

JULY 2004 **No.35**

PRODUCTIVE DEVELOPMENT IN OPEN ECONOMIES

- 1 Productive development in open economies
- 2 **OPINION**
- 3 Regional integration will improve international participation
- 6 Countries of Latin America and the Caribbean have "three speed" economies
- 7 Public-private alliance proposed to improve regional infrastructure
- 8 Latin America and the Caribbean are behind in research and development
- 9 New social cohesion covenant for the region
- 10 Industrial legacy key to Puerto Rico's economic development
- 11 **STATISTICAL APPENDIX**
- 12 **RECENT TITLES**
- 12 **CALENDAR**

This publication is also available in Spanish and on the Internet: www.eclac.cl or www.eclac.org.



UNITED NATIONS



Economic Commission for Latin America and the Caribbean

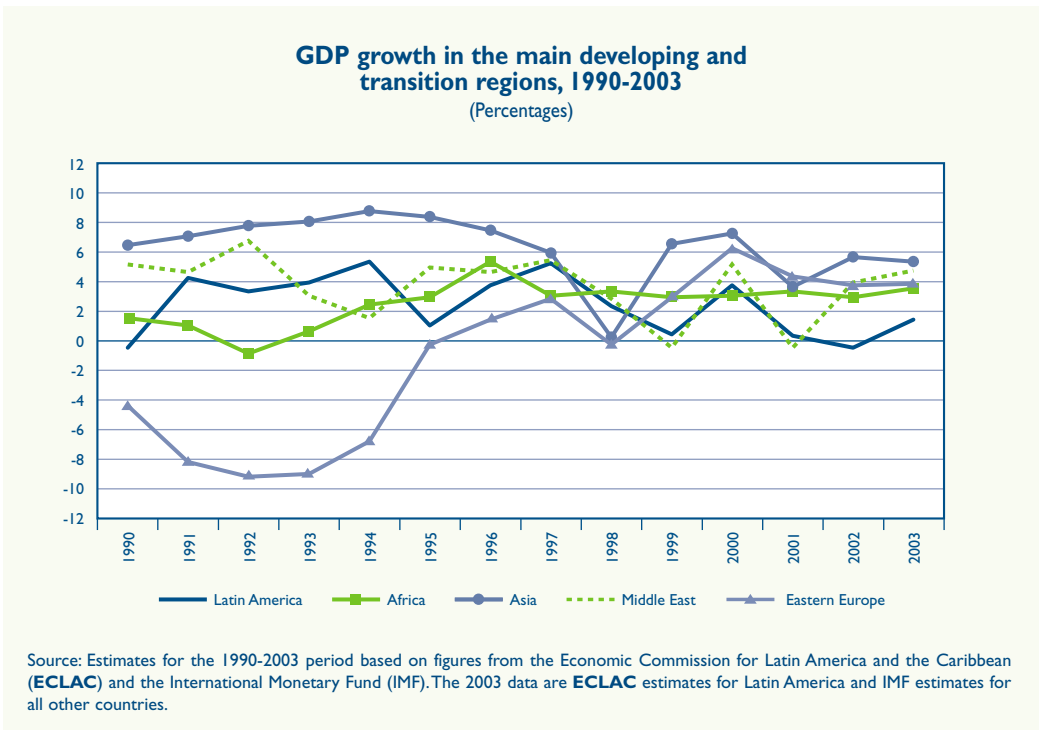
During its **Thirtieth Session**, the Economic Commission for Latin America and the Caribbean (**ECLAC**) presented the report *Productive Development in Open Economies*, with recommendations on social and economic policies. The meeting was held from 28 June to 2 July in San Juan, Puerto Rico, with delegates from its 41 member and seven associate states, along with representatives from United Nations specialized bodies, non-governmental organizations and special guests.

In the report, **ECLAC** calls on governments to implement active policies to encourage economic and social development, which are able to overcome both market and governmental flaws.

ECLAC adds that it has become necessary to replace the vision that has guided the region's economic reforms in the past twenty years, summarized in the concept "more market and less State", with one that focuses on "markets that work well and better quality government."

In its analysis of this period, in which the region made integration into the global economy a high priority, **ECLAC** notes that this brought some very important achievements, but there are still lags and issues pending. In particular, the strategy used in the region has not generated enough growth to reduce poverty and marginality. "The region must

(continued on page 3 ➡)



OUR PROPOSAL

JOSÉ LUIS MACHINEA

In recent years, Latin America and the Caribbean heavily backed integration into the global economy through economic liberalization programmes, whose results have produced both light and shadow. As the new millennium begins, the results are unsatisfactory, above all in terms of growth and equity. The obvious question is, should we reverse reforms? Our opinion is that an attempt to turn the clock backward is not possible or appropriate. It is better to build on what has been achieved, overcome lags and gaps, and also deal with issues pending. We must admit that there is no single prescription or patent on how to achieve this. Growth patterns vary, since they are based on productive structures that change from one country to the next and respond to an accumulation of episodes of development that is impossible to repeat. It seems, therefore, more appropriate to define a roadmap that articulates public policies in different spheres, recognizing the characteristics peculiar to each country. This map, examined in detail in the document *Productive Development in Open Economies*, places the emphasis on:

- Consolidating achievements in the area of macroeconomic management, expanding countries' ability to apply countercyclical policies that strengthen saving and investment and thus achieve higher and less volatile growth. Focus processes of financial deepening on instruments that make it easier to manage diverse risks and increase long-term financing.
- Encouraging private and public investment, to improve the quantity and quality of infrastructure, promote competition, improve regulations in the private sector, and increase the flexibility of public sector spending. At the same


time, change the region's approach to managing the environment to better value, make good use of and preserve its natural heritage, to ensure its productive development in the long term.

- Improving the quality of the region's external participation through more stable and secure access to the world's markets, combining incentives to penetrate new markets and diversify products through improved trade diplomacy. We must nonetheless remember that this access is no substitute for institutional development, economic growth and a rise in the population's welfare.

“Should we reverse reforms? It is better to build on what has been achieved, overcome lags and gaps, and also deal with pending issues”.

- Applying a strategy for productive development to deal with shortfalls in information and coordination that the market alone cannot resolve. This effort requires a shared vision of where we're going and active public policy implementation, exchanging the “more market, less government” attitude for one based on “smoothly functioning markets and quality government”.
- Recognizing the vast range of productive structures in the region, consisting of: world-class companies, in many cases transnationals; medium and small companies in the formal sector, and informal micro-businesses. Each stratum requires policies of variable complexity involving different focuses and

instruments, given that major productivity gaps exist and each dynamic reflects different factors.

- Defining policies for productive development based on recognizing that institutions are moving at three different speeds: inclusion, to move micro-businesses from the informal to the formal sphere; modernization, to make access to production factors and productive articulation easier; and densification, to introduce more innovation into the entrepreneurial fabric generally.
- Building political legitimacy for productive policies through greater transparency and evaluation mechanisms. We must remember that the instruments in open economies are fewer and more limited in their scope, as they face restrictions from trade agreements and compete with other initiatives for scarce government resources.
- Concentrating efforts instead of wasting them, building on the true comparative advantages of each economy and introducing innovations to sustain and spread basic competitive advantages. At the margin, ensure that renovation and diversification of the productive structure also occurs, by backing the most promising of new activities. Given the alarming degree of social inequity and poverty in the region's countries, the above policies must be complemented with a social cohesion pact, based on four pillars: active employment policies, social protection programmes, better education and training, and better articulation of fiscal and income policy to ensure financial sustainability. 

The author is ECLAC Executive Secretary.

build upon the progress it has already made, but it also has to close existing gaps and address unresolved issues,” the report states.

Thus a “road map” is proposed to articulate public policies in different spheres, taking into consideration the major differences among ECLAC’s member countries and the need to respect their unique characteristics.

Along with proposing a more active role for the State, this proposal includes the need to achieve a new balance between private initiatives and public interest, paying special attention to equality of opportunities and social cohesion. To do so, governments must give priority to achieving greater tolerance of differences within their societies and a greater willingness to compromise.

According to *Productive Development in Open Economies*, the region’s efforts should focus on building an inclusive future. “Today, the situation is different and requires a mobilization of social energies around a common endeavour, in order to establish long-term agreements (explicit or implicit) between the State and political and social actors regarding objectives, and the set of policies and innovations needed to achieve them,” the document states.

Similarly, in the international sphere a series of asymmetries characterize the relationship between developed and developing countries. Nor do countries offer true equality of opportunities internally. This would allow informal companies, formal medium-sized and small firms to function similarly, be these domestic or foreign. To avoid these inequalities, active public policies that aim to level the playing field through specific actions to remove obstacles that affect each productive unit differently must be applied.

In this context, three types of public strategies arise: those involving inclusion, which aim to move small firms from the

informal to the formal sector of the economy, wherever possible; modernization, which focuses on specific production chains or clusters; and “densification”, which aims to introduce more knowledge into the country’s productive system, as well as establishing a better linked network of productive, technological, business and labour relations.

ECLAC adds that adopting these differentiated strategies requires a considerable increase in the transparency of public policies. At the same time, it is necessary to put into practice monitoring and evaluating mechanisms, that make it possible to learn from successes and failures.

Moreover, the document indicates that in open economies, policy instruments must of necessity be more gradual.

On one hand, international rules, free trade treaties and several regional agreements restrict the use of many normal instruments from the past. On the other, budgetary and financial restrictions make it necessary to select those to be applied more carefully. All this requires focusing efforts, increasing their efficiency, and above all finding new ways of applying public policies.

Finally, the United Nations body underlines that economic growth is both a condition for and a consequence of all the above. However, this seems a difficult task to achieve without making major efforts to boost domestic saving and put more investment into production. In fact, one of the factors that have most disturbed the region’s countries economic decisions in recent years has been the great variety and volatility of international financing.

“Thus, it would be wise to rely more on countries’ own strengths, rather than depending exclusively on those of countries outside the region,” the ECLAC document concludes. 🌐



REGIONAL INTEGRATION WILL IMPROVE INTERNATIONAL PARTICIPATION

In early 2004, 215 bilateral and regional agreements were in effect worldwide and this figure is expected to rise to 300 in 2007. About 40% of world trade today takes place under the aegis of these treaties and by 2005 this should rise to over 50%. The countries of Latin America and the Caribbean are part of this trend.

Although several agreements guarantee access to developed countries’ markets, in many cases they limit Latin American governments’ room to manoeuvre, in terms of production development policies, and they distort trade flows within the region, ECLAC warns, in its study, *Productive Development in Open Economies*.

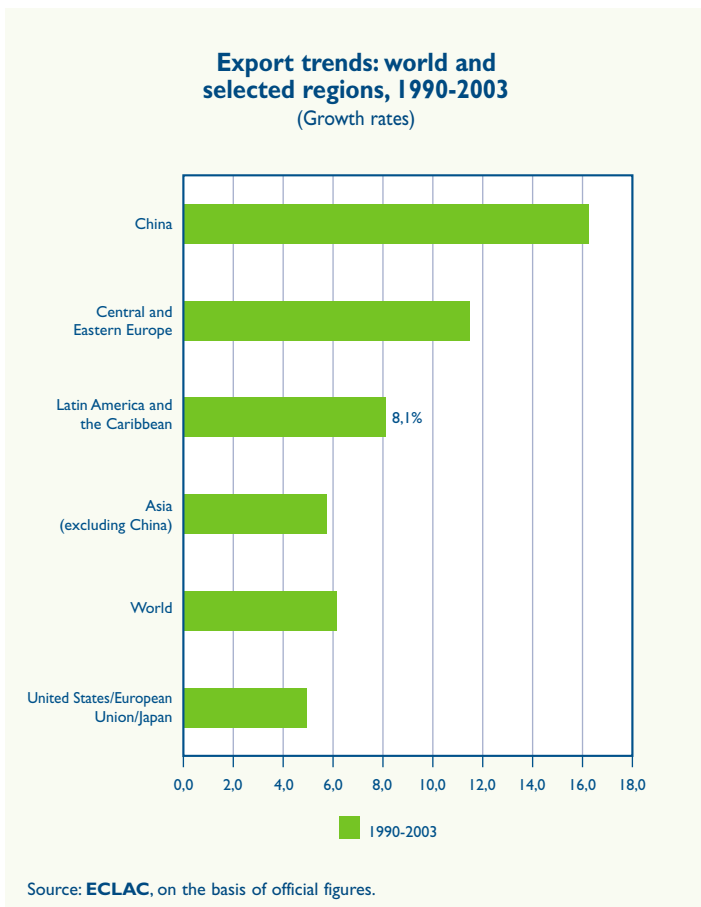
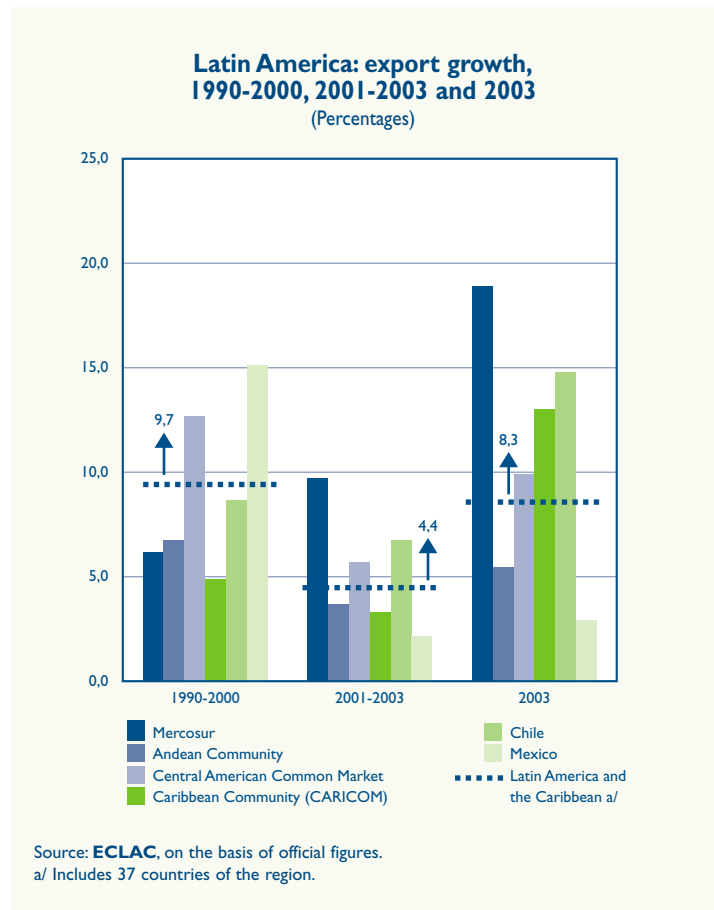
Moreover, the simultaneous processes in multiple directions apparent in current trade policy reduce efforts to favour regional integration agreements, given countries’ limited administrative and institutional capacities. The tensions these agreements impose on the political project of regional integration call for a new and renewed commitment from countries, which has begun to manifest itself.

Although negotiations to create a Free Trade Area of the Americas (FTAA) have gone ahead, the original proposal was modified to overcome the obstacles that have arisen during this process. Now the process is focusing on a small core of common clauses, while countries are to deal with other issues as they see fit.

Given the slow progress in multilateral negotiations involved in the Doha Round, the United States and the European Union took the initiative of signing bilateral free trade agreements with several of the region's countries, an initiative that has been favourably received. Agreements between the region's countries and the United States also became higher priority due to difficulties achieving the FTAA. These agreements provide certain benefits, such as access to the world's largest markets, consolidating positions and preferences that previously were the subject of discretionary decisions, and bringing the possibility of growing openness to trade.

But **ECLAC** recommends considering the costs as well. Intra-regional trade will be affected by flows that shift to a North-South axis and countries not covered by these treaties will post net losses. Likewise, there is a risk that those covered by these agreements will lose interest in more ambitious trade at the regional level.

According to **ECLAC**, the advantages of a regional integration effort are numerous and would help to overcome several of the limitations present in the current scenario. The results will depend on the effort and leadership invested in negotiations dealing with the agricultural sector, which is key for several actors, especially Mercosur member countries, along with the inclusion of other issues relevant to the United States.



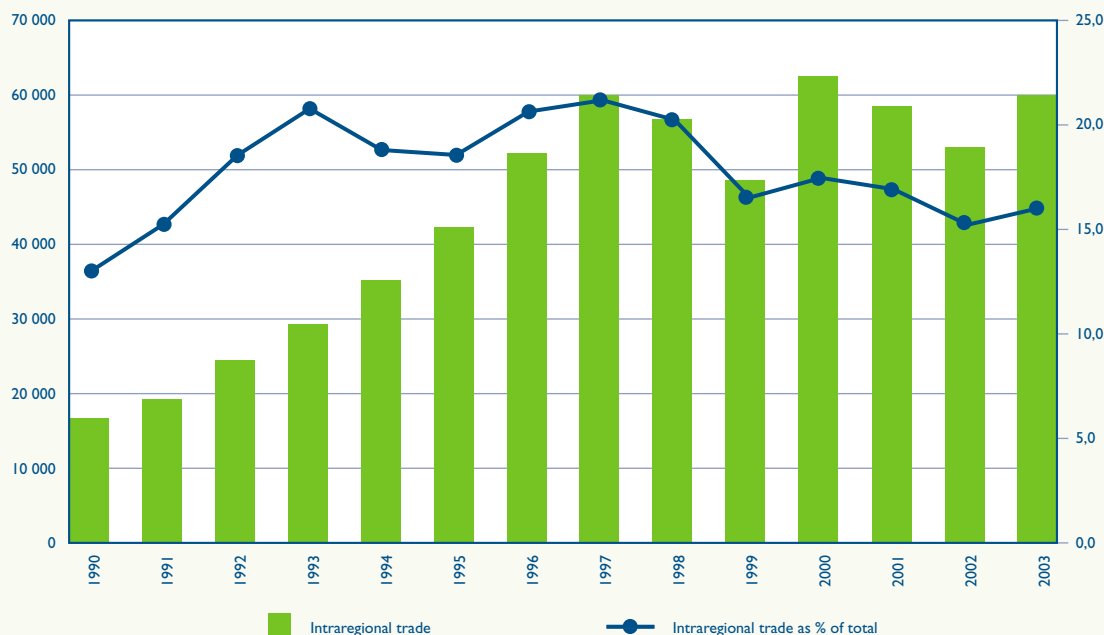
The Future of Subregional Agreements

Currently, subregional agreements have reached the status of imperfect customs unions, with several hurdles in the path toward a more integrated system. **ECLAC** considers it will be difficult for these blocs to remain in this embryonic state of integration much longer, however, given the trends in trade negotiations elsewhere in the world. If countries were to opt for multiple bilateral treaties, subregional agreements would lose their importance as an economic option, unless countries are willing to expand them to embrace issues such as the elimination of all restrictions on trade in goods, total openness of the service sector, shared phytosanitary standards and rules, harmonized bank, insurance and other financial regulations, region-wide infrastructure, and progress in macroeconomic coordination.

If progress were made in intra-regional agreements, the benefits of open regionalism would include:

- Dismantling costly mechanisms on rules of origin applied among partners
- Improving the region's ability to negotiate with other blocs
- Increasing members' effectiveness in terms of activities and goods receiving discriminatory treatment at the international level
- Reinforcing multilateral trade negotiations.

**Latin America and the Caribbean:
trends in intraregional trade, 1990-2003**
(Millions of dollars and percentages)



Source: ECLAC, on the basis of official figures.

Latin America (selected countries): preferential trade liberalization agreements, 1991 and 2003
(Percentage of each country's total imports)

Region/Country	% intraregional preferential agreements		% extraregional preferential agreements		% total preferential agreements	
	1991 a/	2003 b/	1991 a/	2003 b/	1991 a/	2003 b/
Latin America (19 countries)	7,4	11,8	0,0	42,3	7,4	54,1
Latin America (excluding Chile and Mexico)	11,4	20,8	0,0	0,0	11,4	20,8
Argentina	20,8	32,1	0,0	0,0	20,8	32,1
Bolivia	3,7	54,8	0,0	0,0	3,7	54,8
Brazil	10,7	15,4	0,0	0,0	10,7	15,4
Chile	3,9	37,4	0,0	40,2	3,9	77,6
Colombia	9,4	19,3	0,0	0,0	9,4	19,3
Costa Rica	6,7	13,6	0,0	0,0	6,7	13,6
Cuba	0,0	0,2	0,0	0,0	0,0	0,2
Ecuador	7,0	27,5	0,0	0,0	7,0	27,5
El Salvador	17,0	33,0	0,0	0,0	17,0	33,0
Guatemala	8,4	25,7	0,0	0,0	8,4	25,7
Honduras	8,9	28,0	0,0	0,0	8,9	28,0
Mexico	0,3	1,4	0,0	80,6	0,3	82,0
Nicaragua	17,3	38,2	0,0	0,0	17,3	38,2
Panama	0,0	7,1	0,0	1,3	0,0	8,4
Paraguay	30,0	55,3	0,0	0,0	30,0	55,3
Peru	14,8	34,9	0,0	0,0	14,8	34,9
Dominican Republic	0,0	2,4	0,0	0,0	0,0	2,4
Uruguay	41,0	48,2	0,0	0,0	41,0	48,2
Venezuela	3,6	16,9	0,0	0,0	3,6	16,9

Source: ECLAC, on the basis of official figures. a/ The 1991 estimate considered the average import structure for 1990-1991 and the status of preferential agreements as at 31 December 1991. b/ The 2003 estimate considered the average import structure for 2000-2002 and the status of preferential agreements as at 31 December 2003, excluding agreements which had been fully negotiated but not yet implemented.



COUNTRIES OF LATIN AMERICA AND THE CARIBBEAN HAVE “THREE SPEED” ECONOMIES

The productive structure in the countries of Latin America and the Caribbean is today more heterogeneous than it was in the past and than other developing economies, such as those of eastern Asia. The region has a model based on “three speeds”, each of which requires different types of public policy to develop, according to the study, *Productive Development in Open Economies*, presented by the Economic Commission for Latin America and the Caribbean (ECLAC) at its **Thirtieth Session**.

According to the report, these “three speeds” depend on the legal system and the size of the companies involved. A first group or “speed” consists of informal micro-businesses that, given their structure and capacity, are less productive and operate in an environment poor in opportunities for development and learning.


The second group involves small and medium-sized companies in the formal sector (SMEs), which also find it hard to access resources, especially financing, and specific tools that would allow them to develop their ability to compete. The last group involves large domestic and foreign firms, which often have near international productivity levels, but produce few clusters or links with the rest of the country’s economy and, in some cases, are not very good at generating innovation.

Given that countries do not really offer the equality of opportunities that would allow these different production units’ initiatives to prosper to the same degree, ECLAC proposes to governments that they implement active public policies to level the playing field, through specific actions to remove obstacles affecting these companies differently.

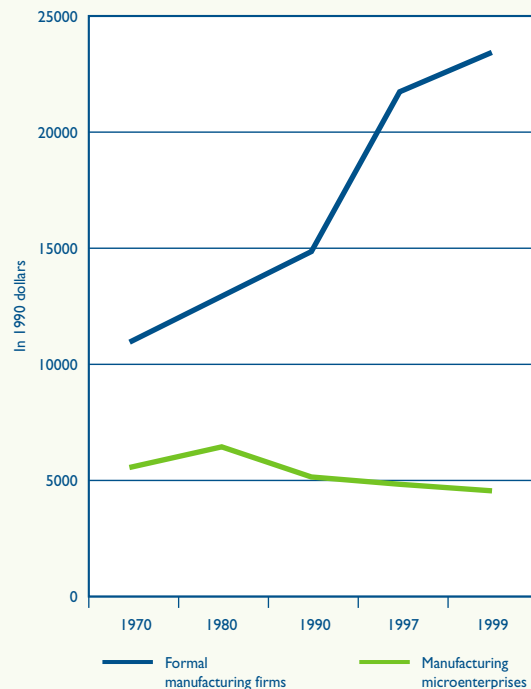
In the case of small informal firms, **inclusion** strategies are necessary, which aim to move as many small productive units as possible from the informal to the formal sector of the economy. These inclusion policies should simplify administrative rules and tasks, reduce the tax burden and simplify declarations, offer broader access to credit for small investments and, above all, for labour capital, and provide training in basic management and technological skills.

A **modernization** strategy is necessary for the second group, the SMEs. Support for productive modernization should consist of horizontal policies to improve access to information, credit, technology, and marketing and sales systems. These policies

should be complemented with actions to promote a horizontal articulation (through associations) among SMEs, to strengthen their links to larger companies and reinforce productive structures at the local level or along specific production chains.

Finally, the ECLAC study indicates that in the case of large companies **densification** should be applied, which aims to introduce more knowledge into the domestic production web, along with establishing a more closely articulated network of productive, technological, business and labour relationships. This strategy can be implemented through several programmes, among others, those that focus on strengthening clusters within the export base; those that encourage public-private cooperation to develop potential comparative advantages, attract high quality foreign investment, support the growth and internationalization of domestic firms and reinforce service infrastructure to remove bottle necks in productive development. 

Latin America (6 countries): changing heterogeneity in the manufacturing industry
(Simple average of the countries)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on countries included in the Industrial Performance Analysis Program (PADI).
Note: Based on information from 6 countries (Argentina, Brazil, Chile, Colombia, Mexico and Uruguay) which, together, represent 87% of GDP of the region’s manufacturing industry.



PUBLIC-PRIVATE ALLIANCE PROPOSED TO IMPROVE REGIONAL INFRASTRUCTURE

The stock of infrastructure and access to it remains insufficient in Latin America and the Caribbean. To correct this situation, **ECLAC** proposes creating public-private alliances for its financing, construction and operation, along with improvements to regulatory frameworks, in its study *Productive Development in Open Economies*.

According to **ECLAC**, in the coming years the demand for these services will increase significantly, raising the need to design policies and mechanisms to stimulate public and private investment in this area.

To grow 3% annually from 2000 to 2010, about US\$70 billion, or 3% of GDP, should be invested annually. The energy sectors and highways require the most resources.

During the 1990s, the infrastructure service sector in Latin America underwent profound transformations in telecommunications, energy, transportation and sanitary services. In most countries state monopolies ended and participation by private agents was encouraged.

Between 1991 and 2002, telecommunications posted significant growth: total fixed lines averaged annual growth of 10.4%, while mobile telephones went from 300,000 to 100 million. In 1996-2002 Internet users grew almost 30-fold, from 1.49 million to 43.3 million.

The electric power industry's installed capacity rose after privatization of state companies. But the new investors that entered the sector did not increase competition, **ECLAC** notes, since this was limited and often hampered by concentration and the dominant position of some companies.

Despite expansion, drinking water supply and sewage treatment services still do not cover large segments of the population. Drinking water service coverage is estimated to have reached from 20% to 90% of inhabitants, depending on the country. Just 49% of the region's population is connected to conventional sewage systems.

Reforms also generated competition in ports and increased countries' competitiveness. Today, Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Mexico, Panama, Paraguay and Uruguay have privately owned ports. In general, the countries with the most reforms can show plentiful investment and efficiency gains.

Investment in infrastructure requires significant public and private efforts. From the perspective of public investment, **ECLAC** proposes that the management of fiscal accounts should be made more flexible, by improving fiscal and budgetary monitoring instruments and treating capital expenditures differently from operating ones, so the way that investment enters the books does not inhibit rational economic decision-making. One way to introduce more flexibility and promote growth-oriented fiscal policy is to exclude those investments that

Infrastructure stocks					
	1970	1980	1990	1995	2000
Electricity a/					
Latin America	0,16	0,28	0,38	0,41	0,48
South-East Asia	0,14	0,29	0,53	0,68	0,80
Asia	0,15	0,24	0,40	0,48	0,54
Telecommunications b/					
Latin America	22,0	33,5	56,2	92,8	232,4
South-East Asia	28,9	84,3	173,5	275,9	605,9
Asia	30,8	59,7	105,9	165,2	364,7
Transport c/					
Latin America	0,78	1,10	1,18	0,93	1,22
South-East Asia	0,45	0,58	0,87	0,95	1,04
Asia	0,58	0,73	1,08	1,44	1,71

Source: **ECLAC**, on the basis of World Bank, World Development Indicators, various issues.
 a/ Measured as generating capacity in kilowatts per capita.
 b/ Measured as number of fixed and mobile telephones (since 1995) per 1,000 population.
 c/ Measured as kilometres of paved roads per capita.

generate an income flow with suitable rates of return from public expenditure calculations, in agreements with international bodies. Another way is to strengthen the mechanisms that encourage different types of public-private joint ventures. A third way has to do with the role of multilateral development banks. Financing from these banks should be included in the public budget as governments start amortizing these loans and not when they receive them.

The private sector's involvement in providing infrastructure services has made criteria and mechanisms for setting tariffs one of the main regulatory challenges. Weakness in this sense has meant that productivity increases in infrastructure service provision have not brought an equivalent reduction in their tariffs.



Regional Integration

ECLAC considers regional integration essential to attract investment, as well as increasing productivity, generating jobs and diversifying exports. Multiplying trade in favour of geographic proximity raises issues of physical, social and cultural integration that underline the region's strategic importance.

The UN commission sustains that to overcome the embryonic state of agreements at the moment, countries must expand trade integration, eliminating current hurdles and making trade in services easier. To do so, customs operations should be improved through reforms and modernization, along with the application of a common customs code.

From this perspective, regional cooperation involves major challenges in terms of infrastructure and sustainable development in Latin America and the Caribbean, particularly in the case of transportation, a major pillar of physical integration, and tourism.



LATIN AMERICA AND THE CARIBBEAN ARE BEHIND IN RESEARCH AND DEVELOPMENT

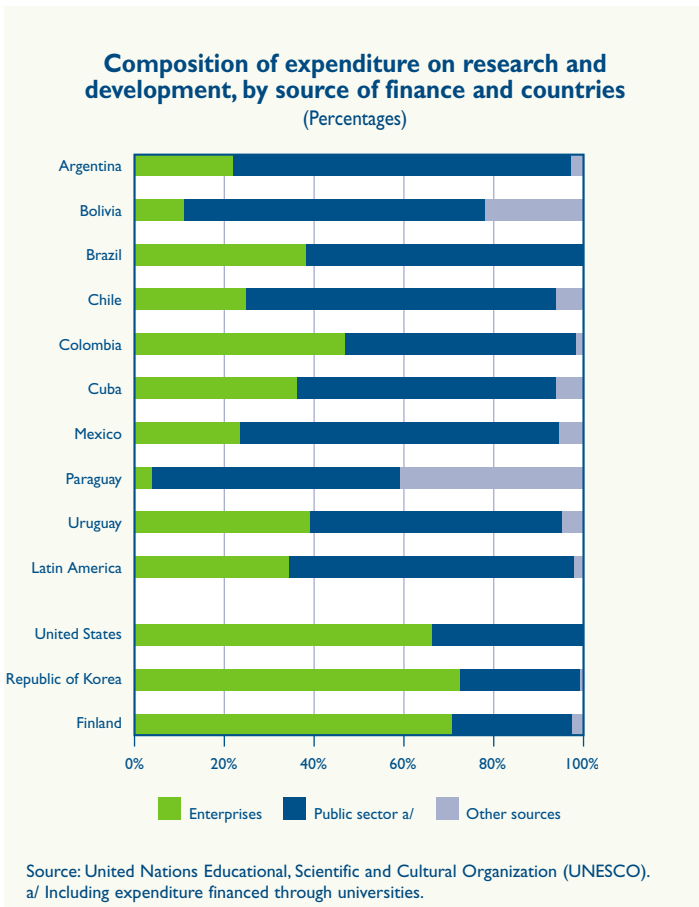
Latin America and the Caribbean are still far behind other regions around the world in terms of research and development. While the United States, Japan and the Republic of Korea invest from 2.5 to 3 points of their Gross Domestic Product (GDP) in this area, and the European Union almost 2 points, our continent as a whole invests barely 0.5 points of GDP.

The investment gap translates into an important difference in economic productivity. This calls for public policies to create and develop innovative skills capable of making the most of rapid technological change and economic integration, states the Economic Commission for Latin America and the Caribbean (ECLAC) in its report *Productive Development in Open Economies*, presented at its **Thirtieth Session**.

The document points out that introducing new knowledge and new technologies into production, generally referred to as “innovation”, are among the main pillars in company competitiveness and sustained economic growth in the long term. In fact, scientific and technological progress has significantly changed the face of the economic world in recent decades and become much more rapid.

Worldwide distribution of research and development activities, 1996-1997				
Grouping and countries	Gross expenditure on research and development (GERD)			
	Amount (billions of PPP dollars) a/	% world GERD	% of GDP	Per inhabitant (PPP dollars)
World	547	100,0	1,8	100
- Developed countries	461	84,4	2,2	377
- Developing countries	86	15,6	0,6	20
- United States	199	36,4	2,6	750
- European Union	138	25,2	1,9	370
- Japan	83	15,2	2,8	661
- Russian Federation	6	1,0	0,9	39
- Central and eastern Europe	6	1,0	0,8	49
- Latin America	17	3,1	0,5	34
- New industrial economies of Asia	27	4,9	1,1	66
- China	21	3,9	0,6	17
- India	11	2,0	0,7	11
- Africa	4	0,7	0,3	6

Source: United Nations Educational, Scientific and Cultural Organization (UNESCO), *The State of Science and Technology in the World, 1996-1997*, Montreal, UNESCO Institute for Statistics (UIS), 2001. a/ Purchasing power parity dollars.



However, the process of acquiring, adapting and developing technology has been uneven in every region and in many cases has been hampered by the lack of a market or serious flaws in market functioning.

In the countries of Latin America and the Caribbean, research and development is mainly financed by governments. This contrasts with other regions, where one-third of spending is by higher education institutions and private non-profit organizations, one-third by government, and one-third by companies.

Moreover, the absolute differences are very large. In developed countries, companies spend from US\$200 to US\$700 per capita on this area. The Latin American countries spending the most are Argentina, Brazil, and Chile, with almost US\$50 per capita, while Mexico spends US\$33, and Costa Rica, Uruguay and Venezuela slightly over US\$20. At the same time, governments spend the most on research and development, ranging from US\$20 to US\$36 in Argentina, Brazil, Chile and Mexico. This figure remains a long way from the US\$150-250 per capita that the governments of developed countries spend.


This enormous gap demands that the region’s countries focus their resources on a few activities with the greatest potential, instead of spreading them among multiple initiatives.



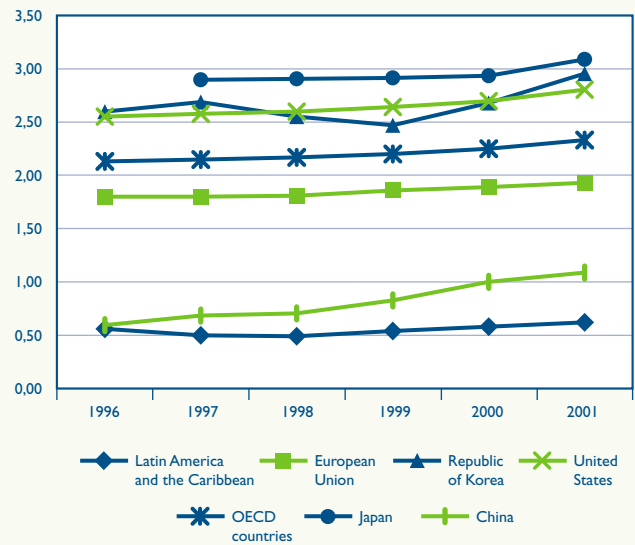
Formulating and Coordinating Policies for Innovation and Technology

According to **ECLAC**, the region's countries today face the challenge of approaching technological policy more pragmatically, taking into consideration the interaction between supply and demand in the innovation process and resorting to more effective instruments in each case.

To do so, it proposes using several instruments, such as government incentives, direct public credit, subsidies, improved incentives from the official science and technology apparatus, risk capital, observation missions, technological distribution services for small and medium-sized firms (SMEs), and transferable research and development laboratories. It also underlines the need to increase economic resources going to intensify innovation-oriented activities.

Finally, it notes that developing a national strategy for promoting innovation requires considerable coordination, at the policy design, formulation and implementation stages. Companies, their suppliers and customers, universities, public and private research institutes and financial institutions must increase their interrelations, to achieve positive synergies. 

Evolution of expenditure on research and development, by regions, 1996-2001
(As a percentage of GDP)



Source: Ibero American Network of Science and Technology Indicators (RICYT) and Organisation for Economic Co-operation and Development (OECD).

NEW SOCIAL COHESION COVENANT FOR THE REGION

The Economic Commission for Latin America and the Caribbean (**ECLAC**) proposes adopting a pact of social cohesion to overcome the vulnerability in which most of the population of Latin America and the Caribbean lives, in its report, *Productive Development in Open Economies*.

The social cohesion covenant must involve active labour market policies based on some elements of solidarity to finance social protection services. To progress in long-run competitiveness, **ECLAC** also recommends measures to improve education and its financing, as well as strengthening the ability to absorb new technology.

The social cohesion covenant proposed by **ECLAC** should involve at least four elements:

- Consistent fiscal and price and income policies
- Explicit recognition of the need for active employment policies and support for the informal sector
- A generous but financially viable social protection programme
- A strong emphasis on education and training.

The labour flexibility achieved by economic reforms must be combined with greater social protection, **ECLAC** proposes. Countries should now develop a solidarity-based welfare system able to protect citizens from new risks and uncertainty arising from changes in the structure of production.

In the past decade, Latin America posted a dramatic worsening in employment problems. With some fluctuations, the

unemployment rate rose to unprecedented figures in the past 13 years: from 6.9% in 1990 to 8.6% in 1997, 10% in 2000, and 10.6% in 2003.

In this period the region grew just 2.6%, which was not enough to generate productive employment for the work force, which has been growing at 2.5% per year. Given that growth has been volatile and low, the employment rate has fallen more than it has risen.

Income from employment is the main source of resources for covering basic needs among the region's families. Because of this, the sharp rise in unemployment in Latin America and the Caribbean from 1990 to 2003 worsened problems of equity. From the perspective of social welfare and growth, no important progress has been achieved since 1990.

Because of the new relationship between competitiveness and labour, processes of more openness bring social risk. Job security declines and uncertainty rises. Although deregulation of severance and job security have made it easier for companies to adapt to new economic conditions, the lengthy lack of employment and its becoming more precarious have turned economic weakness into social vulnerability.

Many workers lost jobs covered by contracts and social protection in the formal sector and had to accept legal contracts offering fewer guarantees, intended to encourage temporary and occasional work. Moreover, with differentiated contracts, solidarity-based systems among workers have grown weaker.

In terms of the role of education, **ECLAC** considers it important to recognize the need to constantly adapt the educational system to the challenges of competitiveness. This requires, among other elements, an increase in high school graduation rates, the system's adaptation to the demands of the labour market, and a reduction in the international gap reflecting the social use of information technologies.

ECLAC indicates that, while repetition rates in public primary schools have fallen and registration in secondary education has risen, these are still lower than improvements in the same indicators in other region's around the world. Another limitation on productive and competitive development that requires correction is the low productivity of education provided to the poorest sectors, due to the poor distribution of resources. 🌱

Labour market adjustment and poverty indicators					
	1980	1990	1997	2002	2003
Unemployment a/	5,8	6,9	8,6	10,6	10,6
Employment rate b/	53,7	53,4	52,9	51,8	52,1
Informal c/	30,6	42,8		46,5	
- Men		39,4		44,3	
- Women		47,4		49,4	
Overall participation rates d/	55,8	57,3	58,2		58,5
Real average earnings index e/	139,3	89,2	101,8	106,7	103,6
Poverty f/					
- Households	34,7	41,0	35,5	36,1	
- Individuals	40,5	48,3	43,5	44,0	44,4

Source:
 a/ **ECLAC**, data adjusted for a change in methodology in Brazil.
 b/ **ECLAC**, labour force/working-age population (13 countries: weighted average)
 c/ ILO, *Panorama laboral 2003*.
 d/ **ECLAC**, Latin America (13 countries).
 e/ **ECLAC**, Latin America (11 countries); simple average for 2003 refers to nine countries.
 f/ **ECLAC**, *Social Panorama 2003*.

INDUSTRIAL LEGACY KEY TO PUERTO RICO'S ECONOMIC DEVELOPMENT

The development strategy applied by the Commonwealth of Puerto Rico to participate in the changing regional economy should make the most of a legacy of more than four decades of industrialization, at the same time as it strengthens the local foundations of competitiveness.

This is the recommendation included in a summary of the report "*Evolución de la economía de Puerto Rico, su inserción en un mundo globalizado y lineamientos de política para enfrentar desafíos futuros*" (Trends in the Puerto Rican Economy, Its Integration in a Globalized World and Policy Guidelines to Face Future Challenges). The study was prepared by ECLAC at the request of the country's State Department, and in cooperation with this body and specialists at the University of Puerto Rico.

The report notes that industrial policy must go hand in hand with external integration. More attention should be given to exports, not only of already successful high technology manufactured goods, but also those from other sectors, which in the past did not reach international markets. Some of these could enjoy comparative advantages.

The report warns that although a significant manufacturing base, competitive in many areas, has been established, the limits on its influence throughout the rest of the economy and employment have also become apparent, with the unemployment rate remaining high for several years. The strategy of forming strategic clusters in high-technology industries - not only manufacturing but also services - has placed the emphasis on inter-industrial links and identifying local capital as an important actor in the process.

Puerto Rico has achieved a modern, highly competitive economy in the manufacturing and service segments. However, it has not been as successful in forming inter-industrial links with locally financed companies and, although there is evidence of technology transfers at the microeconomic level - both through local firms' use of state-of-the-art technologies and human resource training, especially at the professional and managerial levels - it has not created a national system for innovation.

The study indicates that in its early developmental phases, inclusion within the United States' tariff system protected the Puerto Rican economy from competition from third countries. More recently, Puerto Rico has had to adjust to more "openness without protection", as US markets have undergone different trade liberalization processes.

Produced by ECLAC Information Services

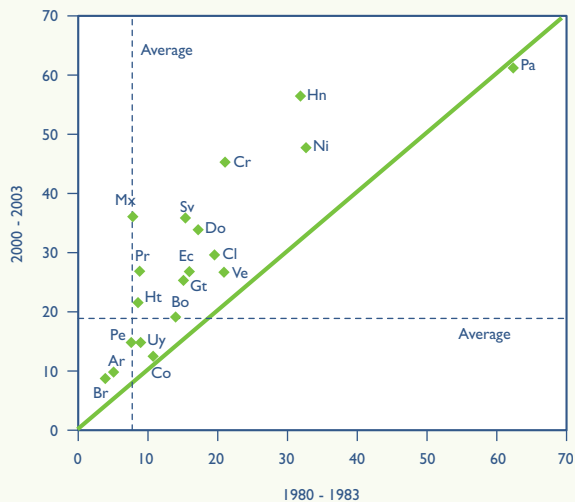
■ **EDITOR:** Víctor Fernández, assisted by Pilar Bascuñán, Félix Ibáñez and Lake Sagaris
 ■ **GRAPHIC PRODUCTION:** Alvaro Muñoz

■ **ADDRESS:** Av. Dag Hammarskjöld 3477, Vitacura, Santiago, Chile.
 ■ **TELEPHONE:** (562) 210-2380 or (562) 210-2000.
 ■ **FAX:** (562) 228-1947. ■ **WEBSITE:** www.eclac.cl or www.eclac.org
 ■ **E-MAIL:** dpisantiago@eclac.cl

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.



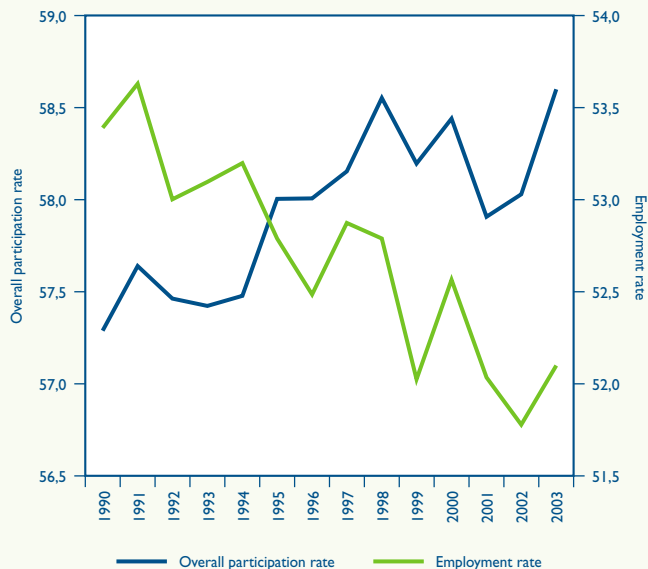
Latin America and the Caribbean: changes in trade liberalization, 1980-1983 and 2000-2003



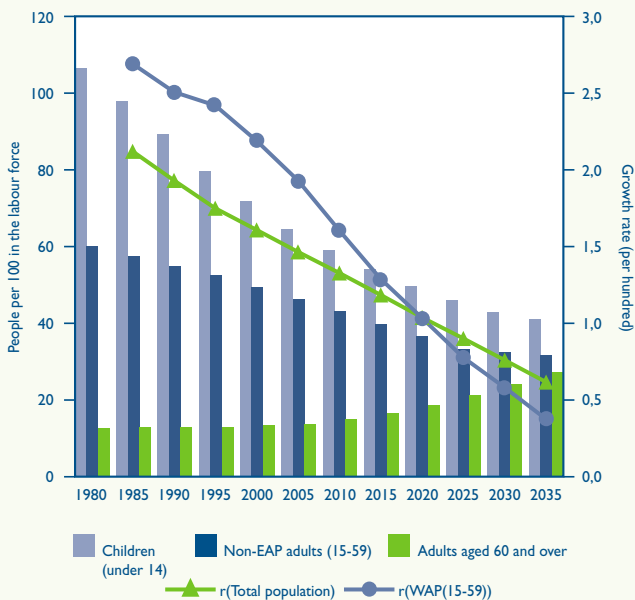
Source: ECLAC, on the basis of official figures from the countries.
 Notes:
 - The openness coefficients have been calculated as $1/(X+M)/GDP$, at constant 1995 prices.
 - Ar: Argentina; Bo: Bolivia; Br: Brazil; Cl: Chile; Co: Colombia; Cr: Costa Rica; Ec: Ecuador; Sv: El Salvador; Gt: Guatemala; Ht: Haiti; Hn: Honduras; Mx: Mexico; Ni: Nicaragua; Pa: Panama; Py: Paraguay; Pe: Peru; Do: Dominican Republic; Uy: Uruguay; Ve: Venezuela.

Latin America: dynamics of growth and of rates of employment and participation in economic activity

Latin America (13 countries): labour participation and employment as a percentage of the working-age population, 1990-2003

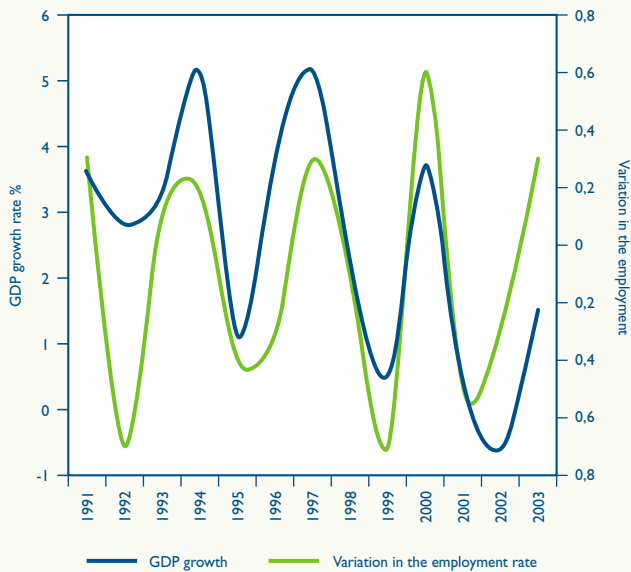


Latin America: total population growth rates and economic dependency ratio



Source: Latin American and Caribbean Demographic Centre (CELADE) - Population Division of ECLAC, total population and economically active population projections.

Latin America: economic growth and variation in the employment rate



Source: ECLAC, on the basis of official information.

1 The Global Context and the Renewal of the United Nations. Round table with Kofi Annan, United Nations Secretary-General, Tarja Halonen, President of Finland, and Ricardo Lagos, President of Chile, held in November 2003. (LC/G.2254, Spanish and English). The three leaders analyzed the political, economic and social conditions in the world today in the context of the current process to reform the UN. A central issue was power and how the United Nations should channel and redistribute it to ensure its use in both collective and civilized ways. [www](#)



Spanish and English). A complete study of renewable energy sources, which contribute more than one-fourth of the region's total energy supply. These include hydropower (15%), fuelwood (5.8%) and cane products (4.1%). [www](#)

2 Renewable Energy Sources in Latin America and the Caribbean: Situation and Policy Proposals. Co-published by ECLAC-UN/ German Technical Cooperation Agency, GTZ, (LC/L2132, May 2004,

3 *Financiamiento y gestión de la educación en América Latina y el Caribe* (Financing and Management of Education in Latin America and the

Caribbean). Co-published by ECLAC/UNESCO, in Spanish. This paper, presented to ECLAC's 30th Session, examines educational conditions in the region, in terms of financing, management changes, and teachers' leadership in educational change, as well as today's challenges. [www](#)

4 Technological Evaluation of Biotechnology Capability in Amazon Institutions, by Marília Coutinho, *Medio ambiente y desarrollo series* No. 84 (LC/L.2086-P, English). In Brazil there are 304 biotechnology companies, many working with products from the Amazon, but only one is located in the north in the Amazon itself. This study evaluates the Amazon countries' prospecting capabilities and their cycle of innovation. [www](#)

5 Roads Towards Gender Equity, coordinated by Sonia Montaña (LCL.2114 CRM.9-3, Spanish and English). ECLAC presented this document to the Ninth Regional Conference on Women in Latin America and the Caribbean, held in Mexico City last June. It evaluates shifting trends in the world of work in the past decade, along with educational achievements, declining fertility rates, changes in family relations, and progress (significant but still insufficient) toward women's full participation in decision-making. [www](#)

To order:
Distribution Unit, ECLAC
Casilla 179-D,
Santiago, Chile
Fax: (56-2) 210 - 2069
e-mail: publications@eclac.cl
[www](#) : available on websites
www.eclac.cl or www.eclac.org.

MONTH	EVENT	PLACE
JULY		
28/06 - 02/07	ECLAC's Thirtieth Session, on strategies for developing production in the open economies of Latin America and the Caribbean.	San Juan, Puerto Rico
01 - 02	High-level seminar, "Productive Development in Open Economies," during ECLAC's Thirtieth Session	San Juan, Puerto Rico
12	Preparatory Meeting for the Workshop on the Role of the Legislature in the Budgetary Process in Latin America, called by the Organizing Committee for ECLAC's Regional Seminar on Fiscal Policy, whose members are the World Bank, the IDB, the IMF, the OECD and ECLAC.	ECLAC Headquarters, Santiago, Chile
25 - 27	Forum on international experiences with visions and strategies for development, ILPES/World Bank/ International Institute for Democracy and Electoral Assistance (IDEA)	ECLAC
28 - 30	Latin American Meeting of the Econometric Society (LAMES 2004)	ECLAC
AUGUST		
02 - 13	International course on "Decentralization and Fiscal Federalism," organized by ECLAC and the Latin American and Caribbean Institute for Economic and Social Planning (ILPES), sponsored by the World Bank Institute (WBI) and supported by the German Cooperation Agency (GTZ)/ECLAC	ECLAC
5	Presentation of Economic Survey of Latin America and the Caribbean, 2003-2004, ECLAC	ECLAC
10 - 12	Seminar on improving social policy institutions and creating a social authority, Social Development Division /ECLAC	ECLAC
16 - 27	International course on "Managing Project Implementation," organized by the Latin American and Caribbean Institute for Economic and Social Planning (ILPES), in cooperation with the Spanish Cooperation Agency (Agencia Española de Cooperación, AECI) and the University of Alcalá de Henares, Spain, /ECLAC	Antigua, Guatemala

