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# 1. THE SOCIO-ECONOMIC SITUATION IN LATIN AMERICA

Latin America is in the “middle class” of developing countries since its social and economic indicators are healthier than those of some other regions but not as good as in countries that are clearly emerging (Table 1.1 and Chart 1).

However, these indicators reveal that there is great **heterogeneity among the countries** in Latin America, and indeed within the borders of individual countries. We can make some general observations about the situation. This is a continent in which industrialisation has been under way for more than fifty years in quite a number of countries but this has not been a continuous or permanent process, it has been interrupted by serious crises. In terms of geographical distribution, industrialization is extremely uneven, although it does not consist just of isolated enclaves like in some other continents. On the other hand, in the biggest countries like Brazil and Mexico, there are state of the art manufacturing and service enterprises that coexist with and work alongside low technology and low productivity undertakings that are small and distributed throughout the country. In the middle-level countries like Argentina and Chile, old industrial development has generally failed to provide the necessary foundations for a modern industrial sector, and has also failed to bring about a relatively equitable distribution of income. However, both economies do have some modern industrial sectors built on solid foundations.

The most outstanding **economic sectors** are as follows:

- In these countries, the term “manufacturing industry” covers a wide range of very varied production systems ranging from a big export industry like steel and its secondary products to maquila metalwork, textiles and footwear workshops in the informal economy.
- Service industries account for a significant proportion of urban employment and have double or more than double the number of workers employed in manufacturing industries, but the services sector is very heterogeneous and ranges from up-to-date technological serv-

ices like software and on-line virtual services on the one hand to low skill personal services on the other.

- Extraction activities like mining and hydrocarbon (petroleum) exploitation are very important in the economies of some Latin American countries like Chile or Venezuela, and their demands for human resources are different since they require relatively small numbers of highly specialised technicians and relatively large numbers of semi-skilled workers.
- Trade is a big employer in the region, it far exceeds the manufacturing sector in number of workers, and it is characterised by high levels of informal work.<sup>6</sup>

It is important to note two social characteristics in the region. The first is that the non-structured sector is very extensive. This is also known as the non-registered sector (because typically the legal regulations for contracting labour are not complied with) or the **informal economy** because of the kinds of activities in question, which are legitimate but not fully legalised.<sup>7</sup> In 2005, some 48.5% of urban employment in the region was in the informal economy (Table 1.4). The second characteristic is **inequality of income** and the fact that such a large proportion of the population are living in poverty. In 2003, fully one third of workers in Latin America were earning USD 2 per day or less (Table 1.1).

## 1.1 THE SOCIO-ECONOMIC SITUATION IN THE SELECTED COUNTRIES

We shall now narrow our focus to the four countries we have selected for this study. As mentioned above, two of these, Argentina and Chile, have relatively high levels of education and their per capita income is above the mean for the region; one of the countries, Brazil, has acceptable levels of productivity but low levels of education; and one, Peru, has low productivity levels but educational coverage is wide.

6 Agriculture is a very important component in some economies in the region but in the countries we are studying it employs only a relatively small percentage of workers, and it is not analysed here since its demands are very different from those of other sectors.

7 These three terms are not exactly identical but in the context of this study they are used interchangeably.

These four countries are similar in that they are all relatively highly **urbanised**: the rates are 91.8% in Argentina, 86.6% in Chile, 83.4% in Brazil and 72.6% in Peru. Another similarity is that there are no great differences in the **life expectancy** social indicator: Chile ranks highest with an average of 77.7 years, then comes Argentina with 74.3, Brazil with 71.0 and lastly Peru with an average life expectancy of 69.8 years. However these countries are very different when it comes to total population size and economic weight. Brazil's GDP is more than four times that of Argentina, seven times greater than that of Chile and ten times that of Peru. As to number of inhabitants, Brazil has 4.9 times the population of Argentina, 11.6 times that of Chile and 6.7 times that of Peru. However, the **gross product per inhabitant** derived from these indicators gives a different ranking. Argentina has enjoyed strong economic growth in recent years and now has a per capita income of 8,130 United States dollars, which is more than double the level in Brazil (USD 3,574) but only 1.4 times the level in Chile (USD 5,729) and 3.5 times the per capita GDP in Peru (USD 2,340). As to current levels of **open unemployment**, in two countries this is around ten percent (Argentina 10.7% and Brazil 10.2%) and in two it is around eight percent (Chile 8.3% and Peru 8.8%) (Table 1.2).

The overall profile of how labour is inserted in different branches of the economy shows that around one sixth of workers are in **manufacturing industries** and between 5 and 9% are in construction. The country with the highest proportion of employment in manufacturing industries is Peru, with 18.4% of the workers in the Lima metropolitan area employed in this sector. Next on the list comes Brazil with 15.9% in manufacturing, then Chile with 14.4% and lastly Argentina with 14.1%. The trade sector is very large, it accounts for 31.5% of employment in Peru (Lima), 25.4% in Brazil, 23.5% in Argentina and 21.5% in Chile. In Argentina all branches of services taken together<sup>8</sup> account for more than half of all employment (51.6%), and in the other countries it exceeds forty percent (Chile 46.3%, Peru 43.8% and Brazil 42.7%) (Table 1.3).

8 This consists of transport, storage and communications, financial establishments, and community, social and personal services.

## **The informal sector, poverty and inequality**

To complete this brief comparison of the socio-economic situations of the four countries, we should analyse the informal sector and poverty. Peru is the country with the highest rate of employment in the informal sector (54.9%), followed by Brazil (49.1%), Argentina (43.6%) and Chile (31.9%). In all these cases the proportion of women in the informal economy is higher than that of men (Table 1.4).

An analysis of poverty, measured as the percentage of people whose daily income is less than twice the cost of a basic food basket, shows that in Peru the poverty rate is 42.0%, in Brazil 32.8%, in Argentina 26.0% and in Chile, which is the country in the best situation in this respect, it is 18.5%. Income concentration is very accentuated: in Brazil the richest decile of the population absorb 49.8% of total income, in Chile they receive 44.9%, in Argentina 41.7% and in Peru 36.1%. The income of the first decile, the very poorest, is 1.8% of total income in Peru, 1.3% in Chile, 1.1% in Argentina and 0.9% in Brazil. These data indicate an important difference in how these countries are placed. The other indicators examined above show that Chile is in the best situation, Peru comes at the bottom of the list and Argentina and Brazil are in between, but now, when it comes to inequality indicators, Peru and Argentina are in a better situation than Chile, where there are fewer poor people but society is more unequal (Tables 1.5 and 1.6).

One last point about inequality is that there are gender differences in this dimension. We saw above that there are more women than men in the informal sector, and this is where the quality of employment is worse. We can also consider data on pay differentials between men and women who have the same number of years of study. Women's average pay as a percentage of men's is 87% in Argentina, 81.7% in Chile, 78.1% in Brazil and 77.4 in Peru. Yet again, Argentina and Chile have taken advantage of their early modernisation and more homogenous societies, at least in the past. Neither Brazil nor Peru has yet approached these levels of opportunities for women (Table 1.7).

## **The evolution of the per capita GDP and unemployment**

To round off this overview of the four countries and have a more dynamic insight into the situation in each, we can analyse their evolution of

GDP per inhabitant in recent years. The development of this variable varies considerably over time and is different in each of the countries in question. Argentina performed well from the start of the 1990s until 1998 but then sank into recession and suffered a brutal fall in 2002, but since then it has achieved a high rate of growth. Brazil has also had its fluctuations but these have been less marked than in Argentina; Chile has enjoyed growth at various rates and in recent years the increases have been greater, and the pattern in Peru is somewhat similar (Table 1.8).

Open unemployment has also evolved differently in the different countries. Argentina has usually had relatively low unemployment levels (7.5% in 1990). The situation worsened considerably in the 1990s, in 1997 it began to improve, but then came the recession and as a result of the 2001 crisis open unemployment soared to 19.7% in 2002. Since 2003 exports of basic commodities have been rising and in 2006, with the economy fully reactivated, unemployment fell to 10.7%. In Brazil the system for gauging unemployment has been changed so it is only possible to compare data from 2002 onwards. Open unemployment stood at 12.3% in 2003 and it has since come down to around 10%. In Chile this indicator has also had its fluctuations but these have been far less drastic than in Argentina: the figure in 1990 was 7.4% and today the unemployment rate is 8.3%. In Peru, again the fluctuations have been more limited than in Argentina: in 1990 unemployment stood at 8.3% and in 2006 the figure was 8.8% (Table 1.9).

From this survey of the main features of the economy and the labour market we can identify aspects in common that make it possible to sketch out styles of training for each country, and these should be similar in some respects but would also differ considerably in order to cater to the individual potentialities of the different countries' economies. Argentina has a large industrial sector but as a country it is very unstable and at the moment it has high unemployment rates, a very extensive informal sector, and poverty levels that, while relatively low compared to other economies in the region, are very high in the context of the country's past history. Brazil has huge potential thanks to its great size and past development, and it has a large industrial sector, but on the other hand it does have an extensive informal sector and high levels of poverty and inequality. The indicators show Peru to be more stable, with a considerable proportion of the population employed in industry and trade, but its informal sector is enormous and poverty levels are high, although one positive aspect is that there is less inequality. Chile

is the country with the best indicators and the most stable historical profile of the four as regards the economy, but inequality levels are high.

## 1.2 THE CHALLENGES IN THE 1990s<sup>9</sup>

In the 1990s **the region underwent great changes**. Countries implemented macroeconomic reforms to make their economies more open, and on the microeconomic level there were changes to promote a restructuring of the productive apparatus, to eliminate less efficient enterprises and to support sectors that supposedly had competitive advantages. In many countries this meant making labour laws more flexible, which favoured labour mobility. The idea was to foster the export of goods and allow imports to hold down the prices of consumer goods manufactured less competitively in the domestic economy. It was supposed that this would lead to greater dynamism in economic growth, but the possibility that employment in small and medium enterprises would suffer a negative impact was not considered. In the first half of the 1990s, production indicators did indeed perform well, inflation was under control and labour indicators got no worse. Employment decreased in traded sectors<sup>10</sup> and increased in services. After the Tequila effect,<sup>11</sup> and in particular in the closing years of the century, it was found that the value added in sectors that were very intensive in labour like textiles, clothing, leather and footwear, had suffered a marked fall, more people were employed in the informal economy and unemployment rates were rising.

Guillermo Labarca reported on this process in Latin America as a whole and commented that “*All the countries increased their imports of capital goods, and outsourcing<sup>12</sup> and sub-contracting expanded. Here it should be noted that although there was a considerable **increase in productivity** in the region in the 1990s, it was not possible to narrow the productivity gap with the*

9 In this section we follow Labarca, Guillermo (coordinator), *Reformas Económicas y Formación*. Montevideo: GTZ-ILO/CINTERFOR-ECLAC, 2003.

10 Traded sectors are those sectors that produce goods that are exportable, and whose prices, in this case, are buoyant thanks to the international market.

11 The Tequila effect was the name given to the impact of the devaluation of the Mexican peso on the economies in the region in 1995.

12 Outsourcing is when a larger enterprise sub-contracts smaller enterprises to provide specialised services or products.

United States. Another important point is that although productivity went up, this increase did not come about in small and micro enterprises, and, to make matters worse, technical progress, which supplements investment, was concentrated in large enterprises.

*This has generated problems. First, there are dynamic sectors that are hardly coordinated at all with the rest of a country's economy and remain as an isolated enclave, and second, a lot of employment was generated by micro enterprises, but these jobs were in the least productive sector of the economy. This translates into heterogeneity and polarisation in the labour market.*"<sup>13</sup>

In the early years of the 21<sup>st</sup> century, after a number of countries in the region went through very severe crises, international demand for some basic commodities increased, in particular for petrol and foodstuffs, and this changed the situation. Indexes of economic growth in the region improved considerably, but the characteristics of the labour market remained unchanged with a burgeoning informal sector and heterogeneity among enterprises. It is difficult for training systems to respond to such a segmented clientele, and this is exacerbated by the fact that they have to cater to an employed population in which many people have been displaced from their previous jobs and there are new workers who are mainly young people and women.<sup>14</sup>

When we turn to the four selected countries we find they are in different situations within this general scenario.

- At the beginning of the 1990s Argentina attempted to radically restructure its productive apparatus and thus interrupt a process of runaway inflation, and up to 1997 the country enjoyed good results in terms of economic growth and maintaining acceptable labour indicators. However, between that year and 2001 unemployment rose to unprecedented levels and a severe recession set in. The Argentine peso was devaluated and debt servicing payments were suspended. Then, thanks to increases in international prices for foodstuffs, the country enjoyed a good recovery in economic growth and in employment. Argentina is the most unstable country of the four, and with its fluctuating indicators added to and fuelled by political instability, it is not the best scenario for public training policies.

13 Labarca, Guillermo. "Las reformas económicas y la formación para el trabajo" in G. Labarca (coordinator), op. cit. p.13.

14 Women have greatly increased their participation but they have also suffered high levels of unemployment.

- Brazil has evolved unevenly in the recent past with phases of growth alternating with periods of stagnation. But it has drawn strength from the very size of its economy, and thanks to consistent policies to defend its productive system it is now more an emerging country than a country in crisis.
- Chile has been consistent in its policies and has grown at a slow but steady rate. Its policies are counter-cyclical, and governments of different political persuasions have maintained continuity in education and training policies. In recent years, like Argentina, the country has benefited from rising international demand for basic commodities.
- Peru has been fraught with serious political problems stemming from violence in the country and changes in government, but its indicators have been much less erratic than those of Argentina. What stands out is that the labour force has consistently maintained high levels of participation in the services and trade sectors in particular, and that the informal sector is very large.

When Labarca talks about the determinant dimensions of **structural heterogeneity** in Latin America, he points out that:

*“The patterns of development in the region have changed in that we no longer have a single model as in the past, when agrarian societies were developing into industrialised ones. The restructuring that is taking place has followed three basic patterns: one based on natural resources, which is what pertains in Chile, Argentina and Uruguay, one based on human resources generally working in a maquila system, which is what is happening in the Caribbean countries and Central America, and mixed regimes, the main example of which is Mexico. Another factor in the situation is the great impact that the automobile industry has in Mexico and Brazil. These differences are reflected in analyses of development in the region (Katz, 2000, Stallings and Peres, 2000), and they should also be reflected in human resources policies and strategies, but this does not happen very often.*

*Each development pattern dictates its own demand for specific kinds of human resources, and this makes the differences between countries and also differences within each sector of their economies. Natural resource exploitation, like mining for example, demands specialized technicians and workers, but for fruit production the skill level of the mass of the labour force is quite low. In both sectors, however, there is a demand for professionals for research and development. These different development patterns mark important differences between*

*countries and even, as is the case of Mexico and Brazil, between different regions in the same country".<sup>15</sup>*

Although Labarca does not deal specifically with the countries that concern us here, we can use what has been presented above as a framework to examine the economies we are studying. Brazil is a large exporter of food-stuffs and at the same time, like Mexico, it has a mixed economic regime. Argentina has developed an agricultural system that is geared to exports, but it also has industry that caters to the domestic market. However, in both Brazil and Argentina, the automobile sector is very important. Peru partly follows the first model mentioned above because extraction industries are so important in its economy, but trade and services also have great weight in its employment profile, and in these sectors most of the work is in the informal economy.

### **1.3 THE CURRENT SITUATION IN THE FOUR COUNTRIES**

Argentina has enjoyed five years of strong economic growth and has now attained higher production levels than those pertaining before the crisis. Employment has increased and industry has expanded, although a considerable proportion of workers are still employed in the informal sector. The greatest technological step forward has taken place in agriculture with the spread of cultivation technology (direct seeding) and the use of agro-chemicals, and these innovations have resulted in a big improvement in productivity. The amount and the value of production have both increased considerably, but employment in the agricultural sector has not grown in numerical terms and a large proportion of the workers are still family members (26.3%) or unskilled employees (60.0%).<sup>16</sup> But this sector of the economy employs only a small proportion of the employed population and it does not seem to have any problem in attracting graduates from higher technical education, who make a technological contribution. Another sector in which production has

15 Labarca, Guillermo. "Formación para el trabajo ¿pública o privada?" In G. Labarca (coordinator) *Formación para el trabajo ¿pública o privada?* Santiago de Chile: GTZ-ILO/Cinterfor-ECLAC, 2001. p.11.

16 Benencia, Roberto and Quaranta, Germán. "Los mercados de trabajo agrarios en la Argentina: demanda y oferta en distintos contextos históricos", in *Estudios de Trabajo* No. 32, July - December 2006. P. 81-111.

increased is the metal-mechanical industry, but here there are problems in the sphere of human resources: the main complaint is that young job applicants lack basic skills, and there are also lesser problems to do with a lack of training in trades.

In Brazil, the strong industrial sector is continuing to develop. Its production is not just for domestic consumption but also for export, and it includes goods with significant contributions from added value and technology like steel and commercial aircraft. The country's industrial base includes a branch of automobile production integrated with other Mercosur countries which is not only aimed at the Latin American market and also exports to Europe. There is a demand for a wide range of occupational skills, and the employers' union body is responsible for the most important training organization in the region, the National Industrial Training Service (SENAI), which is financed from a payroll tax in enterprises. It seems therefore that the demands for training are being adequately met. However, there are shortcomings in general levels of education in the population as a whole, particularly in the poorest and most densely-populated regions where a hefty proportion of the people do not have access to the basic skills of expression and applied mathematical skills that would open the way for them to enter more specific training programmes and accede to formal employment.

Chile is an exporter of minerals and foodstuffs. Among the countries considered here it is the one that has enjoyed the most continuity and the steadiest growth, and it has the lowest rate of non-registered employment in its labour market. Workers' incomes are relatively high and it is the country with the lowest proportion of poor people. Chile has a "modern" labour market and a population that has attained good levels of education, but on the other hand the demand for skills is not very specific and social mobility is seriously hampered by slow economic growth.

Of the four countries we are concerned with, Peru is the one with the highest proportion of informal labour, the highest percentage of people employed in trade, and two thirds of its GDP is in services. Its main exports are mineral products, but in recent years agro-industries have been growing. Informality has great weight in the economy and industrial development is still in its early stages. Demand for training ranges from management skills at one end of the scale to basic skills for the informal economy at the other.