

Panel “Productive Development Policies to Address LAC’s Productivity Challenge”

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Connecting the Productivity Challenge with Productive Development Policies in LAC
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What is productivity in the “productivity challenge”

- Standard notion of “productivity” is:

$$A = \frac{Y}{L}$$



Leads to focus on:

- efficiency
- economies of scale
- modern technologies
- financial constraints

- But we should think of it as:

$$A = \frac{PY}{L}$$



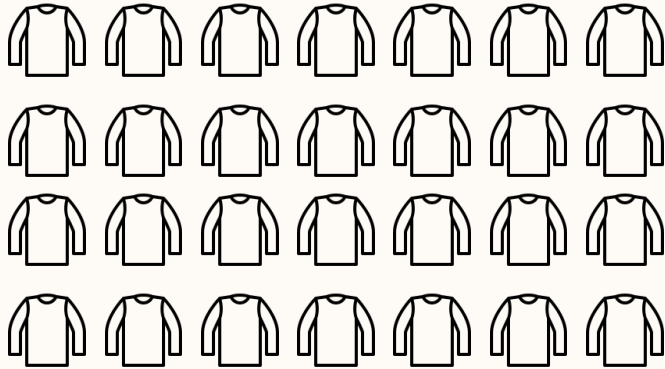
Leads to focus on:

- quality
- design
- communication
- business practices

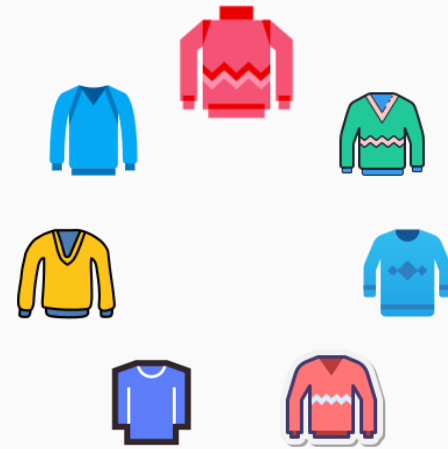
Requires ability to produce goods/services that can be sold in world markets at high P

Opportunities exist in all sectors (agriculture, industry, services)

Less in products with more
standardization and scale economies
(countries like China, India or Vietnam
have an advantage)



More in
Differentiated products



Differentiation by design, functionality, brand, communication or customization,
always rooted in quality

What is differentiation? Doing something different, valued in foreign markets

At the firm level



At the sector level



Differentiation is a way of increasing productivity, add value, and pay higher wages

Exporting has its own specific challenges and PDP needs

Constraints to exporting:

Lack of foreign market knowledge
(micro level)

To adapt products and business practices to
foreign market requirements

Lack of public inputs and a policy environment that
supports export activities (sectoral or macro level)

Need of a support system

These constraints distinguish our challenges from those of advanced countries
(and raises caveats about the relative relevance of “new industrial policies”)

Policy implication of “standard” notion of productivity

Traditional developmentalist view regards internationalization as the natural consequence of (standard) productivity gains

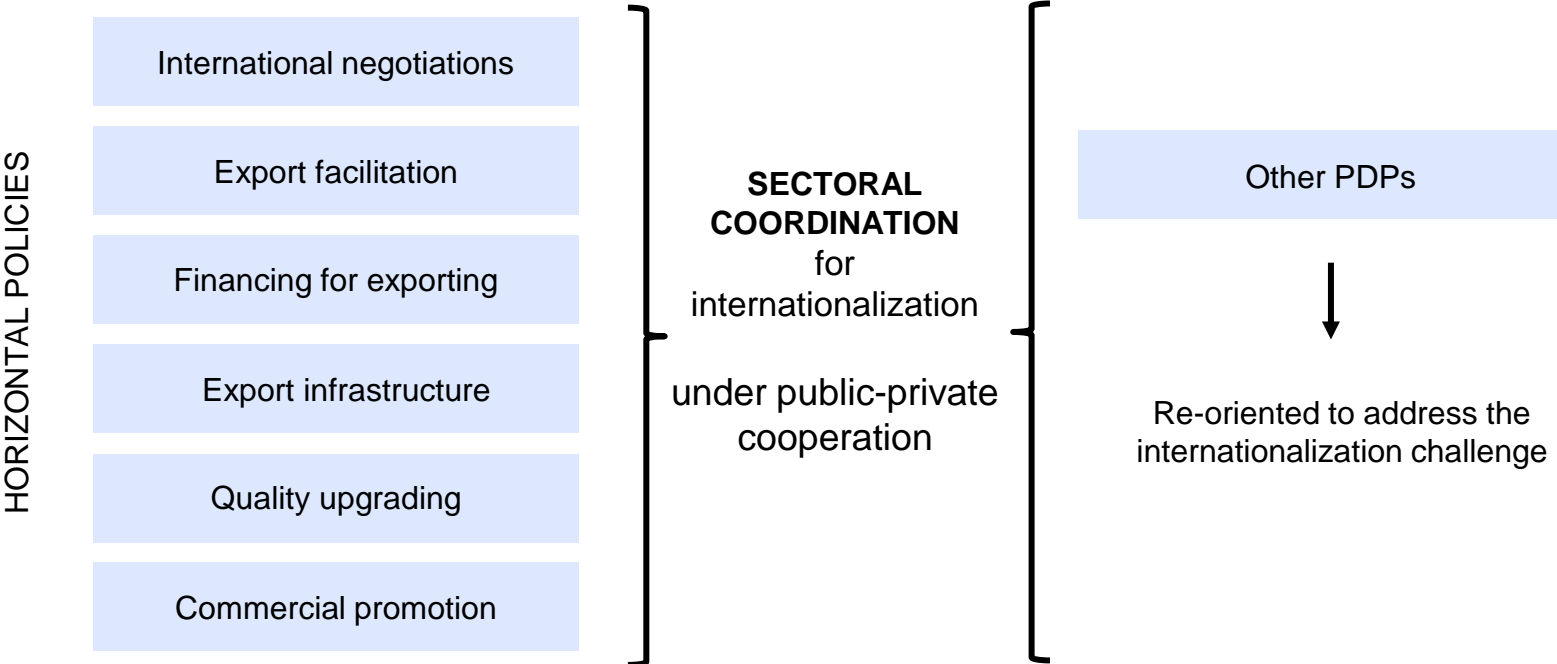
- Central idea: growth in the domestic market ends up promoting international expansion (emphasis on scale and technological deepening)

Priority given to policy instruments with “substitutive” or “technological” orientation

- Substitutive: trade protection, national procurement, supplier development
- Technological: innovation subsidies, investment credit

Problem: growth in the domestic market usually does not lead to internationalization (i.e. does not lead to higher $P!$)

Organization of an export-oriented productive development policy framework



Example: strengthening support system to comply with quality standards

International markets increasing value compliance with quality standards

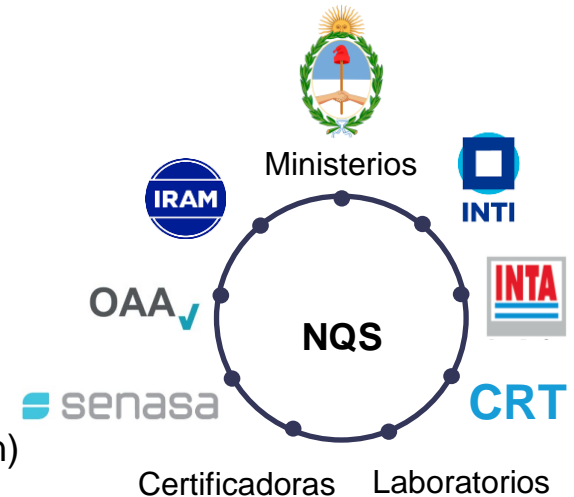
- sanitary, phytosanitary, food safety
- work safety, environmental
- other (organic, fair trade)

The National Quality System (NQS) should coordinate actions to comply with those standards

- metrology, normalization, technical regulations
- laboratories, certification bodies, accreditation, technical training

Example: Coordination unit of the NQS in Argentina (National Quality Plan)

- Survived two administration changes
- Still limited budget and attention at higher levels



Sectoral coordination for internationalization

Export orientation of PDPs requires sectoral coordination to:

- Define sectoral strategies for internationalization
- Prioritize actions aligned with those strategies
- Achieve the commitment of public and private players

Crucial to provide coordination units with stability and political support at high levels

- Example: sectoral roundtables for quality and internationalization in Argentina (2019)

Conclusions

- Internationalization is not the natural result of domestic market growth but requires strategically facing specific challenges
- Barriers to internationalization constrain productive development in Latin America
- PDPs should be tied around an export-oriented productive development policy framework