COMPETITIVENESS AND NEW TECHNOLOGIES IN LATIN AMERICA
Twelfth International Forum on Latin American Perspectives
jointly organised by the Inter-American Development Bank and the OECD Development Centre
Madrid, 10 and 12 November 2001

SUMMARY

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JT00117614

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Objectives

1. Now in its twelfth year, the joint OECD Development Centre/Inter-American Development Bank International Forum on Latin American Perspectives was held for the first time outside of Paris in Madrid, reflecting Spain’s role as bridge between Europe and Latin America. The Forum was hosted by the Ibero-American Co-operation Secretariat.

2. The theme, “Competitiveness and New Technologies in Latin America”, refers to the idea that, after a decade of macroeconomic adjustment, economic liberalisation and progressive insertion into the global economy, new dynamism and more complex policy approaches are required in Latin America. The objective was to debate if current efforts aimed at stimulating economic growth in Latin America are succeeding in three key areas: (i) modification of the structure of trade and investment specialisation towards highly dynamic sectors; (ii) improvement in the process of education, training and human capital formation; and (iii) promotion of the use of new technologies as a means to increase total factor productivity.

Participation

3. The first day’s experts meeting was held at the Ibero-American Co-operation Secretariat Headquarters and was attended by some 60 participants, including high-level experts from leading Latin American and OECD Member country universities and think tanks, as well as the International Labour Organization, the UN Economic Commission for Latin America and the Caribbean, the Sistema Economico Latinoamericano (SELA), the Club of Rome, the Bank of Spain, the Ministry of the Economy of Spain, OECD Development Centre Member countries missions in Madrid, as well as the Economics Department, Directorate for Food, Agriculture and Fisheries, and the Centre for Co-operation with Non-Members of the OECD. The second day’s policy dialogue meeting was held at the Casa de América with over 60 participants. Speakers included the Spanish Minister of Science and Technology, the former Mexican Minister of Foreign Affairs, the former Argentine Secretary of State of the Economy, and the Uruguayan Ambassador to Spain. There was strong representation from the press, including Il Sole 24 Ore, La Vanguardia, Radio Televisión Española.

Main Conclusions

4. There was a general convergence of views among the policy makers present that although Latin American economies improved their performance during the 1990s, this growth had not helped to reduce poverty, inequality and exclusion as hoped. Therefore, the importance of creating a more positive and coherent interaction between domestic structural reforms, regional initiatives, and multilateral liberalisation was called for. For example, opening global markets to Latin American countries — by removing both trade impediments and all forms of subsidies, in textile and agriculture in particular — must proceed in parallel with efforts at improving the working of Latin American markets. Participants also agreed that it would be misleading to think that social policies can only tackle poverty, while macro-economic policies foster economic growth. On the contrary, education policies are a key requirement to raise the return from investment in new technologies and to improve the efficiency of training programmes.

5. The Proceedings of the Forum will be published jointly by the Development Centre and the Inter-American Development Bank in early 2002. The attached Annex presents a more in-depth account of the discussions and papers presented.
ANNEX

I. Relaunching Latin American Competitiveness

1. Latin America has a decade-long track-record in structural reforms – privatisation, financial liberalisation, trade opening, and competition policies – which have put the region at the forefront of non-OECD countries, the results in terms of output and productivity growth have been by and large rather disappointing. Although, overall performance in the 1990s was better than in the 1980s (sometimes referred to as Latin America’s “lost decade”), growth has not been sufficient to reduce poverty, inequality, and exclusion. The IADB’s 2001 Economic and Social Progress in Latin America Report on competitiveness observes that one reason why growth may not have brought about the benefits expected is because the region’s firms are very small by world standards. Although the size of firms is not usually a policy concern, it may come into play when it is understood, as demonstrated by recent OECD research, that large firms dominate the most dynamic trade and investment sectors of the world economy. Unfortunately, most large Latin American countries tend to have a small presence in these sectors and to specialise in much less dynamic ones, primary and mining in particular. An exception to this trend is Mexico, and this reflects that country’s more daring embracing of trade liberalisation, especially through the North American Free Trade Agreement (NAFTA).

2. The most important obstacle to creating an enabling environment in which entrepreneurial energies may flourish was identified as the lack of finance at reasonable conditions, partly due to the lack of protection afforded to creditors’ rights, and in deficiencies in energy, transport, and telecommunications infrastructure. While participation of the private sector was seen as key, there was also the perception that the public sector must take the helm in creating the institutions that will give a real meaning to concepts such as governance and transparency. The importance of using infrastructure development to help the informal sector to participate in and benefit from the process of globalisation and liberalisation was also highlighted. Moreover, while Latin America has to integrate to increase its chances of surviving external competition, the need to find a development path based on across-the-board opening to other regions and continents was also underlined. The possibility of using a variable geometry approach as a way to break the deadlock was cited, as was the potential benefits deriving from multilateral surveillance in regional groupings.

II. The Role of Human Capital Formation

3. Differences in human capital formation – especially education and training – are acknowledged as a crucial determinant of international growth performances. The debate centred on how best to measure human capital and its contribution to growth. In Latin America, the main problem appears to be that the productivity of human capital, which remained fairly in line with major OECD countries until the early 1960s, started to slow down and then became negative in the 1980s. Indeed, the decline of total factor productivity in Latin America (relative to Europe) is consistent with the theory that financial crises have negative consequences on economic growth. The policy consequences, however, are not clear-cut. Investing in education in the absence of complementary inputs such as financial credit and tangible investment goods may increase, rather than curb, the brain drain.

4. In view of some of the failures of the process of human capital formation in Latin America, there is a growing perception on the part of policy-makers that a careful analysis of experiences elsewhere may potentially improve the quality of policies. In the case of training, OECD countries tend to polarise around two models, one that prefer co-operation between the state and social partners, the other that places more
emphasis on individual responsibility. In Latin America, centralised training systems fail to correct for the deficiencies of basic education, and indeed appear to reinforce them. Their main problems are lack of responsiveness to new requirements and excessive bureaucratisation, as reflected in the huge share of the budget that goes into paying staff salaries. Participants, however, also mentioned the existence of positive experiences in Chile and Mexico, and the need to draw inspiration from them in implementing training reforms elsewhere in the region.

III. The Role of New Technologies

5. Despite the demise of many a dotcom at the dawn of the 21st century, there is no denying that information and telecommunications technology (ICT) – including network technologies such as cell phones, fax machines, electronic data interchange (EDI) and the Internet, as well as others such as personal computers and laser scanners – is having an important impact on productivity and trade flows in OECD countries. The patterns of diffusion of this technology in Latin America appear to differ across countries, reflecting structural features such as the development of credit markets, the quality of education, and the form of integration into the global economy – not surprisingly, the same factors that sustain or hinder international competitiveness. In these circumstances, while new technologies may offer the promise of higher productivity growth in Latin America, they may not necessarily reduce the gap with more advanced trading partners. A note of optimism, however, is provided by those firms established in the region that have been able to strengthen the sources of their corporate competitiveness following trade opening and have used ICT to successfully expand internationally and conquer foreign markets in other continents.

6. Public policies may play an important role under various forms. First, reinforcing macroeconomic sources of competitiveness, such as adjusting their fiscal balances, is just as crucial as unilateral trade liberalisation. Second, initiatives to open and maintain open markets, for instance in telecoms, are necessary, and other institutional reforms, for example in the domain of intellectual property rights, are equally important. Finally, while sectoral and microeconomic policies are difficult to implement, especially in smaller countries, and the risk of picking losers looms large, a third area of intervention is the pro-active use of new technologies on the part of national and local governments.