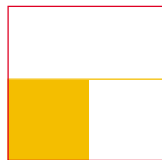


PART I



# Dimensions of Competitiveness





## Summary

The notion that a country is more competitive if its currency is depreciated or its trade surplus heftier has been displaced in recent years by a more comprehensive view of the factors that generate value at both microeconomic and aggregate levels. An economy is more competitive when companies operate in an environment that is conducive to the sustained growth of productivity and per capita income. Being competitive in a global economy demands that countries create conditions for business development that are beyond what would be expected considering the countries' income levels.

In the past decade, Latin America made great progress in several areas essential for competitiveness, particularly macroeconomic discipline. While this helped the region return to the path of growth, the pace was not satisfactory for the people of the region. Nor was it sufficient to reduce the productivity and income gaps that separate Latin America from the developed countries. Considering their income levels, most Latin American countries have serious shortcomings that constrain them from achieving productivity and per capita income growth, as shown by an analysis of competitiveness indices in the 2001 edition of *The Global Competitiveness Report*. Only Chile has conditions substantially better than might be expected for its income level, and is therefore in a position to post rapid growth. Deficiencies in the other countries stem mainly from problems with the quality of the macroeconomic environment, the quality of public institutions, and technical capacity.

The business communities of Latin America are all too aware of these problems. In their view, the greatest obstacles to business development in Latin America involve the economic and regulatory environment in which companies have to operate. One of three business people thinks that the most serious problem is the lack of fi-

nancing, followed by excessive regulations and taxes, and policy instability. The opinions tend to parallel the severity of these problems as shown in objective national data. Considering the wide disparities between the economies, it is not surprising that the opinions of business communities vary greatly from one country to another. More surprising is that although many of these problems mostly affect smaller firms, business people from companies both large and small generally perceive themselves to be facing similar constraints. The policy implication is clear: the major problems of competitiveness should preferably be dealt with through overall policies. Policies that differentiate by type of firms should play a subsidiary role.

Given the severity of many of the problems affecting business growth in Latin America, one would expect companies in the region to be quite small by worldwide standards. This is true of the countries' larger companies, which are significantly smaller than in developed countries and in developing countries as a whole. This is not simply because of the size of Latin American economies, although that is a crucial factor, but more so because companies in most countries in the region have serious constraints in terms of access to productive resources, particularly credit and transportation, electric power, and telecommunications infrastructure. These constraints even affect the largest companies, despite their links to international financial markets and the advantages that operating on a large scale affords them for offsetting gaps in public infrastructure with their own investments. Despite globalization, business development remains essentially determined by country-specific factors. Promoting competition, therefore, depends on government efforts to address those factors.

Export performance and competitiveness are different but related. Export success tends to be a consequence of competitiveness—that is, of the quality of the environment in which companies operate, and the facilities available to them to develop innovations and exploit market opportunities. Latin America's export performance during the 1990s was remarkable compared to the poor performance of the previous decade. Numerous countries increased their participation in world markets, and several exported more goods with higher technology content. By the end of the 1990s, around 40 percent of exports from the region were goods with

a medium or high technology content. Particularly successful was Mexico, which took advantage of access to North American markets. However, although many of the more dynamic goods were the result of new technologies, not all such goods fared so well, and a number of raw material goods also performed well. Progress in exports with a technology content was not so much the result of policies of "picking winners," which would have entailed a high risk of failure, but more the result of generally improved conditions for competitiveness in various countries.