FOSTERING ECONOMIC AND SOCIAL INNOVATIVENESS TO ADDRESS DEVELOPMENT CHALLENGES IN LATIN AMERICA

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Abstract

The aim of the paper is to stress the need to foster economic and social innovation in Latin America. The change of the model of development of Latin American countries after the debt crisis which induced such a need is presented. Then it is shown that adequately funded long-term programs to promote innovation strategies combined with policies aimed at attracting FDI, which should be aimed at developing real and efficient cooperation between transnational corporations and local businesses should be introduced . Latin America's governments are becoming increasingly aware of the importance to innovation for economic development. Programs supporting innovation aimed at creating linkages between business and science are becoming more frequent and better designed as a permanent element of economic policy.

Keywords: macroeconomic analyses of economic development, innovativeness, social innovations Latin America

JEL Classification: O11,O17, Q56

1. Introduction

Since the turn of the century Latin America may enjoy the favorable economic situation and sustained economic growth, unprecedented in its recent history. Although the balance of change is not beneficial in all Latin American countries (e.g. Venezuela, Honduras, or Guatemala), the scale of the phenomenon and its universality stirred up a discourse about the "quiet revolution", "change of epoch" or "”he decade of Latin America" (Moreno, 2011). Macroeconomic data show that in economic terms the Latin American region has made enormous progress since the 1980s, the "lost decade" of the debt crisis and hyperinflation. Most Latin American countries conducted a successful economic reforms and introduced the necessary institutions (e.g. the autonomy of central banks, banking supervision system, capital investments security system etc.), so they turned out to be able to achieve a macroeconomic stabilization after the 1990s, when the region experienced of a wave financial and banking crises. Better monetary

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policy, significantly lower fiscal deficits, better public debt management led to a relatively painless period of 2008-2009, when the developed economies ravaged global crisis (Gocłowska-Bolek, 2013, pp. 267-286). Moderate optimists try to define not only the description of the current state of affairs, but also some projection for the future – Latin America has had a good starting point and accelerated its progress, and with social capital – building up and strengthening the institutional foundations, economic mechanisms and technical and social infrastructure – in the next decade may become one of the world leaders. Other observers, anyhow, warn against too naive a belief in "Latin American miracle", pointing to unresolved structural problems, durability and range of poverty, inequality and other social problems, as well as new dimensions of exclusion.

However, various statistical data show a number of positive trends. In 2004-2007 the average economic growth in the region was 5.3%, while in 2010-2013 still 3.4%, bringing revival into the labor market, the development of many sectors of the economy and strengthen conditions of entrepreneurship. In 2013, Latin America and the Caribbean recorded the highest level of indicators of quality of life (average for the region of 77%, while in 1997 it was 41%) since 1997 (Latinobarómetro, 2013, p. 44). In the period 2002-2013 the number of poor people in the region decreased by 15.7%, down to 28.2% of the population, while those living in extreme poverty by 8%, down to 11.3% of the total population (CEPAL, 2013). This means that over 50 million people improved their socio-economic positioning, which caused a massive process of "expanding middle class" (Ferreira et al., 2013). The essence of this trend is not only to raise the level of income but also the changes in self-perception (perception of themselves as non-poor), consumer habits, ways of spending free time, aspirations, expectations from the state or the educational system. This is a new ("emergent"), non-traditional middle class, contributing to rapid growth in the housing and automotive industries, services, financial institutions, shopping centers development etc.

Of high importance is the fact that in the last decade in most countries in the region have solidified democracy and gained recognition among the public and the elites – even if only in declarative terms – as "the most desirable form of governance" (Latinobarómetro, 2013). In a number of countries, democracy is still immature in many respects, mainly due to the deficit of civil society, the crisis of the party system, as well as legal and institutional aspects. The governments of Latin American countries tend to express different attitudes to this challenge, according to their own tradition, ideological circumstances, and views of political leaders.

2. Change of the model of development of Latin American countries after the debt crisis: the need for economic and social innovation

The decade of the 1980s – the so-called "lost decade" ("década pérdida") –shows perfectly the negative effects of inappropriate economic policies, such as a decline in GDP growth and industrial production, a dramatic increase in foreign debt while simultaneously a reduction in export capacity, difficulties with monetary policy et al. The debt crisis has revealed extremely high susceptibility of countries in the region to external shocks. It is the debt crisis that finally led to the fundamental revision of the so-far existing doctrine, abandoning of state intervention and adoption of neoliberal ideology by majority of Latin American countries (Engerman, Sokoloff, 2012). Latin American countries experienced the meaningful economic transformation from the "lost decade" of the 1980s and ending with the turn of the century, leading to a better positioning of these economies in globalization processes.

Similarly to other economic phenomenon, globalization creates, for actors of economic and political relations, both new opportunities, and threats. So it is worth consideration, to what extent forms of production, investment and trade at the current stage of globalization, are associated with the process of generation and dissemination of knowledge and the role of innovation in this global system of interconnections.

A major weakness of the system is the lack of efficient cooperation schemes between science and industry, and thus a small number of joint scientific and business projects. Latin American innovation can be characterized by a relatively high activity of the state, while little effort, especially financial, in private sector. To a significant extent, this is due to the traditional economic and social models adopted into most countries of Latin America, where the State is the main actor stimulating and activating business processes. Innovation economy is stimulated, in many cases, by direct governmental support both in terms of funding and organization. This support is implemented within the framework of the funds distributed by sector, covering several major industries, including telecoms, energy, food industry, agriculture, IT, bio-technology and medicine. Strategic decisions concerning development directions are taken separately for individual sectors, often by a team composed of representatives of science, business and public administration. There are those projects supported in the first place that require joint potentials of science and industry.

The other tool for promoting innovation in Latin America, together with the structural funds, is a system of tax benefits (e.g. in the case of Brazil it generates annually costs of 1.5 to 2 billion BRL to the state budget, which is equivalent of approx. 0.1% of GDP). An insufficient rate of investment in the private sector remains as a serious problem, which means still too little progress in technology and human capital developing. This affects the competitiveness of Latin American products, and hence the unfavorable structure of foreign trade.

There is no shortage of positive examples of efforts of Latin American governments to reverse this trend. 115,000 qualified engineers graduated from Mexican universities annually, over thrice more than in the United States in relation to the number of population. The GDP growth over 4 percent a year in the past three years in Mexico, combined with the efforts of the government to improve the efficiency of its regulations, facilitate business registration, reforms of tax and legal systems, allover results in a highest ever number of foreign investments.

Another specific element of the innovation system in Latin America are clusters, or cooperative ties between companies operating in the same or related industries, research centers and local authorities, whose aim in gaining added value in terms of potential individual entities and increase their efficiency, competitiveness and innovation by creating synergies. The dominant model of clusters in Latin America are the satellite clusters (Wierżyński, 2013), in which the key role play small and medium-sized enterprises. The strength of this kind of economic relationships is primarily due to the advantage of the location and the associated lower level of operating costs.

Latin America has a long and rich tradition of cooperative networking. It seems that the main and primary concern of Latin American economies remains low performance (similarly in the mining, processing, and services), which causes many more difficulties. Low productivity results in low efficiency (in industrial production, as well as in agriculture and services), which in turn leads to low innovation level – again, responsible for the poor performance. Breaking this circle is difficult, as show evidence of repeated unsuccessful attempts, but individual economies are on track to accomplish this – just through investment in innovation of the economy and human capital. A solid basis to make this step are the achievements made in previous decades, and especially very favorable pre-crisis semi-decade of 2003-2008.

For at least two decades internationalization of big corporations has progressed while one can observe also the increased number of links between enterprises and scientific institutions, such as universities, technology parks and innovation centers. In this dynamic system transnational corporations play a special role, which is a source of direct investment (FDI), transferring its production and distribution systems to other countries. The increase in global FDI has contributed mostly into ICT (information & communication technologies) revolution, not only because of the high dynamics of its development, but also due to the impact into the organization of production. This still remains an area which creates and stimulates links between the organization of production on a global basis, the level of international competitiveness, innovation, and increased funding. It is significant that the factors described by the existing linkages between them: striving to deliver sales forces increase competitiveness, which in turn is achievable through better organization of production and distribution, i.e. the practical application of knowledge and innovation. It is worth mentioning, that innovation sees enormous potential in the areas of ecology: in "green" technologies, biofuels, environmentally friendly energy solutions in the industry, and tourism services.

3. Social innovativeness in Latin America

Another distinctive feature of Latin American innovation is social innovation. Region traditionally plagued with serious social problems, which in subsequent decades not received an adequate treatment: stratification, social exclusion, widespread poverty, violence, juvenile delinquency, poverty districts (Frankelius, 2009). Not only the economy, but the whole social order tended to require fundamental reforms. Latin American governments used to be increasingly aware that without social and cultural change cannot achieve sustainable and durable economic development. Thus, there was introduced a number of innovative educational programs, whose main aim was to reduce social inequalities, break the circle of poverty and crime, stimulate entrepreneurship and creativity of people.

In the sphere of innovative technologies and business processes and organizations, Latin America is a region that remains certainly still far behind the world leaders, but in the realm of social innovation can be considered as a trendsetter. The pursuit of modernity and innovation began just from the social changes affecting the change of consciousness of ordinary citizens and political elites. Latin America is on the right track from the system fusing existing inequalities and privileges for selected social groups passed down from generation to generation, the system supports the development of the whole society. Of course, these are only some general observations for Latin America, while in individual countries appear from time to time separate ideas for social policy, such as in the case of Venezuela, with an attempt to introduce “ocialism of the XXI century” made by Hugo Chavez.

The main element of social innovation are conditional assistance programs (“Conditional Cash Transfers” CCT). Most of the Latin American CCT programs are well targeted in terms of improving the situation of the poor and excluded groups, promoting gender equality, also in terms of access to education, including secondary education, improving the diet of children and adolescents, and access to health care. The effectiveness of these schemes is relatively high: it is estimated that on average 80% of its services actually goes up to 40% of the poorest families. The flagship programs in the field of social innovation are: *Bolsa Familia* program (introduced in 1990 as *Bolsa Escola*) and the *Pontos de Culture* project in Brazil (inclusion in cultural projects excluded residents of the favela), *Oportunidades* in Mexico (helps poor families in education, health and nutrition kids), *Chile Solidario* in Chile (since 2002; the poorest families sign a contract specifying 53 conditions that must be met in order to overcome poverty, in return they receive financial and psychosocial support); *Familias en Acción* in Colombia, PRAF in Honduras, *Mi Familia Progress* in Guatemala (since 2008), the Social Progression Network in Nicaragua (since 2000.), *Red de Oportunidades* in Panama, and *Juntos* in Peru. By 2011, CCT programs modeled on the Brazilian one have been successfully implemented in 18 countries in the Latin American region, including in total 129 million beneficiaries (Stampini, Tornarolli 2012). CCT programs’ innovation is based on the involvement into social policy of instruments developing human capital and shifting the center of the gravity from “social assistance” into social development. For this reason the phenomenon is commonly recognized as the “new generation of social programs” (Pero, Szerman, 2010, p. 78). Social innovation in Latin America forms a basic pillar of the overall innovation policy and governments are becoming increasingly aware of their importance for economic development.

4. FDI inflows to Latin America. Unused opportunity to transfer of innovativeness?

There is no doubt that the incoming FDI, especially during the implementation period of export-oriented strategy, and with a wider stream in the 1990s, to a considerable degree enabled Latin American countries to incorporate new technologies and modernization of the services sector and industrial sector.

Some interesting conclusions arrive while one is trying to address the question why foreign direct investment, inflowing very strongly to Latin America in the 1990s, failed to bring about faster economic growth in that decade. Now, a series of reports on FDI (CEPAL 2012, UNCTAD 2014) shows that the main reason for their inefficiency was the search by transnational corporations sources of cheap raw materials, economies of scale caused by cheap labor and access to markets. Statistics for the period 1996-2003 (CEPAL 2012) show that the investments were placed primarily in the services sector (almost 60%), with much lower participation in the manufacturing sector (below 30%). This explains why the characteristics of Latin American economies that benefits FDI, arising from the modernization, increased productivity and competitiveness long remained limited territorially to small enclaves (in this case: subsidiaries of transnational corporations), without the overall effect of penetration of innovative solutions into other industries or sectors.

So far, Latin American countries still have not been able to build up sustainable and efficient mechanisms of links between science and research with national stakeholders from industry and services sectors. In many cases, lacking government support and co-ordinated, systemic policy aimed to increase export competitiveness of domestic enterprises reaching hand in hand with supporting the development of skills, technology, institutions and infrastructure. Support for government agencies proved to be too small to create lasting conditions for the development of innovation and integration to the world market. So it might be considered as a fundamental mistake that was committed in Latin American countries, though it must be admitted that in many economies out of the region, for example Central and Eastern Europe, including Poland, the situation was very similar.

5. Conclusions

An unfavorable trend was also observed in the preference for suppliers of transnational corporations associated with their international production systems, thereby eliminating, still undervalued, local suppliers. The whole economy loses in this sense, since without external stimulators local companies did not report the demand for knowledge, research infrastructure and new technologies. Moguillansky spoke directly about innovation as a missing link in the development of Latin America (Moguillansky, 2006, pp. 351-358), which could be a misuse of interpretation, but emphasizes very well the importance of those deficiencies. Attempts of reform aimed at using FDI introduced over time yielded some positive results. Latin American countries stay admittedly far from such countries as South Korea, Taiwan, or Singapore. Undoubtedly, there are needed adequately funded long-term programs to promote innovation strategies combined with policies aimed at attracting FDI, which should be aimed at developing real and efficient cooperation between transnational corporations and local businesses. Latin America’s governments are becoming increasingly aware of the importance to innovation for economic development. Programs supporting innovation aimed at creating linkages between business and science are becoming more frequent and better designed as a permanent element of economic policy.

In the last decade, Latin America has enjoyed an enormous economic growth despite the global crisis and maintain statistics of growth at a satisfactory level, and its effects have being used to carry out economic reforms. This growth translated into an improvement of the situation of the region as a whole, but also contributed for the first time in recent economic history of the region, to change the situation of the poorest groups of the population and to reduce inequalities. A positive example in this field is Brazil, which supports innovation with significant financial resources. For such a highly delaminated societies elimination of barriers to knowledge and wealth redistribution is a huge challenge and at the same time a key condition for starting development mechanisms. Social innovation is one of the pillars of national innovation policies, without them a chase of Latin America's biggest economies for modernity in advance would be doomed to failure. The effects of these efforts are likely to be visible only in the next decade, but even today you can venture far-reaching optimism in this regard. However, it should be emphasized that in spite of significant and undisputed success in systematic implementation of economic and social innovation strategies, many problems remain still unresolved in Latin America.

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