

Looking for virtuous structural change in Uruguay: Linkages of medium and high technological sectors

Topic: Emerging Developing Countries

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Structural change has been suggested as a tool for reaching equity. To this end, increasing the export shares of more knowledge-intensive sectors has been put forward as a policy. However, structural change through these sectors induces genuine welfare improvements only if they are strongly linked with the rest of the economy (in terms of output, value added, and labor) while also their total environmental impact should be considered. This study analyzes whether the development of medium and high tech (MHT) sectors can lead to a virtuous structural change in Uruguay.

We consider three areas of analysis: (i) the characterization of direct and indirect linkages of MHT sectors, (ii) the domestic value added content of Uruguayan MHT exports, and (iii) the total impact of MHT sectors in terms of greenhouse gas emissions. The results show that a final demand increase for MHT products affects very few sectors in the rest of the economy, MHT sectors are linked upstream mainly to transport activities. From a downstream perspective, however, is a significant share of the MHT outputs employed as input by the rest of the economy, suggesting the possibility of a virtuous development through MHT's downstream linkages. Also, MHT sectors depend heavily on imported inputs. This means that any value chain in which MHT sectors participate generates a considerable amount of foreign value added and jobs. As a consequence, Uruguay is sensitive to variations in import prices, which may affect its competitiveness and the effects of exchange rate policies.