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II ESSAY CONTEST- *IV SUMMIT OF THE AMERICAS*

Creating Jobs to Fight Poverty and Strengthen Democratic Governance

Lessons Based on Intra and Extra Regional Experiences

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Executive Summary

The Inter-American Democratic Charter states that *"poverty, illiteracy, and low levels of human development are factors that adversely affect the consolidation of democracy."* Unified by a common goal in the region to promote democracy, transparent and accountable governance, and to stimulate economic development, the Summit of the Americas brings together the Heads of State and Government of the 34 member [1]states of the Organization of American States (OAS) of the Western Hemisphere to discuss common concerns, seek solutions, and develop a shared vision for their future development of the region, be it economic, social or political in nature. High levels of poverty exist in the region including nearly half of Latin America. This poverty must be alleviated. The IV Summit of the Americas to be held in Argentina this year has embraced the theme "Creating Jobs to Fight Poverty and Strengthen Democratic Governance". A critical relationship exists between democracy and development. The Charter emphasizes that democracy and social and economic development are interdependent and mutually reinforcing. This paper provides an analysis of key challenges facing the region, in particular those embedded in the theme of the Summit, and includes proposals for addressing these challenges in order to achieve sustainable development.

[1] (the 35th OAS member State, Cuba, has been suspended since 1962). The countries are: Antigua and Barbuda, Argentina, The Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, United States, Uruguay, and Venezuela.

"Creating Jobs to Fight Poverty and Strengthen Democratic Governance"

Lessons Based on Intra and Extra Regional Experiences

Introduction

There exists a direct correlation between the factors necessary for economic development, job creation, government transparency, and adherence to rule of law. This relationship becomes even more clearly visible when due consideration is given to the potential impact of the marriage of these factors on increasing foreign exchange earnings, balance of trade payments, gross domestic product (GDP), social development and quality of life. We should be cognizant that the increased availability of jobs will not only facilitate growth but also industry-wide development that will positively affect a wide cross section of the population within a country thus intensifying the fight against poverty. It is therefore of utmost importance that the government of countries therefore implement policies, mechanisms and standards of transparency that will strengthen labour administrations with a view to creating jobs as well as decreasing the degree to which corruption has pervasive negative impact on development. "Corruption constitutes a serious threat to the stability of societies, to their democratic development and, most of all, to their economic growth. Poor allocation of public resources has a direct negative effect on the most vulnerable segments of society, and is one of the main obstacles in the fight against poverty and job creation in the region" (Ambassador Lino Gutierrez, Transparency International, Sept. 9, 2005). Government should therefore well explore various avenues including those that will increase its educated labour force, stimulate entrepreneurship, attract foreign direct investment (FDI) and increase regional integration, in order to foster an environment for job creation to fight poverty and strengthen democratic governance.

Economic Development, Job Creation & Education, Government Transparency & Adherence to Rule of Law

Economic development is, in one sense, the process of raising the level of prosperity and material living in a society through increasing the productivity and efficiency of its economy. It requires an improvement in the availability of consumption goods for the wide cross section of the population including those at the bottom of the economic ladder. Increased per capita income, reduced poverty and enhanced individual economic opportunities are characteristic of an economy that is developing.

The creation of employment to fight poverty and strengthen democratic governance is a challenge which befalls nation states, governments and a myriad of actors within the society. Job creation can be fueled in part by innovators and entrepreneurs within the society. The education of nationals is indeed essential, both to encouraging democratic goals and ideals, and also to fostering innovation and entrepreneurship. Education empowers citizens to enforce their rights in the elective process, to achieve meaningful participation in the decision-making process, and to hold the government more accountable. A significant part of the solution to social and economic development lies in a country's ability to establish democratic institutions and values within the context of a reliable political system and a relatively transparent operating and legal environment. It is however also important to recognize the need to attach significant emphasis on promoting education and generating employment. As strongly stated by the U.S. Agency for International Development (USAID) in their publication Advancing Democracy, Building Prosperity: Accelerating Progress in the Developing World "*democratically governed nations are more likely to secure peace, expand markets, grow* *their economies, combat terrorism and crime, uphold human rights, avoid humanitarian crises, improve the environment, and protect human health"* (USAID, 2005, p. 12). The publication further stated that countries with weak democratic governance, social development, and economic growth suffer from poor development prospects. Corruption, in particular, undermines development because it weakens institutions and distorts the economy.

Greater maintenance of rule of law is favourable to growth. As published by the World Bank, research has linked high-quality governance and public institutions to growth in per capita income, higher investment, and other positive development outcomes (Knack & Keefer, 1995). Studies conducted by senior research economists Stephen Knack (of The World Bank) and Philip Keefer found that the quality of governance was positively associated with investment and growth rates. In the International Country Risk Guide (ICRG) they discuss a number of country indexes and examined a variety of concepts including quality of bureaucracy, political corruption, likelihood of government repudiation of contracts, risk of government expropriation, government transparency and overall maintenance of rule of law. The general conclusion drawn however is that the attractiveness of a country's investment climate is in part determined by considering the effectiveness of law enforcement, the sanctity of contracts, and the state of other influences on the security of property rights.

Relevant Models & Theories

In a globalized economy it is imperative that businesses within a country have an advantage if they are to survive and compete otherwise contraction in the economy is likely to occur which will decrease employment opportunities, increase inequality and subsequently lead to social unrest. Such advantages are usually dictated by government policy. Michael Porter of the Harvard Business School states that: "Government policies that succeed are those that create an environment in which companies can gain a competitive advantage rather than those that involve government directly in the process, except in nations early in the developmental process. It is an indirect, rather than direct, role". In his book "The Competitive Advantage of Nations" Porter identifies four broad attributes of a nation that individually and as a system constitute the diamond of national advantage, the playing field that each nation establishes and operates for its industries. These attributes being: *Factor Conditions, Demand Conditions, Related and Supporting Industries, and Firm Strategy, Structure, and Rivalry* (see Appendix 1). Competitiveness is driven by government policy. Porter suggests that the only meaningful concept of competitiveness at the national level is productivity and sustained productivity growth requires that an economy continually upgrade itself (Porter, 1997).

Endogenous growth theories are important for providing possible explanations for long term growth rate dependent on governmental actions. According to these theories maintenance of the rule of law is one of the most relevant for investment and growth. The neoclassical model also holds that government has significant impact on growth. As the model rightly concludes, government's factors which exert this influence on growth include: degree of political freedom, maintenance of the rule of law and property rights, and the extent of distortions in market and business decisions.

Government Policy & Strategy

Although the ultimate success of countries in the region rest on the success of their enterprises, this does not diminish the importance of policy, regulation and economic management, since these factors are the most fundamental drivers of enterprise performance (Wint, 1997). Numerous examples of government's catalytic role and successful implementation can be drawn from our own regional environment eg. Costa Rica and Barbados, as well as those of other countries, including Singapore and Japan. It usually takes more than a decade for an industry to create competitive advantage. The process entails the long upgrading of human skills, investing in products and processes, building clusters and penetrating foreign markets.

Government policy can influence the economy in direct and indirect ways. To begin with it can influence the country's ability to attract investment, both local and foreign. Certain activities increase risk. This lends to under-investment in the country. Locals will increase investment outside the country which will not only contribute to a significant amount of "capital flight" and inflation, but can cause the economy to contract thus also reducing employment opportunities. When a country has a high level of inflation economic activity tend to move away from productive activities and transition towards distribution and financial manipulation of existing assets, such as real estate and government securities.

Multinational enterprises (MNEs) are increasingly locating operations in developing countries. In the late 1990s Costa Rica was selected as a site for technology giant Intel much in part because of its stable and transparent political system, liberal economic system, and educated workforce. In the region economies are generally monocultural, specializing in activities that are especially vulnerable to the vagaries of the international economy such as tourism or ones that have lost their dynamics example sugar, bauxite. (Barclay & Gray, 2001, vol. 4). Although few exceptions exist, for instance Trinidad with its oil and Barbados with its financial services, the renewed inflows of FDI are vitally needed for the region. There are myriad benefits to be derived in the region. The MNE, as a provider of technology, managerial skills, finance, and access to the global market can upgrade the locational assets of the less developed country as well as the skill-set of the local labour force which it employs.

In order to attract foreign direct investment (FDI) a country must have a high degree of macroeconomic and political stability as well as favourable economic policies. FDI can provide numerous benefits to a country. Some of these benefits include:

- Implementation of technology and infrastructure to assist in the development process
- Access to overseas markets through the business connection of the investing firm
- Provision of employment and training opportunities for local workers
- Assistance with the export drive

FDI has clearly been the engine of growth for the Singaporean economy which began promoting itself as a site for export oriented investment in the 1960s. The government of Singapore stated: “foreign investments have largely been responsible for our rapid progress and modernization” (Report of the Economic Committee, The Singapore Economy: New Directions).

Another prime example of how government policies can influence corporate decisions in an industry comes from an analysis of the Japanese government’s persistent efforts to nurture a computer industry. Marie Anchordoguy, research fellow of the Harvard Business School, presents arguments on same in her article “Mastering the Market: Japanese Government Targeting of the Computer Industry”. Anchordoguy cited this as a useful case since: the government viewed it as strategic to long-term economic growth; intervention had been extensive; and it provided ample opportunity to evaluate the ways that the Ministry of Trade and Industry (MITI), which creates and implements Japan's industrial policies, has influenced private sector decisions in the computer industry. The government through various microeconomic policies created a market environment conducive to the industry's development.

Micro Enterprise Support

Government support of micro enterprise is important for employment generation. To consider the potential of this, we can refer to a few examples. In 1994 the Mexican National Statistics Institute revealed that 2.65 million micro businesses existed hiring from a population of 90 million. In Jamaica 60% of the employed labour force work in firms employing fewer than 10 workers. Peruvian social scientist Hernando De Soto addresses the potential impact of [2]micro enterprise. He estimates that the total value of real estate held but not legally owned by the poor of the Third World and former communist nations is at least the equivalent of US$9.3 trillion. This he says, is almost the total value of all the stock exchanges listed on the world's twenty most developed countries and is twenty times more than all the FDI into all Third World and former communist countries in the 1989-1999 period.

Buy Local

The survival of local producers and manufacturers in this dynamic competitive global environment now rests, to a large extent, on the support of the local consuming public. The development of industries will in turn create new job openings and increased

[2] Micro enterprises in developing countries are often undercapitalized, but this undercapitalization has some link to the nature of government and regulatory systems.

production and manufacturing. A large home market, once attained, can then be used as a base for launching companies within these sectors into the export market. A “Buy Local Campaign” targeted towards stimulating active trading, between producers, suppliers, retailers, and consumers within the local market is key to improving market efficiency and consequently very important to economic growth and development. From all indications it is therefore by no means just by chance that several neighbours in the region, including Jamaica, Trinidad and Barbados, and even countries as far away as Malaysia, Thailand, and South Korea, as well as several states in the USA have also implemented their buy local campaigns.

Jamaica’s manufacturing sector was particularly hard-hit by the combined force of intense competition from imported goods, high domestic rates, and the weak response of businesses to the need to restructure their operations since the early 1980s. As a result of these factors, the sector had one of its most difficult periods in the mid to late 1990s (1995-1999), when its output fell by 20.6 percent, and its share of GDP slipped from 16.4 percent to 14.3 percent (refer to Appendix 2). Employment levels also declined from 104,700 in 1995, to 66,900 in 2002. Manufactured exports suffered an even steeper decline, moving from roughly US$580 million in 1995, to US$286.5 million in 2001, with the apparel industry accounting for the largest share of the decline (Morrison, June 20, 2004).

According to reports released by the Planning Institute of Jamaica (PIOJ) on August 16, 2004, since the start of Jamaica’s buy local campaign, the Manufacturing Sector (which represents a little under 15% of GDP) grew by 6.8 percent during the second quarter of 2004 following a growth rate of 4.8 percent reported for the first quarter, well above the 2.3 percent projected for the quarter. This is noticeable improvement for the industry which had taken a downward spiral over the past decade as was revealed by statistics provided by the Statistical Institute of Jamaica (STATIN).

Private & Public Sector Involvement

Attributes to growth by stimulating employment include joint government and private sector initiatives to undertake retooling efforts to increase output. The transformation efforts among firms in developing countries that are seeking to improve their competitiveness should recognize the importance of democratizing traditionally hierarchical work environments. Emerging out of changing paradigms on the way organizations and businesses operate due consideration must be given to reengineering existing business processes to help businesses to become more effective. *"At the heart of reengineering is the notion of discontinuous thinking – of recognizing and breaking away from outdated rules and fundamental assumptions that underlie operations…We cannot achieve breakthroughs in performance by cutting fat or automating existing processes. Rather, we must challenge old assumptions and shed the old rules that made the business under perform in the first place…" (Hammer, 1990).* Organizations should venture to redesign, retool and reorchestrate towards a new business strategy.

Integration

"Small developing countries are likely to, over the long run, to be best served by relatively open markets. But if the pace of liberalization is too rapid, if appropriate safeguards are not put in place, or if appropriate communication strategies are not developed, then firms will be ill prepared to respond positively to the opportunities provided. Trade negotiation strategies need to be responsive to these issues" (Cowell,

Crick & Wint, 2001). Developing countries have been actively seeking to [3]integrate their economies with the intention that these efforts will lead to larger domestic markets and provide assistance from a larger economy. Some integration efforts primarily seek to facilitate trade while others facilitate the movement of goods, labour and capital. Due to competitive non-complementary economies within the region there has been some difficulty in developing areas with a significant amount of inter-regional trade. One proposal is that complimentary among regional countries may be more easily accomplished if the countries have an assortment of manufacturing industries for which differentiated products and heterogenous tastes ensure reciprocal demands complemented by agricultural, mineral, and services sector (Wint, 2003). There has been noted success of the economic union OECS, however, such a move tends towards the dilemma of governance. The further a region moves down the continuum of integration, the greater the extent to which each country must relinquish powers of government to political institutions that will be created at the centre. This fact must be carefully considered.

Conclusion

Democratic ideals flourish best when the everyday needs of citizens are being met. The poor should not be left to suffer the burdens of poor governance. Good governance, which is transparent, accountable and effective, is integral to development. Government should seek to learn from the experiences of other countries and regions in the reduction of poverty and democratic governance. They should then therefore seek to implement an institutional, legal and technical framework that will foster fulfillment of same and ultimately achieve the goals of the OAS.

[3] These integration efforts include: North American Free Trade Agreement (NAFTA), the Association of South East Asia Nations (ASEAN) and Mercosur, the Caribbean Community (CARICOM), Andean Group, CARICOM Single Market and Economy (CSME), and Organization of Eastern Caribbean States (OECS).

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Appendix 1

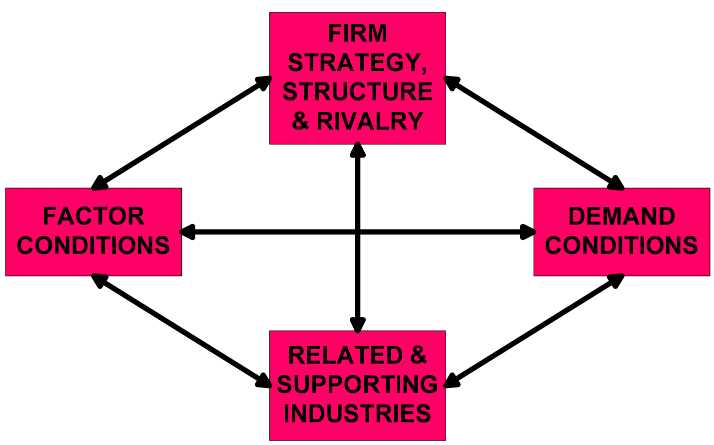
Porter's four attributes, illustrated in Figure 1, are described as follows:

1. *Factor Conditions*: The nation's position in factors of production such as skilled human resources or infrastructure needed to compete in an industry. A nation does not inherit but creates the most important factors of production.

2. *Demand Conditions*: The nature of home-market demand for the industry's product or service.

3. *Related and Supporting Industries*: The presence or absence in the nation of supplier industries and other related industries that are internationally competitive.

4. *Firm Strategy, Structure, and Rivalry:* The conditions in the nation governing how companies are created, organized, and managed, as well as the nature of domestic rivalry.



Appendix 2

PERCENTAGE CONTRIBUTION OF GROSS DOMESTIC PRODUCT
BY INDUSTRIAL SECTORS AT CONSTANT (1996) PRICES

INDUSTRIAL SECTOR	1991	1992	1993+	1994+	1995+	1996+	1997+	1998+	1999+	2000+	2001+	2002
Agriculture, Forestry and Fishing	6.1	7.5	7.8	8.0	8.1	8.4	7.3	7.3	7.3	6.4	6.7	6.1
Mining and Quarrying	9.1	8.1	4.9	5.2	4.8	5.1	5.3	5.5	5.4	5.3	5.4	5.5
Manufacturing	19.3	18.1	17.2	17.1	16.4	15.5	15.3	14.7	14.3	14.3	14.2	13.9
Electricity and Water	4.2	4.0	3.1	3.0	3.0	3.2	3.4	3.7	3.8	3.8	3.8	3.9
Construction and Installation	9.8	8.9	11.5	10.7	11.1	10.5	10.3	9.7	9.4	9.4	9.5	9.6
Distributive Trade	19.7	18.9	21.9	21.9	22.3	22.5	22.9	22.9	22.6	22.7	22.5	22.3
Transport, Storage and Communication	9.7	9.3	8.0	8.4	9.0	9.8	10.5	11.3	12.0	12.7	13.1	13.8
Financing & Insurance Services	10.9	10.9	7.4	8.8	8.9	9.2	8.3	8.0	8.5	8.7	7.9	8.2
Real Estate & Business Services	8.2	8.2	5.2	5.5	5.5	5.6	5.4	5.3	5.2	5.2	5.2	5.1
Producers of Government Services	7.0	6.3	10.9	10.5	10.4	10.3	10.4	10.6	10.5	10.4	10.3	10.2
Miscellaneous Services	4.0	9.5	7.1	7.0	7.0	7.1	7.3	7.6	7.6	7.9	7.6	7.6
Household and Private Non-Profit Institutions	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Less Imputed Bank Service Charge	8.8	10.1	5.5	6.5	7.1	7.7	7.0	7.1	7.2	7.3	6.5	6.8
TOTAL GROSS DOMESTIC PRODUCT												
AT CONSTANT PRICES	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

+ 1993 - 2001 data revised due to the base year being changed from 1986 to 1996
Source: The Statistical Institute of Jamaica