LAC Trade Matters

Issue #60 **(12/15/08)**

In the News…

Pathways to Prosperity in the Americas (PPA) Ministerial – see page 5

T-LAD Posted to RUTA Web Site – USAID's report on Trade-Led Agricultural Diversification (T-LAD) in the CAFTA-DR countries has been posted to the RUTA web site at http://ruta.org/ (see pp. 6-7).

CAFTA-DR: Sorting Fact from Fiction – The U.S. – Central America – Dominican Republic Free Trade Agreement (CAFTA-DR) was signed into law by President Bush on August 2, 2005, with the Agreement entering into force in El Salvador on March 1, 2006; in Honduras and Nicaragua on April 1, 2006; in Guatemala on July 1, 2006; and in the Dominican Republic on March 1, 2007. Costa Rican voters approved the Agreement in a referendum in October 2007, but implementing legislation for making it effective was not fully passed until November 11, 2008. (1)

Just over two years into implementation of CAFTA-DR, a recent analysis prepared by Clarence Zuvekas, consultant to USAID's LAC Equitable Growth Best Practices Task Order (implemented by Chemonics) examined whether the effects of CAFTA-DR to date have been more or less in line with what its advocates anticipated, and if not, to try to understand why it has either fallen short of or exceeded expectations. In this context, Zuvekas examined common misconceptions about CAFTA-DR that have appeared in the writings of individuals and organizations critical of the Agreement. The paragraphs below address a half dozen ways in which the critics of CAFTA-DR have misrepresented its impact, either directly or by implication through cleverly-worded arguments that often are properly hedged or nuanced but allow readers with limited knowledge of the subject matter to draw extreme conclusions. (*continued on pages 2-4*)

In the News…(article on CAFTA-DR continued)

The first misconception is that CAFTA-DR has had a large impact on economic performance in Central America and the Dominican Republic, with the negative effects outweighing the positive effects. A detailed analysis of the Agreement's likely impact, based on a computable general equilibrium (CGE) model, concluded that the treaty's effects would probably be positive but small (2). Trade between CAFTA-DR's LAC members and the U.S. was already substantial before the Agreement took effect, a reflection in part of significantly reduced trade barriers before 2005. Trade among the CAFTA-DR countries—at least U.S. exports to its partners in the Agreement—has grown significantly since 2005 (3), but this increase is attributable not only to CAFTA-DR but also to factors such as strong economic growth in the LAC members of CAFTA-DR, which increased the demand for imported products generally, and to rising prices for some key imports (4). The increase attributable to the Agreement has been only a small fraction of total trade.

Second, readers are sometimes led to believe that overall economic performance in Central America and the Dominican Republic in the last few years has been weak. In fact, average real GDP growth rates in the CAFTA-DR countries (excluding Costa Rica) rose from an already solid 5.2% in 2005 to 6.1% in 2006 and 5.8% in 2007 (5). Not all of this improved performance, of course, is attributable to CAFTA-DR. A strong U.S. economy through 2007 and rising prices for many key Central American and Dominican exports explain more of the increased growth than does CAFTA-DR.

Third, CAFTA-DR has been criticized for contributing to an increased incidence of poverty among its LAC members. While annual, up-to-date poverty figures are not available for all countries, where available they show that the incidence of poverty declined between 2005 and 2007: from 21.2% to 16.7% in Costa Rica, from 35.2% to 34.6% in El Salvador (with an intermediate figure of 30.7% in 2006), and from 65.8% to 60.2% in Honduras. In the Dominican Republic the poverty rate fell from 47.5% in 2005 to 44.5% in 2006 (data for 2007 are not yet available), and in Guatemala the poverty rate of 51.0% in 2006 was below the 56.1% recorded by the previous comparable survey in 2000. Rural poverty rates likewise fell, except in El Salvador (6). The incidence of poverty may well have risen in 2008, however, reflecting mainly the impact of sharply rising food prices, not the impact of CAFTA-DR.

A fourth misconception is that agriculture has been hit particularly hard by the Agreement, and that small farmers would have been better off over the long run if their basic-grains production had been protected and not subject to tariff reductions. In fact, real agricultural-sector growth rates in the LAC members of CAFTA-DR (excluding Costa Rica) rose from an (unweighted) average of 3.0% in 2005 to 6.0% in 2006 and 4.0% in 2007. In El Salvador, real value added from basic-grains production increased by 11.2% in 2006 and 11.2% in 2007, and in Honduras it rose by 12.5% in 2007 (7).

These figures, of course, do not really tell us how CAFTA-DR has affected agriculture in Central America and the Dominican Republic. Agricultural production is subject to sharp annual fluctuations mainly because of variable weather conditions. The point being made here is simply that real value added in agriculture did not decline or grow at a slower pace after CAFTA-DR came into effect, as some critics imply.

As for the notion that small farmers should concentrate on producing basic grains, these are low-value crops whose prices on world markets have fallen in real terms over the long run. The process of economic development with rising living standards basically involves the movement of people over time out of basic-grains production and into higher-productivity jobs in industry and services, as well as jobs generated by higher-value agricultural products such as fruits, vegetables, and cut flowers along the supply chains between producers and consumers.

In the News…(article on CAFTA-DR continued)

Interestingly, the sharp rise in basic-grains prices from 2006 through mid 2008 has facilitated the CAFTA-DR adjustment process for small farmers in Central America and the Dominican Republic by making local production temporarily more competitive with local imports. Although basic-grains prices in world markets have fallen significantly over the last few months, they are expected to remain relatively high into the next decade. Furthermore, as the U.S. economy has entered a rough patch that may last several years and will limit new job creation in its CAFTA-DR partners, basic-grains production can continue, in the medium term, to provide income and food security to many thousands of poor rural households. During this breathing period, the governments of the region should be devising strategies for facilitating and cushioning the transition of small farmers out of basic grains and into more remunerative pursuits.

Also, it should be noted that Central America and the Dominican Republic do not have to eliminate all tariffs on basic grains immediately, as implied by some of the Agreement's critics. The tariff reduction for rice, for example, takes place over 18-20 years, and for yellow corn, over 10-15 years. Tariffs on imports of white corn by El Salvador, Guatemala, Honduras, and Nicaragua will not be completely eliminated (8).

Fifth, wages in the maquiladoras may be relatively low and working conditions not always good; but on the whole workers in the maquiladoras are better off—often significantly so—than they would be in their next best alternative employment (or lack of such employment). Yes, there is room for much improvement in working conditions, better enforcement of existing labor laws, and adoption of additional legislation that strengthens workers' rights. These reforms will be more effective if they are the product of local initiative and effort than if addressed through treaty renegotiations. The *maquila* sector is a major source of employment in the region. Those who imply that the DR-CAFTA countries would be better off without it offer no alternative opportunities to workers in the *maquiladoras*; indeed, the position taken by such critics is not pro-worker.

The correct approach to the *maquila* sector is not to scrap it but to transform it. Central America and the Dominican Republic need to give a high priority to developing a long-run vision of their *maquila* operations that focuses on converting them into true manufacturing enterprises using progressively higher percentages of local raw materials, intermediate goods, and skilled labor, thus increasing value-added percentages over time and creating higher-wage jobs. This is essentially the path followed successfully by a number of Asian countries several decades ago. In Central America, Costa Rica has made more progress along these lines than its neighbors. An effective strategy will require the close collaboration of government, business, and labor, and it must include a strong effort to improve significantly the quality of education at all levels.

Finally, critics of CAFTA-DR sometimes imply that increased imports from the United States have negative consequences for Central America and the Dominican Republic. While implementation of any free trade agreement will displace some domestic production with imports, the critics rarely point out that lower-priced imports, often of higher quality than locally produced items, benefit consumers—especially those with low incomes—by freeing up some of their income for purchases of other basic necessities.

Overall, CAFTA-DR's impact on Central America and the Dominican Republic has been more modest that its critics suggest. Its net effects are probably positive for both the United States and its LAC members. But since the Agreement has been in effect for only a couple of years, it is not easy to isolate its effects—in a sound analytical manner—from those of other forces affecting its members, including sharp fluctuations in world food and fuel prices. (**Source**: adapted from Clarence Zuvekas report to USAID).

In the News … (article on CAFTA-DR continued - footnotes)

(1) On October 1, 2008 the other CAFTA-DR members extended the deadline for Costa Rica's completion of the process to January 1, 2009. CNN reports that Costa Rica passed the final piece of legislation—related to intellectual property rights—on November 11, 2008, and that President Arias would proceed quickly to ensure that CAFTA-DR takes effect in Costa Rica on January 1, 2009. (See "Costa Rica Approves Trade Pact with U.S., Region," November 11, 2008: http://edition.cnn.com.)

(2) This study found that tariff reductions would add an average of only 0.1 percentage points (p.p.) to GDP growth rates in Costa Rica, El Salvador, Honduras, and Nicaragua. Increased quotas in the U.S. market would have no effect, except in Nicaragua (0.2 p.p.). The largest effect of DR-CAFTA would be from new rules of origin for *maquila* exports, whose preferential status in the U.S. market otherwise would have expired in 2008. The "gains" in this case—mostly saved losses rather than gains from existing levels of trade—would be 1.4 p.p. in Honduras, 0.6 p.p. in Nicaragua, 0.4 p.p. in Honduras, and a negligible 0.01 p.p. in Costa Rica. See H.G.P. Johnson, Samuel Morley, and Máximo Torero, *Impacto del Tratado de Comercio de Centroamérica en la agricultura y el sector rural de cinco paises centroamericanos: Resumen Ejecutivo*, Documento de Trabajo (San José, Costa Rica: RUTA, IFPRI, and ECLAC, October 2007), cited in U.S. Agency for International Development (USAID), *Optimizing the Economic Growth and Poverty Reduction Benefits of CAFTA-DR: Accelerating Trade-Led Agricultural Diversification*, Vol. 1 (Washington, D.C., September 2008), p. 43.

(3) U.S. exports to the other CAFTA-DR countries (excluding Costa Rica) rose by 16.3% in 2006 and 15.3% in 2007, while exports of the LAC members of CAFTA-DR (again excluding Costa Rica) rose more slowly, by 0.5% in both years, in part because of decreased exports from the Dominican Republic. (The trade data are from the U.S. Census Bureau, Foreign Trade Statistics: http://www.census.gov/foreign-trade/balance/.)

(4) In 2006, 38% of the increase in the value of all U.S. exports to the LAC members of CAFTA-DR (excluding Costa Rica) was accounted for by petroleum and natural gas products, with part of this increase reflecting higher prices. In 2007 these products accounted for 20% of the total increase in the value of U.S. exports to its CAFTA-DR partners. (Percentages were calculated from data provided by the U.S. Census Bureau, Foreign Trade Statistics: http://www.census.gov/foreign-trade/balance/.)

(5) If Costa Rica is included, the respective averages are 5.3%, 6.5%, and 6.0%. (All averages are unweighted and were calculated from national accounts data available on the web sites of the countries' central banks.)

(6) The incidence of rural poverty declined from 24.9% to 18.3% in Costa Rica (2002 to 2007); from 51.4% to 49.5% in the Dominican Republic (2005 to 2006); from 74.5% to 70.5% in Guatemala (2000 to 2006); and from 71.5% to 66.4% in Honduras (2005 to 2007). In El Salvador, the rural poverty rate fell from 42.5% in 2005 to 38.5% in 2006, but then rose to 43.8% in 2007.

(7) Data are from the web sites of the countries' central banks. If Costa Rica is included, real agricultural-sector growth rates are 3.2% in 2005, 7.1% in 2006, and 4.5% in 2007.

(8) See USAID, *Optimizing the . . . Benefits of CAFTA-DR*, pp. 40-41.

In the News…

Pathways to Prosperity in the Americas – On September 23, 2008, President Bush met with leaders and representatives from eleven countries in the Western Hemisphere with which the U.S. has negotiated free trade agreements to launch the Pathways to Prosperity in the Americas initiative. The following communiqué was issued:

1. We, the Heads of Government and representatives for Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Panama, Peru and the United States, met in New York on September 24, 2008, to take stock of the significant progress we have made in our hemisphere through shared commitments to trade and investment liberalization, social inclusion, development, rule of law, and democracy. We noted that we have each taken steps to conclude and bring into force comprehensive and high-quality free trade agreements that have contributed significantly to reducing poverty, opening our economies, and strengthening our democracies.

2. Our discussion today focused on our region's ability to achieve and sustain broad-based economic growth and development. We recognized that our region has experienced significant progress in the last few years by implementing public policies that promote growth and social development. We acknowledged that macro-economic stability and trade liberalization are important tools in the fight against poverty, noted existing challenges to economic growth, and affirmed that certain sectors of our populations should benefit more fully from open markets and free trade. We support further efforts to advance social justice and welfare in the hemisphere.

3. We underscored the importance of comprehensive free trade agreements in advancing liberalized trade and investment regimes, thereby providing new economic opportunities for all in our societies, including workers, businesspeople, and agricultural communities. We affirmed our commitment to conclude an ambitious agreement in the Doha Round of World Trade Organization negotiations, to the long-term goals of free trade in the hemisphere and a Free Trade Area of the Asia Pacific (FTAAP) and to continue to pursue other efforts to promote economic integration in the hemisphere, including through the Summit of the Americas process, the Latin America Pacific Arc Initiative, the Central American Economic Integration process, and the Trans-Pacific Strategic Economic Partnership. At the same time, we are supportive of bilateral efforts to approve and implement comprehensive, high-standard free trade agreements that promote and extend free trade, including the United States-Colombia Trade Promotion Agreement and the United States-Panama Trade Promotion Agreement and others we are currently negotiating or in the process of approving. We applaud Costa Rica's efforts to complete the steps necessary for entry into force of the Dominican Republic-Central America-United States Free Trade Agreement as soon as possible.

4. We also recognize that, to fully realize the benefits of trade liberalization and open markets, we must promote, integrate, and advance all aspects of our hemispheric economic and development agenda. We support increased efforts to deepen our partnership and cooperation to ensure that the benefits of free trade and open investment are more broadly shared throughout our societies.

5. To achieve this goal, complement economic cooperation and integration initiatives, and promote convergence of free trade efforts, we will work jointly to: (1) increase opportunities for our citizens, particularly small businesses and farmers, to take advantage of trade through trade capacity building and other initiatives; (2) promote and deepen an open architecture for regional trade consistent with the global trading system; (3) expand regional cooperation on economic development and competitiveness; (4) enhance cooperation and exchange best practices on labor and environmental standards and enforcement; and (5) engage the private sector and civil society to advance these objectives, including through promotion of public-private partnerships.

6. This initiative is open to all countries, as participants or observers, in the Western Hemisphere that share our commitment to democracy, open markets and free trade.

7. We plan to meet at the ministerial level before the end of this year and regularly thereafter to develop an agenda to advance these objectives and determine next steps. We also look forward to reconvening in 2009 to review the progress made by our ministers.

Source: http://www.whitehouse.gov/news/releases/2008/09/20080924.html

In the News…

The Advantages of Trade-Led Agricultural Diversification (T-LAD) – Many developing countries are challenged to enhance the contribution of their agricultural sector to economic growth and poverty reduction. In a globalized economy, higher-income markets for fresh and processed agricultural products offer a pathway to development, if governments and the private sector—make the right policy choices, institutional reforms, and investments.

A recent USAID-funded study authored by David Bathrick, titled *Optimizing the Economic Growth and Poverty-Reduction Benefits of CAFTA-DR: Accelerating Trade-Led Agricultural Diversification*, found that industrial growth in the CAFTA-DR region has not generated enough jobs or increased wages, and that the number of low wage workers in agriculture—primarily producing lower-value basic grains—has significantly grown. The study points to serious structural issues developing countries need to consider if they are to optimize the potential of their agricultural/rural sectors as an engine for trade-led economic growth and poverty reduction. To confront these major issues, the study provides a policy and strategic framework to stimulate thinking about the reforms needed to respond to globalization's opportunities and challenges.

Study Findings and Policy Implications – The United States - Central America - Dominican Republic Free Trade Agreement (CAFTA-DR) represents a new phase in advancing trade-led economic growth in Latin America and the Caribbean. As the CAFTA-DR countries work to implement the treaty, they share an overarching concern: how to achieve the structural reforms needed to enhance the capacity of the agricultural sector to diversify into higher-value crops and value-added products that generate increased jobs and incomes, hence economic growth and poverty reduction. However, to diversify their agricultural and rural sectors, the CAFTA-DR countries face a number of significant impediments:

- ***Under CBI, the region made limited market gains***: Though the Caribbean Basin Initiative (CBI) provided potentially lucrative access to the U.S. market, CAFTA-DR countries have not adequately diversified their agricultural and rural sectors to more remunerative, competitive, and trade-linked enterprises. While the region saw significant increases in exports of nontraditional agricultural products (and in GDP) during the 1990s, growth rates since then have declined. In part, this is a result their diminished hold on the U.S. market for apparel assembly, fruits, and vegetables, as a result of not sustaining a focus on product competitiveness.

- ***The influence of protectionism continues***: Despite varying degrees of macroeconomic reform and trade liberalization, all of the CAFTA-DR country economies continue to be constrained by vestiges of protectionist policies for numerous producers (e.g., subsidized credit to basic grains farmers) and numerous distortions (e.g., public agencies involved in production input supply and food markets).

- ***Support to the agricultural sector has been weakened***: As countries adopted fiscal restraint as part of IMF structural adjustments, they favored reduced spending over increased taxes. This resulted in a decline in public-sector and donor funding for agriculture and thus no "retooling" support was provided to producers and enterprises interested in responding to unprecedented market opportunities.

In the News…Advantages of T-LAD (continued)

- ***Countries' agroindustries are insufficiently competitive***: In all countries reviewed, the broad agroindustry sector—primary agricultural production and agroindustrial processing—is becoming an important economic base. However, despite the market opportunities available, the CAFTA-DR countries have low levels of productivity and competitiveness. This condition will likely continue unless the enabling environment is improved through regulatory reform and new investments in infrastructure, support institutions, human capital, and sanitary and phytosanitary systems.

- ***Small and medium-sized producers are not contributing***: These producers lack access to finance and technology, as well as timely market information and "know-how" that would enable them to enhance land and labor productivity and become significant suppliers of both higher quality and new food products to market agents who have the capacity to serve the export and processed-food markets.

These impediments define a rural-based productive sector ill-prepared to compete under CAFTA-DR or in the global economy. Additional attention is needed by government to address policy issues, as well as to promote the public and private sector investments needed to improve competitiveness.

Alternative Approaches – Over the past 30 years, two models of agricultural and rural development have influenced the development strategies of governments: the *trade-led model* has tended to stimulate economic progress; and the *protectionist model* has tended to perpetuate poverty and dependence.

The *trade-led model* was used most successfully in Chile, where a broad network of agribusinesses—including agricultural producers and providers of related value-added processing/services—became a major driver of economic growth. Successful implementation of the model requires a national commitment to strengthen policies and support services to encourage investment in market-oriented agri-businesses that link markets to producers of differentiated traditional exports (e.g., high-value coffee) and/or higher-value, resource-based activities (e.g., nontraditional fruits/vegetables, aquaculture, seafood, certified forestry), many entailing processing industries using advanced technologies. Over a sustained period Chile dramatically reoriented its agricultural sector toward export-led growth by reducing tariffs and strengthening the enabling environment (e.g., infrastructure, market promotion, research and development, financing, and human capacity), including efforts to reach small-scale producers. The model contributed to increased rural jobs and incomes and a notable decline in rural poverty.

The clearest example of the *protectionist model* is southern Mexico under the North American Free Trade Agreement (NAFTA). While facilitating nontraditional exports in the north, Mexico did little in the south to advance enterprise diversification out of the large traditional segment of its agricultural sector—dominated by small-scale producers of basic grains. Under NAFTA, few of these producers would be competitive as tariffs for these sensitive crops were reduced. By the end of the transition period, Mexico had done little to put in place basic support services to reduce risks and facilitate investments that would help small-scale producers to diversify. Instead the government's cash payments to such producers provided little incentive to diversify production to take advantage of markets opened by NAFTA and, as a consequence, farmers did not diversify and rural poverty levels were not reduced.

Conclusion – To capitalize on the treaty's potential to drive economic growth and reduce poverty, the CAFTA-DR countries need to rally stakeholders—government ministries, the private sector, universities, civil society, and donors—into a coalition committed to boosting trade-led agricultural diversification (T-LAD). As evidenced by Chile's experience, a national commitment transcending changes in political administrations is vital to improving the enabling environment and stimulating private investment.

The T-LAD report is accessible at: http://www.ruta.org**, or send an email to:** kbyrnes@usaid.gov

In the News…

Latin American and Caribbean Exports Rise in Spite of Global Crisis – The repercussions of the global financial crisis are taking its toll throughout the world, and Latin America and the Caribbean are no exception. However, in spite of the unfavorable prospects, exports from the region will continue to increase during 2008 at an estimated 23%, according to the Economic Commission for Latin America and the Caribbean (ECLAC). This is one of the conclusions of the report "Latin America and the Caribbean in the World Economy. 2007 Edition: 2008 Trends," released in Mexico City on October 27, 2008, by ECLAC Executive Secretary Alicia Bárcena. The report estimates export volumes to rise 2% this year, while the volume of imports will increase 9%. The value of imports will go up 22%.

Higher commodity prices during the first semester of 2008, particularly of metals and fuel, led to a 25.5% increase in export value, much higher than the 10% rise during the same period last year. With this, the trade surplus is expected to reach US$51 billion.

However, the global slowdown will have negative effects on the region. The drop in commodity prices during the third quarter this year and falling demand for Latin American products, primarily from the United States, and to a lesser extent, from Japan and the European Union, have already impacted the region's economies during the second semester this year, and will lead to lower growth rates and less favorable trade balances in 2009.

According to ECLAC, the world scenario is forcing Latin America and the Caribbean to face short and long-term challenges. In the short run, and as a result of international financial and economic turbulence, governments will have to deal with less access to external financing, higher interest rates, hard-hit stock exchanges and a shift of capital to safer destinations and into less risky assets, as well as lower remittances and foreign direct investment. As a result, credit lines for exports and investment plans will be restricted, limiting growth.

To avoid contagion from industrialized economies, governments must ensure liquidity in the financial system and reinforce prudent supervision of the soundness of the banks and financial institutions with the most links to international financing and risky operations.

In order to deal with external shocks, says ECLAC, governments should strengthen their countercyclical macroeconomic policies, maintain sound fiscal accounts and monitor external account trends.

In the medium term, governments of countries that maintain favorable terms of trade should improve the management and use of additional income from higher commodity prices by promoting activities that boost competitiveness, human resource development and export diversification.

The world economic slowdown may ease inflationary pressures, which will tend to decrease during the rest of 2008 and 2009. However, the aim of curbing inflation should not be neglected.

The report underscores that the current financial crisis and the menace of recession for 2009 pose an enormous challenge to the soundness of the economic reforms the region has implemented in recent decades. Thanks to these reforms, the region is relatively better prepared to face this adverse scenario.

These reforms must be maintained, particularly those contributing to fiscal responsibility and control of inflation, trade openness – especially intraregional trade – and market diversification, debt reduction and accumulation of international reserves. These assets will allow Latin America and the Caribbean to deal with a potential recession in the United States and the European Union on more solid ground.

Source: CEPAL News, October 2008, Vol. 28m, No. 10

In the News…

**Alternatives to Breach Innovation Gap Between Latin America and Industrialized Nations – ** The region should go from competitiveness based on low wages and the over-exploitation of natural resources, to competition based on knowledge in its productive structure. Innovation implies changing mentality and modernizing the productive structure in order to have products and services of higher technological input. It also suggests changes in business models, corporate organization and in management and commercialization, said ECLAC Executive Secretary Alicia Bárcena during the IV Ibero-American Business Meeting held in San Salvador in the framework of the XVIII Ibero-American Summit of Heads of State and Government. Ms. Bárcena presented the book "Ibero-American Spaces: The Economy of Knowledge", published by ECLAC and the Ibero-American General Secretariat (SEGIB) for the occasion.

The Executive Secretary of the Commission presented a summarized view of the gaps and challenges in Latin America and the Caribbean in terms of innovation, and how to address them. There is a negative correlation between per capita income and the percentage of GDP allocated to research and development (R&D), and this is exacerbating already existing gaps, said Ms. Bárcena. The heterogeneity in the levels and rhythm of innovation on a global scale reveal how Latin America and the Caribbean are lagging behind, relatively, with differences among countries in the region.

At a global level, countries are increasing investment in research and development. However, average investment in R&D in Latin America has remained constant at 0,5% of GDP, contributing 2% of total world spending.

The world distribution of people dedicated to R&D by country of origin also reveals a gap. Beyond mere investment in R&D, the dynamics of creating patents also reflects the relative weakness of local actors. A low number of patents are registered in Latin America, and those that are, are owned by foreign residents, not local citizens.

Ms. Bárcena stressed that the challenge consists of going from a spurious competitiveness based on low wages and the over-exploitation of natural resources, to a more authentic competitiveness based on the intensive incorporation of knowledge in the productive structure, something ECLAC has been suggesting since 1990.

In Latin America, spending on scientific and technological activities is concentrated in the purchase of machinery and equipment, and less so in R&D. Experience indicates that companies that cooperate with one another and with R&D institutions innovate more than the average, have more highly-qualified personnel and pay better salaries, she added.

Ms. Bárcena urged closing the digital gap, underscoring the contrast between the intensity of connectivity among members of the Organisation for Economic Cooperation and Development (OECD) and Latin American nations, as well as within the latter and among income and age groups, where there is more dynamics among the younger population.

The Executive Secretary emphasized the importance of supporting, through innovation policies, the generation and strengthening of leaders in innovation and technological development, as well as creating modernization policies for the productive structure and productive inclusion in order to enhance the capabilities of "marginal" actors.

Source: CEPAL News, November 2008, Vol. 28, No. 11.

In the News…

A Review of National Competitiveness Councils in the LAC Region – As part of its on-going efforts to strengthen competitiveness in Latin America and the Caribbean, USAID asked Chemonics to conduct a study of National Competitiveness Councils (NCCs) in the region. The study describes the structure, functions, role, operation, and development of the NCCs. It does not assess the impact and performance of the councils.

There is a broad spectrum of types of competitiveness systems and NCCs, with no universal model, although key functions and roles are similar. Most NCCs tend to be relatively young, established after 2000. They range from highly sophisticated and complex to unstructured organizations. In Jamaica, for example, there are three fledgling entities, in government that function or aspire to function as NCCs, in addition to the private sector's "competitiveness company" housed at the Jamaica Exporters' Association. By contrast, in the Dominican Republic, the structure is much more straightforward and coordinated by a single NCC.

Most councils are government entities that have mixed private- and public-sector participation, which is considered essential to the effectiveness of an NCC. This mixing can happen within a council's board of directors or through other participatory mechanisms. Some NCCs, such as Colombia's, also include organized labor, civil society groups, and academia, although labor is not often a prominent participant. And some countries, including Colombia, have separate private sector councils with no government participation, although they interact closely with the public sector.

Leadership, in both the public and private sectors, was considered to be an—and by some, *the*—essential factor in ensuring the success of an NCC. It is perceived as the glue that binds the factions comprising an NCC with a competitiveness strategy/system. In most cases, the presence and commitment of the country's president - or prime minister - is also seen as crucial to the effectiveness of an NCC, particularly his/her *poder de convocatoria* (convening power). This was also defined as political will: when political leadership is prepared to push for implementation of an organized competitiveness agenda carried out by an NCC, the chances for success are substantially increased.

Achieving greater competitiveness is largely a question of the attitudes of individuals, institutions, and society at large. This speaks to the larger issue of the national value framework, in which institutions and individuals reflect the prevailing social norms that determine how they behave and interrelate. Trust was frequently cited as key to developing greater competitiveness, reducing transaction costs, creating relationships that produce greater efficiencies, and laying the ground work for consensus.

While the NCCs as a whole have a mixed record, by and large they have played a useful and in some cases essential role in promoting competitiveness. Much of their performance and capacity to operate successfully depends on the particular national value framework and political culture in which they function. Similarly, their successes or lack thereof are closely linked to the quality and intensity of their leadership, both in the public and private sectors. It seems clear that the commitment of the government, especially at the highest levels, is essential to promote competitiveness, pressing for the necessary policy and institutional reforms and providing technical assistance at the cluster and company levels where required.

Chemonics is now preparing a case study on the competitiveness council and system in the Dominican Republic. Findings from this study will be provided in the next issue of this newsletter.

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Registering early is important due to visa requirements for some countries. For assistance with your visa process email us at **training@aidtoartisans.org**.

Advance Registration: by Dec. 1, 2008 $1799
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