INVESTMENT AND ECONOMIC REFORM IN LATIN AMERICA

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(with Claudio Pini)

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FOREWORD

At the start of the new decade, the debate on economic policy centres on the consequence of the reforms implemented in Latin America and the Caribbean in the last two decades. Trade and financial liberalization and the privatization of production activities have radically altered the rules of the game governing labour and business. The macroeconomic policy changes that accompanied or preceded the reforms sometimes strengthened the latter's specific objectives, especially the growth of exports, but on other occasions they had the opposite effect. That combination of factors prompted the emergence of new market structures and transformations in microeconomic behaviour.

Assessing the effects of the reforms on economic growth, employment and income distribution is of more than academic interest. Governments, political parties and social actors require a thorough evaluation of the results, so as to devise or propose policies that complement the reforms or counter their unwanted consequences. The Economic Commission for Latin America and the Caribbean (ECLAC) actively participates in this process.

This book is part of a project carried out by ECLAC, in conjunction with researchers from nine countries, to study the impact of the reforms. Directed by Dr. Barbara Stallings, the project has produced 14 books and 70 working papers. The summary appears in the first volume, entitled *Growth, Employment and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean*. It is complemented by four issue-specific volumes analysing investment, technological change, employment and equity. Additionally, another nine country volumes examine the particular characteristics of the reforms in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Jamaica, Mexico and Peru. The working papers are available at ECLAC's web site (www.cepal.cl).

One feature of the project that distinguishes it from other comparative studies of economic reform is that it specifically addresses the interaction between macroeconomic and microeconomic processes. To understand the impact of the reforms more fully, it is necessary to disaggregate the regional level and to study the differences between countries and in the microeconomic behaviour of firms according to sector, size and ownership. The globalization of the economy and government policies such as structural reform affect different countries and groups of firms in different ways. Some have been able to exploit the new opportunities, while the situation of others has deteriorated. The outcome of such developments gives rise to aggregate trends that others have observed and measured, but to design economic policy measures and improve future performance, it is essential to know what underlies those aggregates.

In this book, ECLAC economists Graciela Moguillansky and Ricardo Bielschowsky analyze the investment process, using the methodology just mentioned. Unlike traditional analyses of the determinants of investment, which have tended to rely largely on macroeconomic variables, Moguillansky and Bielschowsky's study attempts to link macroeconomic aspects to sectoral, microeconomic and institutional factors. Thus, they examine the impact of structural reform, institutional change, market structures and the role of agents (both domestic and foreign private agents and the State) in conjunction with the increasingly important legal and regulatory aspects. This approach represents a major step forward in the development of a new methodology for analysing the complex determinants of investment.

A second noteworthy feature of the book is its contribution to the understanding of the investment process in the context of the transition set in train by economic reform, by identifying the phases of the investment cycle and the way firms adapt to institutional change. The study looks at both permanent and transitory factors, the latter stemming from the effects of reform policies, which have a different impact at each phase of the investment cycle.