Almost 20 years ago, the Economic Commission for Latin America and the Caribbean (ECLAC) adopted a guiding concept of changing production patterns with social equity. In the pessimistic atmosphere about the region’s future, ECLAC advocated an approach that contrasted with the orthodox thinking that predominated public policy proposals at the time. The world has since then experienced rapid changes, and new actors have emerged that have altered the old balance in the world economy and prompted deep structural transformations. ECLAC believes timely to reexamine its approach in light of this new scenario and analyse if today’s new opportunities can contribute to overcoming longstanding development problems in the region.

This is the goal of the report Structural Change and Productivity Growth, 20 Years Later. Old problems, new opportunities that ECLAC will submit to discussion in its Thirty-second session to be held in June in Santo Domingo, Dominican Republic.

Today, the situation in Latin America and the Caribbean is better than at any other time in the past 30 years, and there...
NEW OPPORTUNITIES FOR LATIN AMERICA AND THE CARIBBEAN

José Luis Machinea

Latin America and the Caribbean have been experiencing a period of sustained growth since 2003 that has enabled the region to diminish its macroeconomic vulnerability and lower unemployment and poverty. However, its productive structure continues scarcely diversified, with insufficient innovative content, which, among other things, weakens the dynamic effect of exports. In other words, the region is not taking advantage of the opportunities provided by a favourable external context to establish the grounds for sustained growth.

The good news is that, beyond short-term turbulences, developing Asia is expected to continue growing rapidly, meaning that there will be high demand for natural resources for several years to come. In addition, Asian consumers may likely see their income increase. The diversification and stratification of consumption patterns have given rise to niches of new, more sophisticated and costly products.

In terms of technological development, great changes have taken place and are expected to occur in several areas (ICTs, biotechnology and nanotechnology, among others) that will lead to profound transformations in production and services. They are all convergent technologies with the potential to affect or redefine the evolution of a broad set of sectors. For this reason, and independently of how each country has inserted in the international economy, their future performance will depend increasingly on their ability to assimilate these new technological paradigms creatively.

Countries should make the most of global expansion to undertake a process of productive transformation so as to broaden and modify their traditional modes of insertion in the world economy, adding value and knowledge to their products.

Opportunities arise where there is a competitive basis that may be used to heighten learning processes, strengthening already existing advantages, and from there, exploring new productive horizons. The heterogeneity of learning patterns both in sectors and companies should be taken into account in detecting these opportunities. In addition to an aggregate evaluation, the complexities, potentialities and restrictions of industry, the agro-food complex, mining and services must also be understood at a microeconomic level.

“Countries in the region should broaden and modify their traditional modes of insertion in the world economy, adding value and knowledge to their products.”

Exploiting the opportunities detected in these sectors will not be simple, among other reasons, because the incorporation of developing Asia implies an almost unlimited supply of low-cost labor and, increasingly, of highly-qualified scientists and engineers, as well as other powerful localization advantages for the manufacturing industry and services.

Under this perspective, the diversification and development of instances in which technological learning and competitiveness come together should be the center of any strategy for the future development of the region. Unlike 60 years ago, when Raúl Prebisch wrote his Manifest of Latin America, technological changes today are not focused only in the manufacturing sector, but encompass all productive sectors. Therefore, how to innovate is now more important than where to do so. However, technical changes and productive transformation are not spontaneous processes, and thus today, just like Prebisch advocated six decades ago, reaching these goals requires public policies and developing capabilities.

Advancing towards the construction of national strategies for productive transformation requires mobilizing a broad array of disperse social forces. This means, in part, learning from other countries’ experiences and adapting them to the domestic realities, but also abandoning old practices and promoting a culture of considering knowledge as value-added to production. The creation of a strategy with these objectives also requires an agreement to bring together the public, private, academic and labor sectors into the productive process.

The effectiveness of these productive policies will also depend on institutional changes geared towards innovation. New institutions focused on productive development are necessary, but it will be even more important to strike a balance between macro policy institutions and the agencies in charge of sectorial productive policies, science and technology.

The author is the Executive Secretary of ECLAC.
are several opportunities for progress. It is time to debate about how the region can make the most of this context of a global economy undergoing such significant changes.

The diversification and development of instances where technological learning and competitiveness converge is the center of any future development strategy. It is always possible to improve almost everything and explore new paths. There seem to be two basic approaches: the first is to generate a culture of innovation in order to create and benefit from opportunities based on new proposals, opening new paths to do so; the second approach seeks to detect and exploit the opportunities the world provides, and learn from the experiences and progress in other regions.

In sum, ECLAC suggests using global expansion to foment a process of productive transformation to allow countries to broaden and modify their traditional modes of insertion in the world economy, adding value and knowledge to their products.

Opportunities arise where there is a competitive basis that may be used to heighten learning processes in order to strengthen competitive advantages and explore new horizons. However, learning patterns in sectors and companies are heterogeneous. The document, in addition to an aggregate evaluation, analyzes six sectors applying this perspective: modern industry, manufactured exports, the agro-food complex, metal-mining and tourism and business services.

There are new opportunities in all of these sectors, but the process is not spontaneous, and requires capacity-building and designing public policies in cooperation with the private sector.

Many productive activities are part of and depend on the organization of the global chains of value. Those controlling these chains generally play a predominant role in production, commercialization and financing channels, and are not willing to transfer the knowledge required to allow access to new sources of income. The income from technological progress continues to be concentrated in developed economies, as Raúl Prebisch pointed out 60 years ago, in another context.

Innovation in terms of quality

The document demonstrates that the region has not advanced significantly in the quality of its export products. The price of exports, which reflects their quality, indicates that Latin America and the Caribbean export products similar to those sold by developed countries, but at lower prices. The price differences are, in turn, an expression of the scant achievements in the region in this regard, and a demonstration that there are possibilities for innovation in terms of the quality of products currently exported.

The task is not simple, because competition is constantly increasing, but there are three reasons for certain optimism.

First, more opportunities exist in a context of rising and diversified demand, of the growing fragmentation and modularization of production, and technology applied transversely on productive sectors, but this requires local adaptation. Secondly, countries in the region have developed certain capabilities in terms of sectors and private companies that should be strengthened in international markets. Thirdly, the experience of several Asian nations shows that the escalation of value chains, the creation of their own chains, and the development of a surrounding network of small and medium-sized companies is a real possibility, as long as there is also a learning process to build the capabilities required in the different productive sectors.

Although strategies for productive transformation should be national, greater coordination and economic integration among countries in the region would facilitate the task enormously by providing scale, complementation and accumulated knowledge. In this regard, short-term regional integration problems must be overcome, because the speed at which the world is changing may convert today’s opportunities in just an illusion if nations do not advance fast enough.

Strategies reflecting national interest

According to ECLAC, any process of productive transformation requires important efforts to anticipate and identify opportunities, set goals according to the new realities, and design public policies geared at achieving them.

In sum, countries should implement medium and long-range strategies reflecting national interest. These strategies should be based on searching for broader consensus, considering that societies with greater levels of social cohesion are able to forge better strategies and institutions, and generate the levels of trust needed to implement vital reforms.

In addition, any development strategy requires stronger efforts in terms of financing. Given the current international situation, it appears to be necessary to redirect resources from traditional sectors to those with greater potential to transform the productive structure and improve equity. This involves addressing two challenges. The first is how to reach this objective without eliminating incentives in traditional sectors; maintaining this balance is the first task. The second consists of deciding not only where to invest, but also how to do it effectively and in pursuit of a strategy.

Advancing in productive transformation by combining economic and social policies in three basic areas –technical progress, productive employment and the accumulation of human capital– will surely bring countries in the region closer to the goal set forth by ECLAC 20 years ago, of filling the “empty box” of growth with equity.
PUBLIC-PRIVATE ALLIANCES FOR EXPORT DEVELOPMENT

ROBERT DEVLIN AND GRACTIELA MOGUILLANSKY

Since the mid 80s, Latin America and the Caribbean has pursued a reform agenda that has paid dividends in terms of democratization, economic modernization and macroeconomic stability. Moreover, after two decades of disappointing economic growth, the region’s performance has markedly improved in recent years. Nevertheless, growth continues to lag behind other developing regions, particularly Asia. Moreover, the recent improvement has depended to a large degree on the “pull” of an international commodity boom, the sustainability of which is always uncertain.

The phenomenon of poorer countries sustaining a process of income convergence with the richest of the world has not been that common. To examine an aspect of this issue, in its document Structural Change and Productivity Growth, 20 Years Later: Old problems, new opportunities – to be presented at its XXXII Session– ECLAC studied ten extraregional countries that have achieved such a process, or have performed better than Latin America with similar resource endowments.

Methodologically, while analyzing the “what” of public policy, there was special attention to the “how”; i.e., the institutional processes behind the policy. This relatively unexplored perspective was pursued because while policy matters as a determinant of success, “how” that policy is developed and implemented matters as much or more. The primary focus was on public programs to encourage export development and diversification, a high priority objective for achieving structural change and growth in all the cases and one where Latin America lags.

The ten countries are all small-medium sized economies, each one of which exhibits very different characteristics that for the most part are impossible to replicate. Nevertheless, organizational “first principles” could be detected that reveal successes or difficulties. The study develops 12 first principles, generic in nature, and illustrates them from the concrete country experiences.

The first overarching principle is that in an era of globalization and intense international competition, development of public policy in the context of proactive medium and long term strategies can be an effective tool for achieving sustained high rates of growth. This approach extends public policy focus beyond the short term to a more strategic, forward-looking and goal oriented exercise aimed at specific ways to support structural change and growth. It involves (i) systematic efforts to anticipate and identify future opportunities to expand and upgrade the value and knowledge content of production and exports as well as the primary restrictions –domestic and external– that need to be overcome to exploit those opportunities; (ii) prioritizing realistic objectives which at the same time are an expression of “ambition”; (iii) designing public programs and incentives at the macro, micro and institutional space supportive of the objectives, and (iv) being flexible enough to make mid-road corrections in the face of problems or changing events at home and abroad.

The extraregional cases all traditionally give high priority to “fundamentals” such as macroeconomic stability, openness, education, infrastructure, etc. Many have accomplished these better than Latin America. Yet, what strikingly distinguishes the most successful of the extraregional cases from Latin America is the development of a strategic medium-long term national vision of how to competitively position the country in the world economy 5-10-20 years from now and have public programs functional to bringing this to reality. Latin America unfortunately has been relatively enmeshed in short termism and slow to go beyond the necessary stage of basic reforms to combine them with a more ambitious medium-long term strategies for structural change and a more knowledge-based integration with the world economy.

The second overarching first principle is that in an era of market economies and globalization, strategies are best drawn up in a framework of a private-public alliance that can maximize information flows and construct the consensus that is needed to allow strategies to persevere coherently over political cycles. Public-private alliances, based on the notion of public goods, are functional to bringing this to reality. Latin America unfortunately has been relatively enmeshed in short termism and slow to go beyond the necessary stage of basic reforms to combine them with a more ambitious medium-long term strategies for structural change and a more knowledge-based integration with the world economy.

Consensus is a process, not an event

Among the success cases, those countries with the strongest and deepest public-private alliances are the countries that have done the best in terms of development and implementation of agile national strategies for

(continued on page 5)
structural change and export development. Moreover, strategies emerging from the alliance are underpinned by public understanding and consensus that allows for coherent projection into the medium and long term. But consensus is a process, not an event, and to achieve it the countries needed customized institutional arrangements, trial and error, and evidence of success in the strategies themselves. An examination of Latin America suggests that public-private alliances are non-existent, fragmented, lack continuity, are captured by special interests or are paralyzed by governance problems.

There are ten other principles related to the governance of institutional processes that are inspired by the extraregional experiences. Among these are that strategies need to be led by ministries/public agencies that have competencies in the real sector of the economy, enjoy political support at the highest level, especially for priority initiatives, and have adequate and predictable financial resources to develop and move the strategy forward. The need for specialized public agencies and multilayered coordinating mechanisms rises with the specificity of the strategy and number of active agents. The most successful of the extraregional country cases tend to “rebrand” their specialized public agencies to accommodate emerging new strategic priorities. Observation of Latin America suggests that support activities related to industry and non-financial service are marginalized in strategies that still are dominated by short term macro issues, underfunded, suffer from coordination problems and operate in a relatively static institutional setting. These shortcomings lead to dispersion of limited resources for public support programs, duplication, gaps in coverage of support for strategic activities of the private sector, and lack of continuity of funding of activities with long gestation periods, such as innovation.

To develop and implement strategies with credibility vis-a-vis the private sector, real sector ministries need a depoliticized stable corps of highly competent, specialized technical staff and management that also has an ability to articulate effectively with international expertise. To attain this in the region, and reproduce the relatively high levels of competence found in many central banks and ministries of finance, there will have to be reform of recruitment and salary policy in the rest of the public sector. Among other principles are those relating to rigorous and continuous monitoring and evaluation of the impact of public incentives and the need for transparency, both of which facilitate efficacy as well as ward of the risks of state “capture” by special interests.

Finally, the study makes no pretense of causality between strategically based public-private alliances and growth in the extraregional cases. Rather, it reports on the institutional dimensions and develops illustrated first principles that can stimulate reflection in the region about the value of medium/long term strategies, alliances and the building of consensus. It is up to Latin American countries to decide whether and how to develop home-grown versions of this extraregional tool for growth and development.
The report lays out the need to increase efforts so donor countries of development funds reach the target of spending 0.7% of their GDP on ODA. These are part of the commitments of the Monterrey Consensus signed in 2002 during the United Nations International Conference on Financing for Development.

It also suggests exploring new sources of financing to increase availability of financial resources for development, such as taxes and global funds. In addition, the document proposes improving the efficiency of ODA allocation and management, and efficiently integrating medium-income countries to the international cooperation system, both as recipients of assistance as well as in South-South cooperation.

The second part examines the weakness of the financial systems in the region to mobilize resources for development, particularly long-term, along with the difficulties in generating adequate levels of national savings.

The working document outlines the growing importance of micro financing as an instrument to improve access to the financial system and channel resources to productive areas of the lowest-income groups. It also states the need to create additional mechanisms to facilitate and improve risk management and resource allocation to small- and medium-sized companies, highlighting the role of commercial banks and domestic development banks.

**International financial system, climate change and other issues**

The role of domestic policies is key to any sustainable development process, but it must be complemented by an international financial architecture that promotes stability in economic growth.

The ECLAC document asserts the importance of strengthening anti-cyclical mechanisms, in particular, liquidity instruments, as well as the role of regional financial cooperation; in the context of the Latin American region, this refers particularly to regional and subregional development banks.

With regard to climate change, the report points out that in order to achieve sustainable economic development, greenhouse gas emissions must be reduced and policies must be designed to address the effects of climate change.

International cooperation is fundamental for financial support, as are technology transfers from industrialized economies for attaining greater energy efficiency and new renewable energy sources. Moreover, governments should strengthen policies to prevent and address the effects of natural disasters, so as to reduce risks.

On commerce, the document suggests greater international cooperation to promote the integration of Latin American economies to world trade, as well as further diversify their export base.

The report argues that in terms of social cohesion, one of the main challenges in the region is advancing towards greater social inclusion. Exercising economic, social and cultural rights is key to social integration and enhancing social cohesion.

International cooperation may contribute to this process in that it lifts restrictions on resources through the promotion of economic growth, strengthening State institutions, and improving social policies and social protection systems.

Advancing the process of social cohesion implies addressing issues of labor dynamics and informal work, training human capital, social protection, promoting gender equality and empowering women.

The document also highlights the long history of cooperation in tax matters in Latin America, both at a bilateral level and through regional integration agreements. These agreements are mostly negotiated with third countries, and more specifically, with developed nations.

It also emphasizes the need to regulate extraterritorial financial centers in order to generate fiscal competition that may benefit all countries involved, given that these centers are a source of fiscal income and employment for the smallest economies in the region that lack solid tax structures.

Lastly, the text calls on the Monterrey Consensus signatory countries to establish multi-institutional and multi-sector guidelines and follow-up mechanisms so as to facilitate implementation of the multilateral development agreements.
Several indicators (employment, housing construction and sales, consumer confidence) are signaling an incipient economic recession in the United States. We believe this cycle will be moderate, but may last longer than initially expected. In spite of the Federal Reserve’s strong injection of liquidity in the economy, recovery will be slow due to the impact on bank returns, including possible losses, in the following months, which will cause additional uncertainty. Moreover, diminishing income associated with housing values, a process that has yet to conclude, will surely inhibit consumption for several months.

The reaction of monetary and fiscal officials has been correct, in spite of doubts about the impact of fiscal measures; however, the magnitude of the mistakes made in regulating and supervising the United States’ financial system is surprising. Among them is the “authorization” to eliminate bad credit from bank portfolios through the securitization of mortgage credit, a process encouraged by the real estate market bubble and the lack of consumer information about the quality of that portfolio.

A mild recession in the United States will have considerable impact on other regions in the world. Europe will likely suffer a marked deceleration, while in emerging economies the impact will be modest. With regard to the latter, there are questions about the effects of the crisis on China. Almost 40% of Chinese exports go to the United States and the European Union. It is then reasonable to expect a 2%-3% drop in China’s growth rate.

The deceleration of the world economy will also decrease regional growth, although the consequences will be milder than in the past because the region has become less vulnerable. In particular, and taking into account lower financing requirements, the increase of country risk that has affected –with differences– the entire region, will not have a significant impact on the average cost of debt. However, there are a few countries with financing requirements in the next 18 months.

Unlike the moderate short-term impact on the financial side, effects will be felt in the real economy. The first will be a decrease in remittances to the region from emigrant workers as a consequence of lower employment in the United States, particularly in construction. A second effect will be a fall in imports in developed countries, including an eventual drop in the United States. This will have varying effects in the region’s exports, depending on the relevance of sales to the U.S. and the type of goods being exported, given that manufactured goods are more difficult to reorient to other markets in the short term.

Both variables –remittances and exports (especially manufactures)– will impact more in Mexico and Central America than in South America.

The deceleration of the world economy should reduce the price of primary goods. However, recurrent crises of diverse origin in oil producing nations, the emergence of biofuels (particularly the strong subsidies for biofuel production in the United States and Europe), along with speculative purchases and the suspension of exports in several food producing countries, cast doubts on the behavior of these prices in the short run.

In this context, it would not be surprising to see rising primary good prices, through their impact on poverty and effect on inflation at a global level, rapidly replacing the United States’ mortgage market as a main source of concern. It is particularly relevant to highlight the monetary policy dilemma faced by central banks. Too much emphasis on their concern about “reputation”, about which central bankers tend to be very sensitive, may lead to a currency appreciation in a significant part of the developing world and weaken incentives to take advantage of the strong growth of world demand during the next few years, beyond the short-term turbulences.

In sum, it is likely that in the short run, the region’s economies will continue growing (particularly in South America) at high rates (4.7% this year, and no less than 4% in 2009). However, we may be falling into the trap of increasing specialization in the production of primary goods without knowledge added, due to the currency appreciation as well as the lack of production development policies. Avoiding this result is one of the region’s main challenges.
1. **Millennium Development Goals. Progression towards the right to health in Latin America and the Caribbean**, coordinated by ECLAC with participation of PAHO, the World Food Programme, the UNDP and UNICEF. May 2008. (LC/G.2364). Outlines the achievements and obstacles to meeting health-related Millennium Development Goals, analysing their causes and dimensioning the efforts needed to fulfill those commitments. [www](#)

2. **Labour markets, worker protection and lifelong learning in a global economy:**

   *Experiences and perspectives in Latin America and the Caribbean*, directed by ECLAC Executive Secretary José Luis Machinea and drafted by Jürgen Weller. April 2008. (LC/L.2880). Examines how the institutional framework for labour in the region has changed in recent years, in its aim of ensuring efficiency in the labour market, protecting workers, and generating good quality jobs. [www](#)

3. **The future of families and policy challenges.** by Irma Arriagada. April 2008. (LC/L.2888-P). Compiles presentations, comments and debate from a specialists meeting on families and policies, organized by ECLAC’s Social Development Division. Analyzes the heterogeneity of families caused by demographic changes and the need for further research on the care of children and the elderly, among other issues. [www](#)

4. **CEPAL Review N° 94.** April 2008 (LC/G. 2357-P). This edition –only in Spanish– contains articles on ECLAC’s historical contribution to the debate over Latin American development, the factors that explain poverty reduction in the region since 1990, and the evolution of trade and investment rules from a Latin American perspective, among others. [www](#)

---

**CALENDAR**

<table>
<thead>
<tr>
<th>MONTH</th>
<th>EVENT</th>
<th>PLACE</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAY</td>
<td><strong>8</strong> Presentation of the report “Foreign investment in Latin America and the Caribbean, 2007”</td>
<td>ECLAC</td>
</tr>
<tr>
<td></td>
<td><strong>20</strong> Presentation of the report “Millennium Development Goals. Progression towards the right to health in Latin America and the Caribbean”</td>
<td>Costa Rica</td>
</tr>
<tr>
<td></td>
<td><strong>25</strong> <strong>ECLAC</strong> building opens to public on Cultural Heritage Day 2008</td>
<td>ECLAC</td>
</tr>
<tr>
<td>JUNE</td>
<td><strong>2</strong> Conference of Peruvian Minister of Economy and Finance, Luis Carranza Ugarte, “Economic Growth in Peru: Situation and Perspectives”</td>
<td>ECLAC</td>
</tr>
<tr>
<td></td>
<td><strong>3</strong> Seminar “Risk Habitat Megacities: Sustainability at risk?”</td>
<td>ECLAC</td>
</tr>
<tr>
<td></td>
<td><strong>9 - 13</strong> Thirty-second session of <strong>ECLAC</strong></td>
<td>Santo Domingo, Dominican Republic</td>
</tr>
<tr>
<td></td>
<td><strong>10</strong> Presentation of <strong>ECLAC</strong>’s Thirty-second session work document, “Structural change and productivity growth 20 years later: Old problems, new opportunities”</td>
<td>Santo Domingo, Dominican Republic</td>
</tr>
<tr>
<td></td>
<td><strong>11 - 13</strong> Regional Consultation Preparatory to the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus</td>
<td>Santo Domingo, Dominican Republic</td>
</tr>
<tr>
<td></td>
<td><strong>12</strong> <strong>ECLAC</strong> Sessional Ad Hoc Committee on Population and Development</td>
<td>Santo Domingo, Dominican Republic</td>
</tr>
<tr>
<td>SEPTEMBER</td>
<td><strong>22</strong> Regional conference on efficient water and sewage services</td>
<td>ECLAC</td>
</tr>
</tbody>
</table>