Wednesday, May 28 2008 Updated at 08:00 AM.

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12:00 AM

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Tuesday, May 27, 2008

The Competitiveness Challenge

A clear and detailed roadmap for boosting Latin America's competitiveness.

BY JOACHIM BAMRUD

SLOW CUSTOMS: The lack of an efficient customs service is weakening Latin America's competitiveness. Here a cargo transaction at the Port of Buenos Aires. (Photo: David Mangurian/IDB).

Can Latin America Compete? Jerry Haar and John Price, 2008, Palgrave Macmillan

Brazilian companies like Embraer, Odebrecht and Vale are increasingly becoming more powerful globally, successfully competing against First World rivals. Yet, Brazil as a nation remains a laggard when it comes to competitiveness.

The country still ranks among the least competitive economies in the world - barely ahead of Poland and Romania and behind such countries as Greece and Bulgaria, Swiss-based business school IMD reported recently. It is particularly weak when it comes to government efficiency and infrastructure, IMD points out.

Brazil's problems are in many ways representative of Latin America as whole. The region typically lags Asian countries when it comes to competitiveness, according to both the IMD survey and a separate one from another Swiss-based institution, the World Economic Forum.

"In Latin America, competitiveness is...the primary concern of business, labor, government and citizens at large," Jerry Haar and John Price write in the preface of *Can Latin America Compete? Confronting the Challenges of Globalization*. The two bring years of extensive research to the table. Haar is a professor of management and international business at Florida International University, while Price is managing director of market research firm Kroll InfoAmericas.

They have edited what is clearly the most extensive, detailed and useful book on competitiveness in Latin America. The book features an impressive roster of experts that analyze the key areas where Latin America needs to improve its competitiveness - ranging from education and labor markets to property rights, legal reform and security.

In area after area, it becomes abundantly clear that policymakers throughout Latin America have failed to take the necessary steps to boost competitiveness, partly as a result of no clear strategy to do so (in the best of cases) and partly due to leftist-populist policies which deliberately ignore competitiveness as priority (in the worst of cases).

LOGISTICS

Although Latin America is seeing record trade - largely due to the high demand for its commodities - it is squandering billions of dollars in lost revenues thanks to an inefficient infrastructure and logistics environment. "While the rest of the world has reduced logistics costs since 1980, in most of Latin America, they have risen," Price points out in a chapter on logistics. "Studies have shown that a doubling of a country's transportation costs leads to a reduction in that country's trade by 80 percent."

The lack of an efficient customs service is costing the region significant problems. While an inbound plane full of cargo is cleared through customs within 18 minutes in Tapei, it takes full week in Buenos Aires, Price says. "Lack of investment in its transportation and logistics systems (infrastructure, companies and management) creates bottlenecks, denying the region vital export wealth," he argues.

CREDIT

While entrepreneurs and small business all over the world complain about access to credit and capital, the problem is particularly strong in Latin America. 10 nations in the region rank in the bottom half worldwide when it comes to capital access for entrepreneurs, according to the latest Capital Access Index from the Milken Institute. Brazil ranked in 56th place, behind nations like Bulgaria and Croatia.

The problem is due to a combination of factors including high interest rates, low credit pools and under-banked markets.

"In Brazil, Latin America's most sophisticated financial market, 70 percent of households have no access to financial services at all," Jan Smith, Tricia Juhn and Christopher Humphrey say in a chapter on consumer and small business credit. "Banking the unbanked - SMEs, the middle class, and the working poor - is the single most

critical element in creating a role for Latin America in the global economy."

The issue is key for competitiveness, they rightly point out. After all, better access to financing for small business brings needed competitive pressure on large companies. And increased financing will help entrepreneurs stem the flight of capital an brains from Latin America. Then there's the massive black market, which is costing governments billions of dollars in lost revenues each year.

"Small business credit is a powerful antidote to the region's gray economy, which goes largely untaxed," the authors point out.

EDUCATION

One of the areas where Latin America lags most behind Asia is education. "Latin America neglects its education systems at its peril," write Jeffrey Puryear and Tamara Ortega Goodspeed in a chapter on the subject.

Nearly 60 percent of firms that do business in Latin America cite the lack of skilled personnel as an important constraint to productivity in the region, they point out. The problems include everything from the years of schooling, insufficient enrollment and high drop out rates, run-down facilities and underpaid - and even worse, under-qualified - teachers, they argue. "Teachers seldom represent the best and brightest of their generation," they say.

Other problems include the lack of transparency among education facilities and their reluctance to participate in national or international standard exams. However, there is hope. El Salvador is making progress, the authors point out.

THE COST OF FAILED SECURITY

One of the most interesting chapters in the book deals with security - a topic not usually linked with competitiveness. But as Price points out: "If a nation's competitiveness hinges on its ability to attract and retain talented people and investment capital, then violence is a decisive factor."

And despite repeated promises to fix the problem, Latin American policymakers have failed miserably in reducing crime. Latin America is now the most dangerous region in the world, thanks to having the highest murder and kidnapping rates. The pervasive insecurity not only comes with a high human cost, but also leads to a high economic cost. The direct cost ranges from 3 to 13 percent of GDP across the region, depending on income and development level. But in Mexico alone, Price estimates the cost to be around 8 percent of GDP - or $65 billion - a year. That's nearly three times as much as Mexico received in foreign direct investment last year. The indirect costs are even higher - 11.5 percent of GDP, which is greater than all income and sales taxes levied in the country, he estimates. "The lion's share of this loss is caused by Mexico's failure to attract its full potential in terms of tourists and foreign direct investment," Price writes.

Multinationals struggle to convince experienced managers to move with their families to Latin America and the leading reason is public safety, he points out. However, the greatest cost is the brain drain from Latin America. Along with the flight of capital, the flight of brainpower is costing the region a whopping $160 billion a year, according to Price.

The solution? A combination of a carrot and stick, i.e. improved social conditions that reduce the need for crime and increased law enforcement making crime more difficult. "Without safe streets, investment remains weak and productivity underperforms," Price rightly argues. "Wealth cannot be created without safety, nor safety without wealth."

READ AND IMPLEMENT

Haar and Price deserve praise for their work in gathering the unique insights from a first-class team of authors and putting those insights into a compact book that provides a clear and detailed roadmap for boosting Latin America's competitivess.

As policymakers throughout Latin America start preparing for the second annual Americas Competitiveness Forum in Atlanta in August, they would do well to spend the interim time reading this book and - more importantly - taking the first steps to implement its advice. As the editors say in their conclusion: "The competitive ball is in Latin America's court, and the need to return the serve is more urgent than ever."

Joachim Bamrud is the editor-in-chief of Latin Business Chronicle *and author of* Panama Jack, *a spy novel on the Panama Canal and China.*

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