

## Chapter 26

# The Knowledge Economy: A New Development Paradigm for Latin America and the Caribbean (LAC)

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### ABSTRACT

*The escalating competitiveness in the international global economy has created a growing demand for the creation and diffusion of knowledge. A Knowledge Economy (KE) is one that by creating and taking advantage of new knowledge can dramatically increase the wealth of a nation. Many countries have grown to become successful knowledge economies including Finland, the United States and most recently Korea, China and India. Latin American and Caribbean countries are faced with the predicament of being left behind because of their low quality of education, their weak macroeconomic base and their poor infrastructure on information and communication technologies (ICT). There are several indicators that need to be improved to establish a base for knowledge economy such as laws, improvement and creation of research and development institutions, education infrastructure, comprehensive intellectual property rights, ICT networks, and knowledge transfers between research institutions and local enterprises. This chapter brings in the concept of the KE as a new development paradigm for Latin America and the Caribbean region.*

### INTRODUCTION

The concept of Knowledge Economy (KE) has gained a lot of momentum in the past years by publications from international organizations

and universities. However, this concept lacks a substantive and coherent definition. It is because of this difficulty in truly defining what it is that makes the operationalization and measure of it extremely hard. Firstly, *knowledge* needs to be defined; simply put knowledge is any information or skill that a person can learn either through

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education or experience. Knowledge for development can therefore include the creation of research and development institutions, the construction of schools or the transfer of a technical know-how. By focusing on knowledge economy we observe that: (a) knowledge is becoming a crucial input for economic growth; (b) the products that knowledge can produce are becoming increasingly beneficial to the wealth of a country; and (c) the development of knowledge economy relies heavily on technological changes in ICT (Smith, 2002, p. 8).

We move to a more practical application of the definition. The global economy has transitioned in a way that it has become more complex and sophisticated, thus causing living standards to improve. Many countries around the world have gone from being primitive agricultural-based societies, to industrial-based developed ones. Now, the knowledge economy is focusing on the production of innovative ideas in order to reap greater benefits. To put it in simpler terms, the main factor in gathering wealth in an agricultural economy is land. In an industrial economy, natural resources are the components that create wealth. In a knowledge-based economy, knowledge is the main resource that generates capital (Houghton & Sheehan, 2000, p.4).

For many years conventional wisdom has told us that by building infrastructure and plants economic development can be attained. Although this is true, it is only part of a greater scheme of things. Building roads and factories are not the only elements needed to foment development; education, information and communication technologies, and intellectual property rights, among others, form part of what makes a solid foundation for economic development in a country. Joseph Stiglitz (1999) emphasizes this point when he says, “We now see economic development as less like the construction business and more like education in the broad and comprehensive sense that covers knowledge, institutions, and culture.” (p. 2) He touches upon an important concept here, which is the *culture* of knowledge economy and how

this is very hard to establish in a government or a corporation. It is only when people acknowledge that creativity, entrepreneurship, and effective transfer of knowledge are more important than adhering to previously established paradigms of growth that knowledge becomes an opportunity for economic development.

China and other East Asian countries have been able to grasp the concept of knowledge economy and have effectively channeled resources to reduce the knowledge gap. There are many ways Asia has done this; it has improved education, invested in ICT and R&D institutions, and it has improved its economic regimen overall. The Latin America and Caribbean (LAC) region is lagging behind Asia. Policy makers need to understand that we are at a time in history where those who know stay on top of the global marketplace and those who do not know are left behind. Countries in the LAC region and the Fondazione Rosselli Americas (FRA) are working together to create an environment that will produce an incentive to adopt the principles and practices of a knowledge economy. FRA hopes its involvement will make a substantial contribution in supporting the LAC countries to find a niche that will respond to their comparative advantages. The creation of a knowledge economy is very complex and requires a concerted effort supported by five pillars. These five pillars summarize the key elements needed for the formation of a knowledge-based economy. When education, ICT infrastructure, innovation, social inclusion, and a government policy environment conducive to changes like protection of intellectual property rights, seamlessly converge towards the same objective, a virtuous cycle is triggered that would eventually lead knowledge to become a tangible good that has a value in the market and facilitates the economic growth of a country. This chapter considers how the concerted development of each of these aforementioned pillars helps create an environment that will allow for the establishment of a knowledge economy

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