

# **The industrialization challenges of the LAC region in achieving the Sustainable Development Goal 9 and an Inclusive and Sustainable Industrial Development (ISID)**

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Prepared by

Hiran Catuninho Azevedo

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# 1 Introduction

The creative impulse of LAC region is being defeated by clientelism. Innovation must be the mainspring of an economy that not only takes the countries to prosperity, but it also opens prospects for personal fulfillment for individuals. The submission to clientelism is one of the main threats to development of LAC region. For example, mainly in Brazil, as in other LAC countries, the furious response from taxi drivers to Uber transport application is a symbol of how innovation can cause conflicts. (Guardian, 2015)

The solution to such situations is that governments, transnational institutions and society must be always on the side of the innovators, those who are committed to detect new opportunities, create new products or work processes. It is impossible to overestimate the role that innovation and entrepreneurship have in economic prosperity. Any honest reading of history will show this. Unfortunately, the benign force of innovation is being blocked by the fear of "disorderly change", which is nothing more than the speech created by interest groups, trade unions, comfortably established companies in their market niches and politicians with which each of these actors have umbilical connection (Roniger, 2004). Measures that block innovation, even on the rare occasions when they are taken with the best of intentions, reveal that a poison is running in the veins of a society: clientelism. This results not only economies less dynamic and productive, but fewer opportunities for people to have a life full of achievements. (Davies, 1962)

## 1.1 Creating shared prosperity

Clientelism can be conceptualized as the effort of a group to defend their interests above all else, whatever the cost - It is a set of practices and values. There is a very old element in clientelism - the idea that the economy and society function as a body, in which each "body" has its role. This idea has undergone transformations over the centuries and has won corollaries to articulate between the end of the nineteenth and the early twentieth as a resistance philosophy to the modern economy (Tornquist, 1999). The great economical development battle of our time is not between capitalism and socialism anymore, but between modern values of free enterprise and innovation against clientelism and its reactive values (Phelps, 2015).

Instead of competition, clientelism rather the coordination and control of economic activity. This creates strong links between the state and the business sector, so that much of the economic activity depends on negotiations with the government and not of the market logic. It is the state that decides which sector should grow or not at any given time, making use of subsidies, tax incentives and loans - generally for those who can organize themselves better to defend their interests, or simply shout louder. Another key value of clientelism is the social protection. Protection for companies that gain market reserve and not have to worry about improving their obsolete products, which is devastating for innovation. And protection for different social groups which bite off a slice of the wealth produced by the country in advantage of favorable redistributive policies. In clientelism, taxation is always high, to allow the state offers a lot to everyone. It is a system that always works to maintain the established order, which in economic terms means killing the bud incentives for innovation and the pursuit of competitiveness. (Stokes, Dunning, Nazareno and Brusco, 2013). The current crisis in countries like Brazil and Venezuela shows this system up and running (Economic Commission for Latin America and the Caribbean, 2015).

It is a must, on this development equation, care for the poor and concern for inequality. It is essential to guarantee universal access to education because it helps to balance the available opportunities through society (Huntington, 1968). A moderate level of social protection is also needed, if it is funded by a neutral system of taxation (Phelps, 1966). The problem is that LAC governments rarely stop there - what we see is the advancement of clientelism in the countries of the region. The States begins to provide everyone, but who else benefits are not the poor, but the corporate or union elites with better access to government. Worse, the economy loses efficiency and wages rise less than they could. Opportunities for the emergence of business are reduced, and with it the chance to the younger generations have a richer life experiences, participate more actively in the flow of the economy. Corporatists are always concerned with balancing the interests of various social actors, to ensure some income for everyone. Under free enterprise, however, the main concern should be with individual initiative, with what an individual can do with your life (Phelps, 2015).

Never before in history we spoke so much about innovation. There are entire libraries devoted to this theme, endless books about startups and entrepreneurs. Still, it is observed a significant drop in levels of innovation in LAC. There is much talk of the technology industry. But the Chilean startup Valley, for example, accounts for less than 1% of Chilean GDP and a tiny portion of the number of jobs (Karsten and West, 2015). When we look at the economy as a whole, the scenario is not so far from encouraging. The digital revolution has not paid off, and we cannot guarantee if one day it will make up for the loss of energy and creativity in traditional sectors of industry and services. Rather than innovate, they try to get some market protection or live off its patents, which should be much shorter than nowadays, when they became a tool to discourage those who are wishing to enter a market rather than a temporary protection to those who invested in something new (Phelps, 2015). This loss of dynamism translates into numbers. ECLAC reports a major slowdown in productivity in the LAC economy, which results in more unemployment, lower wages and, not least, lower people's satisfaction with their work (Economic Commission for Latin America and the Caribbean, 2015).

We need an environment where companies feel obliged to develop new things. We must abandon the idea that innovation is something that others do and resume the culture of exploration and experimentation that is propitious the exploded innovation in countries like USA, UK, Germany and France in the nineteenth century. In these economies, innovation was not limited to the elites. All layers of society were galvanized by the idea of creating a different future. As President Abraham Lincoln, the United States was a country filled with the "wrath of novelty." People without special education, but deeply involved with their work, clinging to their tools, obsessed with the details of their activity, contributed with innovations, large and small. In that period of history, which was one of the most extraordinary point of view of economic growth, the joy of creating, enterprise and risk-taking was seen as a path to a full life. (Phelps, 2015). It is necessary to flourish this desire in LAC countries to watch a new mass innovative system.

## **1.2 Inclusive and Sustainable Industrial Development (ISID)**

Science education may be a starting point for ISID, but the most important is to expose young people to the human history of exploration and innovation. We should cherish the great names of the Renaissance, the expressiveness of the romantics. Every country needs people involved in science, engineering, mathematics and computing. But it is not every innovation that comes from these areas. In fact, a spirit of innovation will hardly be forged only with this formula. This is a point that is suggested to change in the development policy of many countries of LAC.

Our new generations must be stimulated to enjoy adventure, experimentation, curiosity and a healthy dose of risk. Most reference among economists when it comes to innovation is Joseph Schumpeter, who referred to capitalism as a system in which reigns the "creative destruction". Schumpeter believed that all innovation comes from science. The role of entrepreneurs was to find commercial applications for scientific discoveries, raise the necessary capital for the initiative and organize production. He explicitly said that business people rarely have the imagination or creativity (Schumpeter, 1942). Schumpeter tends to think that innovation depends on research institutes or small groups of people enlightened, but innovation may go further, it is up to anyone. Innovation can and must come from the base as well.

In the last decade, many countries of LAC region made a bet on consumption as an engine of development (Economic Commission for Latin America and the Caribbean, 2015). This is a strategy that cannot work in the long run. Using government resources to stimulate consumption is good just to established companies and traditional sectors of the economy. (Phelps, 1966). In good times, this kind of policy can create a positive cycle where unemployment is low and people have money to buy. But this is a limited view of development. The long-term growth will only be guaranteed if there is clarity about the fact that the prosperity of a country depends on innovation and entrepreneurship - efforts to foster the massive entrepreneurship beyond the consumption must be done.

### **1.3 Challenges and actions within the LAC region to achieve SDG # 9**

Vibration refers to a line that moves with some impulse or shock. You may have a very vibrant society and alert to opportunities, but can not create anything useful and has no new ideas or insights. In the early twentieth century, when economists began to think about the rapid growth of the nineteenth century, everyone thought the business sector did not generate any new idea and that innovations came out of the economy, scientists and navigators. That was how Schumpeter thought, the economy was only good was to realize the opportunities created (Schumpeter, 1942).

The main thesis of this essay is that the flourishing of innovation is the real long-term development factor, not growth spurts based on other factors. We get that flourishing in an economy with very dynamic in which many people are exploring, overcoming challenges, thinking all the time: how do we create? How do we do better? What is the best product to do? Dynamism creates flourishing. But it is possible to grow a lot and still be less dynamics (Phelps, 2015).

The recent growth of emerging as Brazil, Mexico, Chile, Uruguay and Colombia can be attributed to an increase of dynamism and also from the both South-south and north-south cooperations. Most of the growth in the last 10 years came from the technology transfer and trade of commodities, facts that are not directly related to the roots of innovation, but it is also true to take the conclusion that there were really dynamics environments on that countries and genuine Latin-American innovation. Growth is not synonymous of dynamism. Brazil right after the end of military dictatorship had zero growth for a long time and, at the same time, an enormous level of innovation. While in dictatorship, it was the opposite: a very rapid growth, but almost no evidence of any innovation. They managed to grow by copying (Graham, 1997). So it is not surprising that there has been a slowdown in these countries, because although they are learning to innovate, they have copied things from other places so quickly and so extensively that it chokes a little domestic innovation. And now the opportunities are running out. There are two things causing this slowdown: lack of new markets for export, with stagnant Europe and Japan and the US and China growing slowly (Economic Commission for Latin America and the Caribbean, 2015), and problems in continue copying technology.

The idea of intellectual property protected by the State is essential for any modern economy. But another recent phenomenon is piracy and it is necessary to debate what intellectual property can - or must – be preserved by States. The introduction of the patent system was a development milestone, but it is being abused. (Phelps, 2015). There is an abuse of the system: over the years, almost everything was patented, with a predominance of big clientelist market players, in a situation that should be rebalanced. This situation creates a risk of an emergence of a unrest from a social majority that never will benefit from the fruits of a progress that might come for them, following a period of aggregate growth (Hirschmann, 1973) caused by the

endless exploration of these intellectual properties (Arrijoja, Quaries and Quigley, 2015).

Modern economies flourish in diversity. Gender and etnical disparities hinder growth. Phenomena such as the acceptance of homosexuals may also have positive economic effects. In history, countries that allowed minorities to enter into the legal protection produced economical revolutions. If people who have jobs and any opportunity to contribute to innovation are all the same, so it's like one person, wherever you look, and this does not favor new ideas. Obviously it will have more creativity in the workforce as the most diverse and rich are their interests, tastes and backgrounds (Phelps, 2015).

The increase in inequality in LAC can be attributed to a decrease in innovation. The only concrete proposals in most of the region countries are redistribution programs based on taxation. Taking part of the income of people may be a good arithmetical formula, but it might be a good economic policy. Slowing innovation was one of the factors contributing to the increase in inequality. Since everyone is having trouble to innovate, established companies do not have to worry about the entry of new companies with new products. And if you do not need to keep their low prices to prevent newcomers, prices increase, and this swelling helps increase inequality. This is also bad for employment: if companies are going to have a larger share of economic output, then the portion of the work will be less, and real wages decrease or grow less. It is a network of interacting forces. The fall of innovation was bad both for employment and for inequality (Economic Commission for Latin America and the Caribbean, 2015).

Clientelism has undergone a metamorphosis, but is alive and thriving in LAC. In Getulio Vargas' first presidential term (1937 – 1945), clientelism was a three-cornered hat with capital, labor and government. There was a battle between huge corporations, a small number of industries and huge labor organizations and the government acting as judge (Graham, 1997). We still have it now examples of such public policies in LAC, even though nowadays there are more opportunities to have a fair competition, openness to trade and other improvements. Trade unions have all overcame the borders of private sector - they went to the public sector - education, health and governments are highly unionized, being able to do a huge level of lobby: interest groups constantly negotiating with the government to achieve protection, subsidies and exemptions from any requirement, whatever they need to avoid competition in the market. There is a decline of a competitive culture and entrepreneurial spirit. Never before we have been too comfortable, too rich, with so many resources and we do not have the cuture anymore to stimulate people to be pioneers, explorers, creative. Attitudes have changed, and this makes it harder for people to start businesses and get good results. (Stokes, Dunning, Nazareno and Brusco, 2013). There is a dominance of very short-term thinking. The chief executives know they will be in office for a short time and need to show service as they can. They are not thinking of innovations to give a result 5 or 10 years later; it does not help one bit.



The current financial system also has responsibility. Mutual funds put pressure on presidents to achieve quarterly results targets, and banks practically forgotten how to lend money to companies. They buy corporate debt of large and established companies, but it is not the same to look at the plan and dreams of a business and finance some of their initiatives. The biggest banks are central part of this phenomena because they do not need to worry to survive. They are forced to stay safe so that the government does not have to rescue them in the future. But as they are forced to save as much capital, and have very low profit margins, can not do any type of risky loan – many LAC countries are legislating a great risk aversion. The law instead of helping people to take risks, has increasingly aimed at preventing the risk because governments does not want to deal with it. The crisis in countries like Brazil and Venezuela was a symptom of long-term problems, but it could also have been an opportunity to deal with them, which has not happened. The administration of these countries seem to be miles away from thinking about how to bring more risk-taking, more vision, more adventure and more creativity to the economy. (Economic Commission for Latin America and the Caribbean, 2015). It is fundamental to rescue the willing to move into the unknown without knowing where it takes. This is exciting, it makes life interesting. It is necessary to return to that spirit. It is a must return to interactivity: one part of the innovation is to simply do two people speaking simultaneously arrive at some conclusion.

One of the main public policies that LAC governments are executing to increase innovation is investing in scientific research. The problem is that only this measure does not work at all by itself. For example, Brazil has low rates of innovation and high-tech exports (Ubiraci and Reed, 2014). We need a more inclusive innovative system where all kinds of people from all backgrounds contributes to build a collaborative and innovative environment (Phelps, 2015). People wants to do something new to show to the world and are excited to change practices. Of course experiments funded by governments attempts to innovate and can make global revolutions. And this is especially true for programs to create a technical bounce, like the biofuel, created under a contract with the brazilian government, which solves many problems (Ubiraci and Reed, 2014). But it must be clear that our innovation did not come primarily from scientific discoveries funded by the government, but of millions of people trying to do something better, whether a change of procedure in an operating room in a hospital or in the method of transporting things. There is a wide range in which no academical science was necessary. (Phelps, 2015)

## 2 Conclusions

Of course the innovators will use any available technology, but people surely do not remain seated waiting for some improvement in something and suddenly get up from the chair and will think in commercial applications such as Schumpeter imagined. It's not like that - innovation is thinking about ideas for new products and methods in the workplace (Phelps, 2015). The search for innovation competes with the pursuit of wealth and there is a need for the existence of motivation for discovering – profit is not the only reason for discoveries. There is a common sense position that people do not want to innovate, encharging the governments to assume this task. It is an elitist position considering that if governments tries to make innovation for us, they will create all kinds of institutes and public-private corporations. If someone has a great idea for innovation, will be competing with the government, and if he is a person within the government, the bureaucracy may take the process hard to get the attention of the leader at the top (Phelps, 2015). Innovation is not bureaucratic: it is something that demands free and unstructured interactions, and the government simply should not be at the center of it. The best option is to try to arouse innovation in all society sectors, which requires non-privileged incentives in business, renew the financial sector, and celebrate the exploration and creation. We need to regain the pioneering spirit in LAC.

### **3 Recommendations**

After considering the findings and conclusions of this study, it is offered the following recommendations to overcome the industrialization challenges of the LAC region in achieving the Sustainable Development Goal 9 and an Inclusive and Sustainable Industrial Development (ISID):

1. Foster innovation as the real long-term development factor in order to build societies able to explore opportunities, create and improve products and processes and overcome challenges and crisis.
2. Avoid public policies based on clientelism that results in economies less dynamic and productives and fewer opportunities for people to have access to fair competition and a life full of achievements.
3. Renew the LAC financial systems to create fairer chances to non-clientelists market players and avoid legal systems that avoid too much risks and works in favor of the most powerful market players.

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