The new media available for creating and distributing information using digital technologies are producing profound changes in our world and have created a new paradigm with regard to the concept of “information society”.

From Latin America and the Caribbean’s point of view, it is extremely important to determine how this new paradigm can contribute to the achievement of broader development objectives and the region’s full integration in the world information society. With this in mind, the Economic Commission for Latin America and the Caribbean (ECLAC) prepared the report *Road Maps Towards an Information Society in Latin America and the Caribbean*, which was presented at the Regional Preparatory Ministerial Conference of Latin America and the Caribbean for the World Summit on the Information Society, to be held in two stages: 2003 in Geneva, Switzerland, and 2005 in Tunisia.

The ECLAC paper attempts to answer three fundamental questions:

(continued on page 3)

LATIN AMERICA AND THE CARIBBEAN IN THE WORLD ECONOMY 2001-2002

Imports into Latin America and the Caribbean fell 9% in 2002 compared to 2001. Exports rose by an estimated 0.8%, because some countries managed to boost volumes to offset the steady decline in prices for most goods. After falling steadily, some improvement in exports became apparent in the third quarter of the year.

In its annual report, *Latin America and the Caribbean in the World Economy 2001-2002*, ECLAC has found that declining trade in goods for 2001-2002 is due to a combination of factors: economic slowdown in the main import markets; falling prices for commodities and manufactured goods; and internal economic problems in some Latin American countries.

ECLAC estimates that 11 of the 18 countries in Latin America experienced declines in their exports by value, while six of these saw both values per unit and volumes fall. Chile, Colombia, Guatemala, Nicaragua, the Dominican Republic and Uruguay experienced losses for the second year running. Brazil and Peru were the only ones to turn this around during 2001-2002, despite the decline in prices for their products.

In 2001-2002, most of the region’s countries goods exports to the United States, the European Union and Japan plunged. In contrast, developing countries in Asia emerged as strongly performing markets: Chile, Mexico, the countries of Mercosur and the Central American Common Market managed to improve their position there.

In 2002, Latin American countries accumulated surpluses for trade in goods of over US$24 billion, because of surpluses in

(continued on page 6)
The concept of an “information society” reflects the far-reaching changes that are taking place in the world today, as digital media is introduced and refined. This process has opened up promising opportunities for developing countries, but it has also given rise to new types of exclusion: the “international digital divide,” which threatens to widen the abyss between developed and developing nations even further, and the “domestic digital divide,” which is just as serious a threat in terms of the further expansion of the vast social distances between different groups of citizens within countries. In many ways, given the striking inequalities that mar our society, the domestic digital divide in the countries of Latin America and the Caribbean is even deeper and poses a more formidable challenge than the international divide.

The impact of the international divide has been declining as our region has seen the fastest growth in Internet use in the world in recent years. In 2002, 8% of the population had Internet access, compared to 9% worldwide. Mobile telephones are used by 18% of our region’s inhabitants, while the global average is 19%.

In contrast, the domestic digital divide has been deepening. Nearly 70% of the richest 15% of the region’s population has access to the Internet, versus the 10% connectivity rate overall. A new form of exclusion is beginning to emerge, one that is reflected in the existence of tiny islands of connectivity amidst an ocean of citizens who are excluded from the benefits of this transformation. This “digital exclusion” makes it imperative for us to ensure at least a basic minimum of universal access to information infrastructure. This is not simply a matter of hooking up computers; it also entails providing the population with the necessary training to make use of new technologies.

The key question to be answered by developing countries is not whether to attain connectivity or not, but rather when and how to do so. National strategies should be designed in order to take the three dimensions of the information society into account: its technological requirements (infrastructure and generic services), the different e-sectors’ institutional and organizational realities and requirements, and this new society’s requirements in terms of regulatory systems, financial mechanisms, and human capital. In order to break down this domestic digital divide, we have to reduce individual access costs by providing shared-access systems, provide simple, low-cost hardware and design policy strategies for promoting the use of open-source standards and software. Users need to be given “e-literacy” training, and a workforce capable of sustaining the information society has to be trained and maintained.

As a region we must take action to facilitate cooperation among national authorities, civil society and the private sector. Policies should be aimed at harmonizing the countries’ legal and regulatory frameworks, setting up financing mechanisms to ensure the continuity of the information society, creating and sharing regional content, and supporting the development of human capital. A regional observatory should be set up, which can be used to monitor progress towards the goals to be defined in 2003 and 2005 at the UN’s World Summit on the Information Society.

The harmonization of existing legislative and regulatory frameworks should help to facilitate and encourage digital communications and transactions, and the formulation of a strategy for successfully positioning the region at the international level will increase our ability to influence this global process. This will give us more bargaining power in areas of such vital importance as software licensing, the production of low-cost hardware and the introduction of third-generation mobile telephony and digital television.

The countries of the region that succeed in moving towards full membership in the global information society will have promising possibilities available to them in the future. But perhaps never before has this window of opportunity been on the verge of closing so rapidly, nor has the risk of missing out entailed such enormous costs for future generations.

The author is ECLAC’s Executive Secretary.
1. What kind of information society should be built?

2. What are the basic characteristics and peculiarities of the transition toward an information society in Latin America and the Caribbean?

3. What policy measures could drive this transition toward the information society?

To answer the first question, the authors, Jorge Katz and Martin Hilbert, start with several key definitions. The concept of “information society” is very complex and its development still in the early stages. Thus, the conceptual framework used by ECLAC is based on the general characteristics of information and communications technologies (ICT) and the resulting digitization process, which form the nucleus of this emerging paradigm.

ICTs are defined as technological systems used to receive, manipulate and process information and they facilitate communication between two or more actors. As a result, ICTs are something more than information technology and computers, because they do not function as isolated systems, but rather connected to others through a network.

In the report, ECLAC argues that key elements for developing an information society must include the individual and the community. The priorities set to reach these objectives will clearly influence the development agenda.

Economic development can also be one of the guiding principles of the information society. It is estimated that electronic transactions could eventually account for as much as 20% of the region’s GDP in the near future; combined with evidence of rising productivity in developed countries, this means that the transition to a digital economy offers real opportunities for increasing productivity and competitiveness in Latin America and the Caribbean.

Aside from potential economic objectives, new technologies can also be used to achieve social development targets. The digitization process can help to raise educational standards and improve teaching mechanisms. It also provides tools for mitigating poverty. With help from appropriate contents and low-cost access to ICTs, basic needs can be covered in several areas.

The effort involved in building an information society can also be guided by the objective of improving participation in the public sphere and the political system. ICTs can be used to generate public goods, make them more efficient, and improve the transparency of government administration.

On the second question that the report attempts to answer, ECLAC emphasizes that in Latin America and the Caribbean, the current debate about the transition to the information society and the digital era is often based on theoretical models from developed countries that are unsatisfactory for grasping the reality of this region. The economies of the region’s countries have not grown enough. Lately foreign direct investment (FDI) flows -which sustain basic telecommunications infrastructure- have fallen considerably, thus raising doubts about the future pace of this transition to the digital era.

**The Digital Divide**

An important concept that illustrates this situation is the so-called “digital divide”, which has both international and national dimensions. The international divide is apparent from the figure that 79% of Internet users live in countries that are part of the Organization for Economic Co-operation and Development (OECD), while the national divide is apparent in a new form of exclusion within a region with severe economic and social inequalities.

On policy measures that could encourage the transition to an information society, ECLAC distinguishes between national and international strategies. The first can start with a small-scale government initiative, but the ultimate objective must be to integrate the whole public sector, national, regional and international institutions, regulatory and technical authorities, academics, private sector service providers and high-technology industry, intermediate institutions and civil society.

International strategies can be of subregional, regional or global scope. International cooperation can be beneficial in any of these spheres. One area where international cooperation is particularly important is in development international legislative standards to facilitate on-line activities.

It is also important that the countries of Latin America and the Caribbean defend their interests and play an active role in future negotiations with the World Trade Organization on the treatment of electronic commerce. Thus, for the region’s countries to influence the building of a world information society that serves their interests, they must make their voice heard in the international concert. Regional cooperation is vital, as is a common vision and the energetic promotion of this vision in world forums such as the World Summit On the Information Society 2003-2005, all key elements to ensure the region progresses in this direction.
The countries of Latin America and the Caribbean pay more for transporting their trade than the world average. There are, however, enormous differences within the region. While in Brazil and Mexico average transportation costs are less than 5% of the merchandise value, this figure may reach up to 15% in some Caribbean countries.

In recent years, efforts are once again underway to increase the physical integration of the region’s countries and thus improve competitiveness and integration.

The Initiative for Regional Infrastructure Integration in South America (IIRSA), the Puebla-Panama Plan, and activities carried out by the Association of Caribbean States’ (ACS) Transportation Committee treat transportation services as a major component in these efforts to improve integration and competitiveness.

For most Latin American and Caribbean trade, the cost of international freight is two or three times that of import tariffs. While tariffs have reached historic lows, there is still significant room to reduce transaction costs in transportation.

The quality of transportation services is crucial to integrating production processes, which require inputs with ever greater reliability, speed and frequency. Empirically, in developing countries a reduction of transport costs by half involves a quadruplication of trade volumes.

To identify how much governments can influence international transportation quality and costs, ECLAC carried out detailed analyses of land, sea, and air borne trade flows.

In the first place, it is clear that freight charges depend on the mode of transportation used. Shipping by air tends to be the most expensive, followed by truck, rails and finally the maritime mode. There are also significant differences according to the type of merchandise, trade imbalances and service speed. Because of this, simple national average freight charges should not be used to reach hasty conclusions about differences in transportation system efficiency.

Obviously the distance travelled involves an increase in charges. But its impact should not be over-estimated. It is calculated for example that doubling the distance involves an increase in maritime shipping costs of just 16.5%. In fact, transporting a container from Miami to St. Lucia in the Caribbean is more expensive than transporting it to Buenos Aires. When it comes to trade models, import and export flows are more accurately explained by transportation costs and services than geographic distance alone.

In this context, the importance of economies of scale should be underlined. Because there are large differences between volumes traded between the countries of Latin America and the Caribbean, economies of scale contribute significantly to a “virtuous cycle” of sub-regional integration: a bigger and better supply of transportation services encourages trade within economic blocs. This also attracts even more and better services, which increase the user’s options in terms of alternative modes of transportation, frequencies and speed, as well as stimulating competition, thus reducing freight charges even further.

When it comes to maritime and air routes, an improved supply of regular services reduces freight charges, as do ground transport connections, because these place competitive pressure on maritime and air freights.

This point is particularly relevant to the islands of the Caribbean.
**What Can Governments Do?**

Maritime shipping remains the main transportation mode both for interregional trade and for that between the countries of Latin America and the Caribbean. For example, it accounts for 93.8% by volume and 71.0% by value of South America’s trade. Taking into consideration that some determinants of freight rates are beyond the influence of the public sector, efforts should focus on areas where governments, regional organizations and official development aid agencies can really play a positive role.

Major differences persist among the region’s ports, which aside from reducing port costs, reduce maritime shipping costs by 25%. Progress has been achieved by increasing the private sector’s participation in port operations and investment, although it is clear that the public sector continues to have an important role to play in regulating port activity.

On the maritime side, restrictions on cabotage remain that specifically prohibit liner services connecting, for example, two Colombian ports and two Peruvian ports. Nor are liner services allowed that would, for example, connect a port in Brazil, two in Argentina and one in Chile. These so-called cargo reservations, which seek to protect the respective national shipping lines, pose a serious hurdle to commercial integration and make exports more expensive.

In many cases, improvements to transportation systems depend less on infrastructure investment and more on legal, regulatory or facilitation aspects. For maritime and air borne transport, less infrastructure is necessary than for ground transportation and, while good highways may exist, the need to transfer cargo from the truck of one country to that of another at many borders continues to hobble integration in Latin America and the Caribbean.

In conclusion, physical integration, trade and transportation policies are all intimately linked. The volume of trade, its cost and mode of transportation simultaneously influence each other and the challenge for analysts and governments is to take these interrelationships into account.

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The author works for ECLAC’s Natural Resources and Infrastructure Division.
Argentina, Brazil and Venezuela (figures to November only). In South America, the surpluses posted by Argentina, Brazil, Chile, Colombia, Paraguay, Peru and Venezuela contrast with deficits in Ecuador, Bolivia and Uruguay. In some Central American countries (Costa Rica, Guatemala and Panama) and the Caribbean, the deficit in goods traded rose, while in Mexico this fell slightly.

Imports’ collapse due to cutbacks made to deal with declining income from abroad touched off contraction in almost every country. The main symptom of this was the decline in intra-regional trade, particularly within Mercosur. Imports by volume and value fell by 7.9% and 7.2% respectively in 2002, after the total value of imports fell 2.4% in 2001, although their volume increased slightly. In Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, and Peru did import volumes rise.

The slump in Argentine imports of almost 20% in 2001 and over 57% in 2002, the result of the powerful crisis gripping the country, combined with the 14% decline in Brazilian imports caused internal flows within Mercosur to decline by over 37%. The two-year period once again presented difficulties in the regional integration process.

In 2001, service export values fell 2.5%. This slowdown was led by Mexico (-7.7%); Mercosur (-4.6%); the CARICOM economies (-3.8%), and the Dominican Republic (-7.7%); Mercosur (-4.6%); the CARICOM (-2.5%). This slowdown was led by Mexico as part of the regional integration process.

The report repeats that the existence of preferential access, the governments of the Andean Community have a schedule for formal negotiations. The European Union has also negotiated preferential trade agreements (FTAs) with the United States, while Central American countries have a schedule for formal negotiations. The European Union has also negotiated preferential trade agreements with several of the region’s countries. It has already signed agreements with Mexico and Chile and negotiations with Mercosur and the Caribbean countries are underway.

The symbols used in this newsletter represent the various indigenous cultures of the Americas and some of the milestones in the region’s history. The symbols are engraved on the outside of the conference rooms at ECLAC headquarters in Santiago, Chile.

### Latin America and the Caribbean: Imports, Indices by Volume, Value and Unit Value 2000-2002

<table>
<thead>
<tr>
<th>Subregion/country</th>
<th>Volume</th>
<th>2000 Unit Value</th>
<th>Value</th>
<th>2001 Unit Value</th>
<th>Value</th>
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Source: ECLAC, International Trade and Integration Division, based on information from the Statistics and Economic Projections Division. a/ Preliminary figures.
J ust seven of the 18 countries in Latin America could reach the goal of cutting extreme poverty in half by 2015, which is one of the Millennium Poverty Reduction Targets, established in 2000 by 189 countries belonging to the United Nations.

Chile, Colombia, Honduras, Panama, the Dominican Republic and Uruguay should all achieve this target (as Argentina would have, were it not for the recent crisis) provided economic growth and trends toward reducing inequality perform as they did in the 1990s.

The report, Meeting the Millennium Poverty Reduction Targets in Latin America and the Caribbean, carried out by ECLAC, the UNDP and Brazil’s Institute for Applied Economic Research (IPEA) provides “grounds for both concern and optimism”. The study developed an innovative methodology for evaluating progress toward compliance with the target of reducing the percentage of the population living on less than a dollar a day.

Using this methodology, the authors evaluated the likelihood of these 18 countries meeting their target and studied the impact of applying different policy mechanisms to this end.

Of concern was their finding that extreme poverty should continue to decline, but slowly, in Brazil, Costa Rica, El Salvador, Guatemala, Mexico and Nicaragua. Moreover, in the five remaining countries, Bolivia, Ecuador, Paraguay, Peru and Venezuela, poverty levels seem likely to increase, due to a rise in inequality, a decline in per capita income, or a combination of the two. This would be the case if countries continue to perform as they did during the 1990s.

The report concludes that “A little inequality reduction would go a long way towards reducing extreme deprivation in this region.”

Additionally, the main problem is that if economic growth does not affect distribution it does not really improve the standard of living of those in extreme poverty. For those who are indigents, for example, a proportional improvement in income on its own, without improved distribution, does not make a great difference. For example, 10% of 50 cents a day is only five cents. This amount may be somewhat useful, but not extraordinarily so.

All this does not mean that the authors consider growth to be bad or irrelevant. “It is fundamental to improving the living conditions of all members of society, including many who are poor.” But in the case of extreme forms of income deprivation, “redistribution is considerably more powerful than growth.” They state that some level of redistribution implemented effectively and efficiently, could contribute to more economic growth, by liberating poor sectors’ potential for human and material investment.

The report argues that the main obstacle to the success of efforts to reduce indigence in Latin America and the Caribbean lies in the fact that “the medicine which is most effective in treating the poverty that afflicts the region -inequality reduction- is one that the region seems to find very difficult to dispense.”

STUDY EMPHASIZES THE IMPORTANCE OF REDISTRIBUTING INCOME TO REDUCE POVERTY IN LATIN AMERICA
specialists analyse social capital and its relationship to development, public policies, urban poverty, gender, rural life and environmental sustainability. [WWW]

2. Evolución de Políticas Hídricas en América Latina y el Caribe (Trends in Water Policy in Latin America and the Caribbean), by Axel Dourojeanni and Andrei Jouravlev. Recursos Naturales e Infraestructura series No. 51, December 2002 (LC/L.1826-P, Spanish). This study highlights the main dilemmas facing those responsible for managing water resources in the region’s countries, in terms of both integrated water management and public utilities, particularly drinking water and sewage treatment. [WWW]

3. Las Prácticas de Herencia de Tierras Agrícolas: ¿Una Razón Más para el Éxodo de la Juventud? (Agricultural Land Inheritance Practices: One More Reason for Young People’s Exodus?), by Martine Dirven. Desarrollo Productivo series No. 135, December 2002 (LC/L.1837-P, Spanish). The report seeks to encourage debate about the aging profile of the rural population and the fact that those responsible for managing most agriculture lands are senior citizens. This seems unfavourable to a more dynamic development of forestry, farming and rural areas generally. [WWW]

4. The Mexican Maquila Industry and the Environment; An Overview of the Issues, by Per Stromberg. Estudios y Perspectivas series No. 12 from ECLAC’s sub-regional office in Mexico, December 2002 (LC/L.1811-P; LC/MEX/L.548, English). Given that maquila industry activities are key to economic development in Mexico, this study examines the different environmental aspects of this activity. [WWW]