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OSCAR ALTAMIR
Director of the Review

EUGENIO LAHERA
Technical Secretary



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CONTENTS

| | |
|--|------------|
| The public sector's role in Latin American development <i>Ricardo Carciofi</i> | 7 |
| Equity in the public budget <i>Juan Martin</i> | 17 |
| Pension system reforms, the capital market and saving <i>Andras Uthoff</i> | 29 |
| Public institutions and explicit and implicit environmental policies <i>Nicolo Gligo</i> | 51 |
| Non-market valuation of natural and environmental resources in Central America and the Caribbean <i>Steve Shultz</i> | 65 |
| An integrated macro-model for the Caribbean subregion <i>Lucio Vinhas de Souza</i> | 77 |
| Swerves and skids by the Venezuelan economy <i>José Miguel Benavente</i> | 85 |
| How non-traditional are non-traditional exports? The experience of seven countries of the Caribbean Basin <i>Alberto Gabriele</i> | 99 |
| Trade openness and structural change in the Brazilian motor industry <i>Ruy de Quadros Carvalho, Sérgio Robles Reis de Queiroz, Flávia Luciane Consoni, Ionara Costa and Janaína Pamplona da Costa</i> | 115 |
| The ongoing history of a Chilean metal products and machinery firm <i>Jorge Katz and Héctor Vera</i> | 129 |
| The importance of local production and small-scale enterprises for Latin American development <i>Francisco Albuquerque</i> | 147 |
| Recent ECLAC publications | 162 |

The importance of local *production and small-scale* enterprises for *Latin American development*

Francisco Alburquerque

*Research Fellow of the
Scientific Research Council
(CSIC) of Spain.
Former Director of Local
Development and
Management in the
Latin American and
Caribbean Institute for
Economic and Social Planning
(ILPES).*

The generation of dynamic competitive advantages in Latin America and the Caribbean cannot be assumed to result automatically from the achievement of the necessary macroeconomic stability and the incorporation of part of the system of production into some dynamic segments (or niches) of the international economy. Recent empirical information on local economic development initiatives in the developed countries indicates that macroeconomic adjustment policies must be accompanied by other specific policies at the microeconomic and mesoeconomic levels. These policies must incorporate the various local public and private actors into the development strategy in order to ensure the introduction of organizational and technological innovations throughout the system of production and business, which is made up largely of small and medium-sized enterprises and microenterprises with few linkages to the globalized core of the world economy. It is therefore clear that it is necessary not only to promote endogenous development potential by giving due importance to the local dimension of technological policy and to small and medium-sized enterprises, but also to ensure that the production sectors have access to advanced services throughout the local area, to strengthen institutions and cooperation and complementation agreements in the area, and to include the question of environmental sustainability in local development management.

I

Introduction

In Latin America and the Caribbean, the increasing spread of concepts, studies and policy recommendations on globalization and competitiveness is usually accompanied by interpretations which hardly go beyond the sphere of circulation of the international markets. It should be clear, however, that in the present phase of post-Fordist transition the building of dynamic competitive advantages also depends to a substantial extent on organized efforts and specific actions aimed at ensuring the introduction of technological and organizational innovations into the existing production and business structure, which is made up mainly of small and medium-sized enterprises and micro-enterprises, which, because they do not have easy access to advanced production services, are considerably hindered in their progress towards the desirable technological frontier.

In other words, the challenges of competitiveness make it essential not only to take care of the segments of production which have linkages with the globalized dynamic core of the world economy, but also to accompany such export efforts with measures designed to ensure technological and organizational innovation in the various local production clusters.

The importance of these clusters is often overlooked, although, as the abundance of local economic development initiatives carried out in the developed countries confirms, specific policies are required for the construction or improvement of innovative local areas, in order to ensure the existence of the necessary components relating to innovation and human resources management in each such area.

We are not, of course, proposing the slavish imitation (which is always impossible) of relatively successful experiences in other contexts, such as the Italian industrial districts or the regional development agencies of the present Spanish State made up of autonomous communities. In this field, as in so many others, there are no ready-made recipes but there are fertile ideas for getting away from a conception of adjustment processes which is limited solely to the macroeconomic levels and international competitiveness. In the present heterogeneous Latin America and Caribbean situation, accompanying these policies with others of a local nature designed to ensure the concerted efforts of public and private actors for the construction of innovative environments for their production and business activity is not only possible but highly advisable.

II

The importance of local-level production

According to recent World Bank (1996) data, out of the total gross world production registered in the formal circuits of the economy, an average of only 20% is traded internationally. In other words, the great majority of production decisions take place in national or subnational, regional or local situations. In some countries, the percentage of national production traded internationally is greater, but in others, such as Japan, it amounts to as little as 9% (table 1): the strength of that economy, apart from its aggressive external trade, seems to be due essentially to its internal sectoral linkages and production efficiency.

Likewise (table 2), the average share of exports in the gross domestic product of 19 Latin America

and Caribbean countries in 1994 was 23%, which means that on average over 77% of the production of the Latin American and Caribbean countries in that year corresponded to the national or local level.

At the same time, the share of foreign direct investment in the gross domestic product of the Latin American and Caribbean countries, according to estimates by ECLAC (1996), was only 1.6% in 1996 (table 3), which also shows the importance of domestic production investment decisions in those countries, where average investment is close to 20% of GDP.

Similarly, as noted by Ffrench-Davis (1996a and 1996b), external investment only amounts to 5% of total world investment, while foreign direct invest-

TABLE 1
World: Product and exports, 1994

| | GDP (Billions of current dollars) | Share of exports in GDP (%) |
|--------------------|---|-----------------------------------|
| World | 25 102.6 | 19.7 |
| Japan | 4 321.1 | 9 |
| United States | 6 737.4 | 10 |
| India | 278.7 | 12 |
| Australia | 320.7 | 19 |
| Spain | 525.3 | 19 |
| Turkey | 149.0 | 21 |
| Germany | 2 075.5 | 22 |
| Greece | 80.2 | 22 |
| France | 1 355.0 | 23 |
| United Kingdom | 1 069.5 | 25 |
| Indonesia | 167.6 | 25 |
| China | 630.2 | 26 |
| Portugal | 92.1 | 26 |
| Russian Federation | 392.5 | 27 |
| South Korea | 366.5 | 28 |
| Sweden | 206.4 | 33 |
| Denmark | 145.4 | 34 |
| Switzerland | 265.0 | 36 |
| Austria | 197.5 | 38 |
| Netherlands | 338.1 | 51 |
| Belgium | 231.0 | 69 |
| Hong Kong | 126.3 | 139 |

Source: World Bank (1996); Ffrench-Davis (1996a and 1996b).

TABLE 2
Latin America: Product, exports and investment, 1994

| | GDP (Billions of current dollars) | Share in GDP (%) | |
|---------------------|---|------------------|------------|
| | | Exports | Investment |
| Brazil | 536.3 | 7 | 16 |
| Argentina | 275.6 | 7 | 20 |
| Peru | 44.1 | 9 | 22 |
| Mexico | 369.7 | 13 | 24 |
| El Salvador | 8.4 | 13 | 18 |
| Bolivia | 5.6 | 17 | 15 |
| Colombia | 58.9 | 17 | 24 |
| Uruguay | 14.7 | 18 | 16 |
| Guatemala | 12.2 | 19 | 17 |
| Dominican Republic | 10.1 | 24 | 20 |
| Nicaragua | 1.4 | 24 | 20 |
| Ecuador | 14.7 | 26 | 21 |
| Paraguay | 7.6 | 27 | 24 |
| Chile | 50.0 | 28 | 27 |
| Venezuela | 59.0 | 29 | 9 |
| Panama | 6.9 | 37 | 24 |
| Costa Rica | 7.8 | 40 | 28 |
| Trinidad and Tobago | 4.8 | 40 | 14 |
| Honduras | 3.2 | 41 | 26 |

Source: World Bank (1996); Ffrench-Davis (1996a and 1996b).

TABLE 3
Latin America: Foreign direct investment
and gross domestic product

| | Net foreign direct investment (FDI) (Millions of dollars) | Ratio of FDI to GDP |
|--|---|------------------------|
| | 1996 ^a | 1995-1996 ^b |
| Argentina | 3 200 | 1.2 |
| Bolivia | 560 | 6.5 |
| Brazil | 8 000 | 0.8 |
| Chile | 2 800 | 2.8 |
| Colombia | 2 550 | 2.8 |
| Costa Rica | 120 | 2.5 |
| Ecuador | 320 | 2.2 |
| Mexico | 7 000 | 2.7 |
| Nicaragua | 95 | 3.9 |
| Paraguay | 220 | 2.2 |
| Peru | 3 400 | 4.4 |
| Dominican Republic | 430 | 2.6 |
| Uruguay | 190 | 0.9 |
| Venezuela | 1 350 | 1.3 |
| Seven other countries | 600 | |
| Latin America and the Caribbean (total) | 30 835 | 1.6 |

Source: ECLAC, on the basis of official figures and IMF data.

^a Provisional estimates.

^b Annual average. Preliminary estimates.

ment is only equivalent to 1% of world GDP. This means that the immense majority of production and business investment decisions are made by actors operating at the national or subnational levels. Consequently, as that author notes, we are not witnessing "the end of geography" or anything like that.

It is possible that, dazzled by the high rates of growth of international trade and the advance of globalization, we may tend to forget the size of domestic production, trade and investment and the crucial fact that the great majority of decisions in these activities are made at the national and local levels, which means that there is a great deal of room for the design of more specifically local economic policies, both at the microeconomic and the mesoeconomic level.

Thus, although it is true that identification of the best international practices and the search for market segments at that level are necessary actions for promoting innovation in production processes and business management, it must not be forgotten that this is not easy to achieve, because it requires specific policies at the microeconomic and mesoeconomic levels.

TABLE 4

**World: Population and gross domestic product of
countries, classified by share of exports in GDP, 1994**

| Exports/GDP | Number of countries | GDP (Billions of dollars) | Population (Millions) | Per capita GDP (Dollars) |
|---------------------|------------------------|------------------------------|--------------------------|-----------------------------|
| Less than 10% | 10 | 5 250 | 448 | 11 610 |
| Between 10% and 24% | 51 | 6 859 | 2 551 | 5 765 |
| Over 24% | 102 | 5 270 | 2 429 | 3 620 |
| No data available | 46 | 508 | 176 | 2 890 |

Source: Prepared on the basis of data from World Bank (1996).

Furthermore, the above statistics do not include other important circuits of activity, such as the subsistence or informal economies, which highlights still further the attention that should be given to local processes in addition to that given to the internationalized or globalized segments.

In the final analysis, what these statistics show is that even with the limitations that they involve because they do not include informal transactions and those which are more difficult to quantify, the generation and distribution of wealth in the national and subnational spaces depends to a large extent on the specific local policies and institutions that the various social actors manage to establish, on the basis of local initiatives, for the purpose of endogenous economic development in order to achieve suitable levels of production efficiency and thus aid in the spread of economic growth and the generation of employment and income.

In spite of this empirical evidence, however, the design of development policies seems to depend more on debates between ideologies, with the unfortunate result that it often ends up by inviting the authorities and a large part of the social actors of the developing countries to seek niches in the international market, as though their economic development depended on this, when what they really need is to have suitable national and local development strategies which will ensure the introduction and spread of technological and organizational innovations in the different national and local economic systems.

In other words, the strategies aimed at securing entry into dynamic segments of the international economy must be complemented with a deliberate policy of development of local production systems, in order to ensure that the latter can achieve the necessary technological and organizational innovation. Such a policy will also make it possible to maintain

the medium and long-term viability of the efforts devoted to the international segments.

According to data from the World Bank (1996), in the countries whose exports are less than 10% of total national production, the per capita GDP is more than double that of the group of economies where such exports are between 10% and 24% of the whole, and it is more than three times that of the group of countries where such exports are over 25% (table 4). These data suggest that we should view with caution the assertion that greater economic development depends on the degree of internationalization of the domestic production of the various economies.

Although it is almost always possible, with good selection and handling of statistics, to prove almost any argument under the sun, it must be acknowledged that the achievement of greater export capacity is obviously a reflection of production efficiency and business competitiveness and that international trade brings possibilities of progress and new know-how. Nevertheless—and this is of decisive importance—realizing such possibilities depends very much on the degree to which it is possible to ensure the spread of technological and organizational innovations through the domestic production and business system, which does not consist only of the companies that have managed to successfully enter dynamic areas of international trade.

In saying this we are not, of course, singing the praises of autarky, but rather making a perfectly sensible recommendation to strengthen the national and local economies and to avoid being taken in by the frequent invitations simply to seek international niches, as though this was the touchstone for achieving the desired economic development. Accepting the challenges of growing external openness and international competitiveness ultimately involves the need to introduce technological and organizational

innovations throughout the entire domestic production system of our economies, including the relevant institutions, and not just in the activities and enterprises linked with the most dynamic international segments.

Thus, in the present phase of globalization of the world economy, with growing demands for production efficiency and competitiveness, and in situations where the greater external openness of the various national and local economies is an unavoidable factor in the prevailing context, we should not forget that the main challenges lie in ensuring the introduction of innovations in the fields of management and production throughout the whole business system and the whole universe of public or private management bodies, in order to raise the efficiency of production and the flexibility (or capacity for adaptation) in changing and uncertain situations (Albuquerque, 1996a).

In other words, the phase of technological transition through which we are passing makes it essential to find a way of ensuring innovation in the fields of production and organization in every one of the enterprises of each country, and this cannot be achieved merely through the linkages of some economic segments or activities with the most dynamic areas of the world economy. Such external linkages do not always guarantee that technical progress will spread to all enterprises throughout the country: the linkages between the sectors operating in the dynamic areas and the local production systems may be very limited, so that the spread of technical progress, economic growth, employment and income would only be very limited.

Likewise, there are a large number of small enterprises in the local systems of production which, although less important than the big firms in terms of their contribution to national production, nevertheless have decisive weight in employment and the generation of income, as well as in promoting the more balanced local spread of economic growth. Despite this, in Latin America and the Caribbean such enterprises do not usually have an adequate local supply of basic infrastructure and advanced business services to facilitate their modernization process. Suitable institutional reforms are therefore needed in order to ensure that the decentralization process which is being carried out in much of the region contains elements designed to further both economic development and the strategic concertation of the

local social actors for the construction of innovative environments.

This does not mean indulging in the fantasy of copying "industrial districts" on the basis of the fertile recent experience of Italy or of some of the autonomous communities in Spain, to cite only two important examples in this field. It merely means that we should give due attention to the need to add suitable local development policies to sectoral policies and those aimed at the big firms, in order to ensure technological innovation in the local production systems as a whole and not just in those segments capable of taking part in dynamic external activities.

Having said this, it must also be stressed that the rapid cross-border mobility of financial investments and information on markets, products and technologies, the spreading of uniform consumption tastes and preferences through the mass media, and the ease with which segments or parts of production activities can be transferred from one place to another have seriously undermined the effectiveness of national economic policies when seeking to cope with the strategies of the transnational corporations. Likewise, the dictation of economic promotion policies from the central government level is neither suitable nor efficient for achieving the modernization of local systems of enterprises, which require a set of institutions much closer to their own problems, potential and specific characteristics.

The economic forces which are now promoting the change to more efficient forms of production and organization (both in private business and in the public administration) are consequently bringing into question the effectiveness of the central State as a suitable body for taking action on the complex realities of the economy and seeking to manage it. And since the nation-State is no longer the sole backbone of economic systems (which now have a greater degree of exposure, and hence of vulnerability, in the context of globalization and are subject to the tensions of different operating rationales, some oriented towards transnationalization and others towards local markets), in this process of economic and institutional readaptation it is necessary to take account of both national and local circumstances, in order to be aware of their differences and potential and to define the most suitable policy mix for the different levels of economic development: a task which is no longer the monopoly of the central State administration.

III

The different levels and policies of economic development

In view of the growing exposure of all economic systems to the exterior, it is essential –though not of itself sufficient– to ensure maximum stability at the macroeconomic level. Action must also be taken at the microeconomic level of the process of change in production and organizational patterns, and this means that it is also necessary to make the necessary adaptations in institutions which any process of radical technical and production change demands, in view of the alterations in the social, labour, productive and other relations among the different actors in society.

Thus, the demands of globalization not only concern activities with linkages to international markets, but also decisively affect the macroeconomic level, which must ensure the stability required by the accumulation system; the microeconomic level, at which it is necessary to tackle the technological changes in production and business management, and the mesoeconomic level, at which is necessary to create the institutions and intermediate organizations responsible for providing each local area with an innovative environment for local economic development.

In addition to these levels, there is also the meta level. This is pointed out by Esser, Hillebrand, Messner and Meyer-Stamer (1996), who consider that structural or systemic competitiveness is the result of the organizational and institutional level attained by the interaction of the whole of society and depends not only on the macro level (which is responsible for ensuring the stability needed to permit the reproduction of the accumulation system), but also on the capacity for social incentivitation and strategic concertation of the local actors (the meta level), and the creation at the meso level of an innovative environment which is appropriate for the promotion of entrepreneurial activities and which effectively ensures technological and organizational innovation at the micro level of production and business activity in each local area.

It may therefore be appreciated from this standpoint that decentralized public management plays a decisive role, since the formulation of suitable policies for changes in production patterns and business

activities requires a detailed knowledge (not only at the aggregate national level) of the particular circumstances and profiles of the most important local economic clusters (Albuquerque, 1996b).

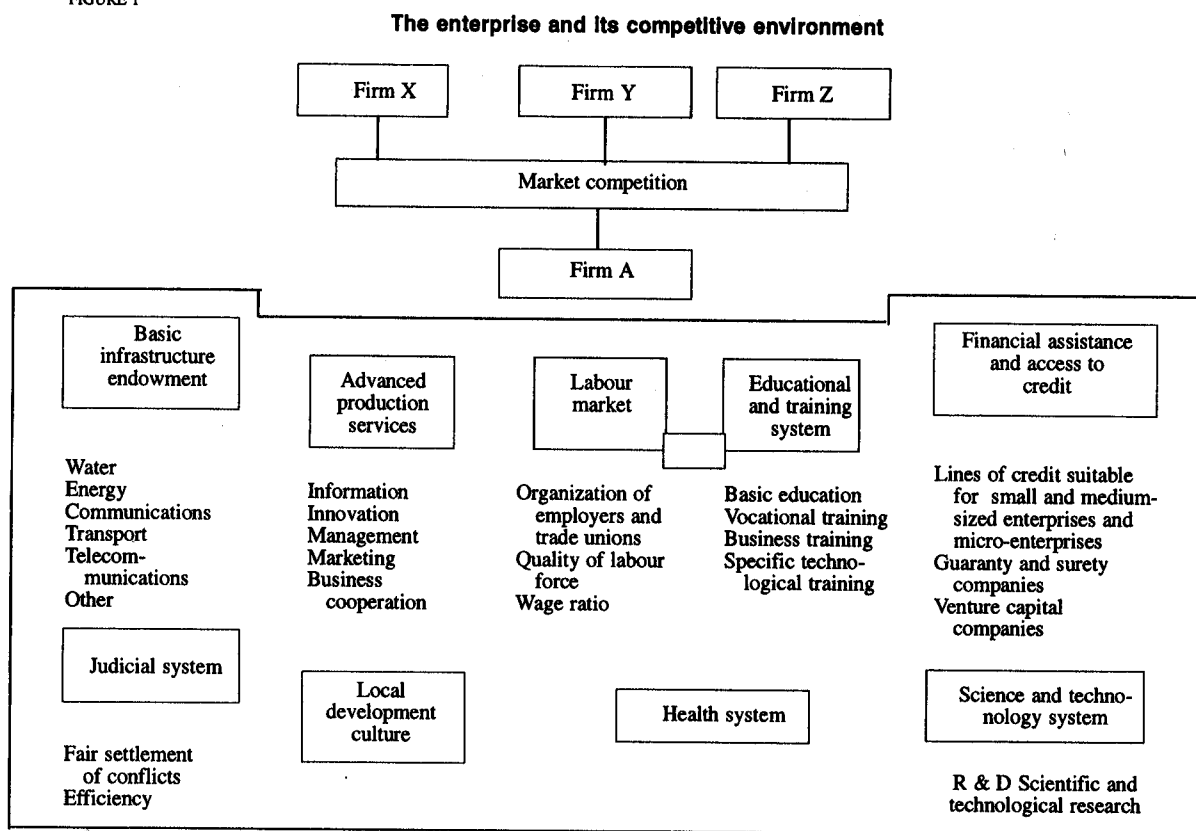
Thus, sectoral economic policies could be accompanied by this local component in order to ensure the necessary changes in production patterns and business organization at the micro level, to which end decentralized or localized planning facilitates a better understanding of the actual circumstances of the production base and the business system in each local area.

This is much more evident in the present phase of economic development, in which the decentralization and segmentation of the different phases of production activity, together with subcontracting, have shown the superior efficiency of flexible forms of organization and production which are capable of functioning in networks (Messner, 1996).

At all events, emphasis must be placed on the fact that companies do not act in a vacuum but in a given local environment which has a specific nature and specific interrelations which decisively influence the level of production efficiency and competitiveness of the firm. The endowment, quality and orientation of the basic infrastructure, the characteristics of the local educational and training system, the local labour market, the local health system, the availability of advanced production services, scientific and technological research, and the local culture in terms of development, among other things, are components which make it possible to promote from within the local area the production efficiency and competitiveness of the firms located there (figure 1). Thus, the over-simplification and frequent exaggeration of the so-called “business risks” appears to forget that behind the entrepreneurs there is the whole set of efforts organized –and paid for– by society as a whole, on which the achievement of competitiveness essentially depends.

Thus, local areas (regions, micro-regions or confederations of municipalities) whose public and private actors are capable of constructing innovative environments, on the basis of their own resources and

FIGURE 1



circumstances, to face the challenges posed both by the new forms of production and management and the growing internationalization of economies and

consumption patterns, are bound to be effective agents of their own technological and socio-economic change.

IV

Rediscovering the local dimension

Thus, globalization has helped us to rediscover the local dimension, since it has given rise to a general redistribution of activities over geographic space; at the same time, the local production activities and business systems now see more clearly the great demands for production efficiency and competitiveness that they are facing.

The variety of local environments which exist is only apparently at variance with the advance of globalization, since the latter phenomenon can take advantage of that local differentiation, provided that the macroeconomic adjustment policies are accompanied by microeconomic and mesoeconomic policies which

stimulate local-level forms of behaviour, environments and institutions which will serve to improve the efficiency and competitiveness of the local production and business systems.

As is generally known, in the present phase of the post-Fordist revolution knowledge is the decisive force in the reorganization of production and space and in the introduction of the best methods of management and organization of public or private enterprises.

The advances being made in the widespread communication of knowledge also stimulate globalization. And likewise, local diversity is itself based on the acquisition and adaptation of general and specific

knowledge, filtered and decanted by local practice, institutions and culture.

Thus, local areas are one of the contexts in which the division of cognitive labour takes place, that is to say, the division of labour in the area of the generation and use of knowledge; these contexts may be termed "contextual" when they occur in the local environment and are in one way or another specific to that area, or "codified" when they are of a global nature and are more easily transferable (Becattini and Rullani, 1996, p. 12).

According to the arguments of these authors, codified knowledge can only be used properly if it is re-contextualized in the specific or local production environments; similarly, it is necessary to codify some of the contextual knowledge if it is desired to make it transferable and thus attain sufficient economies of scale.

We thus see that the relations between the local and global levels are not necessarily at variance. In the words of Becattini and Rullani (1996, p. 12), there is a circular-type division of cognitive labour, because the local areas generate knowledge for global use, while the global environment provides the local circuits with knowledge from the rest of the world.

This does not, of course, alter the fact that the advance of globalization imposes greater demands on all the local economic systems, and some of them may not survive in the situations of greater competition that globalization brings with it, especially if they only react defensively to "modernity" or reject it out of hand instead of actively seeking opportunities to attain higher specialization, quality and diversity in their domestic production.

In order to achieve the latter, specific local development strategies and policies are needed, and not just general centralized guidelines which normally merely combine insufficient (although necessary) macroeconomic policies with other policies designed to favour entry into some dynamic international niches, as though this were enough to ensure technological and organizational innovation in all the production and business systems.

In the years after the Second World War, when Fordism was the leading form of organization of production in the central countries, the local dimension of development was gradually left aside. The predominance of big business and mass production, together with the gradual reduction in the cost of transport and communication, greatly aided in this. At the time, the spatial distribution of production was based essentially on a business rather than a local

rationale. In other words, it was the sectoral rationale and business planning, with the hierarchical components typical of the Fordist model of organization, which laid down the main guidelines for economic activity, with the local resources being "extracted" from their context for incorporation in the business rationale (Becattini and Rullani, 1996, p. 13).

As from the 1970s, however, the example of the Italian industrial districts and the greater development attained by Japan and the recently industrialized Asian countries began to show up the limited interpretive capacity of the previous theories. The crisis of Fordism is therefore also the crisis of the prevailing development theories, which had replaced local considerations by the abstract logic of macro-economic categories and economies of scale in production.

As the examples of Japan, the recently industrialized Asian countries and the Italian industrial districts show, however, local factors and institutional and cultural differences, together with the existence of national development strategies formulated by the different public and private social actors, significantly contribute to economic development, since they make it possible to achieve growing yields in terms of the acquisition of knowledge thanks to the economies of local clustering.

The transition to post-Fordism has been accompanied by a crucial phenomenon, namely, the possibility of making a trans-contextual transfer of knowledge by enterprises and local areas, which means that both sides must be familiar with the formal language of long-distance communication in order to be able to work in networks. This raises serious problems, especially for small and medium-sized enterprises, micro-enterprises and local production systems, if they lack a suitable and experienced environment. This is why it is so necessary to prepare the various local areas in this respect.

As we see, the local area is considered as a specific resource and a leading actor in economic development, rather than a space or framework for economic or social activities. In the opinion of Becattini and Rullani (1996, p. 15), the local area has certain effects on the local economy and offers it specific benefits. It provides production for local consumption with the benefit of "flexible integration" or, in other words, an environment capable of generating and maintaining competitive advantages and differential value.

The creation of this local "innovative environment" is not easy to reproduce, and it is precisely the

density and quality of the relations between the different local actors which give that local area its value as a specific circuit of interactions which promote business activities, innovation in production, quality of human resources and labour relations and foster the local development culture, all of which are crucial elements in competitiveness.

It must be emphasized once again that although the case of the Latin American and Caribbean region is different from that of other areas, such as the Italian industrial districts, it is always possible to work from the standpoint of endogenous regional development, thus complementing the macroeconomic adjustment policies implemented by the central State authorities.

V

The importance of small and medium-sized enterprises and micro-enterprises

In Latin America and the Caribbean, as in the developed world, small-scale production occupies a prominent place in the generation of employment and income for broad strata of the population and in the local spread of technical progress and economic growth. For this reason, the lack of specific policies to deal with the problems of this kind of enterprises

in the various local production systems severely hampers any economic development strategy. It would not be enough, however, merely to have a generic support programme for small and medium-sized enterprises and micro-enterprises administered by the central authorities. Instead, I think it would be necessary to identify the different local systems of

TABLE 5

Latin America: Importance of small and medium-sized firms^a

| | Size of firms, by number of employees | Number of firms (% of total) | Share of employment (% of total) |
|-------------------------|---|------------------------------|------------------------------------|
| Colombia ^b | Micro (up to 9) | 91.9 | |
| | Small (10-49) | 4.3 | 19.19 ^c |
| | Medium (50-199) | 0.6 | 30.37 ^c |
| | Large (over 200) | 0.2 | 50.44 ^c |
| Costa Rica ^d | Micro (1-4) | 84.4 | 47.8 |
| | Small and medium-sized (5-99) | 10.8 ^e | 45.7 |
| | Large (over 200) | | 6.1 |
| Chile ^f | Micro (up to 9) | 82.8 ^g | 43.3 |
| | Small ^g | 14.4 ^g | |
| | Medium-sized ^g | 1.3 | 36.5 ^h |
| | Large (over 200) ^g | 1.5 | 20.2 |
| Mexico ⁱ | Small, medium-sized and micro-enterprises in the manufacturing sector | 98.0 | 49% of total industrial employment |

^a The data refer only to the formal sector of the economy, which means that they underestimate the importance of small-scale production as a whole.

^b National Economic Census, 1990.

^c Data on employment in manufacturing firms with over 10 employees.

^d Economic Census, Ministry of the Economy, Industry and Trade, 1991; Costa Rican Social Security Service, Industrial Information Centre, 1994.

^e This figure only refers to the number of firms with 5-19 employees.

^f Friedrich Ebert Foundation /CORFO, Chile, 1994.

^g These categories correspond to the following criteria: micro-enterprises (enterprises declaring sales of less than US\$ 60,000); small enterprises (sales between US\$ 60,000 and US\$ 625,000), medium-sized enterprises (sales between US\$ 625,000 and US\$ 1,250,000), and large enterprises (sales over US\$ 1,250,000).

^h Corresponds to share of employment accounted for by firms with between 10 and 200 employees.

ⁱ I. Aguilar, *Revista Comercio Exterior*, Mexico City, June 1995.

TABLE 6

Selected developed countries: Importance of small and medium-sized enterprises (SME)

| Country | Size of SME (by number of employees) | Number of firms (% of total) | Sales/GDP (% of total) | Employment (% of total) | Exports (% of total) |
|---------------|---|---------------------------------|-----------------------------------|----------------------------|-------------------------|
| Canada (1990) | Manufacturing (≤ 100 employees) | 99 | 40% of GDP | 52.3 (≤ 100 employees) | 9.3 |
| | Services (≤ 50 employees) | | | 43 (≤ 50 employees) | |
| Spain (1989) | ≤ 250 employees | 99.8 | 64.25% of sales | 63.72 | 41.06 |
| Italy (1991) | ≤ 200 employees | 97.6 | 31.5% of GDP (≤ 100 employees) | 54.7 | 22.6 |
| | Manufacturing (≤ 300 employees) | | Sales: Manufacturing 51.7 | | |
| | Wholesale trade: (≤ 100 employees) | | Wholesale trade: 62.1 | | |
| Japan (1991) | Retail trade and services (≤ 50 employees) | | Retail trade: 78 | | |

Source: Domínguez (1996), who cites the following as his original sources: Japan Small Business Corporation, 1995; Tacis Project, 1995; Canada, House of Commons, 1994; Lorenzo and Calvo, 1994.

enterprises and construct the most suitable innovative environments in each case, in a concerted manner with the different public and private actors in the area.

If we take a look at the information on the importance of formal-type small enterprises¹ in various Latin American countries (table 5), we see that micro-enterprises and small enterprises, taken together, form the vast majority of the total existing enterprises and employ a very high percentage of the total number of workers.

This situation is quite similar in the developed countries, where, for obvious reasons, the criteria used for the classification of enterprises by their size cover enterprises with a larger number of employees or higher volumes of sales. In Canada, Spain, Italy and Japan (Domínguez, 1996), small and medium-sized enterprises account for a prominent share of the total number of firms in the respective countries, as well as in total sales, employment and exports (table 6).

¹It should be noted that the inclusion of enterprises from the informal sector would make these assertions even more pertinent.

According to data from the European Union (1994), in 1993 that community had 17 million small and medium-sized enterprises which provided 67 million jobs, of which nearly 30 million corresponded to firms with less than 10 employees.

In the opinion of Bianchi (1996), small and medium-sized enterprises thus play a crucial role not only in promoting employment but also in ensuring the dynamism of markets and the success of regional trade agreements and in strengthening the social stability of the countries. Consequently, a strategy aimed at stimulating the "specialization and complementarity" of small and medium-sized enterprises in local agreements and clusters is of decisive importance.

As Bianchi (1996, page 4) notes, the abundant and varied specialized literature shows that the success of small enterprises in Europe is based on clusters of firms with different specialities which work together and complement each other, so that the group forms a collective subject taking part in the competitive struggle.

In short, in open markets small enterprises can be competitive if: i) they progress in their specializa-

tion, that is to say, they concentrate their production know-how (both technological and commercial or organizational) on a specific range of problems, achieving advantages in terms of costs and innovative leadership; ii) they operate at the same time in a context of cooperation, that is to say, they accept the increased costs connected with specialization because they are sure that in the local cluster of enterprises there will be one with a complementary form of specialization, and iii) the positive externalities of all this help to give greater cohesion to the cluster of enterprises, so that they do not act behind the back of the rest of the group and there are no barriers to the entry of new initiatives and efficient and innovative enterprises (Bianchi, 1996, page 5).

In view of the importance and the greater fragility of small enterprises in the different local production systems, it is necessary to take steps to ensure the introduction of technological and organizational innovations in the local areas. Technological innovation policies should not only be formulated on a sectoral and centralized basis, but also in a decentralized or local-oriented manner, in order to take account of the specific conditions, problems and potential of each of the local areas, facilitate the strategic concertation of the local social actors, and encourage the creation of suitable institutions for local economic and business promotion.

For this purpose, processes of decentralization of the State must include substantive content in terms of economic development and ensure that the policies adopted include horizontal, selective and local-oriented components and are capable of promoting strategic concertation among the social actors (box 1).

The horizontal design of policies, in contrast with a vertical and centralized approach, seeks to create opportunities and a favourable environment for innovative undertakings. The selectivity of policies refers to the need to adapt them to the different production profiles and resource potentials of the local areas, in contrast with the traditional generalist design of policies, which ignores the local areas and considers only a homogeneous abstract space. Finally the local-oriented approach sees the national economy as a set of local economies and not just as a set of sectors in an abstract space.

At all events, the need to take account of this local dimension of the economy does not mean that continued attention must not be given to policies of a sectoral nature in those segments which can keep up their dynamism in the corresponding international segments. There is no question of antagonism here, but simply a lack of complementarity in the policies in question, which must be overcome in order to attain levels of economic growth and changes in production patterns more in keeping with the desired advances in terms of equity.

Box 1

COMPARISON OF DECENTRALIZED AND CENTRALIZED POLICIES

Decentralized policy design

Horizontality

Indirect integral support policies designed to create opportunities for innovative undertakings

Selectivity

Policies are defined in the light of the different production profiles of each local area

Locally-oriented approach

The national economy is seen as a set of local economies and not just as a set of economic sectors

Concertation

Policies are formulated jointly with the different social actors

Centralized policy design

Verticality

Policies are dictated from the central level of the State, usually with a sectoral approach, and are not usually the result of consensus-building among the different actors

Generality

Policies are assumed to be valid for every type of geographical area

Functional/sectoral approach

The national economy is seen as a set of economic sectors

VI

Conclusions: a more comprehensive local development proposal

If it is accepted that economic development is the result of the organized efforts of the whole of society and can no longer continue to be viewed merely as a planning exercise by the central government or as the result of the individual acts of enterprises, it seems clear that more pragmatic and less ideologically biased proposals are needed in this respect, in which the local areas and local development play a fundamental role side-by-side with macroeconomic and sectoral policies.

It is also vitally important to reinvent public management so as to incorporate an integral concept of technological innovation as a process of social, institutional and cultural change in which consensus and concerted action by the different social actors of the area takes the place of the fragmentary and piecemeal designs of the previous centralized planning, and to carry out selective actions which identify the corresponding local clusters of enterprises and include local economic development policies as a fundamental part of the national development strategy.

In this respect, a long-term view and consideration of the different levels (micro, meso, meta and macro) of development policies must be incorporated in public management, which is not the exclusive responsibility of the central authorities but also of the local public administrations and the whole set of local social actors.

The abandonment of passive, subsidiary approaches, and their replacement by the incorporation of a local culture of innovation, is an essential component of this new approach, together with the design of non-bureaucratic institutions endowed with operational flexibility and efficiency.

To sum up, then, the new local economic development proposal does not only emphasize the importance of big firms and participation in dynamic activities in the globalized core of the world economy, although these may have important effects in certain regions, but also the importance of ensuring the spread of technological and organizational innovations within the whole set of local production systems in order to promote their endogenous development.

In order to progress in this respect it will be necessary to:

- i) orient activities towards the promotion of endogenous development potential and not just the procurement of foreign investment;

- ii) place emphasis on the local dimension of technology policy, in order to facilitate promotion of the endogenous potential of each area;

- iii) give priority attention to small and medium-sized enterprises and micro-enterprises, introducing criteria based on broad social profitability and generation of employment and income for the majority of the population, and not be guided only by narrow criteria of immediate financial gain;

- iv) ensure access to advanced production services throughout the local area;

- v) consolidate the local systems of institutions and actively promote cooperation and complementarity agreements in the construction of the appropriate innovative environment, and

- vi) take due account of environmental sustainability when considering the different options with regard to development policies and projects.

This approach thus displays substantial differences from the traditional model of local development policies, both with regard to the design of the strategy and with regard to the determination of objectives and means of action, types of management and the agents who will participate in them (box 2).

Thus, whereas the traditional model is dominated by functional or sectoral views and a desire to secure polarized development, the new model emphasizes the importance of spreading economic growth and employment, taking a more local view of the development process, and with regard to innovation it stresses quality and flexibility as the criteria that should govern organizational and production actions. In contrast with the traditional approach, the new approach places more emphasis on quality than on mere quantitative growth and concentration on big projects.

Likewise, in the new approach the mobilization of endogenous potential and the use of both local and

Box 2
TYPICAL LOCAL DEVELOPMENT POLICIES

| | <i>Traditional approach</i> | <i>New approach</i> |
|---------------|---|--|
| Main strategy | Polarized development (functional view) | Widely disseminated development (locally-oriented view) |
| Objectives | Quantitative growth Big projects | Innovation, quality and flexibility Numerous smaller projects |
| Mechanisms | Redistribution and mobility of capital and labour | Mobilization of endogenous potential Use of both local and external resources |
| Organization | Centralized management Centralized administration of resources | Local management of development Consensus-based creation of intermediate organizations |
| Agents | Central State authorities Big companies | Local public administrations Central State authorities Small and medium-sized enterprises and micro-enterprises Local social actors Intermediate bodies Supranational economic integration bodies |

external resources take the place of the traditional concern to attract outside investment and the assumption of mobility of the labour force (Vázquez Barquero, 1993).

Finally, with regard to the form of organization and the main agents, the new approach stresses local management of development and the concerted creation of organizations and institutions of an intermediate or mesoeconomic nature, instead of centralized management of resources, and it highlights the im-

portance of local public administrations, small and medium-sized enterprises and micro-enterprises, and the rest of local society, not just the central government and the big enterprises.

From this standpoint, it is held that the smaller components of the economy are not only important but should actually be the prime object of attention as a factor for the economic, social and local development of Latin America and the Caribbean.

(Original: Spanish)

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