity, even more imperative. That assumes intensifying the technological advance, the development of human resources and regional and enterprise diversification. This is an enormous task. And at the end of the transition stage, we will have to offer the country an alternative that realizes its potential capacities.

The regional imbalance obstructs the potential for growth and innovation of the country just as excessive centralization has become a grave obstacle for the more active participation of our human groups and enterprises.

In the field of external credit, Chile faces a detrimental symmetry. We have an excessively abundant short term resources, but what is needed for financing larger maturity projects is scarce. This maladjustment has caused difficulties in managing interesting policies and may lead to the distortion of the policies of foreign trade. The authorities have lately adopted measures tending to discourage the inflow of speculative capital, but the problem at bottom continues to be how we should

One has also to wonder as to what is to be our policy regarding the international economic organisations. Given our needs for middle and long term credit, it's necessary to have better relations with these institutions. But the link with these organisations involves not only an economic dimension but also a political one.

After a long period of adherence to the neo-liberal ideology, the World Bank is